EMPIRICAL INVESTIGATION OF INDIRECT TAXES AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT
This study empirically investigate the impact of indirect tax and value added tax on economic growth in Nigeria. The data for the study were sourced from Central Bank of Nigeria (CBN) Statistical Bulletin, Organisation for Economic Cooperation and Development (OECD) website, Nigerian Customs Service and Federal Inland Revenue Service. The empirical result revealed statistically insignificant but negative relationship between indirect tax and real GDP. Also the study revealed statistically insignificant but positive relationship between VAT and real GDP. This study therefore recommend that government should put in place necessary measures and policy to improve the real GDP, so that tax base can increase, which would lead to increase in revenue to the government to perform her objectives. To achieve this government need to create an environment that is business friendly. Government also need to encourage entrepreneurship in the economy, by doing so, the tax base would also increase and revenues accruing to government would also increase.

Keywords: Indirect Tax, Value Added Tax, Real Gross Domestic Product, Autoregression Distributed Lag (ARDL) Model

INTRODUCTION
The objective of taxation and tax policy in Nigeria is to achieve some economic benefits which include among other things income redistribution, revenue generation and achieving economic growth and economic development (Umoru & Anyiwe, 2013). Discussion of issue of economic growth has always been the central point of economic discourse. Good standard of living depends greatly on the economic situation in a country. It is not only theoretical to say that bad economy grows where business flourish, likewise, it can also be said that a wrong tax policy can cripple the economy. Sopko, Ijirhsa & Asom (2020) stated that decrease in tax revenue can cause increase in unemployment rate. To avoid this incidence, government must always find the balance to ensure that tax policies do not hamper the economic growth (Agunbiade & Idebi, 2020).

Tax policies help to shape the international trade and investment environments. Finding the balance between appropriate tax rate that would be business friendly and the rate that would

generate adequate revenue for government to continue providing its services is a fundamental challenge facing most African countries (Nigeria inclusive (Ayele, 2015). Enacting appropriate tax policies to reduce losses, generate sufficient revenue for the government, guarantee equitable income and wealth distributions is challenging task for many government. Like the direct taxes, indirect taxes have undergone several tax regime. Many efforts has been made by the federal government of Nigeria in ensuring effective and efficient tax laws, this include the Study Group on the Review of the Nigerian Tax System and Administration which was formed in the 1991 (Ariyo, 1997).

In performing its duty, the federal government recently introduced the Finance Act 2019, this act was signed into law early this year, on the 13 January 2020. The Act contains different changes to the tax laws with effect from the day it was signed. As stated by the government, the purpose of the Finance Act is to stimulate the economy and create an enabling environment for sustainable economic development. As stated by Keghter, Ogbonna& Eze, (2020) a decent institutional framework is a motivation to the economy of which taxation is on.

Statement of the Problem

Every country should be able to generate sufficient revenue to take care of her expenses, but Nigeria like many other developing countries engage in deficit budgeting (Ogundana, Ogundana, Ogundana, Ibidunni & Adetoyinbo, 2017; Ariyo, 1997). This is caused majorly by the insufficiency of the revenue base to cope with the desired level of economic growth. The undeniable truth is that the rate of growth that can be achieved through reliance on tax revenue would be inadequate to meet desires an aspirations of the public.

The generally accepted truth about good tax system is that the system should be as is practicable, as possible and should not distort investors' decisions, unless there is an identified justifiable reason to do so, taxation should not lead to a change in the decisions of business owners nor negatively affect business process and operation (Onah, 2016). The purpose of this is that such changes mean that resources are being used in ways that are socially inefficient, but are privately profitable only because of taxation (IMF, OECD, UN & WBG, 2017).

