

EFFECT OF VALUE ADDED TAX (VAT) ON NIGERIAN ECONOMIC GROWTH

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Abstract

The study examined the effect of value added tax on economic growth in Nigeria spanning from 2000 to 2020. Data for the study were sourced from the Central Bank of Nigeria Statistical Bulletin, Central Bank of Nigeria Annual Report and Statement of Accounts, Bureau of National Statistics and Federal Inland Revenue Service (FIRS) reports of various years. The study adopted the Autoregressive Distributed Lag Model since the unit root test evidenced mixed integration (i.e. the study variables are integrated both at levels and first difference). The ARDL bond test reported that, tax composition has long run effect on economic growth in Nigeria. However, value added tax (LOGVAT) has a negative significant effect on economic growth in Nigeria. Based on the findings, the study does not only recommend lowering tax rates but suggest a need to carry out a transition to innovative methods of development which will promote higher and stable economy growth.

Keywords: Taxation, Value added tax and Economic growth

1.0 INTRODUCTION

Among the numerous factors influencing productivity, tax is an important part of the economic system that cannot be ignored (Jiang and Jaing, 2014). The reform of the tax system in the early 90s established the basic framework of the current Value Added Tax (VAT) system, and the effect of VAT on Nigeria's economy has been a major concern of academics and policy makers (Onwucheka and Arewa, 2014). Thus, the importance of VAT as a source of government revenue in both developed developing nations has been subjected to serious examination in recent decades (Chigbu and Ali, 2014). Tax coverage debate keeps dominating monetary coverage discussions with inside the press, academia, and civil society advocacy (Mcbride, 2012). This statement is resulting from the truth that taxes aren't best the biggest supply of sales for governments, states, or municipalities, however additionally a device to impact financial coverage and motive superb change in behaviour (Cobham and Jansky, 2018; Merriman and David 2015).

Special tax systems had been hired over the years to increase sales for the state in Nigeria. According to Akanbi (2018), these systems are no longer limited to petroleum earnings tax, agency profits tax, capital profits tax, stamp obligation and price introduced tax. While petroleum earnings tax is imposed on profits of agencies in petroleum operations, enterprise tax is a tax levied on agency's taxable profits for a given duration commonly one year. Specifically, capital profits tax, in Nigeria, is a tax levied on profits, or profits, found out from the sale or change of capital belongings and stamp obligation tax that is ruled through the Stamp Duties Act (SDA) of 1939 is charged as a flat price or percent of the transaction/tool price, taking the nature of the tool into consciousness (Amah, 2021).

Azubike (2009) opined that a tax system such as VAT should be able to mobilize a nation's internal resource in order to create an environment conducive to promote economic growth. Many Sub-Sahara Africa and parts of West Africa countries such as Benin Republic, Cote d'ivoire, Guinea, Kenya, Mauritius, Niger Republic, Senegal and Togo have adopted VAT given its perceived advantage inherent in the collection process and its contribution to total government revenues (Ajakaiye, 2000). The impressive performance of VAT in other countries as well as the intention of the Nigerian government to increase her non-oil revenue base principally accounted for the introduction of VAT tax system. Further, more, Alexander, Keyi, and Alfa (2018) mentioned that, price introduced tax (VAT) is an intake tax paid on all items and offerings produced in or imported into the country. VAT, that is presently charged on the price of 7.5% is payable through individuals, agencies, and authorities agencies. The study critically examined the impact of the aforementioned tax systems on monetary growth in Nigeria, taking into account the numerous sales contributions of those tax systems closer to the Nigerian growth and improvement. The impact of taxes on economic growth is no longer as precise as previously warned in the literature. For instance, the imposition of carbon tax can also additionally negatively have an effect on monetary increase thru increased gasoline prices (Zhou, Shi, Li, and Yuan, 2011). This scenario may be likened to the Nigerians take pleasure in a couple of taxation device and excessive tax fees have been penned to be the bane of the Nigerian tax device. Tax regulations and the shape of taxation in Nigeria is ensuing to a couple of taxation on agencies, forcing most agencies to run into losses or collapse (Azubike, 2009). Since taxation is a legal responsibility to agencies, it turns into expedient that the commercial enterprise supervisor will undertake alternatives to be able to trim his/her tax liabilities and this movement will necessarily produce terrible outcomes on financing, investment, dividend decisions made by the company and sales made by the administration (Ebeke, and Ehrhart, 2010; Ebiringa and Emeh, 2012). Furthermore, the growth in tax fees has the identical impact as such movements would increase the price of items (Reed, Robert and Cynthia, 2004).

