AN EMPIRICAL STUDY OF EFFECTIVENESS AND EFFICIENCY OF VALUED ADDED TAX IN NIGERIA

Abstract

The need to increase government revenue which is needed to finance public utilities and to enhance the social–economic wellbeing of the citizens informed the introduction of value added tax (VAT) in many Countries of the world especially emerging economy like Nigeria to replaced the hitherto sales tax been used. The purpose of this study is to empirically review the effectiveness and efficiency of the administration of VAT in Nigeria. Apart from preliminary overview, a review of study relating to the problems of administration and collection machinery of VAT where examined. In an effort to accomplish this objective, secondary data were generated from Central Bank of Nigeria and a simple percentage measurement parameters on government revenue and aggregate consumption patterns were used for data analysis and the findings revealed that VAT has been effective and not efficient. However, it was recommended among others that Federal Inland Revenue Service should pay attention to the informal sector of the economy by creating VAT offices at the Local communities so as to generate more revenue for the government. In addition, the tax authorities should be record conscious such that the cost (budget) of the collection machinery and a target amount payable to the government should be covered by the expected revenue to be generated.

Keywords: Value Added Tax, Tax Effectiveness and Efficiency, Nigerian Economy.

1 INTRODUCTION

Tax is one of the major sources of government revenue which is paid compulsorily by taxable persons. In every System of government, taxes are levied not only for the purpose of generating more revenue; it can also be used to stabilize the economy so that the macroeconomics objectives of the government can be achieved. Undoubtedly, public expenditure in Nigeria has witnessed a steady increase over the years (Ayanwu, 1977). This could be traced partly to the fact that most modern nations have in addition to their traditional role of maintenance of law and order, Justice and defence became increasingly involved with Welfare/ socialist programmes and strategic ventures deemed to
be of prior national interest. Thus, the need for increased revenue to meet these ever increasing obligations and expectations of the citizenry has never been more competing than it is today.

Tax is a compulsory payment made on different basis and rates by citizens (corporate bodies and individuals) to government, non-negotiable but obligatorily. This payment is not on the basis of direct exchange for the payment for goods and services. It is non-negotiable because none of the citizens have any direct contribution to the composition of the basis and rates of payment. Government only classifies the items on which the tax is to be paid, and the category of citizens that should be subjected to the payment (Ariwodola, 2005). The decision is however, based on the cost of the projects or programmes government intends to execute, which is the principal determinant of the budget-size. Government also judges the basis, rates, the category of citizens, and the time period to pay the tax, on the direction of the economy desired and government’s perception of the standard of living of the citizens. This is why tax is defined as a tool for government revenue and fiscal policy tool for directing and stabilizing the economy.

Taxes are not paid directly on the basis of exchange contract like any other payments except subsidies paid by government. It is paid by any citizen whether or not the citizen benefits from the government projects and programmes financed by the taxes (Rosen, 2004). Consequently, the usefulness (effectiveness and/or efficiency) of taxes can be measured by several parameters, some which are its revenue generating capacity and its impact on the consumption and savings patterns in the economy. Even if the totality of tax system cannot be comprehensively measured, the various types of tax can be subjected to this measurement.

In Nigeria, there are at least three types of taxes that are commonly applied to qualifying citizens and items. These are the Personal Income Tax, the Company Income Tax, and the Value Added Tax. The assessment of these forms of tax independently or otherwise becomes more necessary given the multiplicity of taxes in Nigeria, together with the problems of tax evasion and avoidance. It is against this background that this study is initiated. In other words, this study is an investigation on the effectiveness and efficiency of value added tax in Nigeria.

**Statement of Problem:** The attitude of Nigerians towards taxation is worrisome as many prefer not to pay tax if given the opportunity. The economy continues to lose huge amount of revenue through the unwholesome practice of tax avoidance and tax evasion, these loss of revenue can change the fortune of many economy particularly, developing countries like Nigeria. This problem has been lingering for so long which urgent attention and solution is overdue. The cost of collecting tax in Nigeria (both social and economic cost) is too high to the extent that, if left unchecked, the cost may soon outweigh
the benefit or value derived from such operation and that will not be appropriate for the system. The government spends more to realize a miserable pittance.

