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# IMPACT OF CURRENT COMPONENTS OF VALUE ADDED TAX REVENUE ON ECONOMIC PERFORMANCE OF DEVELOPING ECONOMIES: THE NIGERIAN EXPERIENCE FROM 1994 TO 2024

**Okporo, E. N. Ph.D[1]; Nweke-Charles, U. E. Ph.D [2]; Prof. Uguru, L. C. Ph.D [3]; Okafor, L. C. Ph.D [4]; and Ugamah, S. N. Ph.D[5]**

[1,2,3]Department of Accountancy, Ebonyi State University, Abakaliki, Nigeria [3]Department of Business Management, Ebonyi State University, Abakaliki, Nigeria; [4]Department of Accountancy, Alex Ekwueme Federal University, Ndufu Alike, Nigeria

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****Correspondingauthor:***
***Okporo, E. N. Ph.D***

## ABSTRACT

This study examined the impact of current components of value added tax on economic performance of developing economies with emphasis on Nigeria, covering the period of 1994 to 2024. It sorts to ascertain the impact of import VAT, foreign VAT, local VAT and total VAT revenue on economic performance of Nigeria proxied by gross domestic product. The study was anchored on laffer curve and ability to pay theories. *Ex-post-facto* research design was adopted, while secondary data were obtained from Nigeria Bureau of statistics and the CBN Statistical Bulletin. The data were analyzed using OLS approach based on Multiple Regression. The results revealed that there is significant positive impact of import, foreign and local VAT on economic performance of Nigeria. It also showed that there is significant positive impact of total VAT revenue on economic performance of Nigeria. The study concluded that these independent variables have causal effect on economic performance of Nigeria, given that both the independent variables have a p-value of 0.0133, 0.0324, 0.0365, and 0.0006 respectively at the long-run, which is less than 0.05 level of significance. The study recommends Nigerian government to ensure that the supply chain of local, import (goods) and foreign services are automated through the use of electronic devises that will guarantee accurate documentation in order to boost VAT administration at all levels. Also,the need for Tax authorityto embark on aggressive sensitization, training and retraining of all registered foreign VAT payers on how to calculate foreign VAT returns is commendable.



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# INTRODUCTION

Globally, government of any country employs different policies in managing her economy with a view to enhanced performance. These policies are classified into two components: goals and instruments. However, the wider goals of macroeconomics policies are decentralized into; full employment, price stability, top equilibrium (Trade Balance), economic growth and development while different policy instruments employed to achieve these macroeconomic goals are direct and indirect taxes, reserves requirement, open market operations, lending by Central Bank of Nigeria (CBN), interest rate, direct credit control, moral suasion, prudential guidelines, and exchange rate. Among all the policy instruments used to achieve macroeconomic goals, apparently direct and indirect taxes are significantly pronounced, because their applications are relatively high feasible. Indirect Tax according to Bakare, (2023) are of five components, they are; Excise duty, customs duty, stamp duty (though, the State governments have broader control over stamp duty, while the federal government's role is more limited and specific), withholding tax and value added tax. There is not a single, universally applicable government agency responsible for indirect tax administration in all developing countries. The structure and responsibilities vary significantly depending on the country's specific context and administrative setup. For instance, in Nigeria, the government agency that is charged with the sole responsibility of indirect tax administration is Federal Inland Revenue but has partial influence on stamp duty and full control on value added tax. Value added tax (VAT) as one of the typical examples of indirect taxes is an instrument used by government to achieve its economic goals. Calinin, (2022) revealed VAT in diverse dimensions, he maintained that:(1) VAT is levied on the value added at each stage of the production and distribution process. (2) VAT is a multi-stage tax collected at each stage with the final consumer bearing the ultimate burden. (3) VAT is neutral to business decisions as it does not affect the relative cost of different goods and services. (4) VAT is levied on a wide range of goods and services, creating a broad tax base. (5) Price of goods and services includes VAT, making it transparent to

consumers. (6) VAT is a significant source of revenue for government. (7) VAT is relatively efficient to administer and collect. (8) VAT can be adjusted to reflect changing economic conditions. Finally, Calinin assert that despite the aforementioned features of VAT, it still has some disadvantages such as; the regressive nature of VAT (where low-income earners spend a larger proportion of their income on essential goods and services), the administrative burden it shoulders on businesses (where they have to comply with complex VAT rules) and its susceptibility to fraud (especially in complex supply chains). Federal Inland Revenue Services (FIRS) in their publication of 2020 sectorial distribution of value added tax in the National Bureau of Statistics (NBS) presented three current components of value added tax in Nigeria, which they classified as: Nigeria Custom Service (NCS)-import VAT, Non-import VAT (foreign), Non-import VAT (local) and the Total VAT Revenue (which is the aggregate of the current VAT components). Import VAT is a value added tax levied on goods that are brought into a country from abroad. It is charged by customs authorities of the importing country; it's typically paid by the importer at the time of import and is usually calculated as a percentage of the value of the imported goods plus shipping and insurance costs (Chepeta & Montfaucon 2022). Therefore, it is design to protect domestic industries by making imported goods more expensive for consumers. While local VAT is a consumption tax levied on the value added to goods and services at each stage of production and distribution within a specified locality. It is classified into: Single-stage LVAT, Multi-stage LVAT, Destination-based LVAT, Original-based LVAT, Gross LVAT and Net LVAT (NBS, 2023). Therefore, it is VAT revenue generated from business activities within a country. Foreign VAT refers to VAT imposed on goods and services within a foreign country. It is basically paid by the seller of the goods or services at the point of sale and is always included in the price of the product (NBS, 2023). This entails that foreign VAT is essentially charged by the exporting country on goods or services shipped abroad. Total VAT revenue means; the total amount of value added tax (VAT) collected by a government over a given period. It connotes the sum of all payments made by businesses and consumers on goods or services within a country (NBS, 2023). Moreover, this VAT revenue is usually used by Governments to effectively discharge its responsibilities of providing essential goods and services which is not restricted to quality education, security, electricity, healthcare facilities, good road network, housing, water, public transportation, utilities, creating a favourable business environment, investing in research and development, protecting the environment, reducing high rate of unemployment etc. However, these socioeconomic governmental services are some of the indices used to measure for economic performance.

Economic performance according to Ly (2021) is the achievement or failure to achieve economic policy objective of a nation, it connotes how an economy is securing its set objectives. These objectives include; stable economic growth, low unemployment, low and stable inflation and satisfactory balance of payments. While economic performance measurement according to United Nations Conference on Trade and Development (UNCTAD) handbook of statistics (2021) is the ability to determine how well the economy is growing using the above performance indicators (Ly, 2021). Basically, it is expected that the growth of any economy should be stable, as rapid growth may mean inequality, inflation, current account deficit and environmental pollution, and the stability of economic growth is related strictly on Gross Domestic Product (GDP) and Gross National Income (GNI). In other words, it can also be seen as how low unemployment or how high the employment in the economy is, depending on the direction of the employment factor. If the unemployment increases, it implies that government failed in achieving the objective of low unemployment and so on. Moreover, attainment of economic performance is dependent on the financial resources available to any nation to meet its fiscal policy obligations. For example, in Nigeria, VAT has assumed a high profile since its emergence. In 1994 Nigeria government projected revenue was ₦6 billion while the actual VAT generated for that period was ₦7.20 billion (CBN, 2021). This stands at over 20% increase and apparently has been the trends for other subsequent years, which implies that VAT revenue has progressively increased over the years. Therefore, economic performance of a country is driven by value addition in the chain of production. It means that value added at each stage of production contributes to the aggregate performance of a given economy using any of the value-added option of national income accounting such as either GDP or GNI.

