Correlation between Value Added Tax (VAT) and National Revenue in Nigeria: An ECM model

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ABSTRACT
The main objective of taxation is to raise government revenue. Taxation is a lumpy setup. When disaggregated it has four components. For example in Nigeria we have VAT, Company Income Tax, Personal Income Tax and Petroleum Profit Tax. This paper therefore examines the extent to which VAT has been contributing to Nigeria total federally collected revenue and subsequently it's position among the other three components. Hence the study employed an Error Correction Model (ECM) for the analysis. Data spanning 1994 -2012 sourced from Central Bank of Nigeria annual report & CBN Statistical Bulletin were used for the analysis. Result from the study revealed that VAT in the second long term source of the total federally collected revenue. The study recommends that all identified loopholes should be plugged for VAT revenue to contribute more to total Federally collected revenue.
Keywords: Value Added Tax, Federally Collected Revenue, Taxation.

INTRODUCTION

The basic philosophy and continuous review of VAT is embedded in the reason for the existence of government. That is, a human being, acting as an individual in society, cannot provide for himself certain crucial services in a community. These include, defense, roads, justice, law etc. Government exists to provide these collective services or public goods. In other words, the public sector has to be financed. Taxation is therefore the price of the social contract between the governed and the government for the provision of social goods and services by the latter to the former (Naiyeju, 1996).

Value Added Tax was therefore introduced into Nigeria's tax system as a means of increasing government revenue given the steadily rising costs of governance on one hand and the dwindling and erratic returns from petroleum, Nigeria's principal source of revenue. Value Added Tax (VAT) in Nigeria today replaced the existing sales tax, which had been in operation under the Federal Government Legislated Decree No 7 of 1986. Value Added Tax is a consumption tax and it had been embraced by many countries world-wide. Almost hundred countries in the world today are operating the Value added Tax (Alan, 2003). But the interesting aspect of Nigeria's Value Added Tax is the very low single rate of 5% which is one of the lowest in the world today and even in the West African sub-region. To mention but a few, Ghana has a rate of 10%, Republic of Benin 18% while Togo has multiple rates ranging from 5% to 30% (Olaoye, 2004).

 Most research works on the impact of taxation on the national revenue lumped all the various taxes together without isolating VAT. How and to what extent has VAT been contributing to the Nigerian Total Federally Collected Revenue (TFCR)? What is the position of VAT among the vibrant taxes in Nigeria? To what extent has VAT been meeting target in the new millennium? Finding answers to these and other similar questions is the main trust of this paper. The rest of the paper is divided into four sections. Section two is on conceptual framework and review of related literature. Section three is on data and research methodology. Section four is on findings and discussions while Section five summarizes and concludes the paper.

LITERATURE REVIEW
Conceptual frame work
The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributors, and to every other person (Adam, 1993). Different definition of Value Added Tax have been given, some in relation to its tax incidence, and some in relation to its state of collection, while some are relative to its base.

Value Added Tax can be defined as the incremental value, which a producer, using labour, contributes to his raw materials of purchases before selling the processed goods or services. Here the producer can be a manufacturer, a

distributor of supplier of goods and services. In other words, the original items purchases or stock of materials must have undergone some processing or improvement to warrant any value being added to the original form or shape. The inputs are processed by labour to produce the final goods and services, which are sold. Naiyeju (1996) defined VAT as a tax levied on the Value Added at the various stages of sales. To Ogundele (1996) defined VAT is the 'addition type' in which the tax base would be the sum of wages and capital income. He further re-affirmed it as the difference between the sales and the purchases of the taxable firm. Value Added Tax (VAT) is an indirect tax.

Prest and Barr (1974) defined indirect taxes as those taxes levied on expenditure, which incorporates all consumption taxes like sales tax, Value Added Tax (VAT), turnover tax etc. while Broadway (1979), defined Value Added Tax (VAT) in relation to its base as 'the base of VAT. It is ultimately the final value of the products'. Magner (1983), defined VAT as "a method of assigning tax liability" against the value added at each stage in the process of production and distribution.
Pearce (1985) defined Value Added Tax (VAT) as a tax based on the Value-Added, "an equitable way to tax the value of sales, which does not discriminate against any activity as do other specific sales tax". Eckstein (1987), defined VAT relative to its base "To him it is the base of the value added at each stage of production and distribution that is taxed".