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

This study therefore attempts to empirically review the effectiveness of VAT administration in Nigeria with the view for remedies the country’s dwindling revenue potentials for enhanced economic growth and development.

**Objectives of the Study:** The study aim mainly at evaluating the effectiveness and efficiency of VAT in Nigeria. The specific objectives of the study include:

i. To examine the effectiveness of VAT Revenue potentials for public sector activities.

ii. To examine the efficiency of VAT on its contribution to (GDP) economic growth and aggregate consumption pattern in the economy.

**Research Questions:** In line with the objectives of the study, the following questions were raised:

i. To what extent does revenue generated through VAT increase the government revenue potential?

ii. To what extent does the revenue generated through VAT enhance the economic growth and aggregate consumption pattern in the Nigerian Economy.

**Significant and Scope of Study:** The study will assist the government in policy formulation as it relates to VAT operation and monetary policies. It will help to strengthen the operation of the relevant government agencies such as Federal Board of Inland revenue, central Bank of Nigeria, Joint tax Board and others. This study will bring government attention to other sources of revenue apart from overdependence on revenue from petroleum. The study will be restricted to the aspect of VAT that falls under the jurisdiction of the Federal Board of Inland Revenue (FBIR), Federal Inland Revenue Service (FIRS). He study covers the tax revenue generated by the Federal Government through VAT and the Gross Domestic Product for the period between 1994-2004.

Following this introduction, the rest of the study is organized into four sections. Section two discusses the literature review and theoretical framework. Research methodology is presented in section three and in section four empirical result and data analysis were presented and discussed. While section five concludes and summarize the study.
2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

There are quite a number of definitions of tax or taxation depending on the qualities it possesses. According to Igbonyi (2008) these qualities include: be a compulsory payment, be a payment to the government, be for a common benefit, have a known formula, have distractive beneficiary. In the light of the foregoing, the following definitions can be considered fair; Taxation is the compulsory payment by individuals and organization to the relevant inland or internal revenue authorities at the Federal, State or Local Government levels (Anyafor, 1996). Taxation is a process of levying and collecting by a public authority with proper jurisdiction, of compulsory contributions from person or body of person to defray cost incurred by the authority in common interest of all (Odiongenyi, 1994). A tax is simply a compulsory payment levied on the citizens by the government for the purpose of achieving macroeconomic goals and objectives (Naiyeju, 1996). Anyanwu (1993) viewed VAT as a consumption tax on economic operations including imports except those exempted as part of the provision of the decree. The system attracts a flat rate of 5% and initially covers items of good and services. The tax is collected on behalf of the government by businesses and organizations which have registered with the FIRS for VAT services.

However, these businesses and organizations can claim credit for this tax (called input tax) when goods are sold or service rendered. VAT returns also have to be rendered monthly to the FIRS by these registered agents. The 5% VAT is called “the output tax”. Therefore the VAT payable is the output tax less the input tax and is equivalent to the VAT paid by the final consumer of the product that will be collected by the government.

VAT Taxable Goods and Services: The under listed are the taxable goods and services under Decree 102 of 1993 (Oyebanji, 2010):

a) Goods
   • All goods manufactured and assemble in Nigeria
   • All goods imported into Nigeria
   • All second hand goods
   • All household furniture and equipment
   • Petroleum and petroleum products
   • Jewel and jewelry
   • Textile, clothing, carpet and rug
   • Beer, wine, liquor, soft drinks, treated water
   • Cigarette and tobacco
   • All vehicles and their spare part excluding commercial vehicles and their spare parts
   • Perfumes and cosmetics (including toiletries)
• Soap and detergent
• Mining and mineral
• Office furniture and equipment
• Electrical materials of description

b) Services
- All services rendered by the financial institutions to their customers
- Accounting services
- The provision of report, advice, information or similar technical service in the following area:
  • Management, financial and taxation
  • Recruitment, staffing and training
  • Marketing research
  • Public relations
  • Advertising

VAT Exempted Good and Services:
a) Goods
• Medical and pharmaceutical products
• Basic food items
• Books and educational materials
• Baby products
• Newspapers and magazine
• Commercial vehicles and their spare parts
• Agricultural equipment, products and veterinary medicine

b) Service
- Medical service
- Service rendered by peoples and micro finance banks and mortgage institutions (Tabansi, 2001).

