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EFFECT OF STAMP DUTY AND VAT ON STANDARD OF LIVING IN NIGERIA

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ABSTRACT

The study examines the effect of stamp duty and value added tax on Nigeria Economic Growth. Secondary sources were explored in data gathering while simple regression technique was employed in data analysis for test of the study hypotheses. The outcome reveals that bot stamp duty and value added tax affects Nigeria standard of living. On the side of the relationship among the variables studied, the strength of their relationship is very high for all the variables. The researcher concludes that Stamp duty and Value Added Tax are some of the major contributors to Nigeria revenue. The revenue sources could be used to predict the value and status of the nations' Gross Domestic Product as indicated by the strength of the relationship between the variables. The federal, state and local authorities therefore could finance a reasonable proportion of their capital and recurrent budget through non-oil tax revenue.

Keywords: Stamp Duty, VAT, GDP, Regression, Government, Nigeria.

1.0 Introduction

Stamp duty and VAT are examples of consumption tax in Nigeria and they both have effect on the income of the consumer because the final effect of these taxes rest on the final consumer. Value Added Tax (VAT) is an indirect tax levied on all merchandises and amenities manufactured or rendered in a country except for supplies and facilities that are VAT relieved Cordelia (2020). VAT is a levy on the number of products and provisions that the end user ultimately endures, and its collection is designed and made possible at each phase of the manufacturing and delivery sequence. It implies that VAT is a consumption tax collected from individuals who only suffer a little incidence of taxation that allows the persons who pays VAT not to bear the entire cost of the charge Oyedokun (2016) . Section 34 of the Finance Act of 2020 increased the VAT rate from 5% to 7.5%, which is one of the major changes in Nigerian VAT administration. President Buhari signed the Finance Bill of 2019 into law on 13 January 2020, and the Finance Act 2020 became effective from 1 February 2020.

Stamp duties have traditionally been a significant revenue earner for governments, accounting for quite a portion of their own-source taxation revenues. However, they are also taxes which impose particularly high economic costs. Not every naira raised in tax has the same impact on the incomes earned by Australians. Some taxes raise revenue at a material cost to prosperity, while others have far lower costs. Efficient taxes are those that raise a given amount of revenue while distorting the behavior of individuals and businesses as little as possible. This difference in the efficiency of taxes raises a potential pay-off from tax reform. If the same amount of revenue is raised, but in a way that damages the economy less, there is the potential for government and individuals to be better off.

Standard of living refers to wealth, comfort, material goods and necessities of certain classes in certain area of people living in a particular country which can be measured by economic growth which has been defined as the sustained increase in a

country's productive capacity (as measured by comparing the gross national product in a year with that of the previous year), increase in per capita national output or net national product over a long period of time which occurs when a nation's production possibility frontier shifts outward (Salami*, et al*, 2015).

The study aims at examining the effect of stamp duty and Value Added Tax, on standard of living in Nigeria. The remaining part of the paper is arranged in four distinct sections as follows: Section 2.0 comprises the existing literature under review, Section 3 states the methodology employed for data collection and analysis, Section 4 discusses the findings, while Section 5 summarizes the entire study.

2.0 literature review

Oladipupo and Ibadin (2015) examines the impact of indirect taxes on economic growth of Nigeria, utilizing time series data spanning a thirty-four year period, from 1981 to 2014. The residuals, whose unit root are usually tested at level, were found to be stationary while all other variables, such as the Value Added Tax (VAT), Petroleum Profit Tax (PPT) and Custom and Excise Duties (CED), except the Real Gross Domestic Product (RGDP), were stationary at second difference, suggesting a long run relationship. Consequently, the study utilized the Error Correction Model to evaluate the impact of VAT, PPT and CED on the RGDP. The findings revealed that VAT and PPT exert a positive and significant relationship on the RGDP. It was also revealed that CED of two period lags has a positive relationship with RGDP and VAT of two-period lags showing a negative but significant relationship with RGDP. On the basis of these findings, it is suggested that some caution on the part of the government is required to identify all administrative loopholes for linkages to plug and to continue to maximize the contribution of VAT revenue to economic growth. This is important when it is realized that any action taken on VAT, as it relates to RGDP will take a year to become effective while taking two years to slow down the economy.