Bhatia (1991), observed that Value Added Tax (VAT) as a family of sales tax. To Ijewere (1993) Value Added Tax (VAT) as a tax imposed on the value which the suppliers or sellers of goods or services add to the goods or services before selling it. According to Adeleke (1995), VAT is a tax on spending because it is borne by the final consumer of goods and services as it is included in the final price. For Muhammed (1995), VAT is a consumption tax designed primarily to tax private consumption goods or services by individuals that are subject to tax. Baiyewu (2000), regarded Value Added Tax (VAT) as the policy thrust to raise higher revenue from non-oil tax sources particularly from consumption taxes (VAT and Duties) without jeopardizing the liberal tax policies. Contributing Bickley (1996) viewed Value Added Tax (VAT) is a tax levied at each stage of production while to Old man et al (1996) Value Added Tax as a multi-stage consumption tax levied as the difference between a firm's sales and the value of its purchased inputs used in producing goods. Lastly Ogundele (1996) has also defined Value Added Tax as a multi-stage tax imposed on the value added to goods and services as they are processed through various stages of production and distribution and to the service as they are rendered.

These definitions by eminent scholars must have been quite adequate for the audiences for which they were intended. The beauty of these definitions is that they bring out the three essential characteristics of Value Added Tax, which have been emphasised. These characteristics are: Value Added Tax is a consumption tax; Value Added Tax incidence is on the final consumer; and Value Added Tax is a multi-stage tax.

Review of Related Literature
Different scholars have used different explanatory variables to attempt some empirical measurements of tax efforts in various countries. Such variables include agricultural output-GDP ratio, per capital income, mineral exports-GDP ratio, the degree of openness of the economy, money-GDP ratio, etc. Using mining-GDP, agricultural output-GDP ratio, and export – GDP ratio as determinants of tax share in GDP to measure tax efforts, Chelliah, Bass and Kelly (1975) showed that the agriculture share is negative while the mining share is positively related to tax share, and the export ratio is not significant. Using panel data on 43 Sub-African Countries for the period 1990-1995 to measure the determinants of tax-GDP ratio to construct an index of tax effort for these countries, Stotsky and Woldemariam (1977) found that the countries with a relatively high tax-GDP ratio tended to have a relatively high index of tax effort, although the results varied across countries. Tait and Gratz (1979) later updated the work of Chelliah et al. (1975) using the same sample of developing countries for the period 1972-1976. However, they did not find the agric-GDP ratio to be significant but their measure of tax effort indices yielded similar results to the initial study.

Toder and Rosenberg (2010) worked on the effects of imposing a value added tax to replace payroll taxes or corporate taxes (in the US). The research work was conducted against the background that the United States is the only country in the developed world that does not impose a broad-based consumption tax. The typical form of broad-based consumption tax used worldwide is a credit-invoice Value Added Tax (VAT). The credit-invoice VAT, a subtraction –method VAT or Business Transfer Tax (BTT), and a Retail Sales Tax (RST) are all intended to tax the final consumption once at the retail level, but the collection mechanisms differ among the three taxes. The researchers found out that VAT has administrative advantages over both BTT and RST. Both VAT and BTT are easier to enforce than RST because under a tax collected at different stages of production, evasion by the final seller still leaves much of the tax in place. Compared with BTT, VAT makes it easier to exempt sales of categories of consumption goods, including export sales, but more difficult to grant references to

selected industries. The distributional burden of VAT, it was found, is roughly proportional at the bottom of income distribution but regressive at the top.

Although very little literature exists on the subject of VAT in less developed countries, extensive studies have nevertheless been done on the alternation prominence of Indirect Tax in developing countries in general and Nigeria in particular. The core function of taxation as a revenue generating tool in developing countries has been studied by eminent scholars. Naiyeju (1996) argued that the positive result received from any tax depends on the extent of how it is properly managed, the extent of how the tax law is interpreted and implemented as well as the publicity brought into it. All these will determine how a particular tax is able to meet its objectives. Ariyo (1997) in his study on productivity of the Nigerian tax system, reported a satisfactory level of productivity of the tax system before the oil boom. The report underscored the urgent need for the improvement of the tax information system to enhance the evaluation of the performance of the tax system and facilitate adequate macroeconomic planning and implementation.

