

# VALUE ADDED TAX (VAT) AND MINIMUM WAGE IN NIGERIA: IMPLICATIONS ON GOVERNMENT REVENUE AND THE LIVING STANDARD OF THE POPULACE

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**Abstract** *The recent increase in the Value Added Tax (VAT) in Nigeria seems to reduce the patronage of disposable items through an increase in the general price level of goods and services. To ascertain this, this paper examined VAT and minimum wage in Nigeria: implications on government revenue and the living standard of the Nigerian workers. It was a qualitative study; hence, analysis was based on the available literature. Based on the findings, it was concluded that increase in VAT rate will undoubtedly reduce consumer patronage of disposable items of Nigerian worker and therefore will affect their purchasing power. Therefore, the intended benefits of the new minimum wage are defeated. Thus, it recommended that small businesses with a threshold of about N10m should be exempted from VAT. The government, through the appropriate agencies, should ensure a thorough supervision of how government revenues are utilized and how expenditures are controlled. This might avail the government-needed revenue to defray its expenditures. Also, the business environment should be made friendly to investors. This might engender the establishment of more companies through which tax revenue will be increased.*

**Keywords:** Value Added Tax, Minimum Wage, Government Revenue, Standard of Living

## INTRODUCTION

Universally, it is the responsibility of every government to provide the infrastructural base through which all sectors can thrive. A responsive government has the capacity and capability through the fiscal and monetary policies to correct the imbalances of the economy and pave the way for the desired growth and development. The intermittent change of the economic conditions of the world put the government of every country at the centre stage of policy formulations and other modalities geared towards the improvement of the economy and the living standard of the citizenry. Personal experiences of the years reflect that one of the ways with which the government manages the economy and engenders increase in the overall growth and development is through revenue generation.

Revenue generation is an integral part of every government and without it, no nation can thrive as expected. The government revenue is the totality of all the income generated from all available sources for a definite period. The available sources determine the revenue pool of the government. This underscores the effort of the Nigerian government, through the appropriate agencies, to stimulate increase in the revenue sources with a singular aim of improving the

revenue pool and equally have the adequate resource to defray all expenditures. Typically, the government raises funds from public debt, fees, taxes, fines and other specific charges. However, it appears that taxes are more profound and therefore constitute the major way through which the government generates revenue.

Generally, there are two sources of tax revenue—direct and indirect. The formal (direct taxes) are the form of taxes that are directly imposed on individuals and organizations. Examples are Personal Income Tax (PIT), Company Income Tax (CIT), Petroleum Profit Tax (PPT), Education Tax (ET), Custom and Excise Duties (CED), etc. Indirect tax, which is the focus of this study in terms of Value Added Tax (VAT) imposed by the government on the income of the populace. VAT seems to be one of the fiscal policies used by the government to increase its revenue base and equally curb tax evasion and avoidance. In January 1994, the Nigerian government introduced the VAT (VAT) as a consumption tax to replace sales tax (Jones, Nwawuru & Nmesirionye, 2017).

The burden of VAT rests on the final consumers. It is a tax that is indirectly charged on the value placed on goods and services. It cannot be evaded or avoided in that it is paid indirectly. VAT is pronounced as a consumption tax whereby the customers/consumers bear the tax burden (Adex, 2015).

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The tax burden is passed from the manufacturer (producer) to wholesaler to retailer and finally to the customers/consumer who ultimately bears the burden. It implies that VAT can only be avoided by not buying and consuming the taxable goods or services. Indirect taxes imposed on every sale begin at the production phase and distribution cycle and end in sales to the customers/consumers.