Yousuf and Jakaria (2013) applied two important measures to assess the efficiency of tax system in terms of its mobilization capacity. They are tax buoyancy – total response of tax revenue to change in national income and discretionary change in tax policy over time; and tax elasticity – automatic response of tax revenue to GDP changes less the discretionary tax changes. In this study, the researchers used Exponential Smoothing Method and Slope Dummy to address the big policy changes for eliminating the effects of the Discretionary Tax Measures (DTM) on historical Time Series Data for the period 1980-2011 to estimate the elasticity of the Bangladesh tax system. The study reveals that estimates of elasticity and buoyancy are higher for Direct Taxes followed by Sales Tax and VAT. However, Customs Duties appear to be rigid, due to which the overall tax elasticity is relatively low. Further, the estimate of buoyancy is higher than their corresponding elasticities for all the taxes, confirming thereof that most of the growth in revenues has been achieved due to discretionary changes instead of automatic growth.

VAT and its effect on revenue generation in Nigeria was examined by Onaolapo, Aworemi and Ajala (2013). The secondary data collected was analysed using stepwise regression analysis technique. Value Added Tax was found to have statistically significant effect on revenue generation in Nigeria. The impact of value added tax (VAT) on the economic growth of Nigeria was studied by Onwuchekwa and Aruwa (2014). Ordinary Least Square technique was applied to test the formulated hypotheses. VAT was found to have contributed significantly to the total tax revenue of government as well as the economic growth of Nigeria. VAT revenue was found to have grown consistently over the period under study.

Ekeocha (2010) analyses the economics effects of tax policy reform in Nigeria using the computable general equilibrium analysis. From the analysis, it is clear that the policy strategy of increasing the rate of Value Added Tax from 5% to 15% will improve government revenue and nominal GDP but at the expense of real GDP and worsening level of unemployment. Even though more industries will gain in the sale of their commodities, but this is very minimal. The implication of this result is that the tax incentive structure must be looked into properly and should be such that will boost production in all the industries as to improve the real GDP and boost the level of employment, production and welfare in Nigeria.

Ajakaiye (2002) in his study analysed the impact of VAT on key sectoral and macroeconomic elements of Nigeria's economy by combining a survey of Nigerian manufacturers, service providers and Other VAT able organizations with simulations of the impact of VAT under various scenarios. The study was a survey of manufacturers, service providers and other VAT able organizations to determine precisely how they treat their input VAT liabilities. Some 61 organizations were surveyed out of a possible sample of 70 of these, 49 pay taxes on inputs. The implication is that the VAT on inputs is magnified by the mark-up rates, leading to considerable cascading contrary to expectations. Consequently, consumers respond to the price increase by reducing demand, and producers respond by reducing their output rather than their mark-up rates in a bid to lower prices. Reduced production may ultimately have devastating economy-wide effects because production in every sector of the economy depends directly or indirectly on imported intermediate inputs, all of which are VAT can be levied. Simionescu and Albu (2016), analyzed the impact of the standard VAT rate on economic growth of five Central and Eastern European Countries (CEE-5), which include Bulgaria, Czech Republic, Hungary, Poland, and Romania. The study made use of panel data models including random effect model, dynamic panel, panel vector-autoregression, and data that spanned from 1995 to 2015. The findings revealed that VAT rate had a significant positive impact on economic growth. The study further applied bilateral Granger causality and Bayesian linear models, and the result indicated that VAT rate had a positive influence on the GDP rate of Hungary only.

Kolahi and Noor (2017) investigated the effect of VAT on the economic growth of 19 emerging nations from 1995 to 2010 using GMM-system estimator. The study found evidence that VAT had a negative influence on capital accumulation growth and productivity, while a positive effect of VAT on the level of economic growth was established. Inyiama and Ubesie [29] investigated the effect of VAT and customs and excise duties (CED) on Nigeria’s economic growth from 2000 to 2014 using a simple regression technique. The study found that both VAT and CED were significantly affecting the GDP, and there was an existence of a very strong relationship among them.