However, according to Decree 31 of 1996 which amended VAT Decree 1993, the schedule of taxable goods and services had been deleted. Instead, the tax is to be charged on supply and all goods and services other than those specifically exempted under the exemption schedule of the Decree.

Administration of VAT in Nigeria: According to Unwabuike (1998), the success of failure of any tax depends largely on the extent of how it is properly managed. The extent of the tax is interpreted and implemented as well as the publicity brought into it will determine how the particular tax is able
to meet its objective. Hence, one of the acid tests in the determination of the success of a tax is the management of the policy. Richard (1993) concluded that “the successful execution of fiscal policies depends not only on the quality of public administration but also on the formulation of policies that are realistically adapted to the available resources”. The VAT may be complicated to administer but it is not complex as personal or company income tax.

According to Soyede and Kajola (2006), the following five distinct bodies on which the administration of VAT rest in Nigeria are:

- The board (Federal Board of Inland Revenue)
- The service (Federal Inland Revenue Service)
- The Technical committee
- The Nigerian custom service
- The VAT directorate

They are inter-related and the function of each is complimentary to those of the others.

Other sub-internal VAT agencies include:

- The state Internal Revenue Services
- The Zonal Officer
- The Local VAT offices

**Effectiveness of VAT on Revenue Generation in Nigeria:** An appraisal of the operation of VAT in Nigeria is expected to unravel the extent to which it has assisted the state in its objective of wealth creation and development. From the classical perspective, the Nigeria VAT system might be examined on three touchstones, namely, efficiency, administrative convenience and equity. The efficiency criterion as Adedeji (1996) put it, embraces administrative and equity as well as fiscal autonomy especially in the federal fiscal system like Nigeria. He further states the following ways of determining or measuring VAT effectiveness in Nigeria as:

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

The most reasonable index of the capacity of VAT to accelerate economic growth and increase revenue is its effectiveness in mobilizing privately held resources, which automatically should boost
public revenue, enhance consumption patterns, generate savings and as well create wealth for the economy. In the first year of administration of VAT, Nigeria government estimated that as much as N6billion should be the target revenue. This translated to the fact that the tax was projected to achieved in only six months about 150% of what the sales tax achieved in four and half years (Ijewere, 2003).

Comparative Appraisal: This simply means assessing the level of effectiveness of various forces within the system by juxtaposing them among each other. The incontestable financial productiveness of VAT viz-a-viz other taxes in fiscal territory is however, the strongest comparative determinant in the Nigeria tax system (Adedeji, 1996).

Cost Effectiveness: The implementation of VAT in Nigeria was marked by apprehensions that going by the breadth of the base, the cost of monitoring would be too high. Not only that, there was presumption that administrative costs would consumed heavily, the estimated revenue leaving government with a low net yield. FIRS itself, is keen on keeping cost far below revenue from VAT to the fiscal market on the strength of only 36 local VAT official nationwide at the inception of the tax. It is internationally accepted that the capital for financing a tax project should neither be more than 10% of the yield nor less than 5% of the estimated revenue for an efficient tax administration (Aluko, 1999).

Concentration and Dispersion Effect: Tanzi (1991) as cited by Obadimi (1994) the introduction of VAT in Nigeria did not only eliminate the sales tax levied at differential rate but also eliminated certain classes of tax which were no longer effective.

Management by Objective: Although government is to every conscious tax officer an economic institution. “To emphasis only profit misdirects managers to the point where they endanger the survival of the business”. This strategy of management by objectives was propounded by Drucker (1968) as cited in Adedeji (1996).