There had been a whole lot of research on taxation impact on monetary increase with various results in Nigeria. For instance, Okeke, Mbonu and Ndubuisi (2018) reported that tax sales have a statistically sizeable dating with gross constant capital formation. Similarly, Ogundana, Ibidunni and Adetoyinbo, (2017) and Kalaš, Mirović, & Andrašić, Stoilova, (2017) reported a significant effect of taxation on monetary. Therefore, the uncertainty approximately how taxes influence monetary increase has triggered numerous empirical reviews of which this observe intends to make its personal contribution. However, the maximum strong point of this observe bothers at the truth that as observed, beyond associated research in Nigeria targeted best on few additives of tax shape in seeking to decide the impact of tax composition on monetary increase. The study examines the effect of tax value added tax on economic growth in Nigeria.

2.0 LITERATURE REVIEW

2.1 Economic Growth

John (2022) described economic growth as the system of transformation wherein a nation's wealth will increase over time. He additionally said that even though the time period is regularly utilized in discussions of short-time period financial performance, in the context of financial principle it usually refers to an increase in wealth over a prolonged period. In the perspectives of UK Essays (2018) financial boom is the growth with inside the degree of ability output with inside the economic system over a time frame. Further the writer defined

that there are 3 sorts of boom within the economic system: real boom, ability boom and fashion boom. Further, Roser (2021) described financial boom as a growth with the quantity and first-rate of financial items and offerings that a society produces, and Edeme (2018) said that financial boom is the potential to supply items and offerings (gross home product), in comparison from one-time frame to another.

Other students include Amadeo (2021) defined economic growth as an increase in the cost of an economy's goods and services, which generates additional earnings for businesses and implies a system of growth in National Income and Per-Capita Income. As a result, inventory prices rise, providing companies with capital to make investments and hire more workers. Economic growth is typically indicated by an increase in a country's gross domestic product (GDP), which is the total economic cost of the products and services produced by the country over a specific time period. As a result, economic growth can be defined as a system in which the United States of America's actual countrywide and per capita profits increase over time. Amadeo (2021) observes that the growth in Per-Capita earnings is the better measure in measuring financial boom because it demonstrates growth in the development of residing requirements of hundreds, which must also replicate in terms of growth of output of goods and services.

2.2 Value Added Tax (VAT)

Odiambo and Olushola (2018) submitted that, Value Added Tax is ruled via way of means of Value Added Tax Act Cap V1, LFN 2004 (as amended), it is an intake tax paid whilst items are purchased, and services rendered. It is a multi-level tax borne via way of means of the very last consumer. All items and services (produced inside or imported into the country) are taxable besides those particularly exempted via way of means of the VAT Act. It is charged at a charge of 7.5%. Some items and offerings together with non-oil exports are 0 rated All taxable persons

are required to record VAT month-to-month returns now no longer later than twenty first day following the month of transaction (Edewusi and Ajayi, 2019). Under the Nigerian VAT regime, 3 organizations of taxpayers are obligated to deduct VAT at supply and remit without delay to the tax authority. These are: Nigerian groups which might be carrying out vatable transactions with non-resident groups in the country; Government agents, statutory bodies, other government parastatals with the oil and non-oil sector (Joseph & Omodero 2020; Odiambo & Olushola, 2018).