The tax system has indicated positive and negative impact on economy, this is shown through its impact on the welfare of the people as emphasized by (Azubike, 2009). There are also some arguments that Direct and indirect taxes have differential effects on economic growth (Avi-Yonah & Margalioth, 2007). Direct taxation account for two third of the total tax revenue generated in advanced countries, however, the use of indirect taxation has been advocated by studies which recommend that developing countries should focus on indirect taxation (Avi-Yonah & Margalioth, 2007). The purpose of the indirect tax is to benefit the economy, however different studies (Edame & Okoi (2014); Osundina & Olanrewaju, 2013), Ebiringa & Yadirichukwu (2012) and (Atawodi & Ojeka, 2012), have found negative relationship between the tax revenue and economic growth while some other studies have found negative impact of tax system and revenue on economic growth (Salami, Apelogun,

Omidiya & Ojoye (2015); Okoli, Njoku, & Kaka (2014), Oyewo (2013); Okafor (2012); Ogbonna & Ebimobowei (2012) and Abiola & Asiweh (2011).

Excess tax burden on business has been recognised to hinder ease of doing business in a country by previous studies and suggestions were made that government should ensure that tax policies are business friendly (Ashibogwu & Bankole (2018) and Baryeh & Ezeka (2017). Many business owners prefer to set up business in countries that has tax policies that is more business friendly than counties where the tax system is hostile to business. However, government has to generate revenue from taxation to be able to continue to fulfil its duties and also need to ensure that business are not negatively affect by these principles. To ensure that businesses are not negatively affected by tax policies and effective tax system in Nigeria, several tax laws has been enacted such as Company Income Tax Act, 1961; Company Income Tax Act, 1990; Stamp Duties Act, 1990; Petroleum Profit Tax Act, 1990; Value Added Tax Act, 1993; Custom and Excise Management Act of 1990; Personal Income Tax of 1993; Tax Decree of 1998; which limit the federal tax authority to collection of eight (8) specific taxes, while the states and local governments were limited to collect 11 and 20 specific taxes respectively; Mineral and Mining Act, 1999; Education Tax Amendment Act, 2004; Value Added Tax Amendment Act, 2007 the Company Income tax of 2007, this was amendment to the Company income Tax of 1961 and now the Finance Act of 2019 made some amendment to certain taxes.

Despite the numerous changes and review in the tax laws and policies to change obsolete provisions and simplify the major ones, there are still a number of issues that need to be looked into immediately (Ashibogwu & Bankole, 2018). Most studies on taxation emphasise more on the overall impact of tax laws and policies on economic performance (Gross Domestic Product) rather than assessment of different taxes to different segments of the economy. There is therefore a need to research into the impact of segments of total tax on economic growth of the country. This study therefor, select indirect tax as area of study and raised the following questions which lead to the specific objectives of the study.

1) Is there a relationship between indirect tax and economic growth in Nigeria?
2) Is there a relationship between Value Added Tax (VAT) and economic growth?

The specific objectives of this study is to:

1) Establish whether there is a relationship between Indirect taxes economic growth
2) Examine if there is a relationship between Value Added Tax and economic growth.

Literature Review

Indirect tax

Indirect tax is a tax that is paid by another person on behalf of the ultimate tax burden bearer. There are different types of indirect taxes, which include sales tax, excise duty, VAT, service tax, entertainment tax, custom duty. Value Added Tax is a levy on the consumption of goods and services (Ikeokwu & Micah, 2019). Adoption of Value Added Tax in Nigeria was a major reform in the Nigerian tax system. Currently VAT is shared in the ratio of 15:50:35 among the federal, state and local governments. The state allocation is based on state of origin, consumption and equality of state and to be shared in 30%, 30% and 40% respectively on those basis. The major purpose of indirect taxes is to generate revenue for government, but the tax can also be used to control consumption of certain goods and services.

Custom duties are charged on goods coming in and going out of the country, that is, imported and exported goods. Custom duties are the highest source of indirect tax revenue. Custom duties are collected by the Nigerian Custom under the supervision of the Minister of Finance (Ikeokwu & Micah, 2019). Custom duties are divided into import duties and excise duties. The purpose of import duties goes beyond generating revenue to the government but also include protecting infant companies and to discourage importation of goods produced within a country (Fasoranti, 2013). The burden of import duties rest on the consumer or user of the commodities as prices would be increased as a consequence (Ebiringa & Emeh, 2012). Import duties can be charged as a percentage of the price of the goods or an amount is fixed on the particular goods.