Gross Domestic Product (GDP) according to Erero (2021) is the total value of all goods and services produced within its borders in a specific period, usually a year. This means that it is the aggregate goods and services produced in Nigeria within a year quantified in monetary value. For effective and efficient administration of VAT, Scholars like; (Al-Ubaydli, 2020; Asllani&Statovci, 2018; Ayoub & Mukherjee, 2019; Bansal & Abdulla, 2020; etc.); have argued that the best practice of VAT model for developing countries is the exemption of small and medium firms whose capital structure, annual gross turnover, falls within the thresh-hold that are not VATable or that are dealing with non-VATable goods such as medical equipment etc. For instance, in Nigeria, certain kind of entities such as small-scale businesses whose annual turnover either singularly or cumulatively are below twenty-five million naira (₦25,000,000) are exempted from VAT in order to encourage them to grow. While (Daferigh, Emah&Offiong, 2022; Egolum&Ugonabo, 2021; Nwarwuru, Jones &Nmesirionye, 2018) maintained that an exemption of small and medium firms from VAT is a temporary measure and does not guaranty a long-term solution to economic downturn positing that tax burden do not necessary fall on them but are borne by the consumers. The above authors suggested that the best approach was government to create an enabling environment for the firms to thrive through loan grants, reduction on borrowing interest rate, stable power supply and provision of pipe bore water etc. The perceived effect of value added tax on economic performance can be either positive or negative depending on the type of tax policy adopted by the government. However, it is generally agreed that high VAT rate can lead to decrease in business activities since it dampens the incentives to invest while low VAT rate, on the other hand, tends to increase growth of business activities as profits are increased which lead to further investment as well as expansion of businesses and overall economic performance of the country (Bogari, 2020).Hence, the need for this study to ascertain the Nigeria situation at the prevailing VAT policies since inception on the economic performance.

Moreover, another problem of this study is predicated on endless cycle of debts, poverty and economic recession in Nigeria after all efforts made since 1994 when VAT was implemented in order to reduce debt and poverty. Some scholars have argued that Tax-hikes which include VAT create endless cycle of debt and poverty on a country that depends on tax to better the standard of living of citizens. This is because a country that adopts VATrate above 10% thresholds endangers the economy and will be forced to live on borrowing (Orisadare&Fasoye; Olatunji, 2009). While others like; Bonga 2017 and Ibukunoluwa&Nilavongs 2021are of the opinion that a country whose VAT rate is increased above 10% will boost the economy of that country and will help her to repay their loans. Therefore, the study is poised to know among these two assertions which the above assertion is the true reflection of the economic state of Nigeria.

## REVIEW OF RELATED LITERATURE

### Conceptual review

**Value Added Tax:** Value Added Tax (VAT) as a concept, haven been defined by several authors, but it still maintains some basic ideas that cut across all definitions, these are; VAT is a multi-stage tax, VAT is a consumption tax, and the incidence of VAT is on the consumer. Nguyen (2019) defined value added tax as an indirect tax collected from someone other than the person who actually bears the cost of the tax. (Kalas and Milenkovic (2017) assert that, it is a type of indirect tax that is imposed on goods and services which plays an important role in the economic development of a country by influencing the rate of revenue accruable and consumption. Okoye and Gbegi (2013) provided a limited definition of VAT as a

consumption tax that is charged at 5% on all Vatable goods and services. This conception clearly views VAT as a consumption tax and only concerns itself with the rate at which it is charged as well as what it is charged on. VAT is a gross product type of tax imposed on destination principle. A major limitation of these conceptual definitions is the fact that they fail; to link VAT to the dynamics of Nigeria fiscal policies. However, contrary to the limitation of these definitions, Ebrill, Keen, Bodin and Summers (2022) gave elucidative definition which seems to be more current and all-embracing which appeal the researcher's adaptation. According to the authors;

*"VAT is a tax charged on all sales of commodities at every stage of production, and it is a significant source for the government, contributing to its fiscal policies. Its defining feature is that it credits taxes paid by enterprises on their material inputs against the taxes they must levy on their own sales. Unlike sales tax which levies tax on all sales, intermediate or final producers can reclaim the tax they have been charged on their inputs. Because the VAT does not affect the prices firms ultimately pay for inputs, it does not distort production decisions and does not create arbitrary "tax on tax" that arises when tax is charged both on an input into some process and on the output of that same process. This also makes the effects of the VAT transparent. All firms, whose annual turnover exceeds a specified threshold, must participate; not only those involved in making final sales to consumers. But, in the end, only the net value of those final sales forms the base of the tax so that the VAT if it is functioning as intended is thus a tax on final consumption. While there are other ways in which one can try to tax consumption such as a retail sales tax the feature of the VAT that tax is collected throughout the production chain gives it a considerable practical advantage" (Ebrill, Keen, Bodin& Summers 2022: p1).*

*Ebrill, et al, (2022)* further buttress their definition by depicting how VAT plays a role in Nigeria's fiscal policies: Revenue generation (used to fund public services like healthcare, education, and infrastructure), Fiscal stability (provides a stable and predictable revenue stream, helping to stabilize the government's finance), Economic growth (by funding public investments), Redistribution (redistribute wealth by taxing consumption which tends to be higher among wealthier households), Inflation control (control inflation by reducing the demand for goods and services through VAT).

**Import value added tax (IVAT):** Import VAT is a tax that is levied on goods and services that are brought (imported) into Nigeria from other countries outside Nigeria that are either in monetary or money worth consideration. It is often payable in conjunction with custom duty. Imported goods may be tangible or intangible that is, raw material, industrial input or finished goods while VAT point of imported goods is the essential port or border post, where the goods are imported by post or a place where they are received in Nigeria (Federal Inland Revenue Service (FIRS) Information Circular, 1993). Moreover, Odukwu, Oshiogwemoh and Eke (2022) citing FIRS information circular, 1993 asserts that any service received from outside Nigeria other than those exempted in the cited circular attracts VAT at the normal rate of 5% which is currently 7.5% beginning from February, 2020. Consequently, VAT is calculated and payable on the monetary value due to the foreign supplier of the services like consultancy, patent, royalty, franchise etc. Therefore, VAT on imported goods and services can be expensed on comprehensive income statement.

**Foreign value added tax (EVAT):** Foreign value added tax is a tax that is levied on goods or services within a foreign country. It's typically paid by the seller of the goods or services and is built in the price of the product. VAT-registered businesses on travel expenses and entertainments, foreign hotels and accommodation, conferences, events, training and marketing services done by foreign agents are enforced to pay VAT at the point of their offering services in another country, usually it is charged by the importing country and is intended to ensure that the tax burden is borne by the final consumer in the importing country (Schoeman, Evans & Perez, 2022). Therefore, foreign VAT can be refunded to the foreign registered businesses in certain cases to prevent double taxation especially when the foreign output VAT is higher than the foreign input VAT. Here, the dealer or seller (exporter) can be the manufacturer, wholesaler, or the retailer registered under VAT of the importing country and the import country's rules apply. Foreign VAT is used to fund government services in the foreign country. Moreover, foreign output VAT is the value added tax that you calculate and charge on foreigners' own sales of goods and services if, there are registered for VAT. This income type of VAT does not exclude capital goods purchased from other foreign firms from the tax base in the year of purchase. This type, however, excludes depreciation from the tax base in subsequent years (Semenova, 2020). According to illustrations of (Tajudeen& Felix 2020) VAT can be summarily taken to mean, the percentage the foreign dealer built in the price of a product which is imported into Nigeria according to the foreign country's VAT rules. For example; imagine you are importing a product from United States. The product has a price of 200 dollars, and the US VAT rate is 20%. The US seller will charge you 220 dollars that is 200dollars + 20% VAT. Now, US government will see the 20% VAT as accrued foreign VAT.

**Local VAT:** Ehigiator, Ucheagwu-okoye, and Ucheagwu-okoye (2021), Omodero, (2022) and Omesi, (2015) opined that local VAT is a consumption tax levied on the value added to goods and services at each stage of production and distribution within a specific locality. Therefore, it is a VAT that is taxed on goods and services produced and consumed within a country. Local VAT are classified into: Single-stage LVAT; taxed only at the final point of sale to consumers, Multi-stage LVAT; taxed at multiple stages of production and distribution, Destination-based LVAT; taxed at the point of consumption, Origin-based LVAT; taxed at the point of production, Gross LVAT; taxed on the total value of goods and services, and finally, Net LVAT; taxed on the value added after deducting input costs.