2.3 Theoretical Framework

Taxation forms the most important sources of revenue to the government. The value added tax (VAT) is one of such revenue source today since its inception in 1994. However, the theory of VAT can be traced to the works of Wihlem Von Siemens, who proposed it as an alternative to the German turnover tax (Onwuchekwa and Aruwa, 2014). The development of these proposals into problem in a country is credited to Maurice Laure a French economist who introduced it into France in 1954 as the Taxe Sur la valeur Ajoutee (Smith, Islam and Moniruzzaman, 2011). Maurice Laure's theory of VAT was envisioned on sales tax on goods that did not affect the cost of manufacture or distribution but was collected on the final price charged to the consumer (Muhibat, Abdul Azeez and Tope, 2013). Due to its ease of payment and ready comprehensibility, several countries across the world including Nigeria decided to adopt and use government revenue. Since VAT is a subset of the entire tax system in Nigeria,

it becomes imperative to look at the basic theories surrounding taxation. The theories highlighted in this work include the following:

- (a) **Socio-political Theory:** This theory states that social and political objectives should be the major factors in selecting taxes. The theory advocates that a tax system should not be designed to serve individuals but should be used to all ills of the society as a whole. Wagner the advocate of this theory believe that economic problem should be looked at in it socio-political context and an appropriate solution found accordingly.
- (b) **Expediency Theory:** This theory was posited that every tax proposal must pass the test of practicability. It must be the sole consideration weighing the authorities in choosing a tax proposal. Economic and social objectives of the state as effects of a tax system should be treated as irrelevant.
- (c) **Benefit Received Theory:** This theory is based on the assumption that there is basically an exchange relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009).
- (d) **Cost of Service Theory:** This theory is similar to the benefit received theory. It lays emphasis on semi commercial relationship between the state and citizens. It states that the state should give up basic amenities and welfare functions. This implies that citizens are not entitled to any benefits if they however receive any benefits, then they must pay the cost of service thereof.
- (e) **Faculty Theory:** It states that one should be taxed according to the ability to pay (Anyafio, 1996). The bottom line is to maximize the distributive effects of taxes within the country.
- (f) **Theory of Laffer Curve:** Laffer (2004), postulated this theory to explain the theoretical representation of the relationship between government revenue raise by taxation and all possible rates of taxation. The theory was demonstrated with a curve based on his observation that increasing tax rate beyond aa certain point will become counter-productive for raising further tax revenue because of diminishing returns.

2.4 Empirical Review

Egolum and Celestine (2021) investigated the impact of Value Added Tax on Economic Development in Nigeria from 1994-2018. The study used a time series, and the data for the study were extracted from the CBN statistical bulletin, the Federal Inland Revenue bulletin, and the Joint Tax Board bulletin for the period of the s0tudy. Pearson coefficient of correlation and easy regression evaluation have been implemented for the check of the hypotheses they formulated with resource of E-Views 9. zero statistical software. The study found that Value Added Tax has a statistically significant effect on economic growth (proxy by Gross Domestic Product and Total Government Revenue) at 5% significance level. Similarly, Joseph and Omodero (2020) tested the connection among authority's revenues and the financial increase of Nigeria. They used exploratory and *Ex-Post Facto* studies designs and secondary shape of records spanning from 1981 to 2018 amassed from the Federal Inland Revenue Services (FIRS), National Bureau of Statistics and CBN statistical bulletin in which used. Ordinary Least Squares (OLS) regression method was used to test hypotheses. Their end result confirmed that federally obtained sales and Value Added Tax (VAT) have a mild effective courting with the financial increase. Their research also found that there is a need for the government to develop applicable sales rules in order to increase government profits and have a more beneficial impact on the economy. Alexander, Keyi and Alfa (2019) tested the impact of taxation on financial increase in Nigeria from 1980 to 2018. They used records from the Central Bank of Nigeria (CBN) statistical bulletin, and the once a year records eBook of