Economic Growth

The economic growth of a country is a function of many factors including revenue of the government (Chude & Chude, 2015; Aigheyisi, 2017). Economic growth has not always been smooth in Nigeria, nevertheless, the country enjoyed consistent growth between 2004 and 2014, and the growth rate began to fall in 2015. The growth rate became worse in 2016, the country recorded a negative growth rate of -1.62 in GDP. Edame & Okoi (2014) was of the opinion that the fall in GDP was as a result of the fall in price of oil in the international market. However, the growth rate between 2004 and 2014 was as a result of non-oil sector (Ikeokwu & Micah, 2019). Therefore, it can be said that the present administration has failed in improving the non-oil sector, and relied heavily on oil revenue, which fluctuate frequently. Growth in economy can boost the standard of living as per capita income will increase also (Ikeokwu & Micah, 2019).

Economic growth is the capacity of a nation to produce goods and services required to improve the standard of living of her citizens (Ezirim, Okonta & Amaechi, 2016). It is also the increase in the quantity of goods and services produced in the country over time (Anyanwu & Oaikhenan. 1995). Per capita income is an increase in fundamental aspects of human development, which include access to education, access to good health care and decent living standard.

Empirical Review

Several government administrators has taken taxation as a genuine means of achieving economic growth. Though many studies have been conducted in this regard, nevertheless literature is not yet conclusive in this area. Some studies have indicated different impact of tax on economic growth. Few of such studies are considered here.

Onakoya & Afintinni (2016) explored the relationship between tax revenue and economic growth in Nigeria between 1980 and 2013 using the Engle-Granger cointegration to study whether there exists long-run relationship between economic growth and taxation. The study also used Vector Error correction model (VECM) to confirm if there is long run and/or short run relationship and also examine the dynamics between the variables. The study discovered that there is a long run relationship but no short run relationship between taxation and economic growth. The study also found a significant positive relationship between Company Income tax, Petroleum profit tax, and economic growth. The study indicate a negative relationship between customs duties, excise duties and economic growth, but indicate a positive relationship between economic growth and total tax revenue. The study there recommend institutional reforms among others in the Department of Customs in order to reduce leakages and that mechanism used in tax collection officials should be free from corruption and embezzlement and the study also suggest automation in tax collection system. Though these recommendations are good but the fact is that they are not drawn from the findings of the study.

Laura (2019) investigated the effect of indirect tax on economic growth as a possible means of diversifying revenue generation in Nigeria. Ordinary Least square technique of data analysis was adopted by the study. Johansen cointegration and Vector Error Correction Model was used to find the short-run and long-run relationship between the variables. The study found insignificant but positive relationship between indirect tax and economic growth. Contrary to the result, the study recommend that the government should increase number of goods on which VAT is chargeable.

Stoilova & Patonov (2012) studied the trends in the distribution of total tax burden in the European Union (27) member states between 1995 and 2010 using a comparative analysis of the cross-country differences in terms of the total tax burden. The study divided tax into direct and indirect tax and also considered social contributions. Emphasis was placed on the impact of taxation on economic growth. The study used regression method to study relationship the relationship. The conclusion of the study was that direct taxes are more efficient in supporting economic growth in the European Union countries.

Onaolapo, Aworemi & Ajala (2013) investigated the effect of value added tax on revenue in Nigeria. The Study adopt stepwise regression analysis to analyse the data and found that Value Added Tax has statistically significant relationship with revenue generation in Nigeria.

Okafor (2012) studied the influence of income tax on the economic growth in Nigeria, using GDP to represent economic growth between 1981 and 2007. Ordinary Least Square (OLS)

regression technique was adopted to study the relationship that exist between federal government income tax revenue and GDP as the dependent variable. The study discovered that there is significant and positive relationship between the tax revenue and economic growth in Nigeria.

Ojong, Anthony & Arikpo (20216) examined the impact of tax revenue on economic growth in Nigerian, with the main focus on the relationship between company income tax, petroleum profit tax, non-oil revenue and economy growth. The study adopted OLS regression models to determine the relationship between the independent variables and dependent variable. The study found significant positive relationship between petroleum profit tax, non-oil revenue and the economic growth and that no significant relationship between company income tax and economic growth. The study recommend that to increase tax revenue, government should create more employment opportunities and good environment for entrepreneurship to thrive in the country.