**Value added tax revenue:** VAT revenue is revenue generated from the value added tax charged on both non-imported VATable goods and services and imported VATable goods and services in country (Adesina & Dada, 2013). VAT revenue, according to Odu (2022) is revenue accrued to value added tax which is used by the government to provide for infrastructural development towards stimulating the growth of the economy. The implementation phase of the Finance Bill 2019 on 1st February 2020 is expected to foster fiscal policy, promote fiscal equity, complement local laws with global best practices, capital market projects, implement tax incentives for infrastructure with the existing ease of doing business reforms while simultaneously helping small businesses (Rofiat& Adeyemi, 2021). Nigeria's attempt to standardize its tax system to match global trends, especially with the 50% VAT increase from 5% to 7.5%, several economists have argued on the good, bad and ugly of this move by the Federal Government. However, due to the peculiarity of the culture, diversity, and people in Nigeria, the informal sector, according to Adio (2021), is about 60% of the country's population, providing an enticing sphere for the country to milk tax revenues. Although, Agbo and Nwadialor (2020) argue that even developed countries struggle with tax evaders and loophole exploitations in the existing systems, the increase in VAT also burdens the formal sector that has been compliant with tax regulations (Asquer, 2020). Moreover, no matter how sophisticated the administrations of a tax system, tax evaders could not be eliminated, and a major challenge for a developing nation like Nigeria is its large informal sector which may wreck or advance the tax revenue generation. This is because over 60% of the informal sector contributes majorly to employment and national GDP (IMF, 2017) yet a larger proportion ofinformal sectordoes not remit to the government.

**Gross domestic product:** GDP is the monetary value of final goods and services (i.e., those that are bought by the final user), produced in a country in a given period of time; per quarter or year. It counts all the output generated within the borders of a country, and is composed of goods and services produced for sale in the market. It also includes some non-market production like defense or education services provided by the government. Its twin of Gross National Product

(GNP), that counts all the output of the residents of a country. However, activities like, wear and tear of capital stock (machines), buildings and all productive activity are not included in GDP. Some of such productive activities are unpaid work (work performed at home or by volunteers) and black-market. These unpaid-works cannot form part of GDP because they are difficult to quantify or value accurately(Ibukunoluwa&Nilavongs, 2021). Therefore, in summary; GDP represents the total monetary value of goods and services produced in Nigeria over a period of time, which is the most comprehensive measure of the total output or performance of an economy. There are other two class of GDP that are frequently cited, they are; Net Domestic Product and Gross National Product (GNP). The relationship among GDP, GNP and NDP is that they measure an economy's output (Odu 2022).

**Economic performance:** Economic performance of a country is defined as the ratings attained by an economy in terms of different national income accounting methods such as the gross domestic product (GDP), the gross national product (GNP), the per capita income (PCI) etc. The common accounting method for Nigeria uses the gross domestic product. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a country's economic performance (Simionescu&Albu, 2016)). Gross domestic product (GDP) is the most commonly used measure for the size of an economy.

**Empirical review:** Oto and Wayas (2024) investigated the relationship between value added tax and economic growth, total revenue, and total expenditure of Nigeria. The statistical data were obtained from the Central Bank of Nigeria statistical bulletin. And analyzed via the use of simple regression analysis and descriptive statistical method. The study indicated that VAT revenue accounts for a significant variation in total revenue, total expenditure and gross domestic product in Nigeria. The study was robust especially the scope of coverage, from 2003 to 2021 which is commendable. Notwithstanding, the use of relatively linear regression to analyze and test the hypotheses in the study of such magnitude is not ideal as it looks elementary. Joshua-Gyang, Awujola and Aiyedogbon (2023) studied the effects of tax components on industrial output in Nigeria worked with the historical data sourced from the Central Bank of Nigeria Statistical Bulletin (CBN), National Bureau of Statistics (NBS), and Federal Inland Revenue (FIRS) which run from 1999-2022.The study adopted fully modified Ordinary Least Square Method of data analysis, with the specific objective of determining the effect company income tax, customs & excise duties and VAT on industrial output while the results revealed that; company income tax has positive but insignificant relationship on industrial output, while Customs & Excise Duties exert negative impact on industrial output and that VAT has a positive influence on industrial output. The study was well thought out and adequately identified the various dimensions of the constructs understudied. However, the authors did not apply causality test as to determine causal relationship between the variables of the study. Another loophole in the study was the fact that VAT has significant positive influence on industrial output but did not address each component of VAT effect that generate the total positive influence of VAT on industrial output, including the extent of the influence on the industrial output.

Oyinkansola and Omodero (2023) assessed the effects of tax revenue on the economic growth of Nigeria, utilizing time series data spanning from the year 2000 to 2021. The study specifically evaluates the influence of hydrocarbon Tax; corporation income Tax and Value Added Tax on Nigeria's economic growth. The study employs a secondary form of data which has been sourced from the CBN statistical bulletin and published Federal Inland Revenue Statement. An *ex-post facto* research design as adopted for this study. The data collected are analyzed and tested for unit root using the Augmented Dickey-Fuller method. The study variables which comprise GDP, PPT, and CIT& VAT are found to be stationary at first difference. Thus, a Johansen co-integration test is also conducted and it reveals a long-run relationship. Consequently, the study utilizes the Vector Error Correction Model to evaluate the effects of PPT, CIT and VAT on GDP. The findings reveal that PPT and VAT have positive and significant effect on GDP. It also reveals that CIT has a negative and significant effect on GDP. The result of the work is voluminous and at the same time ambiguous. Trying to factor in many explanatory variables of tax system on economic growth is conflicting and that reflected in their results, hence the need to a separate study on the impact of various VAT components on economic performance. Omotayo and Adeoye (2023) examined the effect of value added tax policies on economic growth in Nigeria using secondary data from Federal Inland Revenue Services. Descriptive statistics were adopted through the use of ordinary least square (OLS) technique to determine the relationship between VAT and economic growth in Nigeria. The study found a negative relationship between VAT and economic growth, but a positive relationship between customs and excise duties (CED) and growth rate of GDP. This implies that values of VAT and customs and excise duties (CED) were found not to have a significant effect on the growth rate of GDP. The study is well suited in the sphere of fiscal policies and did justice to the dimensions of the study variables. However, result on the negative relationship between VAT and economic growth is doubtful. Kwanti and Dauda (2022) examined the impact of value-added tax (VAT) on the economic growth of Nigeria. Data were obtained mainly from secondary sources, principally from the Central Bank of Nigeria and the National Bureau of Statistics. The study adopted regression statistical model to analyze the time series data for a twenty-six-year period 1994 – 2020. The model assisted in testing the statistical significance of the variables under study. At the end of the analyses, the result indicated that VAT has a positive and significant impact on economic growth of Nigeria. It also showed that value-added tax has a Positive impact on federally collected revenue. Thus, it concluded that the value added tax has influenced the pattern of federally collected revenue the economic growth of Nigeria. The study truly justified its stated objectives. The linking of the study to relevant theories is commendable while the analytical tools is suitable for a mediation study, but the recommendation is lacking in merit since it did not proffer ways to embrace the adequacy of supervision.

Omodero and Eriabie (2022) examined the extent to which value added tax (VAT) receipts affect industrial sector performance. The dependent variable Industry output was surrogate to industrial sector performance. The study used secondary data from 2010 to 2021 to evaluate the causation effect of VAT proceeds on industry productivity (proxy by return or asset – ROA) in Nigeria. The dependent variable employed is the return on asset of the studied firms while the independent factors include: import VAT, domestic VAT and the aggregate VAT receipts. The study applies Pairwise Granger Causality Tests which show that the local VAT returns and the aggregate VAT collection exhibit positive and strong causation effects on manufacturing sector financial performance. However, the study of Omodero and Eriabie seems to relate with this study but was limited to three variables of import VAT, domestic which is local VAT and aggregate VAT and could not address the causality effect of foreign VAT, more so their scope is limited to industrial sector performance while this study expands its scope to economic performance of developing country using Nigeria experience as a focal point. Oluwasegun (2022) probed into the effect of VAT on Nigeria's revenue generation and economic growth. The specific objective was to ascertain the extent to which VAT contributes to revenue generation in Nigeria. The study adopted ex-post-facto research approach with the aid of ordinary least square regression method to analyze data gathered from the Central Bank of Nigeria, Statistical Bulletin, Federal Inland Revenue Services reports, the Federal office of Statistics and the Federal Ministry of Finance for a period of twenty-five (25) years ranging from 1994-2018.The result indicated that the impact of VAT on economic growth, tax revenue generation in Nigeria was positive and significant. The study succinctly identified the study objectives and stated the hypotheses through extensive review of literature which is commendable. It equally made use of the available resources-based theory to aver that is consequential towards innovation and sustainability of enhanced VAT revenue generation in Nigeria. The only flaw associated with the study is the omission of the possible causality test among the

study variables and while trying to relate the possible extent contribution of VAT to revenue generation left the readers in dark of the individuals' VAT components contributions to revenue generation rather it looked at VAT holistically. While Odukwu, Oshiogwemoh and Eke (2022) conducted a study titled "the impact of tax on economic growth of Nigeria" using time series data obtained from secondary source. The specific objectives of the study were to determine the impact of value added tax on gross domestic product and human capital index in Nigeria; to ascertain the impact of company income tax on gross domestic product and human capital index in Nigeria, to determine the impact of petroleum profit tax on gross domestic product and human capital index in Nigeria and finally ascertain the moderating effect of electronic data base on tax reforms and economic growth of Nigeria. Judgmental sampling was used to sieve out data while regression analysis techniques was adopted to measure the effect of the predictor variables on the criterion variables through the use of estimated technique of both descriptive statistics and ordinary least square (OLS) regression analysis. The study found that there is a positive significant impact of VAT, CIT, and PPT on RGDP in Nigeria. Therefore, the researcher concludes that there is significant positive impact of tax reforms on Nigeria's economic growth. However, the use of judgmental sampling technique on a sample of 21years' period and estimated technique of both descriptive statistics and the ordinary least square regression analysis method is casting a very big doubt with regards to the generalization of the findings in Nigeria. This was the major setback of the study.