Federal Inland Revenue Services (FIRS). Gross Domestic Product (GDP), Petroleum Profit Tax (PPT), Value Added Tax (VAT) and Personal Income Tax (PIT) have been used as variables. Data on GDP become amassed from CBN whilst records on the alternative variables have been amassed from FIRS. They analyzed their records the use of autoregressive disbursed lag (ARDL) model. Their findings found out that in Nigeria, the numerous classes of taxation including Petroleum Profit Tax, Personal Income Tax and Value Added Tax decided on for his or her take a look at have good sized results on financial increase process. The impact of those taxes on financial increase in Nigeria is even extra said with the long-run than with the short-run. Olaoye, Ogundipe and Oluwadare (2019) investigated the effect of taxation on financial improvement of Nigeria from 2003 to 2017. They used Vector Error Correction Model (VECM), Augmented Dickey-Fuller (ADF) unit root check, Autoregressive Distributed Lag (ARDL) bounds check, Jarque-Bera Normality Test and Eigenvalue stability circumstance check. Their end result confirmed Companies Income Tax, Petroleum Profit and Value Added Tax have a longer term effect of -0.225 ($p\text{-value}=0.000$), -0.0005 ($p\text{-value}=0.699$), and 0.211 ($p\text{-value}=0.000$) respectively at the financial improvement of Nigeria. Ideh (2019) tested the connection among additives of tax sales and financial improvement of the Nigerian economy, adopting the ex-put up facto studies layout and secondary time collection records from (2003-2017) have been sourced from applicable facts of suitable authorities. The additives of tax sales tested with the take a look at have been Value Added Tax, Petroleum Profit Tax, Personal Income Tax, and Company Income. Autoregressive Distributed Lag method along different important statistical equipment become used to analyses the records. The consequences from the take a look at confirmed that there are far achieving coverage implications. Specifically, the take a look at discovered among others that despite the fact that petroleum income tax stood as a primary factor of tax sales, its courting with measures of financial improvement (actual GDP and HDI) have been negative. Ironkwe and Gbarakoro (2019), tested taxation contribution and financial increase in Nigeria, they used annual time collection records sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin from 1990 - 2015, they anticipated linear model of Corporate Income Tax (CIT), Value Added Tax (VAT) and financial increase (GDP) and used the normal Least square (OLS) method.

Their end result confirmed that the hypothesized hyperlink among Company Profit Tax, Value Added Tax and economic increase sincerely exist with inside the Nigerian context. Izedonmi and Okunbor (2014) studied the contribution of VAT to the improvement of the Nigerian economy. Time collection records become used for the take a look at and the Gross Domestic Product (GDP), VAT Revenue, Total Tax Revenue and Total (Federal Government) Revenue from 1994 to 2010 have been studied. The records have been analyzed the use of more than one regression modelling. Their findings confirmed that VAT Revenue accounted for 92% good sized versions in Nigeria's GDP. Bakare (2013) investigated VAT on output increase in Nigeria, the use of the Ordinary Least Square regression method, he discovered an effective and good sized courting among VAT and output increase in Nigeria. The consequences of his findings additionally confirmed that the beyond values of VAT may be used to are expecting the destiny behaviour of output increase in Nigeria. The most important end of the take a look at become that Value Added Tax has the capacity to help with the diversification of sales sources, thereby offering enough finances for financial increase and improvement and reducing over dependence on oil for sales.

3.0 METHODOLOGY

This study utilizes longitudinal research design. The choice of the design is based on the idea that the method provides discovery on trends and pattern of change. The relevant data were source from publication of the Central Bank of Nigeria Statistical Bulletin (various years), Central Bank of Nigeria Annual Report and Statement of Accounts, Bureau of National Statistics and Federal Inland Revenue Service (FIRS) reports of various years which enables the study to empirically reveal the effect of Valued Added Tax (VAT) on the economic growth in Nigeria. The data retrieved cover Gross Domestic Product GDP and Value Added Tax composition for the relevant years.

3.1 Method of Data Analysis

The explanatory variables in this study consist of annual data on value added tax with the dependent variable being growth in Gross Domestic Product (GDP) as a proxy for economic growth. Autoregressive Distributive Lag (ARDL) regression analysis technique developed by Pesaran, Schuermann, and Weiner (2004) is used in this study. This analysis technique calculates the impact and uses a limit testing strategy to determine whether the variables in the model have a long-term relationship. One benefit of the ARDL method is that it may be used to simulate a mixture of I (0) and I (1) in the same specification, which is not possible with classic methods like Johansson's and Engel Granger's. Further, the ARDL limits testing technique is more appropriate for small sample sizes and produces better estimates. The dynamics of both short-run and long-run parameters, as well as the speed of adjustment when there is a shock, are estimated simultaneously using this analysis technique. Since robust lag lengths are critical to this strategy, it avoids the problem of over-parameterization.