From the empirical studies it can be seen that most studies focused on the impact of total tax revenue on economic growth, Onakoya & Afintinni (2016); Stoilova & Patonov (2012); Okafor (2012); and Ojong, Anthony & Arikpo (20216) except Onaolapo, Aworemi & Ajala (2013) and Laura (2019) that focused on the impact of value added tax on economic growth. Therefore this study will update the study of Laura (2019) and make use of a different method of analysis.

Methodology

This is an empirical research. The research is designed to investigate relationship between economic growth and indirect taxes. The focus of the study is to check the relationship between VAT, Indirect tax as a whole and economic growth. The study covered period between 1995 and 2019. The choice of the period covered was due to the available information to the researcher.

The data for the study was sourced from the Central Bank of Nigeria Statistical Bulletin, Organisation for Economic Cooperation and Development, Nigeria Bureau of Statistics, Macrotrends, websites and previous literature. The data collected were analysed using EViews.

Unit Root was conducted using Augmented Dickey-Fuller test to determine the appropriate method to analyse. The result indicated that some the variables were stationary at level while others were stationary after first difference and because of the sample size of the study, Autoregressive Distributed Lag (ARDL) Model was used to examine the relationship between the dependent and independent variable.

Model Specification

$$\Delta InRGDP_t = a_0 + \sum_{i=1}^{p} a_{1i}\Delta InRGDP_{t-i} + \sum_{i=1}^{q} a_{2i}\Delta InINDTAX_{t-1} + \sum_{i=1}^{q} a_{2i}\Delta InVAT_{t-1} + e_t$$

$$\Delta InINDTAX_t = a_0 + \sum_{i=1}^{p} a_{1i}\Delta InRGDP_{t-i} + \sum_{i=1}^{q} a_{2i}\Delta InINDTAX_{t-1} + \sum_{i=1}^{q} a_{2i}\Delta InVAT_{t-1} + e_t$$

$$\Delta InVAT_t = a_0 + \sum_{i=1}^{p} a_{1i}\Delta InRGDP_{t-i} + \sum_{i=1}^{q} a_{2i}\Delta InINDTAX_{t-1} + \sum_{i=1}^{q} a_{3i}\Delta InVAT_{t-1} + e_t$$

Where:

InRGDP is Natural log of Real GDP

InINDTAX is Natural log of Indirect Tax (Indirect Tax is the sum of VAT, Excise duty and Import duty)

InVAT is Natural log of Value Added Tax

Analysis and Interpretation

Table 1: Augmented Dickey-Fuller Unit Root Test

Variables	Order of Integration
InINDTAX	I(0)
InRGDP	I(1)
InVAT	I(1)

Source: Author's Computation

Table 2: Cointegration Test

Dependent Variable	**F-Statistic**	**Cointegration**	**Remarks**
$InRGDP_t$	F-$InRGDP_t$ = 0.93 T-$InRGDP_t$ = -2.86	**No**	No long-run relationship
$InINDTAX_t$	F-$InINDTAX_t$ = 2.96 **T-** $InINDTAX_t$ = -3.53	**No**	No long-run relationship
$InVAT_t$	F-$InVAT_t$ = 1.36 **T-** $InVAT_t$ = -2.8	**No**	No long-run relationship

Source: Author's Computation

The result in the cointegration test table shows that when natural log of Real GDP is used as dependent variable, there is no cointegration, also, when natural log of indirect tax is used as dependent variable, there is n cointegration and when the natural log of value added tax

is used as dependent variable, there is no cointegration. This absence of cointegration indicate that there is no long run relationship between the varables. Since there is no cointegration among the variables, there is no need to perform VECM or ECM, therefore, we move forward to conduct ARDL only.