Ajakaiye (2000) worked on the impact of VAT on key sectoral and macroeconomic aggregates, using a Computable General Equilibrium (CGE) model considered suitable for Nigeria. The study developed three scenarios. In order to approximate the presumed Nigerian situation, the study assumed that government pursued an active fiscal policy involving the re-injection of the VAT via increases in government final consumption expenditure in combination with a presumed non-cascading treatment of the VAT. Two other simulations considered an active fiscal policy combined with a cascading treatment of VAT and a passive fiscal policy combined with a non-cascading treatment. As it turned out, the scenario of a cascading treatment of VAT with an active fiscal policy not only had the most deleterious effects on the economy, but was also the one that most closely approximated the situation in Nigeria. VAT revenues under this scenario are more than 3% lower than the first scenario, the general price index increases by 12%, and wage and profit incomes fall by 8.54% and 12.27% respectively. Overall, the GDP declines by 11.34%. Such a situation, as observed by the researcher, poses a great threat to the sustainability of VAT. A United Nations (2000) expert group stated that tax revenue contributes substantially to development. The stark reality in most developing countries is that while there are several budgetary pressures as a result of ever increasing demand for government expenditure, there is a limited scope for raising extra tax revenues.

Desai, Foley and Hines (2004) stated that governments have at their disposal many tax instruments that can be used singly or in concert to finance their activities. These tax alternatives include personal and corporate income taxes, sales taxes, value added taxes, capital gains taxes and numerous others. In choosing what tax instruments to use and what rates to impose, governments are typically influenced by their expectations of the effects of taxation on investment and economic activities, including Foreign Direct Investments (FDI). The researchers stated that there are extensive empirical studies that high corporate income tax rates are associated with low levels of FDI. VAT rate in Nigeria has been determined in a way that minimizes disincentive efforts on economic activities (Owolabi & Okwu, 2011). Musa (2009) opined that economic and social development laws and policies provide the basis for effective state action that lifts society from underdevelopment, improves the standard of living and facilities for the realization of the millennium development goals. Olaoye (2009) worked on the administration of VAT in Nigeria. The objective of the study was to seek ways of improving government revenue generation base in order to improve on the economy. The study among other things, recommended that more awareness was needed on VAT. Adegbite and Fakile (2011) worked on company income tax and Nigeria's economic development. They used the GDP to capture the Nigerian economy and Petroleum Profit Tax (PPT), Company Income Tax (CIT), Customs and Excise Duties and VAT to measure Company Income Tax. Findings revealed that there is a significant relationship between company income tax and Nigerian economic development and that tax evasion and avoidance are the major hindrances to revenue generation. Owolabi and Okwu (2011) empirically evaluated the contribution of VAT to the development of Lagos State economy. Development aspects considered included infrastructural development, environmental management, education sector development, youth and social development, agricultural sector development, health sector development and transportation sector development. Result showed that VAT revenue contributed positively to the development of the respective sectors. However, the positive contribution was statistically significant only in agricultural sector development. Adereti, Sanni & Adesina (2011) worked on VAT and economic growth of Nigeria. To them VAT contributed significantly on economic growth of Nigeria. Findings showed that the ratio of VAT Revenue to GDP averaged 1.3% compared to 4.5% in Indonesia, though VAT Revenue accounts for as much as 95% significant variations in GDP in Nigeria.

METHODOLOGY

The research work was both inferential and descriptive in nature. Data for the study were sourced from the Central Bank of Nigeria Annual Reports and Statistical Bulletin. The economic variables include total federally collected revenue (TFCR), VAT, Company Income Tax (CIT), Petroleum profit tax (PPT) as well as Custom and Excise duties (C.E.D). the period covered was from 1994 when VAT was introduced into the country

Model Specification

Based on the focus of this research, we applied Ordinary Least Square method to analyze the impact of the four relevant sources of federally collected revenue (VAT, CIT, CED and PPT (regressors)) on total federally collected revenue (regressand) which is very essential for economic growth and development. The model is as stated below:

$$TFCR_t = f(VAT_t, CIT_t, CED_t, PPT_t)\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ (1)}$$

$$TFCR_t = \beta_0 + \beta_1 VAT_t + \beta_2 CIT_t + \beta_3 CED_t + \beta_4 PPT_t + \mathcal{E}_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ (2)}$$

Where

β_0 = intercept or average federally collected revenue when other variables are not applied

β_1 = Coefficient of the explanatory variable, VAT

β_2 = Coefficient of the explanatory variable, CIT

β_3 = Coefficient of the explanatory variable, CED

β_4 = Coefficient of the explanatory variable, PPT

VAT = Value added tax

CIT = Company income tax

CED = Custom and excise duties

PPT = Petroleum profit tax

TFCR = Total federally collected revenue

$\mathcal{E}_t$ = Stochastic disturbances/ variables

t = time period under study (1994 -2012)

This was used to estimate the relationship existing between the regressand(Federally Collected Revenue) and the regressors (VAT, CIT, CED and PPT), that is to test the extent to which VAT contributes to federally collected revenue and to determine its position among the four sources of f-ederally collected revenue in Nigeria.