Recently in Nigeria, the government increased VAT rate from 5% to 7.5%. This was predicted on the need to finance the minimum wage. A minimum wage is the average amount needed by an individual to earn a good living (Adex, 2015). To meet up with the minimum wage requirements, the government increased VAT rate by 50%. This generates a lot of debate among stakeholders indicating the supposed benefits of the new minimum wage might be a mirage with the increase in the VAT rate. As a matter of fact, this is the crux of this study. Shittu (2020) revealed that the new rate of VAT in Nigeria is relatively low to other countries like Ghana, South Africa and even Kenya with their respective rate as 12.5%, 15% and 16%. However, while a small business of about a minimum of ₦13m, ₦17m and ₦23m threshold are exempted from VAT in Ghana, Kenya and South Africa, a small business with an annual return of ₦10,000 is still subjected to VAT in Nigeria. This underlies that the burden of VAT in Nigeria is relatively strict on companies and the citizenry.

Studies on VAT such as Unegbu and Irefin, (2011); Okoye and Ezugwu (2012); Abdul-Rahman, Joshua and Ayorinde (2013); John and Suleiman (2014); Jones, Nwawuru and Nmesirionye (2017) and Inimino, Otubu and Akpan (2018) are numerous across the globe; however, most of these studies centered on its relationship with revenue generation and economic growth and development of the country. It is not only that these studies did not show the multiplier effect of VAT on the minimum wage, but they did not reflect the recent development in terms of the increase in the minimum wage and VAT rate. This explains the uniqueness and the timeliness of this study on VAT (VAT) and its implication of the minimum wage in Nigeria.

## LITERATURE REVIEW

### Revenue, Taxes and VAT

Revenue is an income required by the government to finance its growing expenditure. Bleaney (2010) viewed revenue as any income or returns accruing to or derived by the government, which may be in form of interest on loan and dividend in respect of shares or interest held by the government in any company or statutory body. Revenues are also realized from the disposal of government properties or from other interests and returns loans and investment earning from user charges. Kimenyei (2018) defined it as

the total amount of income that accrues to an organization within a specified period of time.

One of the means through which the federal government of Nigeria generates revenue is through taxes. These are compulsory levies imposed by the state government on individuals, institutions and corporations for which no direct benefits are received. Taxes are meant to raise revenue for the government. In Nigeria, the major types of taxes are Personal Income Tax (PIT), Company Income Tax (CIT), Petroleum Profit Tax (PPT), Capital Gain Tax (CGT) and Value-Added Tax (VAT). Samuel, Atta and Xicang (2012) opined that some countries have a constant rate for VAT across all their sectors while others have different rates for different sectors and goods and services. In Nigeria, the current VAT rate is 7.5%, an increase of 50% from its previous rate, 5%.

VAT is a tax borne ultimately by the consumer. Ebril, Keen, Bodin and Summers (2002) defined VAT as a tax levied on the value which is given to services and goods at each level in the production and distribution cycle. VAT is an indirect tax in which a sum of money is applied at a specific stage from the production of a product till its final sale (John & Suleiman, 2014). The specific stages from the production of a particular product till its final sale could include the buying of raw materials, the selling of the product to the wholesaler or distributor, the buying of the product from the wholesaler by the retailer, before the final consumption by the consumer.

VAT is implemented whenever a good or service is paid for, not when it is sold. That is why it is called a consumption tax. Oyedokun (2016) stated that the major difference between VAT and sales tax is that VAT is evaluated and gathered at each stage, contrary to sales tax, which is only evaluated and remunerated by the final consumer at the final end of the supply process. Notably, products that are exported outside the country are consumed abroad, making them not to be subject to VAT; if VAT is charged under such conditions, it is usually refunded (Ojo, 2009). Considering the current VAT rate in Nigeria, it has been observed that customers bear the final burden of the increase; from foodstuffs to data and calls plans, etc., the VAT rate has affected them all.

VAT is a momentous source of government revenue in Nigeria (Sanni 2011). The increase in prices of goods and services through the implementation of VAT has the propensity of negatively affecting the society and therefore negating the objectives of the tax. Nonetheless, Emmanuel (2016) argued that the positive result received from any tax depends on the extent the tax is interpreted, implemented and properly managed as well as the publicity brought into it will determine how a particular tax meets its objectives. Kaisa, Mika and Jukka (2019) posited that a strong fiscal policy that would impact on economic growth should be delivered in a sustainable approach by government through the efficient

provision of dependable public goods and services and the establishment of long-term goal through investments, tax reforms and tackling social exclusion to improve people's quality of life.