Table 3: Determinant of Maximum Lag

Lag Length	AIC	SC	HQ
0	19.69125	19.84002	19.72629
1	17.29072	17.48909	17.33745
2	16.88694*	17.13491*	16.94536*
3	16.96482	17.26238	17.03492

Vector Autoregression Estimates was conducted to determine the maximum lag length for the variables using the AIC, SC and HQ creterion. The lag structure result indicate that 2 is the appropriate lag length for the study. We used lag length 2 for this study. We therefore proceed to test if the variables in the model have long run relationship.

Table 4: ARDL Estimate

Dependent Variable: D(INRGDP)
Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	524.8216	536.2797	0.978634	0.3433
D(INRGDP(-1))	0.684557	0.275950	2.480727	0.0255**
**D(INRGDP(-2))	-0.083695	0.244845	-0.341828	0.7372
D(ININDTAX(-1))	1.562085	3.441032	0.453958	0.6564
D(ININDTAX(-2))	-3.119593	3.081725	-1.012288	0.3275
D(INVAT(-1))	23.81690	21.98661	1.083245	0.2958
D(INVAT(-2))	3.436788	24.75825	0.138814	0.8914

R-squared	0.552275
Adjusted R-squared	0.373185
F-statistic	3.083786
Prob(F-statistic)	0.035870
Durbin-Watson stat	1.971563

** Significant at 5 percent

The null hypothesis is that there is no significant relationship between the variables. However, the probability result of 0.33 and 0.89 indicate that the null hypothesis cannot be rejected because, the probability result of the regression is far higher than 0.05 level of

significance of this study. Therefore, the study conclude that Indirect tax and VAT does not have significant relationship with real GDP.

Table 5: Test for Serial Correlation and Stability

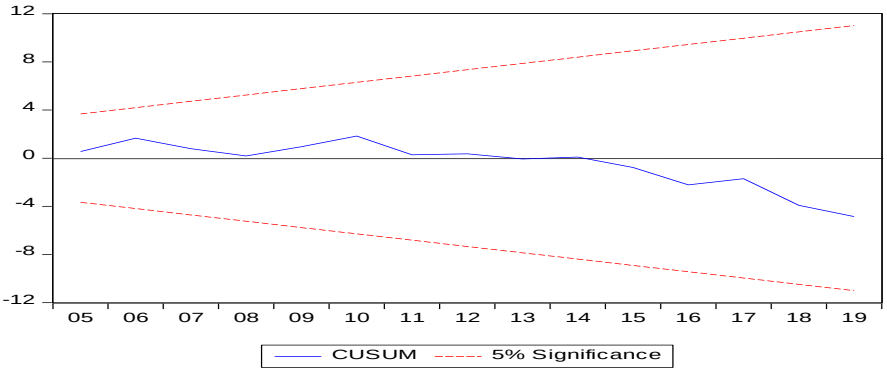
Test for Serial Correlation

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.256696	Prob. F(2,13)	0.7774
Obs*R-squared	0.835811	Prob. Chi-Square(2)	0.6584

Residual diagnostic was performed to check for autocorrelation using Breusch-Godfrey Serial Correlation LM Test. Lag 2 was used because that is the lag length of the variable. From the table, the 0.78 and 0.66 probability result is far greater than 0.05, therefore, the study cannot reject the null hypothesis of no serial correlation. The Durbin Watson result of 1.97 in the table 5 indicate that the model is free from serial correlation, we therefore concluded that there is no serial correlation in the model.

Figure 1: Stability Test



The CUSUM test shows that the model is stable as the curve lies between 5% that is within 0.05 level of significance, therefore, the study conclude that the model is stable.

Table 6: ARDL Estimate

Dependent Variable: D(ININDTAX)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	57.51614	37.64290	1.527941	0.1430
D(ININDTAX(-1))	0.124949	0.246288	0.507330	0.6178
D(INVAT(-1))	0.869388	1.387965	0.626376	0.5385
D(INRGDP(-1))	-0.016921	0.013655	-1.239171	0.2304

R-squared	0.103307
Adjusted R-squared	-0.038277

F-statistic	0.729653
Prob(F-statistic)	0.546943
Durbin-Watson stat	2.081126

From the regression table when Indirect Tax is used as dependent variable, the null hypothesis is that there is no significant relationship between the variables. The probability result of the regression 0.54 and 0.23 indicate that there is no significant relationship between Indirect Tax, Real GDP and VAT.