Isah (1997) concludes that VAT has far reaching effective on revenue generation and economic development of Nigeria as a whole. The success story of VAT so far is a triumph of economic expertise. It is the resolve of government determination to improve the fiscal policy of this country with VAT, it is clear that the revenue of this country does not come from one sector to satisfy the other sectors as the case with oil revenue. It is expected that in the near future, the tax regime will ever contribute more to the gross tax yield and increase the tax portfolio of Nigeria and enhanced meaningful industrial and infrastructural development as well as increase revenue generation in Nigeria.
Problem of VAT in Nigeria: Naiyebu (1996) identified some of the problems and listed them as follows; Public resistance, Small enterprise exemption, Tax refund, Accounting culture, Administrative complexity, literacy level and inflation. Although, it is agreeable that, there is need for VAT to replace the formal sales tax because of the progressive nature, government’s ability to adequately and effectively retrieve the proceeds from companies and other agent of collection remains a problem. It does not appear as if there is adequate machinery for effectively monitoring the remittance of tax withheld to the relevance tax authority. The Federal Inland Revenue Service (FIRS) lacks logistics support for effective administration of VAT.

The further problem of VAT administration present composition and functions of the tax authorities, which weaken effective tax administration in the country. Nigeria’s perform only technical functions and not the needed managerial functions. The non-performance of management functions given the increasing complexity of the tax administration largely explains the ineffectiveness of tax administration in Nigeria. Basically, the performance of only technical function leads to large declaration, refusal to complete tax return form, fraud, inflation and deductible expenses, smuggling, default, illegal bunkering, etc. The dishonest practices by some tax officials also, pose a serious threat of effective tax administration in Nigeria especially, when such practices are capable of having demoralizing effect on the honest tax payers. In the same vein, consumers still want to know how much of this tax these companies are collecting from VAT, more especially when such tax is not even duly reflected in their invoice. It is believed that VAT is just another way of inflicting economic hardship on consumers to the advantages of manufactures and companies. Tax experts are of the opinion that seminar and workshops so far organized on the issue are narrow scope and design. Another problem is that Nigerians see VAT as an excuse to raise price of goods arbitrarily and lack of information’s also makes VAT administration difficult.

Theoretical Framework: This study is based on the following theories.

a) Theory of Laffer curve: This theory was propounded by Professor Arthrun Laffer, the theory explains the theoretical representation of the relationship between government revenue raised by taxation and all possible rates of taxation. The theory demonstrated with a curve (i.e the laffer curve)- which was constructed by though experiment as depicted in figure I.
It considers the amount of tax revenue raised at the extreme tax rate of 0% and 100%, he concluded that a 100% tax rate raises no revenue in the same way that a 0% tax rate raises no revenue. This is because, at 100% rate, there is no longer incentive for a rational taxpayer for earn any income, thus, the revenue raised will be 100% of nothing. It follows that there must exist at least one rate in between where tax revenue would be a maximum. One potential result of this theory is that, increasing tax rate beyond a certain point will become counter-productive for raising further tax revenue because of diminishing returns (Laffer 2004).

b) Ibn Khaldun’s Theory of Taxation: This theory was explained in term of two different effects, the arithmetic effect and the economic effect which the VAT rate have on revenue. The two effects have opposite result on revenue in case the VAT rate are increased or decreased. According to the Arithmetic effect, if VAT rate are lowered, the VAT revenue will be lowered by the amount of the decrease in the rate. The reverse is the case for an increase in VAT rates (Ishlahi, 2006). The economic effect, however, recognized the positive impact that lower VAT rates have on work, output and employment and thus the tax base provides incentives to increase these activities whereas raising VAT rate has the opposite economic effect by penalizing participation in the taxed activities. At a very high VAT rate, negative economic effect dominates positive arithmetic effect, and thus reduced the VAT revenue. (Ishlahi, 2006).

3. RESEARCH METHODOLOGY

This research is basically a survey because the entire nation is covered on the particular tax system studied. The tax revenue considered in this study shall be the national value realized by the government of the federation. This means that any tax system measured in this study is a national tax.