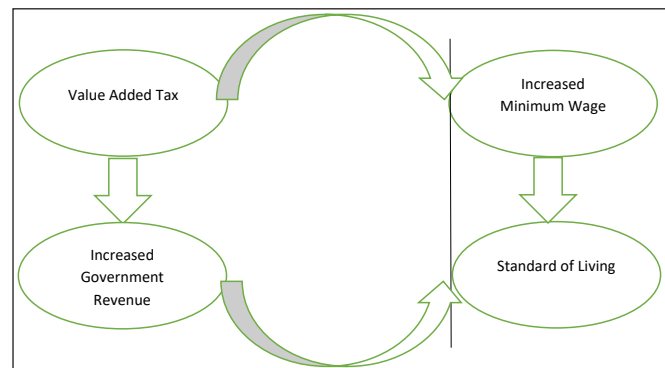
### Minimum Wage and Standard of Living

Wages could be defined as a reward for labour. The issue of the minimum wage, as noted by Atseye, Takon and Ogar (2014), has been a prevailing issue for most developing countries, especially Nigeria. They further asserted that increase in the minimum wage helps people to match their daily needs as well as improve their standard of living. The International Labour Organisation (ILO) (1968) stated that minimum wage is the lowest wage that an employer of labour is allowed to pay the employee. This means that it is the lowest reward (in monetary terms) that can be paid to a worker. Considering the fact that the prices of goods and services are usually on the increase, it can be agreed that more money would be needed. There has been an increase in the country's minimum wage from ₦18,000 to ₦30,000. It is believed that this increase would enhance the living standard of people.

Standard of living one of the few economic concepts that are not commonly reached with the uncommon cynicism reserved for the other economics concepts such as demand and supply, perfect competition, equilibrium and social cost, among others. According to Adams (2014), standard of living is the comfort level and availability of necessities to an individual or group of people. For the economical purpose, it is usually compared across nations, time or groups. An economic standard of living is generally measured by standards such as adjusted income per individual, inflation and poverty rate/level (Chemli & Smida, 2013). Hence, standard of living seems to rest on the minimum wage designed by the government.

A minimum wage is an amount that can earn an individual a better standard of living (Adekunle, 2019). He further added that minimum wage is the lowest hourly, daily, weekly or monthly earnings that employers legally pay to their employees or the lowest value at which an employee may trade his/her skills. The minimum wage is calculated on the bases of output or time, or by a collective trading agreement that is back up by law. A minimum wage may be fixed in such a way as to cover the minimum necessities of the employee. Minimum wages are virtually a worldwide policy instrument that applies in more than 90% of ILO member states, including Nigeria. In Nigeria, minimum wage refers to the minimum monthly salaries payable to employees as provided by the existing minimum wage law. It is the remuneration that is deemed to be sufficient to satisfy the necessities of life like food, shelter, clothing and medication of the employees.