RESULTS AND DISCUSSIONS

The results of the various tests are presented below:

Table 2: Augmented Dickey-Fuller Unit Root Test

Time series data are prone to spurious regression, to ensure their stationarity, Unit Root Test is carried out. The result is presented in the below table.

VARIABLES	ADF VALUES	ORDER OF INTEGRATION
COMPANY INCOME TAX	-5.439515*	I(2)
CUSTOM EXCISE DUTY	-4.296697*	I(1)
PETROLEUM PROFIT TAX	-4.951067*	I(1)
TOTAL FEDERAL COLLECTED REVENUE	-4.298816*	I(1)
VAT REVENUE	-3.116760**	I(2)

Source: Author's Computation through E-view version 7.2

Note that one, two and three asterisks denote rejection of the null hypothesis at 1percent, 5percent and 10percent respectively. The above results show that Custom and Excise Duty, Petroleum Profit Tax and Total Federally Collected Revenue are stationary at first differencing while Company Income Tax and VAT Revenue are stationary at second differencing. Since the variables are integrated at different orders or levels (that is some at first differencing and some at second differencing), there exist short run disequilibrium or no relationship among the variables. This led us into carrying out co-integration test to find out if there is long run relationship among the variables.

Table 3: Johansen Co-integration Test
Date: 05/08/14 Time: 18:43
Sample (adjusted): 1996 2012
Included observations: 17 after adjustments
Trend assumption: Linear deterministic trend
Series: VAT REVENUE   TOTAL FEDERALLY COLLECTED REV PETROLEUM PROFIT_TAX__PP CUSTOMS EXCISE DUTIES COMPANY INCOME TAX REVEN
Lags interval (in first differences): 1 to 1

Unrestricted Co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.997634	172.7162	69.81889	0.0000
At most 1 *	0.872823	69.92832	47.85613	0.0001
At most 2 *	0.758177	34.87128	29.79707	0.0119
At most 3	0.440191	10.73897	15.49471	0.2280
At most 4	0.050239	0.876269	3.841466	0.3492

 Trace test indicates 3 co-integrating eqn(s) at the 0.05 level
 * denotes rejection of the hypothesis at the 0.05 level
Source: Computation using E-Views Statistical Package, Version 7.2

From the above table, the result of the co-integration test for the model reveals that three or more co-integrating vectors exist among the variables of interest (That is, at least three of the variables of interest have relationship in the long run). This means that we can estimate the Error Correction Model. An Error Correction Model is designed for use with non-stationary series that are known to be co-integrated. The ECM has co-integration relations built into the specification so that it restricts the long-run behavior of the endogenous variables to converge to their co-integrating relationships while allowing for short-run adjustment dynamics. The use of the methodology of Co-integration and ECM add more quality, flexibility and versatility to the econometric modeling of dynamic systems and the integration of short-run dynamics with the long-run equilibrium.

Table 4: Result of Error Correction Model Testing the Contribution of VAT to Federally Collected Revenue

Dependent Variable: D(DTCFR)
Method: Least Squares
Date: 05/09/14 Time: 12:09
Sample (adjusted): 1997 2012
Included observations: 16 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(DDVAT)	48.40022	13.47994	3.590538	0.0089
D(DPPT)	2.175056	0.248155	8.764896	0.0001
D(DDCIT)	-6.217070	3.147132	-1.975472	0.0888
D(DCED)	-6.707078	3.630619	-1.847365	0.1072
DTCFR(-1)	-0.443925	0.372988	-1.190186	0.2728
DDVAT(-1)	69.09953	26.26809	2.630551	0.0339
DPPT(-1)	0.914813	0.866985	1.055166	0.3264
ECT(-1)	-1.977665	0.745309	-2.653483	0.0328