Nwachukwu, Nwoha and Inyama (2022), in their study on effect of taxation on the economic growth in Nigeria, found that value-added tax, petroleum profit tax, personal income tax and company income tax have a positive and significant effect on gross domestic product in Nigeria. The study thus concludes that taxation has a positive effect on gross domestic product in Nigeria. This implies that a strong taxation policy is required for economic growth and development which will enhance employment generation, poverty alleviation, enhance capacity building for manpower and skills development that promote growth and facilitate industrial development in Nigeria. Ex-post facto research design was adopted with the use of Econometric techniques involving Descriptive Statistics, Augmented Dicker Fuller Tests for Unit Roots and the Ordinary Least Square OLS) to analyze data. The study obviously did justice to the stated objectives and the results are commendable, but were unable to look at effect of each current components of VAT on economic growth. Daferighe, Emah and Offiong (2022) studied the contribution of VAT to economic development with empirical evidence from Nigeria with specific objectives of identifying the effect of VAT, Foreign direct investment (FDI) and total debt (TD) on Real Gross Domestic Product (RGDP). Step-wise multiple regressions Technique were used to analyze data obtained from secondary source. The study revealed that VAT is significantly related to economic development in Nigeria and that the explanatory variables FDI and VAT are positively related to economic development in Nigeria while TD is negatively related to economic development in Nigeria, which the researcher concluded that hence FDI increase the wealth of shareholders and VAT increases the revenue base of the country Nigeria therefore, these two variables contribute positively to economic development of Nigeria, while TD has negative influence on economic development. The study seemed to lose bearing since the title was the contribution of VAT to economic development, but deviated to include other extraneous variables such as FDI, TD in other words this would have made the work clumsy and ambiguous. Also, it did not navigate on the impact of import, Foreign and local VAT on real GDP. Chepeta and Montfaucon (2022) conducted research on the effect of import duty, import excise and import value added tax (VAT) on Malawi's import prices, values and volumes in trading with Africa, using ex-post-facto research design and analyzed secondary data with statistical tool of OLS multiple regression method. The study found that import taxes increase import prices, with import VAT having the largest impact, import duties contributed to higher value but to a small extent. Moreover, import duties and import VAT had a positive relationship with import quantities from COMESA while a negative one with SADC countries, while high import duties decrease the probability of Malawi's importers trading with other African countries. The study only looked at one current variables of VAT without factoring in Foreign and Local VAT which would have made their work on VAT complete. Emanuel and Stephen (2021) studied the relationship between total tax revenue and economic growth in Nigeria. The authors employed the multiple regression method to analyze time series data on VAT, GDP and total revenue from 2003-2017. The findings revealed that Petroleum Profit Tax (oil tax revenue) has a positive but no significant relationship with Nigeria Economic Growth, while Value Added Tax and Companies Income Tax (non- oil Tax Revenue) have significant relationship with Nigeria Economic Growth. In my view, the recommendation of Emmanuel and Stephen is somehow dicey to embark on and should be taken with caution according to the claims of the Laffer curve (Laffer, 2004), which argues that raising taxes may not be a viable option since it can impact GDP negatively. John and Sopelu (2021) examined the impact of value added tax (VAT) on economic growth in Nigeria from 1994 to 2018, using ex-post-facto research design and statistical tool of ordinary least square (OLS) multiple regression to analyze time series data obtained from the Central Bank of Nigeria Statistical Bulletin of 2018. Auto-Regression Distributed Lag (ARDL) technique was used to estimate a multiple linear regression model that was tailored in line with the formulated hypotheses. The study revealed that, there is a positive and insignificant effect between log value of total revenue and log value of total of value added tax on log value of gross domestic product while total expenditure has a negative and insignificant effect on log value of gross domestic product.

Johansson, Heady, Arnold, Brys, and Vartia (2020) probed the relationship between tax and economic growth with the aid of OLS of multiple regression. They maintained that revenue generated through administration of taxes is meant for the provision of social amenities, improvement of standard of living, welfare programmes in an equitable manner and other social and economic issues. The study centered on the effect of tax structure changes on GDP per capita and effecting determinants thereof with a focus on OECD countries, and the dilemma of examining the extent impact tax structures had on the growth of GDP. Moreover, it re-emphasizes the importance of removing tax burdens on taxpayers (optimal taxation), reformation of costs of tax, transitions and practical experiences of OECD member countries. The specific objectives of the study were the effect of corporate tax, personal income tax, consumption and property taxes on GDP.Even though the tax aspect of the study was generic and therefore was limited in scope, but the good aspect of the study was that it shed light on tax structures of developed economies and related the subject matter from a general point of view. More so, the work was unable to present identical findings or conclusion on discourse. This means that the study could not conclude on a positive or negative impact of tax revenue on GDP. Pascal and Callistus (2020), assessed the impact of taxation on industrial performance in Nigeria, via the use of single linear model to analyze data obtained from secondary source, in which industrial performance is proxied by industrial output which was the dependent variable while company income tax, petroleum profit tax, customs and excise duty tax, and manufacturing, capacity utilization, served as the independent variables. However, from the result; company income tax, petroleum profit tax, customs and excise duty and manufacturing capacity utilization, has a significant relationship on industrial output. The study concluded that, the success of any fiscal policy in promoting industrial sector depends on the level of public revenue available, the direction of public expenditure and its full implementation. Therefore, the study confined itself to a single set of economic performance which is industrial performance and the results cannot be justifiable to generalize the impact of taxation to the economic performance of Nigeria it only addresses one sector of the economy, hence the gap for the study. Preye and Bingilar (2020) studied the impact of value-added Tax on Economic Growth in Nigeria, the specific objectives were to determine the impact of input value added tax and output value added tax on Economic growth in Nigeria. The study adopted longitudinal research design with the Secondary time-series panel data collected for the period 2009 to 2018 from the statistical bulletin

of the Central Bank of Nigeria (CBN). The results of the analyses showed that both input tax and output tax have positive and significant impacts on economic growth, it was also found that VAT has significant positive influence on total tax revenue of the government and by extension the economic growth of Nigeria, which implies that VAT revenue growth had a consistent increase. Gatsi, Gadzo and Kportorgbi (2020), employed panel data covering ten listed manufacturing firms Ghana from 2005 to 2012 to empirically determine the impact of taxation (decomposed into CIT, PPT, C & ED and manufacturing capacity utilization) on industrial performance which is proxied by industrial output. The study applying OLS regression analysis of data identified a significant negative relation between corporate income tax and financial performance while the firm's size, age of the firm and growth of the firm portrays a significant positive relationship with the financial performance. Looking at the multi-variant variables of the study and the time series data used it is expected the study would have used statistical tool of multiple regression method of data analysis, since is the appropriate for the research design, also data for manufacturing capacity utilization cannot be obtained through secondary data except primary source, hence the study would have also use primary source of data collections to generate data for manufacturing capacity utilization.

Yusuf, Abidin, Bakar and Musa (2018) examined the causal relationship between value-added tax and economic growth in Nigeria from 1980 to 2016 using a simple linear regression technique to analyze the data that were obtained from secondary data. The study utilized data from the gross domestic product, value added tax, domestic investment, degree of openness, corruption index, interest rate and real exchange rate as proxy variables to determine the relationship between value-added tax and economic growth in the country. The findings from the study revealed that value-added tax, domestic investment and degree of openness have significant positive relationships with gross domestic product in Nigeria while the corruption index has a negative significant relationship with gross domestic product in the country.