### Conceptual Framework



Source: Authors' Design

Fig. 1: Conceptual Framework

### Historical Development of VAT in Nigeria

In Nigeria, there was no formalized tax system until the 1930s. The traditional rulers only had the authority to gather taxes to satisfy their wants. These traditional rulers succeeded in creating their system of taxes. However, none of them seems to survive long enough to be published in books of history. During the pre-colonization period in Nigeria, the tax system was traced to the Northern parts of the country. The Emirs established a system of taxes throughout the north (Abiola, & Asiweh, 2012). The Southern region of the country was not as systematized as the North. Therefore, the South did not have a centralized system of taxation. According to the historical data, the parts of Nigeria that were under Islamic taxation had several forms of taxes such as zakat, Kudin-Kasa, Isha-Kole and so on. Late Lord Frederick Lugard introduced the contemporary taxation system in Nigeria in 1904 when "Community Tax" became effective in the Northern region. In 1917, he made changes that ended in the "Native Revenue Ordinance". The prior Native Revenue Ordinance of 1917, 1918, and 1927 and 1939 were incorporated into the Direct Taxation Ordinance (No. 4 of 1940) in 1940. Eberinga and Yadirichukwu (2012) asserted that the speedy development of the country in the trade and commerce gave birth to some technical challenges to Income Tax Administration. Consequently, the necessity to have tax laws and regulations effectively became apparent. The colonial tax officer was appointed and commissioned by Mr. J. C. Mundy who had assimilated immense experience in income tax law. The system permits the Federal Government to legislate on all income tax reforms while the administration is in two tiers with the Federal collecting taxes principally from the limited liability companies (e.g. Companies Income Tax and Petroleum Project Tax) and VAT under Decree No 102 of 1993.



The antiquity of VAT in Nigeria ages back to 1991 when the Federal Government realized that there was a need to revisit the entire tax system in the country to escalate the economic base for generating revenue (Abdul-Rahman, Joshua & Ayorinde, 2013). He added that this became obligatory because sales tax could not assure broader and improved tax administration, as many states were indignant of its uniform nature due to differences in their political orientation. Sanni (2012) asserted that before the implementation of VAT, sales tax was under the dominion of the States and was poorly administered with a fringe contribution towards government revenue. The idea of implementing VAT in Nigeria was as a result of the report of a study group set up by the Federal Government in 1991 to appraise the entire tax system.

VAT was projected and a committee was set up to carry out viability study on its enactment (Soyode & Kajola, 2006; Gyang, 2012; Unegbu & Irefin, 2011). The committee completed its work on November 15, 1991, and arrived at the following recommendation: the government should introduce Modified VAT (MVAT) in Nigeria; the government should allow a lead period of two years between 1991 when the study group submitted its report, and the time the MVAT will be implemented in Nigeria to allow for adequate preparation for the scheme; MVAT, when introduced, should replace sales tax in its entirety, have a single rate, cover manufacturer's and importer's level in goods, cover professional services excluding medical and pharmaceutical services and pay special attention to State-Federal fiscal relationship (Unegbu & Irefin, 2011).

In January 1993, the government planned to introduce VAT by the middle of the year (Okoye & Ezugwu, 2012). The enactment of VAT officially inaugurated on 1<sup>st</sup> December 1993 when the VAT Decree No. 102 of 1993 came into effect. However, registered persons were given the whole of December to regulate their accounts, particularly the incorporation of VAT information into their general ledgers, to conform with the record-keeping requirements of the tax. This implies that registered persons started allotting VAT invoices to their customers from January 1<sup>st</sup>, 1994. VAT system in Nigeria is administered by the Federal land Revenue Service (FIRS) which is a Federal Government agency.

Historically, the VAT rate in Nigeria grows at a measured rate. Since the adoption of VAT in Nigeria in 1994, the rate has been on tagged at a 5% rate on all manufactured and imported goods and services. Recently, the Federal Executive Council (FEC) of the Federal Government of Nigeria (FGN) approved a 50% increase in the VAT rate pertinent on the supply of goods and services in Nigeria, from 5% to 7.5%. Though the FGN proposed to increase VAT rate up to 10% in 2007, this was faced with rigid hostility, which resulted

in deferment of the proposed increase. However, recently, there have been discussions and sensitizations by the tax authorities on the need for an increase in the current VAT rate. Federal Executive Council's approval of the proposal for an increased VAT rate is the latest of this development.