Nationally levied tax systems in Nigeria include the Value Added Tax and the Education Tax. These taxes have generally specified administering procedure and common rates for all taxable citizens and organizations. This study shall appraise the Value Added Tax (VAT) system. It is assumed that VAT can satisfy two of the appraisal tools for testing the efficiency/effectiveness of a tax system, more so as the two out of the many measurement tools that will be used in this study from 1994 to 2004 are the revenue generating tool and their fiscal planning tool.

As a survey study, published data on Total Consumption Expenditure, Value Added Tax revenue and the GDP will be utilized for the period specified. And two tests will be conducted namely:

(a) Effectiveness test, using the revenue generating tool, and
(b) Efficiency test, using the fiscal planning tool.
The objective of these tests is to ascertain the effectiveness and efficiency of Nigerian tax systems, using just one of the various taxes. This is necessary especially as it will contribute to guiding the government on the chances of sustaining the funding of public sector activities independent of the revenue from sale of oil and gas, in a period where total privatization and monetization is the order of the day.

4. EMPIRICAL RESULT AND DATA ANALYSIS

Table 1 below shows the Value Added Tax revenue (VAT), the Total Consumption Expenditure (TCE), and Gross Domestic Product (GDP) of Nigeria from 1994 to 2004. The scope of the study has been restricted to 1994 because VAT became operational in 1994 and therefore every other variable has been started in 1994 for uniformity. Again, 2004 has been chosen as the end of the scope because all macroeconomic data will be readily available by then. Besides, by 2004 the international prices of oil and gas have not assumed the unimaginably high momentum, which means that tax revenue was still considered relevant to the functioning of the Nigerian public sector. Another reason for the choice of 2004 is that by 2004, the agitation for the reversal of the indebtedness of Nigeria, which is an indirect funds flow for Nigeria, has not gained much notice/grounds. Finally, 2004 was chosen because information about the relevant variables for this study, after 2004, were adjusted in such a way that some were completely but abruptly excluded, while others assumed different values in the CBN Statistical Bulletins of 2005 and 2007. Such inconsistencies can easily nullify the beauty of the study if the scope was extended to say 2007 (See Central Bank of Nigeria Statistical Bulletins of 2004, 2005 and 2007 for VAT < GDP, and TCE). From the table 1 below, it would be seen that VAT increased by about 2097% from N72.8 billion in 1994 to N1,595 billion. Consumption expenditure increased by 629% from N776 billion to N5,654 billion just as GDP, which increased by 634% from N907.9 billion to N6,665 billion.

Table 1 also shows that within the 11 years of the existence of VAT N726.8 billion has been realized from VAT while the gross (i.e. including non-VATable expenditures) GDP and gross Total Consumption Expenditure (i.e. including non-VATable expenditures) were N44,543 billion and N36884 billion respectively. The net GDP and net TCE, i.e. excluding non-VATables, were N12,970.0 billion and N34,454.3 billion respectively.
Table 1: VAT. Total Consumption Expenditure (TCE) and GDP (Nbn)