C	-82403.99	212888.8	-0.387075	0.7102
R-squared	0.976279	Mean dependent var		-32861.55
Adjusted R-squared	0.949170	S.D. dependent var		2427651.
S.E. of regression	547325.3	Akaike info criterion		29.56180
Sum squared resid	2.10E+12	Schwarz criterion		29.99638
Log likelihood	-227.4944	Hannan-Quinn criter.		29.58405
F-statistic	36.01279	Durbin-Watson stat		1.712667
Prob(F-statistic)	0.000052			

Source: Computation using E-Views Statistical Package, Version 7.2

From the above table, the regression model can be restated as below:

$$TFCR_t = -82403.99 + 48.40022VAT_t - 6.217070\ CIT_t - 6.707078CED_t + 2.175056PPT_t$$

The result obtained from the model indicates that the overall coefficient of determination (R^2) shows that 97.62percent of Total Federally Collected Revenue is explained by the variables in the equation. The Durbin Watson (D.W) statistics of 1.71 was not substantially further away from the traditional benchmark of 2.0. The study can conclude that there is no sign of auto- correlation or serial correlation in the model specification, hence, the assumption of linearity is not violated.

From the above model, both Value Added Tax (VAT) and Petroleum Profit Tax (PPT) have positive relationship with Federally Collected Revenue. That is, one percent increase in VAT revenue and PPT revenue will lead to increase in the Total Federally Collected revenue by 48.40percent and by 2.17 percent respectively. The P-values of both variables also indicates that they are significant at influencing total federally collected revenue at less than 1percent (which is lower to the traditional benchmark of 10%).

On the other hand, Companies Income Tax (CIT) and Custom and Excite Duties (CED) have negative correlations. This implies that increase in the coefficient of Companies Income Tax Revenue and that of Custom and Excite Duties by 1 percent will lead to a decrease in Total Federally Collected Revenue by 6.22 percent and 6.71 percent respectively. The P- values of the two variables also indicates that the coefficient of CIT revenue is significant at influencing total federally collected revenue at 10 percent while that of revenue from CED is not significant at 10 percent. Based on the probability values above it is evident that VAT is the second most significant contributing source to Federally Collected Revenue among the three vibrant taxes in Nigeria. The vibrant taxes are Petroleum Profit Tax, Value Added Tax and Companies Income Tax.

However, the negative coefficient of CIT might be hinting at those factors that have bedeviled Nigerian companies and manufacturing sector over the years which inhibited their potency to contribute more to the federally collected revenue. The major f actor is the poor development of the energy sector to meet the energy need of the country and attain the objective of employment generation and wealth creation. Between the years 2000 to 2008, 820 manufacturing companies closed down due to inadequate and obsolete infrastructure, tough operating environment, high cost of diesel for operating generators, unstable electricity, high interest rates and smuggling (Emmanuel Nnadozie (2011)). Recently, the Nigerian Association of Chambers of Commerce, Industry Mines and Agriculture also reported that no fewer than 800 companies closed down in the country between 2009 and 2011 due to harsh operating environment (Agency Reporter (2012)). More so, most companies are relocating to other countries because of these factors. This is also what account to poor generation of VAT revenue from manufacturing sector.

Similarly, the negative coefficient of Custom and Excise Duties is indicating factors delimiting its performance such as our porous borders, corruption and embezzlement of revenue generated which has been the normal practice in Nigeria. This is also what account for poor VAT revenue generated from imported goods and services despite the fact that the country rely heavily on foreign goods and services. Also, a critical look at the ratio of VAT revenue to TFCR (3.68%) is a supporting evidence indicating the extent to which these factors have bedevil VAT in Nigeria.

The lag of Total Federally Collected Revenue (-1) and the lag of petroleum profit tax (-1) are also not significant in influencing the current Total Federally Collected Revenue while the lag of Value Added Tax (-1) is significant at impacting on current Total Federally Collected revenue at less than 5 percent. What policy makers can

deduced from this is that the revenue generated from VAT last year can be used to predict the current year Total Federally Collected Revenue.

A value of (-1.977665) for the ECT coefficients suggests a very fast speed adjustment strategy. This implies that it will take about less than 1year before convergence will be achieved. That is, whatsoever the short run disequilibrium, it will take less than a year for all the variables to converge (come together or be in equilibrium).

The probability of F-statistic, which is a measure of the overall significance of the regression, shows that the model is significant at less than 1 percent. Hence, it can be concluded that the result is significant overall. Thus, null hypothesis is rejected while the alternative hypothesis is accepted; this translates to mean that VAT has contributed significantly to total federally collected revenue. Its positive correlation indicates its potency to generate more income for economic growth in future if all loopholes mentioned in this research are plugged.