3.2 Model Specification

This study modified the functional relationship between tax revenue and the economic growth of Nigeria model by Ojong, Ogar and Arikpo (2016). The model is expressed thus:

$$GDP = F (PPT, C1T, NOR)$$

However, the short-run estimate from the error correction mechanism derived from the long-run relationship is presented below:

$$GDP_t = \beta_0 + \beta_1 VAT_{t-t} + \dots + \mu_t$$

Where:

VAT = Natural Logarithm of Value Added Tax

μ_t = White-noise Disturbance Error Term

t = Time

i = Denotes the lag(s) being considered:

β_0 - β_1 = Parameter Coefficients

Apriori expectation; β_1 ,

4.0 Data Analysis

4.1 Unit Root Test

This pre-regression evaluation assumes that the way and variances of those variables being examined are regular over the time. Variables whose way and variances alternate through the years are acknowledged as non-desk bound or unit root variables. Therefore, incorporating non-desk bound or unit root variables in estimating the regression equations the use of Ordinary Least Square regression approach offers deceptive inferences. Instead, if variables are non-desk bound, the estimation of long-run courting between the ones variables ought to be primarily based totally at the co-integration method. Since the testing of the unit roots of a chain is a precondition to the life of co-integration courting, the Dickey-Fuller (1979) check is broadly used to check for stationarity. From the foregoing, the researcher employs the Dickey-Fuller (1979) check for Unit Root and the effects are provided below:

Table 1 Unit Root Test Result

H0: There is no Stationarity					
<i>At Levels-I(0)</i>			Interpolated Dickey-Fuller Critical Values		
Variables	DF t-statistics	MacKinnon p-value	1%	5%	Decision
GDP Growth	-2.060	0.2608	-3.750	-3.000	Accept H0
Value Added Tax	-1.304	0.6273	-3.750	-3.000	Accept H0
<i>At 1st difference - I(1)</i>					
GDP Growth	-3.154	0.0228	-3.750	-3.000	Reject H0
Value Added Tax	-5.060	0.0000	-3.750	-3.000	Reject H0

Table: 1: Dickey Fuller (DF) Test for Stationarity

Source: Author's compilation 2022 from STATA 16 Output

In testing for time series properties of the variables in the model, we performed a univariate regression analysis using conventional Dickey Fuller Unit Root Tests in order to ascertain whether each of these variables has unit root (non-stationary) or does not have unit root (stationary series). Following the summary results of the unit root tests presented in Table 1 above, it is clearly shown that the variables considered are a mixture of stationary at levels {I (0)} and non-stationary at difference {I (1)} series. Therefore, given this scenario, there is need to test for the presence of long-run relationship among the variables in the model, which the ARDL regression technique is capable of capturing.

Table 2 Co-integration Test Result

H0: There is no relationship					
Pesaran, Shin, & Smith (2001) Critical Values					
	5%		1%		
Bounds	I0	I1	I0	I1	Decision
F-Statistics	2.62	3.79	3.41	4.68	Reject H0
t-Statistics	-2.86	-4.19	-3.43	-4.79	Reject H0
F = 15.033					
t = -7.056					

Table: 2: Pesaran, Shin, & Smith (2001) Bound Test for Co-integration

Source: Author’s Compilation 2021 from STATA 16 Output (Appendix A)

To decide the life of long-run courting or fashion the various variables, a co-integration evaluation is done using bounds test. In this case, the null speculation of no co-integration ($H_0: b_0 = b_1 = 0$) is tested. The outcomes with the desk above depict that the Wald F-statistic of 15.033 is extra than the higher vital values or bounds of 3. seventy-nine at 5% and 4. sixty-eight at 1% degree of importance as mounted via way of means of Pesaran, Shin, & Smith (2001). Based in this finding, we reject the null speculation of no longer term courting and finish that there is a long-run courting among the collection with the version for the period among 2000 and 2020.