The approval of the Federal Executive Council (FEC) towards the enactment of the proposed increase in VAT rate from 5% to 7.5% is no more a surprise as there have been several attempts by historical administrations to upsurge the VAT rate. The backing of the new minimum wage is the supposed reason for the proposed increase (Eastaugh & Olakiigbe, 2019). Based on numerous news reports, the intensification is justified by the fact that the existing 5% rate is one of the lowest in the world. Consequently, the truncated rate may not be a rational basis for the increase, considering that Nigeria currently operates an uncommon VAT system where a small business with an annual return of ₦10,000 is still subjected to VAT in Nigeria.

## Goods and Services Exempted from VAT in Nigeria

In Nigeria, there are some goods which have been particularly excluded from paying VAT; they include agricultural equipment and products; basic food items; commercial vehicles and their spare parts; newspapers and magazines; medical and pharmaceutical products; books and educational material; baby products; and veterinary medicine (Oyedokun, 2016). Some basic benefits which have been observed concerning VAT include the fact that it is harder to evade/avoid than other types of taxation, it can be manifold: falling of indirect taxes is avoided; it can easily be made well-matched with international trade; VAT is also a money machine because it has helped countries create more incomes than they would have had without VAT in place (Kaisa, Mika & Jukka, 2019; Keen & Lockwood, 2010). Considering these advantages of VAT in relation to the current happenings in Nigeria, it can be stated clearly that VAT adds more financial burden on the taxpayer. Table 1 gives the summary of the goods and services exempted from VAT in Nigeria according to Section 3 of the VAT Act:

**Table 1: Summary of Goods and Services Exempted from VAT in Nigeria**

Goods Exempted	Services Exempted
All medical and pharmaceutical products	Medical services
Basic food items (our major concern in this paper)	Services rendered by Community Banks, People's Bank and Mortgage Institutions;

Goods Exempted	Services Exempted
Books and educational material	Plays and performances conducted by educational institutions as part of learning and
Baby products	All exported services.
Locally produced fertilizer, agricultural and veterinary medicine, farming machinery and farming transportation equipment	
All exported goods	
Plant and machinery imported for use in the Export Processing Zone	
Plant, machinery and equipment purchased for utilization of gas in downstream petroleum operations	
Tractors, plows, agricultural equipment and implements purchased for agricultural purposes.	

Source: Section 3 of the VAT Act

## VAT and Its Implications

Considering the current increase in the rate of VAT, which shoots up the prices of goods and services in the country, service providers have increased their prices to compensate for the extra VAT. In all honesty, every Nigerian that buys or consumes any product indirectly pays VAT, which is often called the consumer tax.

### Household Items

According to Adelaja (2020), the current increase in the VAT rate led to a corresponding increase in the prices of goods and services. It was observed that the price of hides and skin documented a 25% increase; a handbag that was sold for ₦5,000 in December 2019, was now ₦6,500. Also, the costs of electronics, kitchen utensils and gift items accounted for about 12% increment. In relation, everyday stuff like sponge, rubber band, plates, shopping bags, among others, documented about 15% increase in price, but the costs of toothpick, lanterns and seal-tape and so on were not affected. It was also overserved that the prices of foodstuff in Oyingbo Market in Lagos state were yet to document any rise in their costs as a bag of foreign rice was still sold between ₦21,000 and ₦28,000, and a bag of local rice was still between ₦15,000 and ₦18,000 (field enquiries 2020).

Also, Adelaja (2020) noted that one Derica cup of beans was for ₦100 and above, while a plastic paint bucket was between ₦6,000 and ₦7,000. The survey also revealed that

palm oil for five liters was still sold at ₦1,700 and above, reliant on the quality, while the cost of a bottle of groundnut oil is sold ₦350 and above. At Mile 12 Market, Agboyi/Ketu area of Lagos State, the cost of onions was moderately steady as a sack went for ₦23,000 and above depending on the size and quality. The cost of vegetables was still the same as a basket of Tatase, Rodo, Bawa and tomatoes were priced at ₦12,000 and above depending on the quantity and size. At Sabo Market, Ikorodu, the price of washing agents ranged between ₦80 and above based on the brand, while the price of seasonings was estimated to be about 10% rise.