SUMMARY AND CONCLUSIONS

This paper empirically investigated the impact of Value Added Tax (VAT) on national revenue (represented by TFCR) from the time of its inception to 2012. This was done against the background that it was introduced by the Federal Government of Nigeria in 1993 to replace Sales Tax. The aim was to increase the revenue base of government and make funds available for developmental purposes that will accelerate economic growth. Time series data on the Total Federally Collected Revenue, VAT Revenue, Petroleum Profit Tax (PPT) Revenue, Companies Income Tax (CIT) revenue and revenue from Custom and Excise Duties (CED) from 1994 to 2012 were sourced from CBN Statistical Bulletin, Annual Reports and Accounts of the Central Bank of Nigeria (CBN) and Collection Profile of the Federal Inland Revenue Service (FIRS).

The time series data on the Total Federally Collected Revenue, VAT Revenue, Petroleum Profit Tax (PPT) Revenue, Companies Income Tax (CIT) revenue and revenue from Custom and Excise Duties (CED) were analysed using Error Correction Model to find out their respective contributions to Federally Collected Revenue which is indispensable for economic growth of Nigeria.

Findings showed that both Value Added Tax (VAT) and Petroleum Profit Tax (PPT) contribute positively to Federally Collected Revenue. Hence, as VAT and PPT revenue increase, the Federally Collected Revenue increases. On the other hand, Companies Income Tax (CIT) and Custom and Excise Duties (CED) have negative correlation. This implies that increase in CIT and CED will reduce Federally Collected Revenue. Only the contribution of CED was found insignificant to Federally Collected revenue. The negative coefficient of CIT is hinting at those factors that have bedeviled Nigerian companies and manufacturing sector over the years. Similarly, the negative coefficient of Custom and Excise Duties is indicative or factors delimitating its performance such as our porous borders, corruption and embezzlement of revenue generated which has been the normal practice in Nigeria. This is also what account for poor VAT revenue generated from imported goods and services despite the fact that the country rely heavily on foreign goods and services. From the result, it is evident that VAT is the second most contributing source to Federally Collected revenue out of the four major taxes in Nigeria. Its positive correlation indicates its potency to contribute more in future if all loopholes are plugged.

With the introduction of Value Added Tax, there is increase in revenue base of federal government of Nigeria, because the problem of tax avoidance and tax evasion are reduced. (Naiyeju, 1996).

Also VAT has shifted the burden of tax toward consumption rather than savings hence encourages investment. With the increment in investment, this leads to increase in the level of national income.

VAT in addition to the above contributes to increase in the standard of living of the citizens. This is because certain goods like drugs, books, food stuff and other items necessary for existence are exempted from VAT and because of its profitability government uses its proceeds together with other types of tax to provide public goods like roads, bridges, schools and hospitals, which will be of equal benefit to both the rich and the poor. It has also generated employment for many Nigerians. This is because the introduction of VAT encourages savings and consequently investment. With increase in the level of investment, employment level would be increased. Its introduction improved Nigeria's incessant adverse balance of payment. This is because with the introduction of VAT, export production was boosted and this has had the effect of ameliorating the deficit balance of payment. Other benefits of VAT include accelerating economic growth, moderating the volume of currency in circulation, speedy disbursement of tax revenue to all the governments in the federation, reduction in financial dependence on external loans, protecting infant industries, cost effectiveness and harmonizing the tax system and reduction of inert taxes.

However, poor VAT administration as identified by Olaoye (2009) was one of the problems confronting VAT in Nigeria. The present composition and functions of the tax authorities weaken the effective tax administration in the country. Tax authorities perform only the technical functions and not the needed management functions. The non-performance of management functions, given the increasing complexity of tax administration largely explains the ineffectiveness of tax administration. Basically, the performance of only technical functions leads to false declaration, refusal to complete tax return forms, fraud, inflation of deductible expenses, smuggling, default, illegal bunkering, etc. The dishonest practices by some tax officials also pose a serious threat to the effective tax administration in Nigeria especially when such practices are capable of having demoralizing effects on honest tax payers. It has to be acknowledged however that the FIRS is currently being reorganized and it is hoped that the reorganization would take care of this administrative short-coming (Adereti, Adesina &Sanni (2011)). This paper therefore recommends that all identified administrative loopholes should be plugged for VAT Revenue to contribute more significantly to TFCR of the country.

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