4.2 Test of Hypothesis

H_0 : Value Added Tax has no significant effect on economic growth of Nigeria.

Table 3 ARDL Regression Analysis Result

Variables	LOGVAT
Coefficient	-6.493
t_ Statistics	(-3.72)
Probability_t	{0.003)
Coefficient	
t_ Statistics	
Probability_t	
No. of Obs = 20	
Prob. F statistics =	
0.0000	
R ² = 0.8833	

Source: Author’s compilation 2022 from STATA 16 Output

Specifically, we provide interpretation for the ARDL estimator as recommended Pesaran, Shin, & Smith (2001). The model goodness of fit as captured by the Fisher Statistics (15.52) and the corresponding probability value (0.000) shows a 1% statistically significant level suggesting that the entire model is fit and can be employed for interpretation and policy recommendation. More than this, an R² value of 0.8833 indicates that about 88% of the variation in the dependent variable is being explained by all the independent variables in the model. This also means that only about 22% of the variation in the dependent variables is left unexplained but have been captured by the error term.

Result obtained from the ARDL model presented above reveal the variable of value added tax (LOGVAT) as follows: for the long run effect (Coef. = -6.493, t = -3.72 and P -value = 0.003); and no short run effect. Following the results above, it is revealed that the effect of value added tax on economic growth is negative and statistically significant in the long run at 5% level.

Further, this finding is inconsistent with the stated null hypothesis which leads to its rejection. Hence, value added tax has a significant negative effect on economic growth in Nigeria during the period under study.

4.3 Discussion of Finding

The main aim of this study is to empirically investigate the effect of Valued Added Tax (VAT) on economic growth in Nigeria. In trying to do so, this study analyze the extent to which findings of the study conform to, or deviate from those of other researchers of similar concern in the past.

Several researchers have tested taxation as an instrument for financial improvement in distinctive nations with diverse techniques. The findings indicate that fees introduced tax has a terrible impact on financial boom of Nigeria in the course of the length beneath investigation. This final result is regular with the perspectives of Forbin, (2011) that “interference of financial guidelines for political profits can produce financial overall performance so one can be distinctive from expected”. However, this final results no longer align with previous research of Ugochukwu and Azuibike (2016), Okoli and Matthew (2015), Njoku (2015), Onwuchekwa and Aruwa (2014), Izedonmi and Okunbor (2014) and Chigbu (2014) who concluded that fees introduced tax is not a vast sales earner, this finding, contradicts preceding comparable results of Saeed, Ahmad, and Zaman (2012), who mentioned that VAT adoption seems to be a crucial device for amassing taxes and growing sales ratios.

5.0 CONCLUSION AND RECOMMENDATION

In Nigeria, sales from taxation may be labeled into oil and non-oil tax sales. Although oil sales are large, however has been unstable, which make the scale of government packages alternate accordingly. Evidence confirmed that price range to be had for distribution amongst federal, state, and nearby governments in Nigeria have reduced in latest time due to decline in oil price. Hence, Nigeria over-dependence on oil sales is confronted with a strong set-again for sustainable monetary boom. The effects acquired from this examine is a departure from mainstream conventional monetary concept, which disseminate the concept of high-profits tax fee as vital situations for sustained monetary boom (Simon & Adudu, 2015). This examine portrays the view that decrease taxes (fee introduced tax) can affect monetary boom that is constant with endogenous boom models. Accordingly, better tax fee discourages saving which leads to stagnated development. Therefore, better fee introduced tax sales surprisingly stall monetary boom of Nigeria at some stage in the length beneath investigation. Based on the outcome obtained from the study, the study does not only recommend lowering tax rates but suggest a need to carry out a transition to innovative methods of development which will promote higher and stable economy growth. Presently, innovations play a key role in ensuring affordability of economies, improving living standards and contributing to the growth of people’s welfare.

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