### Electricity Power Supply

Previously, consumers on the average paid ₦26 on electricity per kilowatt (KWh). However, this would go up, as the power distribution companies (DisCoS) spread the cost of 7.5 VAT on their operation (Zeofy, 2020). Eko Electricity Distribution Company announced that the prices of meters sold to customers under the Meter Asset Provider (MAP) scheme would be reviewed upward from February 1, 2020. As noted by Royal (2020, January 29), Mr. Godwin Idemudia, General Manager, Corporate Communications, EKEDC, affirmed that the review was to reflect the increase in VAT from 5% to 7.5% by the Federal Government. He further stated that the move was in adherence to the decision of the Federal Government that VAT increase would become effective from February 1, 2020. Royal (2020, January 29) opined that customers were now expected to pay ₦39,765.86 (VAT inclusive) for a single-phase meter and ₦72,085.68 (VAT inclusive) for a three-phase meter. It was a rise from the previous rates of ₦38,325 for single-phase and ₦70,350 for the three-phase meter.

### Deposit Money Banks

The Central Bank of Nigeria (CBN), in a circular to all deposit money bank (DMBs) signed by the Director, Payments System Management Department, Sam Okojere, announced the approval of additional charges on cash deposits by customers in Lagos, Ogun, Kano, Abia, Anambra, Rivers states and the Federal Capital Territory (Bassey, 2019). Electronic Funds Transfer to other banks below ₦5,000, charged previously at ₦10.50 (₦10 plus ₦0.50 VAT), is now charged at ₦10.75 (₦10 plus ₦0.75 VAT). The circular said the CBN approved 3% to be charged as processing fees on all withdrawals and 2% for cash lodgments in individual accounts over ₦500,000 (Zeofy, 2020). Also, the circular said withdrawals over ₦3 million from corporate accounts would attract 5% charge as processing fees and 3% on lodgments over ₦3 million. In a notification to its customers, the banks said the Tax Identification Number would only be required to open or operate business accounts. Access Bank

stated that while the old bill stipulated 5% VAT, it explained that the new Act stipulated 7.5%. On stamp duty charge, it stated that under the old bill, ₦50 applied on electronic funds' transfers or deposits of ₦1,000 and above, adding that under the new Act, ₦50 applied on electronic funds' transfer or deposits of ₦10,000 and above.

### Manufactured Products

Furthermore, manufacturers would likely respond to VAT increment in two ways; they could either reduce the quantity or quality of their products or increase their selling price to compensate for extra (Zeofy, 2020). This implies that the consumers are left to bear the cost burden of an increase in VAT as usual. Building materials are not left out as the price of cement is now ₦2,650 as against ₦2,550 while a length of iron rod costs ₦2,100 as against ₦1,800 previously (Adelaja, 2020).

### Summary of VAT Implications

**Table 2: VAT and its Implications**

Household Items and Some Manufactured Goods	Previous Price	Current Price
A bag of white garri	6125	6200
A bag of yellow garri	6250	6500
Golden Penny pasta	4250	4300
Golden Penny Spaghetti	3600	3900
Golden Penny Sugar 50kg	21000	21200
Dangote Cement	2250	2570
Dangote Sugar	14000	14400
Maltina Pet Plastic Bottles X12	1500-2000	1700-2500
Amstel Malta Plastic (Low Sugar) X 12	3000 – 3500	3500 - 4000
King's Oil (1L)	550	650
King's Oil (1L)	3000	3500
King's Oil (1L)	12000	14000
Indomie Table	1750	1800
Power Pasta	3000	3200
Telecom Services (MTN)	Previous Tariff	Current Tariff
Pulse	A flat rate of 11kobo/ to all networks after spending N15	A flat rate of 11.26kobo/ sec to all networks after spending N15.6K
MPulse	Flat rate of 15kobo/sec OR N9/min	Flat rate of 15.36k/secs or N9.2/min