Akhor and Ekundayo (2016) probed the impact of indirect tax revenue on economic growth in Nigeria from 1993 to 2013 using a co-integration test and error correction model regression. The result indicated that VAT exerted a significant negative impact on economic growth, while CED had an insignificant negative influence on real gross domestic product.

3.0 Methodology

This study employed empirical analysis method using secondary data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin, World Bank national account data file and OECD national account data file. Since the main objective of this paper is to determine the welfare effect of taxation on the Nigerian economy, the simplified model which was specified in section two was estimated using standard OLS estimation

techniques on annual data for 2004 – 2015. The data used in this work is time series in nature, hence the need to test for stationarity to avoid spurious result. To test for stationarity, Augmented Dickey Fuller (ADF) unit root test was carried out on each of the time series data.

Model used for this study is adopted from the work of Inyiama and Ubesie (2016).
GDPeti = βo + β1VATet-1i, + β2CUSEXCet-1i + Ɛt
GDP = β0 + β1VATet-1i, + β2Stet-1i + Ɛt
Where, VAT = Value Added Tax
ST = stamp Duty βo = Coefficient (constant) to be estimated
t = Current period
t-i (i = 1) = One year lag period
Ɛ = Stochastic disturbance (error) term

Regression and correlation analysis are the tools of analysis to test the effect and the relationship between VAT, ST and GDP in Nigeria. EViews Statistical software is employed for the analysis to provide the signs and significance for interpretation of the result for test of hypotheses. The Null Hypothesis states that VAT and ST have no significant effect on GDP in Nigeria.

Acronym	Details	description
GDP	Gross domestic product	Monetary measure of the market value of all final goods and services produced in a period
VAT	Value added tax	Tax collected incrementally based on the value added at each stage of production
ST	Stamp duty	

Source: Author's Compilation, 2023.

4.0 Discussion of findings

Descriptive statistics of variables

	LOGGDP	LOGSTD	LOGVAT
Mean	10.39628	10.08779	11.47872
Median	10.35031	10.22210	11.54945
Maximum	10.95973	10.76118	11.90472
Minimum	9.826954	9.079181	10.76343
Std. Dev.	0.417049	0.595177	0.376680
Skewness	0.071023	-0.309591	-0.405682
Kurtosis	1.534643	1.591995	1.855279
Jarque-Bera	1.444965	1.577243	1.312465
Probability	0.485546	0.454471	0.518802
Sum	166.3404	161.4047	183.6595
Sum Sq. Dev.	2.608947	5.313537	2.128321
Observations	16	16	16

The mean value for Gross Domestic Product is 10.39628 while the median is 10.35031. The standard deviation is 0.417049 while insignificant Jarque-Bera Statistic of 0.485546 depicts a normal distribution of the time series data. The GDP graph shows some fluctuations resulting from instability in economic indices. The mean value for Value Added Tax is 11.47872 while the median is 11.54945. The standard deviation is

0.376680 which is not very volatile while the insignificant Jarque-Bera Statistic of 0.518802 shows a normal distribution of the time series data for VAT. The VAT graph depicts some level of gyrations occasioned by disproportionate VAT revenue collection. The mean value for stamp duty is 10.08779 while the median is 10.22210. The standard deviation is 0.595177 which is not very volatile also while the insignificant Jarque-Bera Statistic of 0.454471 reveals a normal distribution of the time series data for STD. The STD graph shows some level of fluctuations resulting from unsteadiness in STD revenue collected annually.

Table 1 present the characteristics and statistics of the model variables under study. The annexed tables show the mean values for all the variables as well as the standard deviations. It reveals that the skewness coefficient of all the variables (Gross Domestic Product, Value Added Tax, stamp duty) is substantially less than one. This signifies a normal frequency distribution for all the time series data. The Kurtosis coefficients of all the variables are all below three, which goes on to support the position of the skewness coefficient. Jarque-Bera statistic reveals no significant probability values which also confirm the normality of the frequency distribution of the time series data set. The standard deviations were not significantly volatile. The maximum and minimum values for Value Added Tax, stamp duty and Gross Domestic Product were also disclosed in the annexed tables.