**Gaps in the Reviewed Literature:** Several empirical studies around the world have been conducted to measure the relationship between value added tax and economic growth or economic development. For instance, many of the authors reviewed as shown above, looked at the holistic approach of VAT in conjunction with other tax revenues and economic growth but did not address each VAT components' impact on either economic growth or performance. Other authors like; Preye and Bingilar (2020) decomposed VAT into input and output VAT and examined its impact on economic growth, Omodero (2020) studied on the relationship between custom excise duty and VAT on consumption. Also related was the study of Yusuf, et al (2018) on causal relationship between VAT and economic growth but digressed further by extending their scope in conjunction with VAT to domestic investment, degree of openness, corruption index, interest rate and real exchange rate as a proxy variable to determine the relationship between VAT and economic growth. All these studies and many more have their significant impact on existing literatures on the topic area but none was able to address the extent of the impact each component of value added tax viz: import, Foreign and Local VAT had on either economic growth or performance. Moreover, these studies presented varied or mixed results. For example, some of the work found positive impact, effect or relationships while others found negative impact, effect or relationship existing between VAT and economic growth or development. Considering the above reviews, it is clear that their findings are still mixed and debatable. Again, some scholars looked at VAT from the angle of input and output VAT, though data for output VAT can be generated easily but not for input VAT which may require rigorous processes and mostly the data can be derivative and not reliable. Consequently, the study introduced current variables which are the current VAT structure in Nigeria that started since 2012 viz: NCS-Import VAT, Non-import VAT (Foreign) and Non-import VAT (Local) and none of the literatures reviewed have looked at the impact of these new VAT variables holistically on economic performance using Nigerian experience.

In conclusion, about two or more of the relevant studies that have been conducted in the past used primary data especially in trying to find data for input VAT which is subjective and may not reflect on the true behavior of the explanatory variable at the expense of the secondary data that is available in the Nigeria Bureau of Statistics (NBS), FIRSB and CBN Statistical Bulletin, though many have used secondary data but their studies were not based on the current data. This study therefore is conducted to fill the gap identified above by ascertaining the impact of value added tax on economic performance of developing economies, it also gave the researcher the opportunity to contribute to the body of knowledge through the introduction of current VAT variables.

**Theoretical Framework:** The study is anchored on Laffer Curve Theory and Ability to Pay Theory.

**Laffer Curve Theory:** The theoretical framework for this study is the Laffer Curve Theory. This theory was developed by Prof. Arthur Lafferin 1978. The Laffer curve is a theoretical representation of the relationship between government tax and the performance of the economy. It considers the amount of revenue at the extreme tax rates of zero percent (0%) and a hundred percent (100%), and the most efficient rate to adopt in order not to disrupt the economy. The basic assumptions of the theory are:

The existence of a legal framework to enable tax collection by government, the powers of the government to determine the categories of tax (including value added tax) and the rates to apply, the objective of the tax must not be intended to injure economic performance, The tax authorities operate a register of taxable businesses entities, and the tax authorities employ the canons of tax suitable to the prevailing economic circumstance within the nation.
The theory holds amongst other things that at 100% rate there is no longer incentives for a rational taxpayer to earn any income, thus the revenue raised will be 100% of nothing. It therefore follows that there must exist at least one rate in between where tax would be at maximum. This theory is relevant to the study because it applies to VAT as a form of taxation, which affirms that raising the value added tax rate beyond a certain level would inevitably create disincentives and would be counterproductive for economic performance.

# METHODOLOGY

The study was carried in Nigeria, and adopted *ex-post-facto* research design, reason being that the study depended on already existing data on model variables. The choice of Nigeria was based on the fact that is the giant of Africa through it economic potential (larger size of economy), larger population with over 200 million people providing the vast markets and workforce, natural resources (rich in oil, natural gas and other resources), contributing widely to its economy. The study used annual data obtained from the Federal Inland Revenue Service (FIRS) annual financial report and Central Bank of Nigeria (CBN) Statistical Bulletin from 1994 to 2024. The model variables of the study were gross domestic product (GDP), import VAT, foreign VAT, local VAT and total VAT revenue, and also adopted Stoilova and Patonov (2020) modified Jones model, specified as follows:

$$LOGGDP = \beta_0 + \beta_1 LOGIVAT + \beta_2 LOGOVAT + \beta_3 LOGTVAT + \mu it \quad (1)$$

Where:

LOG = Logarithm form of variables; IVAT = Input value added tax; OVAT = Output value added tax; GDP = Gross Domestic Product; TVAT = Aggregate Value Added Tax returns

The model was modified to suit the research objectives as follows:
Gross Domestic Product = f {import VAT, foreign VAT, local VAT, total VAT revenue} while the functional relationship was transformed into a linear form as follows:

$$GDP = \beta_0 + \beta_1 IVAT_{it} + \beta_2 FVAT_{it} + \beta_3 LVAT_{it}\ \beta_4 TVATR_{it} + \mu_t . \quad (2)$$

Where;

GDP = Gross Domestic Product proxy for Economic Performance (₦'billion)

IVAT= Import Value Added Tax (₦'billion)
FVAT = Foreign Value Added Tax (₦'billion)
LVAT = Local Value Added Tax (₦'billion)
TVATR = Total VAT Revenue (₦'billion)
$\beta_0$ = Constant; $\beta_1$, $\beta_2$, $\beta_3$ and $\beta_4$= Regression coefficients estimated; $_{it}$= the cross-sectional notations
$\mu_t$ = Error term.

The measuring tools for the descriptive statistics tests adopted in order to ascertain the characteristics of the research variables, includes: mean, median, maximum, minimum, standard deviation and amongst others. Multiple regression test based on ordinary least square (OLS) was used to analyze data because it is considered to be the best linear unbiased estimator that is apt for estimating a model of this nature. Moreover, the tests were performed using *E-view version 12* econometric software to ascertain the statistical significance of the hypothetical relationship between the dependent and the independent variables. The unit root was used to establish stability, while the correlation matrix depicts the relationship between the variables for both the reliant and autonomous elements. We also show the data trend for the time period covered by this study.

# RESULTS

**Descriptive statistics:** The chapter discusses the statistical attributes of the variables, dataset's trend analysis, unit root test, correlation analysis, and explanation. Table 2 below describes the statistical attributes of the variables; dependent variables (Economic Performance proxied by Gross Domestic Product) and independent variables (Import VAT, Foreign VAT, Local VAT, Total VAT revenues).

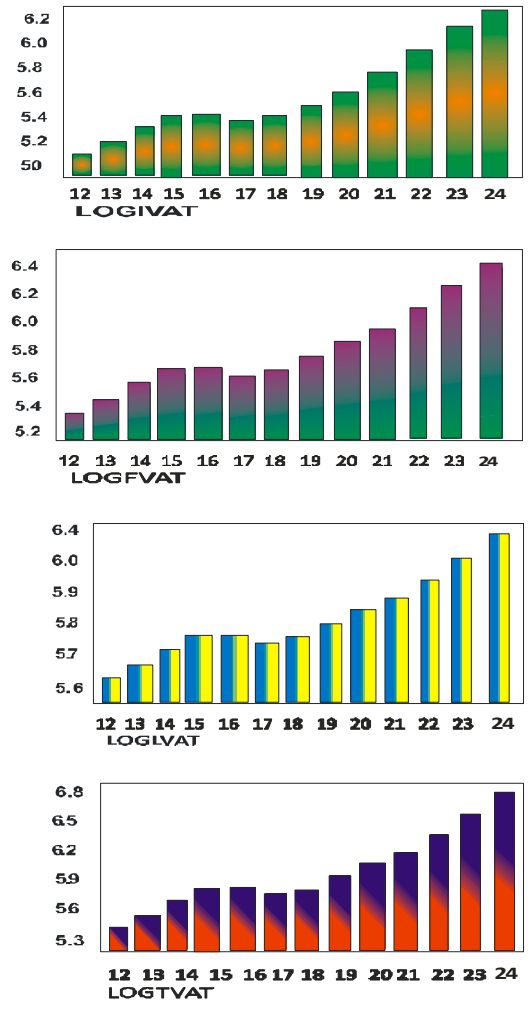
**Table 2. Descriptive statistics**

| | GDP | IVAT | FVAT | LVAT | TVAT |
|---|---|---|---|---|---|
| Mean | 4.54 | 5.45 | 5.32 | 5.86 | 5.97 |
| Median | 4.69 | 5.95 | 5.27 | 5.71 | 6.01 |
| Maximum | 4.89 | 5.85 | 5.92 | 6.32 | 6.64 |
| Minimum | 4.30 | 5.20 | 5.01 | 5.64 | 5.85 |
| Std. Dev. | 0.73 | 0.16 | 0.16 | 0.16 | 0.25 |
| Skewness<br>Std. Error | 0.74<br>0.41 | 0.08<br>0.41 | 1.02<br>0.41 | 0.74<br>0.41 | 0.82<br>0.41 |
| Kurtosis | 2.08 | 2.23 | 2.89 | 2.77 | 3.28 |
| Jarque-Bera | 1.13 | 0.31 | 1.34 | 1.13 | 2.14 |
| Probability | 0,57 | 0.86 | 0.34 | 0.57 | 0.51 |
| Sum | 70.32 | 47.68 | 63.84 | 49.16 | 71.64 |
| Sum Sq. Dev. | 0.82 | 0.71 | 0.27 | 0.29 | 0.72 |
| Observations | 31 | 13 | 13 | 13 | 31 |