<table>
<thead>
<tr>
<th>Year</th>
<th>VAT (N'bn)</th>
<th>GDP at Current Basic Mkt Prices (N'bn)</th>
<th>Adjusted GDP at Current Basic Mkt Prices (GDPa)(N'bn)</th>
<th>Total Consumption Exp. (TCE)</th>
<th>Adjusted Total Consumption Exp. (TCEa) (N'bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>7.26</td>
<td>967.9</td>
<td>315.2</td>
<td>775.5</td>
<td>687.0</td>
</tr>
<tr>
<td>1995</td>
<td>20.8</td>
<td>1.951.9</td>
<td>529.4</td>
<td>1.640.4</td>
<td>1517.2</td>
</tr>
<tr>
<td>1996</td>
<td>31.0</td>
<td>2.787.9</td>
<td>684</td>
<td>2.474.4</td>
<td>2331.3</td>
</tr>
<tr>
<td>1997</td>
<td>34.0</td>
<td>2.906.6</td>
<td>758.2</td>
<td>2.572.9</td>
<td>2401.6</td>
</tr>
<tr>
<td>1998</td>
<td>36.9</td>
<td>2.836.8</td>
<td>879.6</td>
<td>2.916.9</td>
<td>2712.5</td>
</tr>
<tr>
<td>1999</td>
<td>47.1</td>
<td>3.440.2</td>
<td>1002.9</td>
<td>2.342.1</td>
<td>2089.5</td>
</tr>
<tr>
<td>2000</td>
<td>58.5</td>
<td>4.866.3</td>
<td>1121.6</td>
<td>2.592.2</td>
<td>2.331.9</td>
</tr>
<tr>
<td>2001</td>
<td>91.8</td>
<td>5.526.2</td>
<td>1339.0</td>
<td>2.501.4</td>
<td>4226.0</td>
</tr>
<tr>
<td>2002</td>
<td>103.5</td>
<td>6.398.9</td>
<td>1623.4</td>
<td>6.148.7</td>
<td>5805.1</td>
</tr>
<tr>
<td>2003</td>
<td>136.4</td>
<td>6.255.5</td>
<td>1972.8</td>
<td>5.265.4</td>
<td>4979.6</td>
</tr>
<tr>
<td>2004</td>
<td>159.5</td>
<td>6.665.0</td>
<td>2733.7</td>
<td>5.653.9</td>
<td>5372.6</td>
</tr>
<tr>
<td>Total</td>
<td>726.86</td>
<td>44.543</td>
<td>12.970</td>
<td>36.884</td>
<td>34.454</td>
</tr>
</tbody>
</table>


Computation of Effectiveness and Efficiency Rates of VAT System

a. Tax Effectiveness Rate

\[
\text{Tax Effectiveness Rate} = \frac{\text{VAT}}{\text{GDP}}
\]

Standard VAT Rate

\[
= \frac{726.8}{44.545}
\]

0.05

= 33%

Adjusted Tax Effectiveness Rate

\[
\text{VAT/Adjusted GDP Rate} = \frac{\text{VAT}}{\text{Adjusted GDP}}
\]

Standard VAT Rate

\[
= \frac{726.86}{12.971}
\]

0.05

= 1.12%

b. Tax Efficiency Rate

\[
\text{VAT/TCE Standard VAT Rate} = \frac{\text{VAT}}{\text{TCE}}
\]

0.05

= 39.4%

Adjusted Tax Efficiency Rate
Applying our concept of effectiveness and efficiency tests of tax systems, especially the VAT system in Nigeria, with the data in Table 1, the following findings was made:

a. That the Value Added Tax system was neither effective in generating revenue for public sector activities, nor was it efficient in directing the consumption pattern of the economy, when appraised with the gross values.
b. These assertions are based on the fact that the VAT-GDP-Standard VAT Rate was just about 33 percent.
c. Similarly, the VAT-TCE-Standard VAT Rate was also very low within the 11 years studied since it is just about 39 percent.
d. This means that the system could not generate 5 percent of both the National Income (GDP) or influence up to 5 percent of the Total Consumption.

However, it must be warned here that both the GDP and the TCE contained non-VATables. In order to be more realistic in appraisel, we have taken one more step of adjusting the GDP and TCP by netting off the non-VATable components. In the case of GDP, prices incurred on Agriculture (Crops), Livestocks, Forestry, Fishing, Crude Petroleum and Natural Gas, Public Administration, Education, Health and by Private Non-Profit Organizations have been netted off in consonance with the Schedule 3 of the VAT Act (as amended). On the other hand adjusted TCP has been taken as Private Consumption Expenditure since it is assumed that Government Consumption Expenditure at Current Prices is non-VATable. Based on the above-adjusted GDP and TCE, the effectiveness and efficiency ratios were 112 percent and 42 percent respectively.

This means that after adjusting the national income (GDP at current basic prices) of the non-VATable expenditures, VAT system could be adjudged as very effective since it produced more than the expected. But, the some cannot be said of the efficiency since it can only influence about 42% of the private consumption expenditure for the 11 years in question. The implication of this second result is that the imposition of VAT for the purpose of influencing the spending patterns of citizens was not achieved. It follows therefore that either the VAT charged on consumption were not remitted or accounted for by relevant authorities, or that the consumption expenditure still contained some non-VATable components, or that there are some more powerful variables that can influence the size, direction and pattern of consumption expenditure. The effect of these options is the same, namely an understatement of the VAT realized or the overstatement of the denominator (the TCE), such that the...