Table 6: Test for Serial Correlation and Stability

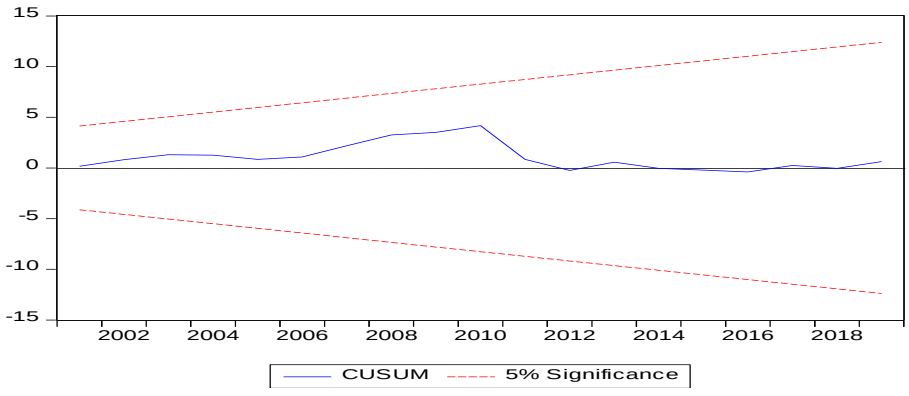
Test for Serial Correlation

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.668266	Prob. F(1,18)	0.4243
Obs*R-squared	0.823328	Prob. Chi-Square(1)	0.3642

Residual diagnostic was performed to check for autocorrelation using Breusch-Godfrey Serial Correlation LM Test. Lag 1 was used because that is the lag length of the variable when used as dependent variable. From the table, the 0.42 and 0.36 probability result is far greater than 0.05, the study therefore, cannot reject the null hypothesis of no serial correlation. Therefore, the study conclude that the variables are not suffering from serial correlation. Also using Durbin Watson result of 2.08 in the table 6, the study concluded that there is no serial ocorrelation.

Figure 2: Stability Test



The CUSUM test shows that the model is stable as the curve lies between 5% that is within 0.05 level of significance, therefore, the study conclude that the model is stable.

Table 7: ARDL Estimate

Dependent Variable: D(INVAT)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.769306	6.761956	1.444746	0.1691
D(INVAT(-1))	0.603380	0.277229	2.176466	0.0459
D(INVAT(-2))	-0.052118	0.312177	-0.166951	0.8696
D(INRGDP(-1))	-0.004545	0.003479	-1.306164	0.2112
D(INRGDP(-2))	0.003563	0.003087	1.154122	0.2665
D(ININDTAX(-1))	0.017198	0.043388	0.396385	0.6974
D(ININDTAX(-2))	0.009768	0.038857	0.251374	0.8049
R-squared	0.400093			
Adjusted R-squared	0.160130			
Prob(F-statistic)	0.197159			
Durbin-Watson stat	2.050758			

From the regression table when Indirect Tax is used as dependent variable, the null hypothesis is that there is no significant relationship between the variables. The probability result of the regression 0.54 and 0.23 indicate that there is no significant relationship between Indirect Tax, Real GDP and VAT.

Table 8: Test for Serial Correlation and Stability

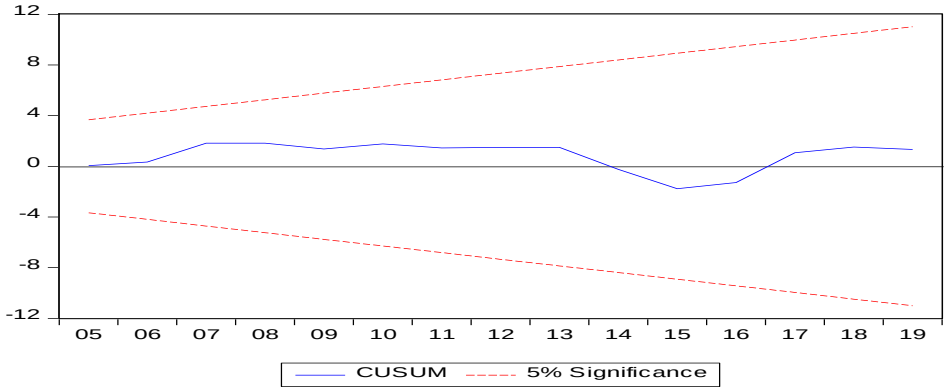
Test for Serial Correlation

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	4.559244	Prob. F(2,13)	0.3016
Obs*R-squared	9.069640	Prob. Chi-Square(2)	0.1107