Source: Extracted from *E-views* 12 output, 2025

The descriptive statistics analysis in Table 2 was used to verify the nature of the datasets before using them for evaluation. The results show that the mean values of GDP, IVAT, FVAT, LVAT and TVAT are 4.54, 5.45, 5.32, 5.86 and 5.97 respectively. Moreover, the minimum values for gross domestic product, import value added tax, foreign value added tax, local value added tax and total value added tax are 4.30, 5.20, 5.01, 5.64, 5.85 respectively while the maximum values of GDP, IVAT, FVAT, LVAT and TVAT are 4.89, 5.85, 5.92, 6.32 and 6.64 respectively. Furthermore, following the outcome of the mean values and the standard deviation values of 0.73 for GDP,0.25 for TVAT (total VAT revenue) and 0.16 for all the VAT components (other predictor variables), it can be deduced that, the data spread is low and is clustered around the mean area. The Kurtosis results indicated that the variables have values close to 3, indicating that the data distribution is normal. To substantiate the regularity of the data allocation, the JarqueBera p-values for GDP, TVAT, IVAT, FVAT, and LVAT are 0.57, 0.51, 0.86, 0.34, and 0.57respectively. These values are greater than 0.05, indicating that the datasets used in this study are evenly distributed.

The findings also showed that the datasets are constructively and equitably skewed. Skewness is a measure of asymmetry of the distribution of the series around its mean. If it is positive, it means that the distribution has a long right tail while negative skewness denotes that the distribution has a long-left tail. In table 3 above, sum square deviation (S) = skewness statistic divided by skewness standard error is under the null hypothesis of normality, i.e., roughly standard normal distributed. Thus, when 'S' is greater than ± 1.96 the skewness is significantly (alpha = 0.05) different from zero (Cramer, 1998). This means that the data is considered normal. Therefore, table 3 shows that the gross domestic product, import VAT, foreign VAT, local VAT and total VAT with skewness of 0.74 (Std. Error = 0.41); 0.08 (Std. Error = 0.41); 1.02 (Std. Error = 0.41); 0.74 (Std. Error = 0.41); and 0.82 (Std. Error = 0.41) respectively are within the normality distribution range of ±1.96. Therefore, table 3 indicates that all the explanatory variables have positive skewness and as such has, they have long tails.




Sources: CBN, FIRS and National Statistical Bulletin

**Figure 1. Trend of Data from 2012–2024**

**Trend analysis:** Figure 1depicts the data movement from 2012 to 2024 when VAT was classified into three (3) components viz: Nigeria custom service (NCS)-import VAT, non-import VAT (Local), and non-import VAT (Foreign). However, it is worthy to note that from 1994 the first-time implementation of VAT in Nigeria till 2011 VAT was not classified into these three components. The classification first began in 2012. One important point to note is that all of the variables increased significantly from year to year and in the year 2021 there was a remarkable increase followed by subsequent years; predominantly in 2023 and 2024 there were a geometric rise to the tone of ₦4.353832, 6.721000 respectively approximated in trillion. The VAT proceeds suffered a major setback in 2012 while attempting to gradually increase; the domestic and import VAT proceeds shrank substantially again, in 2017, thereby affecting the total VAT increase. Aside from 2018, the manufacturing sector has been steadily

improving since 2013. The expansion continued from 2019 to 2024. This increase demonstrates that there is an improvement in VAT administration in Nigeria as a result of the introduction of new technologies and mechanisms in driving compliance following the low level of the country's VAT rate. It should be noted that Nigeria has one of the lowest VAT rates in the world (Omodero, 2020), so industries operating in the country can benefit from this important factor. Table 3 showed the unit root result, which validates that the datasets used in this study are stable and do not have the potential to produce erroneous results. Unit root confirmation tools include Levin, Lin & Chut, Im, Pesaran, and Shin W-stat, Augmented Dickey Fuller (ADF) Fisher Chi-square (FC), and Phillip Peron (PP) Fisher Chi-square. With a probability of 0.00, which is less than 0.05, the various unit root apparatus used in this test confirm that there is no unit root challenge with the datasets.

**Series: LOGGDP, LOGIVAT, LOGFVAT, LOGLVAT, LOGTVATR**

**Table 3. Unit Root Test Result**

| Method | Statistic | Prob. | Cross-sections | Obs |
|---|---|---|---|---|
| Null: Unit root Levin, Lin & Chut | -6.71 | 0.00 | 4 | 31 |
| Null: Unit root Im, Pesaran and Shin W-stat | −3.02 | 0.00 | 4 | 31 |
| ADF—Fisher Chisquare | 24.18 | 0.00 | 4 | 31 |
| PP—Fisher Chi-square | 29.27 | 0.00 | 4 | 31 |

**Unit Root Test:** To determine the order of the stationarity of the series, the Augmented Dickey-Fuller unit root test was engaged for which the result is presented in Table 4. The unit root test is usually employed to ascertain whether a time series variable is stationary or not. Moreover, the table shows that Gross Domestic Products (GDP) is not stationary at levels thereby, making the variable to be integrated of order one that is I (1). Hence, the variable is not stationary at first difference. Similarly, all the independent variables which include: Total VAT revenue (TVAT), import VAT (IVAT), foreign VAT (FVAT) and local value added tax (LVAT) show that at first level difference, there is no stationary at first difference which is at both intercept (model I), Intercept and trend (Model II) and None (Model III).