<table>
<thead>
<tr>
<th>VAT Adjusted TCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Vat Rate</td>
</tr>
<tr>
<td>= 726.86/34.454</td>
</tr>
<tr>
<td>0.05</td>
</tr>
<tr>
<td>= 42%</td>
</tr>
</tbody>
</table>
ratio will be small. This also tends to suggest that the VAT rate should be increased or the collection machinery should be enhanced/intensified.

5. SUMMARY AND CONCLUSION
This study concerned itself with the measurement of the Nigerian tax systems using Value Added Tax system as an example. The study identified three groups of parameters that can be used to measure the effectiveness and efficiency of any tax system. The study also highlighted some of the difficulties that can confront the appraisal of any tax system. Consequent upon the difficulties, it identified two measurement tools namely the revenue generating capability (also called the effectiveness test or ratio) and the fiscal policy ability (efficiency test or ratio) of the tax system.

Our analysis revealed that the VAT system in Nigeria has been effective in generating more than expected revenue but not efficient in directing or influencing the consumption expenditure of the Nigerian citizens. The study makes this conclusion based on the fact that the effectiveness rating was 112 percent while the efficiency ratio was about 42 percent. Based on these findings, we conclude that VAT has been able to harmonize the many consumption and production taxes that preceded VAT. It has also achieved the major aim of instituting tax especially in the Third World namely the generation of public sector revenue. To a great extent, VAT has been a veritable source of revenue to some states of the Federal Republic of Nigeria where industrial activities are very low. The allocation of VAT revenue as part of federally allocated revenue is indispensable to these states. One perceives that in the event of a global threat to revenue from oil and gas, especially with the debt–free posture of Nigeria, VAT rate could be increased so that allocatable revenue will increase. The alternative might be the justification for the reduction of the VAT exempt list. We also conclude that VAT has not been impactful on the consumption pattern of Nigeria. The essence of the imposition of tax is to direct consumption (both industrial and non-industrial). The higher the tax on consumer – products the lower the consumption of these products since the prices of these items will become higher. But, this process can be dampened if the country is more of a consumer nation than production. This is the status of Nigeria where the consumption will continue to grow irrespective of the imposition of taxes. This study confirms this position with the conclusion that VAT system is not efficient. This is an other way of asserting that although the tax-base of VAT is expanding, inefficiency in the system has resulted in low VAT revenue. This means that efforts should be made to improve the collection and accounting machinery of VAT in order to make it more efficient.

We also conclude that effectively, there could have been an unauthorized exemption (waivers) that has resulted in the small VAT revenue compared with the adjusted TCE. This itself is a proof of the rate of poor attention paid to tax revenue because of the over-reliance on sale of oil and gas.
Relevant tax authorities have not considered the of VAT it (and by extension general taxes), else it would be clear that is possible that the cost of administering VAT, or the Nigerian tax systems, may be higher than the revenue realized, hence not economical. In the light of the above therefore, we make the following recommendations:

1) That relevant tax authorities like Federal Inland Revenue Services (FIRS) in Nigeria should be record-and proprietary-conscious, such that the annual budget of the authorities should be funded from the tax revenues they collect while a target amount is paid to government.

2) That there should be a renewed vigor in generating internal revenue (sometimes called non-oil revenue) especially taxes e. g. VAT. This way, the economy will not suffer undue shock from swings in oil and gas prices.

3) That there should not be any more discrimination in who pays VAT and for how much since VAT is a flat tax.

4) That efforts should be made to transform Nigeria from an almost totally consumer-nation so that economic policies on patterning consumption expenditures can be effective.

5) That there will be no need to increase the rate charged as VAT on items with a view to increasing the revenue generated, instead the tax base should be expanded to reduce the exemptions.

REFERENCES