Residual diagnostic was performed to check for autocorrelation using Breusch-Godfrey Serial Correlation LM Test. Lag 2 was used because that is the lag length of the variable when used as dependent variable. From the table, the 0.30 and 0.11 probability result is greater than 0.05, therefore, we cannot reject the null hypothesis of no serial correlation. Therefore, we conclude that the variables are not suffering from serial correlation. Also using Durbin Watson result of 2.05 in the VAT regression table, we concluded that there is no serial ocorrelation.

Figure 3: Stability Test



The CUSUM test shows that the model is stable as the curve lies between 5% that is within 0.05 level of significance, therefore, we conclude that the model is stable.

Conclusion and Recommendations

From this study, the empirical investigation of the impact of indirect tax and value added tax on economic growth was performed. This study is country specific, and made use of time series data for empirical investigation. The empirical result revealed statistically insignificant but negative relationship between indirect tax and real GDP. Also the study revealed statistically insignificant but positive relationship between VAT and real GDP. This can mean that as VAT increases, GDP can also increase though at an insignificant rate and vice versa. This can mean that if production of goods and services increase in the economy, VAT also increases, and GDP increases, which will subsequently, may lead to increase in per capital income.

The result is the same when empirical investigation was conducted using all the variables as dependent variable. That is, neither real GDP, indirect tax nor VAT significantly depend on one another. This can means that the growth in GDP over years has not been significant, if the growth does not significantly affect VAT. This may be true if we check the recent growth rate in GDP in the "Nigeria Gross Domestic Product Growth Rate" table in the appendix 1. The growth rate in GDP in recent time has not been significant. The negative relationship between real GDP and Indirect Tax may be a reflection of excess import as reported by (Ikeokwu & Micah, 2019).

This study therefore recommend that government should put in place necessary measures and policy to improve the real GDP, so that tax base can increase, which would lead to increase in revenue to the government to perform her objectives. To achieve this government need to create an environment that is business friendly. Government also need to encourage entrepreneurship in the economy, by doing so, the tax base would also increase and revenues accruing to government would also increase.

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APPENDIX 1

Nigeria Gross Domestic Product Growth Rate

Year	GDP Growth rate (%)	Annual Change in growth rate (%)	Year	GDP Growth rate (%)	Annual Change in growth rate (%)	Year	GDP Growth rate (%)	Annual Change in growth rate (%)
2019	2.21	0.29	2005	6.44	-2.81	1991	0.36	-11.42
2018	1.94	1.12	2004	9.25	1.90	1990	11.78	9.86
2017	0.81	2.42	2003	7.35	-7.98	1989	1.92	-5.41
2016	-1.62	-4.27	2002	15.33	9.41	1988	7.33	4.13
2015	2.65	-3.66	2001	5.92	0.90	1987	3.20	3.14
2014	6.31	-0.36	2000	5.02	4.43	1986	0.06	-5.85
2013	6.67	2.44	1999	0.58	-2.00	1985	5.91	7.03
2012	4.23	-1.08	1998	2.58	-0.36	1984	-1.12	9.81
2011	5.31	-2.70	1997	2.94	-1.26	1983	-10.92	-4.12
2010	8.01	-0.03	1996	4.20	4.27	1982	-6.80	6.32
2009	8.04	1.27	1995	-0.07	1.74	1981	-13.13	-17.33
2008	6.76	0.17	1994	-1.81	0.22			
2007	6.59	0.53	1993	-2.04	-6.67			
2006	6.06	-0.38	1992	4.63	4.27			

Source: Macrotrends