**Multiple Regression Analyses**

**Co-integration Test:** Here, we can now test whether the regression residuals are co-integrated, that is to test whether there is a long-run relationship between the dependent and independent variables in the model below. Therefore, by employing Johansen Co-integration test we make use of the likelihood Ratio (Trace test) and Max-Eigen from the model respectively by comparing their values with the critical values at 5% level. If the values of the likelihood ratio/Max-Eigen are greater than the critical values, then, we conclude that there is long-run equilibrium relationship. Otherwise, the regression residual is not co-integrated. Table 5 above showed the co-integration test result of the analysis using the Johansen co-integration test in order to determine if there exists a long run relationship between the dependent and independent variables. However, four (4) co-integrating equations were identified. The decision criterion for the presence of long run relationship is the identification of at least one co-integrating equation. The conclusion on the presence of co-integration is stated using the trace statistics which must be greater than the 5% critical value, or the p-value of the trace statistics is less than the level of significance (0.05). The obtained trace-stats was greater than the 5% critical values (158.9591 > 69.81889 - None; 98.28658 > 47.85613 at most 1; 42.82309 > 29.79707 at most 2; 15.75701 > 15.49471 at most 3 and 3.841466 > 2.634901) Also, the Maximum Eigen value shows a higher value of 0.876579,0.852294,0.606751,0.406342 and0.021655at both none and at most 1,at most 2,at most 3,at most 4 results respectively compared to the critical value results at 5% indicating a co-integration relationship between the dependent and independent variables in the research work which is similar to the outcome of the trace test. Hence, we can conclude that there is a long-run equilibrium relationship between the dependent and independent variables since the value of the likelihood ratio is more than critical value at 5% level of significance. The long run and short run effect of Value Added Tax on Economic Performance proxied by Gross Domestic Product is reported in Table 6, using the Auto-Regressive Distributed Lag (ARDL) model. The use of ARDL model is justified on the ground that it allows for robust checks of the explanatory variables and is suitable for analyzing long-term relationships between the study variables. However, in the long run, one period lag of the dependent variable (GDP (+1)) and independent variables [TVAT (+1), LVAT (+1), IVAT (+1) and FVAT (+1)] are statistically significant and positively related to the current period gross domestic product at 1% significant level. A unit increase in one period lag of gross domestic product causes about 3.1967 units increase in current period gross domestic product, suggesting that increase in previous value of gross domestic product is predicated by increase in value added tax in the long run which implies that VAT proceeds were judiciously used in pursuing viable government policies that resulted to availabilities of essential facilities that enable indigenous industries to thrive, thereby enhancing gross domestic product that impacted on economic performance of Nigeria. Similarly, a unit increase in one period lag of value added tax leads to about 0.4258 unit increase in gross domestic product, which showed that previous period level of VAT increases GDP. This also applies to all the current VAT structures shown above since the total value added tax revenue (TVAT) is the aggregate effect of the VAT structures (IVAT, FVAT and LVAT). Moreover, the relationship between one period lag of the total value added tax is contrary to a priori expectation that assert that the explanatory variables have no significant impact on gross domestic product of Nigeria. Additionally, in the short run, the result on log of total value added tax (L_ TVAT), log of local value added tax (L_LVAT), import value added tax (L_IVAT) and log of foreign value added tax (L_FVAT) shows a positive relationship with the log of gross domestic product (L_GDP) at 1% level of significance. Hence, a unit increase in the value of value added tax of (TVAT, LVAT, IVAT and FVAT) will bring about 14.9%, 14.1%, 12.2% and 12.1% increase respectively in the gross domestic product of Nigeria. Therefore, value added tax has a significant positive impact on economic performance in Nigeria. The Error Correction (ECM) Coefficient in Table 6 indicates the speed of adjustment from the short-run dynamics to long-run equilibrium is 40.13%. In other words, 40.13% of the long-run disequilibrium in the previous years is adjusted every year. Conclusively, the Adjusted R2 value of 0.1896 indicates that 19% variation in gross domestic product is explained by total value added tax, total local value added tax, total import value added tax and total foreign value added tax. The F-Statistic which is less than 0.05 confirms that the estimated model in Table 6 is significant and valid. More so, the Durbin Watson (DW) value of 2.46 falls in the range of acceptability indicating that there is no autocorrelation in the estimated model. Table 7 showed that the Q-statistics is insignificant at the acceptance critical value of 0.05. This indicates that there is no serial correlation in the model. Hence, the null hypothesis that there is no serial correlation cannot be rejected. Table 9 below depicts the correlation matrix and shows the kind of connection that exists between the variables. The findings indicate that import VAT, foreign VAT local VAT, and total VAT have a very strong and positive correlation with gross domestic product. That is, the coefficient of correlation between import VAT (logIVAT) and gross domestic product (logGDP) is 0.93, indicating a very strong link. Similarly, FVAT has a 0.97 correlation with GDP while local VAT (log LVAT) and (logGDP) is 0.99, indicating a very important connection between local VATS, import VAT and foreign VAT contribution to GDP. The same outcome can be seen for the total VAT (TVAT) relationship with gross domestic product, which shows a 0.96 correlation. Looking at the relationship between the predictor variables, there is a strong link between them. The implication is that the industrial sector does not regard VAT compliance as a threat to their operations and performance. That is, IVAT has a 95% correlation with LVAT, while total VAT has a 99% correlation with both IVAT and DVAT. This indicates that both the local VAT and the import VAT contribute significantly to the country's gross domestic product. The hypothesized VAT proceeds Prior to the study, which include import VAT, Foreign VAT, Local VAT, and total VAT, have a causal effect

**Table 4. Test for Stationarity at Level and First Difference**

| Variables | Augmented Dickey-Fuller (ADF) Test | | | | | | I(d) |
|---|---|---|---|---|---|---|---|
| | Level | | | First Difference | | | |
| | Model I | Model II | Mode III | Model I | Model II | Model III | |
| LogGDP | -1.670056 | 0.4215457 | 2.078261 | -3.048735** | -4.956815*** | -1.694932 | I (1) |
| LogIVAT | -2.646815* | -0.418624 | 1.581406 | -3.290921** | -3.623456* | -0.946208 | I (1) |
| LogFVAT | -2.963452* | -0.451380 | 1.612597 | -3.463716** | -4.456593*** | -2.479836 | I (1) |
| LogLVAT | -3.876824* | 0.425713 | 1.834562 | -3.542106** | -4.657782*** | -2.695632** | I (1) |
| LogTVAT | -5513936*** | -2.228366 | 1.736512 | -3.965081*** | -5.244569*** | -1.963390** | 1(1) |

Source: Researchers' Computation (2025) using E-Views12; Note 2: *, ** and *** represent significance level at 1%, 5% and 10% respectively.

**Table 5. Johansen Co-integration Test**

| Hypothesizd | Maximum | Trace | 0.05 | |
|---|---|---|---|---|
| No. of CE(s) | Eigen value | Statistic | Critical Value | Prob. |
| None | 0.876579 | 158.9591 | 69.81889 | 0.0647 |
| At most 1 | 0.852294 | 98.28658 | 47.85613 | 0.0121 |
| At most 2 | 0.606751 | 42.82309 | 29.79707 | 0.0009 |
| At most 3 | 0.406342 | 15.75701 | 15.49471 | 0.0457 |
| At most 4 | 0.021655 | 3.841466 | 2.63491 | 0.4256 |

Source: Researchers' Computation (2025) using E- Views12

**Table 6: Estimated and Error Correction Model of Long Run and Short Run effect of Total Value Added Tax Revenue, Import VAT, Foreign VAT and Local VAT on Gross Domestic Product**

| Variable | Coefficient | Std Error | t-Statistic | Prob. Value |
|---|---|---|---|---|
| | | | | |
| Constant | 3.0244 | 1.2331 | 4.3305 | 0.8930 |
| Long-run: GDP (+1) | 3.1967 | 0.5025 | 3.7358 | 0.0000*** |
| TVAT (+1) | 0.1425 | 0.0134 | 4.0196 | 0.0006** |
| | 1.2692 | 0.1945 | 7.0468 | 0.0000*** |
| GDP (+1) | 1.1232 | 0.2649 | 1.7589 | 0.0365** |
| LVAT (+1) | 2.0356 | 0.3642 | 5.5892 | 0.0000*** |
| GDP (+1) | 0.7226 | 0.1526 | 1.7722 | 0.0133** |
| IVAT (+1) | 0.5547 | 0.2196 | 2.5248 | 0.0217*** |
| GDP (+1) | 0.6245 | 0.1692 | 2.4249 | 0.0324** |
| FVAT (+1) | | | | |
| Short-run: D (L_TVAT (1) | 2.1492 | 0.2160 | 3.3611 | 0.0168** |
| D TVAT (-1) | 0.9063 | 0.2490 | 2.7395 | 0.2462 |
| DLVAT (1) | 0.1212 | 0.0025 | 1.8611 | 0.0003** |
| DLVAT (-1) | 1.1638 | 0.2600 | 0.9483 | 0.0006*** |
| DIVAT (1) | 1.1227 | 0.3215 | 1.9678 | 0.0036** |
| DIVAT (-1) | 0.9420 | 0.2145 | 0.9071 | 0.0011*** |
| DFVAT (1) | 0.1236 | 0.0036 | 1.7157 | 0.0007** |
| DFVAT (-1) | 0.5234 | 0.1025 | 1.7660 | 0.7690 |
| ECM (-1) | -0.4013 | 0.1751 | -1.9313 | 0.0000*** |
| **R squared (R2)** | **0.1986** | | | |
| **Adjusted R2** | **0.1896** | | | |
| **F-statistic** | **11.0245** | | | **0.0034** |
| **Durbin-Watson statist.** | **2.9267** | | | |

Source: Researchers' Computation (2025) using e-views 12

**Table 7. Q-statistic Probabilities Adjusted for 4 Dynamic Regression**

| Auto Cor-Relation | Partial Cor-Relation | | AC | PAC | Q-Stat | Prob* |
|---|---|---|---|---|---|---|
| | | | | | | |
| .**\|.\| | .**\|.\| | 1 | -0.256 | -0.256 | 1.5827 | 0.208 |
| .*\|.\| | .*\|.\| | 2 | -0.081 | -0.157 | 1.7510 | 0.417 |
| ***\|.\| | ****\|.\| | 3 | -0.457 | -0.572 | 7.3608 | 0.061 |
| .\|**.\| | .*\|.\| | 4 | 0.243 | -0.174 | 9.0404 | 0.060 |