Dependent Variable: LOGGDP
Method: Least Squares
Date: 02/13/22 Time: 04:56
Sample: 2000 2015
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGVAT	1.072928	0.073021	14.69346	0.0000
C	-1.919565	0.838608	-2.288990	0.0381

R-squared	0.939103	Mean dependent var	10.39628
Adjusted R-squared	0.934754	S.D. dependent var	0.417049
S.E. of regression	0.106528	Akaike info criterion	-1.524343
Sum squared resid	0.158876	Schwarz criterion	-1.427769
Log likelihood	14.19474	Hannan-Quinn criter.	-1.519397
F-statistic	215.8978	Durbin-Watson stat	0.836434
Prob(F-statistic)	0.000000		

Table 2 discloses the regression analysis of the effect of Value Added Tax on Gross Domestic Product in Nigeria. The table shows that Value Added Tax has a positive and significant effect on Gross Domestic Product in Nigeria. The decision rule is that the null hypothesis will always be rejected when the t-statistic is above two (2) or when the probability (p-value) as calculated is less than 5% level of significance (< 0.05). In this case, the t-statistic is 14.69346 which is well over 2.0000. Secondly, the probability value is also far less than 0.05. Therefore, the null hypothesis is rejected and the alternate upheld. The adjusted R-Squared is 0.934754. This means that about 93% of the variations in Gross Domestic Product is explained by Value Added Tax while a meager 7% could be ascribed to other indices, tax components and the stochastic error term. The F-statistic shows a significant probability value which means that the effect of

Value Added Tax on Gross Domestic Product in Nigeria did not happen by chance. This means that the effect is sustainable both in the short and long term.

Dependent Variable: LOGGDP
Method: Least Squares
Date: 02/13/22 Time: 05:07
Sample: 2000 2015
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGSTD	0.671370	0.053628	12.51913	0.0000
C	3.623636	0.541865	6.687336	0.0000

R-squared	0.917998	Mean dependent var	10.39628
Adjusted R-squared	0.912141	S.D. dependent var	0.417049
S.E. of regression	0.123617	Akaike info criterion	-1.226782
Sum squared resid	0.213938	Schwarz criterion	-1.130209
Log likelihood	11.81426	Hannan-Quinn criter.	-1.221837
F-statistic	156.7286	Durbin-Watson stat	1.147477
Prob(F-statistic)	0.000000		

Table 3 indicates that stamp duty exert a positive and significant effect on Gross Domestic Product in Nigeria. The decision rule is that the null hypothesis will always be rejected when the t-statistic is above two (2) or when the probability (p-value) as calculated is less than 5% level of significance (< 0.05). The t-statistic is 12.51913 which is above 2 and the p-value is also below 0.05. Therefore, the null hypothesis is rejected and the alternate hypothesis accepted. The F-statistic is 156.7286 with a significant probability value which means that the short run cointegration is sustainable in the long run. The Adjusted R-squared is 0.912141 which implies that about 91% of the changes in Gross Domestic Product is ascribed to variations in stamp duty while about 9% of the variations could be accounted for by the error term and other unexplained variables.

The correlation analysis reveals that the relationship between stamp Duties, Value Added Tax and Gross Domestic Product is very strong. The strength of the relationship between stamp Duties and Gross Domestic Product stands at 95.81% while that of Value Added Tax and Gross Domestic Product stands at 96.9%. Relationship between VAT and stamp duty stands at 98.83%

5.0 Conclusion and Recommendation

The outcome of the analysis of data did not disappoint the researcher as the findings are in line with prior unproved expectations. In Nigeria and beyond, taxation is the main source of fund to federal, state and local government authorities. The positive effect of Value Added Tax and Stamp Duties on Gross Domestic Product is expected but the researcher is interested in the extent of the effect. The outcome reveals that all the non-oil tax revenue affects Nigeria Gross Domestic Product. On the side of the relationship among the variables studied, the strength of their relationship is very high for all the variables.

The researcher recommends as follows:

That the federal, state and local governments should harness their potentials in terms of legislation, machineries and procedure for collection of Value Added Tax.

Stamp Duties leak away at the borders, wharfs, airports and seaports through the activities of Customs Officials and other security agents at such places. Government should strengthen patrols and controls at those places and also fish out bad-eggs who use their positions for personal benefits. This will surely enhance revenue through customs and excise duties and GDP by extension.

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