Source: Researcher's Computation (2025) using E-views 12

**Table 9. Correlation matrix of the dependent and independent variables**

| Variables LOGGDP | | LOGIVAT | LOGFVAT | LOGLVAT | LOGTVAT |
|---|---|---|---|---|---|
| LOGGDP | 1.00 | | | | |
| LOGIVAT | 0.93 | 1.00 | | | |
| LOGFVAT | 0.99 | 0.95 | 1.00 | | |
| LOGLVAT | 0.95 | 0.94 | 0.92 | 1.00 | |
| LOGTVAT | 0.96 | 0.99 | 0.98 | 0.99 | 1.00 |

Source: Researcher's Computation (2025) using E-view 12

on Gross domestic product at a 5% level of significance. Moreover, the granger causality test results in Table 11belowclearly identify local VAT and total VAT revenue to have causal effects on economic performance at the 0.01 level of significance. The findings indicated that local VAT and aggregate VAT revenue significantly boost the gros0s domestic product. This is largely due to VAT being such an indirect levy on products throughout the supply chain that is ultimately borne by the end users of the products. The burden is not felt by the manufacturers and service providers because they do not directly bear the liability; as such, industries in the country experience significant growth as a result of their compliance.

**Test of Research Hypotheses:** The study employed Multiple Regression Model to analyze data collected over the period of 1994 to 2024. The sign and significant level of each of the hypothetical independent variables formed the basis for testing the affected hypotheses, using t-statistic and p-value of the respective independent variables to test them at a significant level of 5%. In taking decision, p-value was used, and the p-value was obtained using the computed test statistic and at two tailed tests. Null hypothesis ($H_0$) will be rejected in favour of alternative hypothesis$H_1$ift-statistic $\geq$ 0.05 and p-v $\leq$ 0.05.

**Test of Hypothesis One**

**$H0_1$**: Import value added tax has no significant impact on gross domestic product of Nigeria.

Based on the results as shown in Table 6, the study rejects the first null hypothesis and concludes that there is significant positive impact of import VAT on economic performance of Nigeria proxied by gross domestic product of Nigeria as the t-statistic value and p-value is 1.7722 and 0.0133 respectively. This means that in both short and long run tests, the results are the same which imply that import VAT increase level of gross domestic product in Nigeria.

**Test of Hypothesis Two**

**$H0_2$**: Foreign value added tax has no significant impact on gross domestic product of Nigeria.

Based on the result as presented in Table 6, the p-value (0.0324) is less than 0.05 and t-value (2.4249) is greater than 0.05. The study rejected the null hypothesis and accepted the alternate hypothesis with the conclusion that there is a significant and positive impact of foreign VAT on gross domestic product of Nigeria.

**Test of Hypothesis Three**

**$H0_3$**: Local value added tax has no significant impact on gross domestic product of Nigeria. Based on the result as presented in Table 6, the p-value (0.0365) is less than 0.05 and t-value (1.7589) is greater than 0.05. The study rejected the null hypothesis and accepted the alternate hypothesis with the conclusion that there is a significant and positive impact of local VAT on gross domestic product of Nigeria.

**Test of Hypothesis Four**

**$H0_4$**: Total VAT revenue has no significant positive impact of on gross domestic product of Nigeria. Based on the result as presented in Table 6, the p-value (0.0006) is less than 0.05 and t-value (4.0196) is greater than 0.05. The study rejected the null hypothesis and accepted the alternate hypothesis with the conclusion that there is a significant and positive impact of total VAT revenue on gross domestic product of Nigeria.

# DISCUSSION

The general objective of this study is to determine the impact of value added tax on economic performance, in developing economies using Nigerian experience from 1994 to 2024. However, having shown the results of the study in the previous section, the fundamental aim of this discussion is to establish theoretical justifications on the impact of VAT on economic performance in Nigeria. To achieve the results of the desired goals, VAT was decomposed into current variables; import VAT, Foreign VAT and Local VAT which are the current VAT structure in Nigeria and the fourth explanatory variables of the study was the aggregation effects of these three variables which forms the wholesome impact of VAT on economic performance of developing economies known as total VAT revenue. While the dependent variable known as the predictor variable is proxied to Nigeria gross domestic product. Moreover, the fourth independent variables were justified on the ground that it will enable the researcher to determine the holistic impact of VAT from 1994 to 2024 given that the current VAT structure began since 2012, hence will give the study the leverage to regressed VAT proceeds with the value of GDP since 1994 to 2024 in order to ascertain the actual impact of the independent variable on the dependent variable of the study. The long run and short run effect of import VAT, foreign VAT, local VAT and total VAT revenue on Gross Domestic Product (GDP) is reported in Table 6, using the Auto-Regressive Distributed Lag (ARDL) model. At the short run, it could be observed that log of all independent variables at one percent significant level has a positive relationship with the log of gross domestic product (L_GDP) in Nigeria for the period studied. The implication of this, is that a unit increase (decrease) in independent variables proceeds will lead to decrease (increase) of 12.27%, 12.36%, and 12.12% in the gross domestic product of Nigeria. More so at the long run it was identified that the log of VAT variables' returns at 1% level of significant has a positive relationship with the log of gross domestic product, signifying that a unit increase (decrease) of VAT revenues at the long run will lead to an increase (decrease) of 0.5547 percentage in gross domestic product of Nigeria.

From the results of the analysis, it showed that at the first instance, there is a positive relationship between the VAT components and gross domestic product in Nigeria. This signifies that, a unit decrease in VAT proceeds will tend to lead to a decrease in the gross domestic product. Relatively, there is also significant positive relationship between VAT proceeds and gross domestic product as observed from the calculated probabilities which are lesser than the critical value of 5% acceptance region at both short run and long run in Table 6 above. In the long run, one period lag of the GDP and VAT components are statistically significant and positively related to the current period gross domestic product at 5% significant level. Such that a unit increase in one period lag of gross domestic product causes about 0.5547 units increase in current period gross domestic product, suggesting that increase in previous value of gross domestic product is predicated by increase in value added tax components in the long run which implies that VAT proceeds were optimally used towards viable government policies that resulted to availabilities of essential facilities that enable indigenous industries to thrive, thereby contributed to improved gross domestic product that impacted on economic performance of Nigeria. Therefore, the independent variables'' proceeds have a significant positive impact on economic performance in Nigeria. However, this contradicts the a priori expectation that the current VAT components have no significant impact on Nigeria gross domestic product.

**Summary, conclusion and recommendations**

From the results of the study, it was found that, there is significant and positive relationship between import VAT, foreign VAT, local VAT, Total VAT revenue and economic performance in Nigeria. This implies that, these independent variables significantly and positively impact on economic performance in Nigeria. This finding was affirmed by the p-value of 0.0133, 0.0324, 0.0365, 0.0006 respectively which is less than 0.05. This study concluded that import VAT, foreign VAT, and Local VAT and in aggregate total VAT revenue have causal effect on economic performance of Nigeria. The study also concluded that IVAT has a 95% correlation with LVAT, while total VAT has a 99% correlation with both IVAT and LVAT. This indicated that both the local VAT and the import VAT contribute significantly to the country's gross domestic product. The study

concluded that import, foreign, local VAT and total VAT revenue, contribute significantly and positively to Nigeria's economic performance. The study recommended that: the Government should ensure that the supply chain of import goods and services are technologically improved (that is automated use of electronic devises that will guarantee accurate documentation of import transactions, including invoices, customs declarations and payment receipts), in order to boost import VAT administration at all levels of the supply chain. there is urgent need for government or Tax Authority to employ VAT compliance software to automate processes that will ensure that all relevant information is at the beck and corner of the registered foreign VAT payers for accuracy. Embarking on aggressive Sensitization, training and retraining of all registered foreign VAT payers on how to calculate foreign VAT returns and remit same to the relevant tax authority accordingly. Moreover, the non-resident companies should at all times proactively review and document their Nigerian tax position to prevent irregularities at the long run, if Nigeria must sustain an improved foreign VAT. Finally, Technological advanced techniques should be adequately employed by the Tax authorities; such as introduction of robot system of local VAT revenue collections that will forestall questionable interference of the officials of the FIRS. Implementing e-invoicing and online filling that can improve efficiency and reduce fraud, while local VAT offenders should always be brought to book without maneuvering justice.

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