Electricity Power Supply	Previous Tariff Per Kilowatt	Current Tariff Per Kilowatt
Customers with consumption below 50 Kilowatt	13.34	21.80
Customers with consumption above 50 Kilowatt	19.31	27.11
Small estate and Government houses	26.5	36.49
Residential High Voltage Maximum Demand	34.28	48.12
Single-phase meter	N38,325	N39,765.86
Three-phase meter	N70,350	N72,085.68
Banking Services	Previous Charges	Current Charges
Electronic Funds Transfer to other banks (< #5000)	#10.5	#10.75
ATM Card Charges	1000	1050
ATM Card Maintenance	50	75
Cinema	Previous Ticket Price	Current Ticket Price
IMAX 2D	3000	3500
IMAX Kid 3D	2500	3000
Signature Wednesdays	2500	3000
IMAX 3D	3500	4000
Signature Weekends	4500	5000

Sources: Femi, (2020, Jan 30), Bassey, (September 2019), Adelaja, (2020, February 9), Film House Cinemas (2020), Zeofy, (2020, January 17).

### Laffer Theory

This theory was established by economist Arthur Laffer (2004) to support his argument that a general increase in the tax rate of citizens might not necessarily increase tax revenue, and a reduction in the tax rate of citizens might not necessarily lead to a decrease in tax revenue (Akabom & Sunday, 2011). It is also called the Laffer curve theory. Agreeably, if the government decides to increase tax rate from 10% to 15%, it might not necessarily increase tax revenue. This could be because an increase in tax rate could make people falsify their financial statements, and thereby lead to a decrease in the overall tax revenue. In another vein, the Laffer theory talks about tax rates and the expected revenue to be derived by the government. Gerasimos (2016) stated that the theory depicted that there are two impacts of tax rates on tax revenues—the arithmetic effect and economic effect. The arithmetic effect proposed that an increase in tax rates, leads to an increase in tax revenue, and a decrease in tax rate leads to a decrease in tax revenue.

The economic effect emphasizes that an increase in tax rates leads to a decrease in tax revenue, and a decrease in tax

rate leads to an increase in tax revenue. In relation to this effect, Laffer (2004 and 2008) opined that for the economic effect, an increase in tax rates would dishearten production and work by eliminating motivations, which would activate slow growth, and inevitably diminish the tax revenue to be collected by the government. Another highlight of this theory is the fact that the government cannot put tax rates at the end of the curve; that is, the government cannot put tax rate at 0% or 100%, because they would not receive any revenue (Akabom & Sunday, 2011). Agreeably, if the government should place tax rate at 100%, there would be no need to work or produce goods or services, because there would be no reward for labour as everything is going back to the government, which would stop production. In essence, the citizens would work like slaves, and nobody would want to do that. Also, at 0% tax rate, there is no return for the government as the amount of output the citizens work for would all return to them.

Considering the highlights of this theory, it can be agreed that its assumptions hold on some cases. However, it has been criticized based on some reasons. One such criticism is the fact that there is a lack of empirical evidence concerning the theory (Hüseyin, Bulut, Zeynep & Kaya, 2017). This implies that there had been no testing or experimentation by Laffer before he propounded the theory. The theory is based on theory only; although, it was noted that Laffer cited several scenarios in U.S. history and other nations as examples of the Laffer curve effects. Another criticism of the theory is the fact that its application in some countries would not be feasible due to the intrinsic differences of their systems of taxation, as well as other confounding elements that make the practice of the theory impossible. Also, the theory was criticized because it focused on a single tax rate, in the sense that it oversimplified the assessment of tax rate change (Hüseyin, Bulut, Zeynep & Kaya, 2017).

This theory relates to this study because its assumptions holds in most West-African countries. Considering the fact that the technological application and measures adopted to gain more tax revenue for the government is not effective, most taxable entities easily avoid tax and some outrightly evade it, which embraces the economic effect of tax rates. In essence, the increase in tax rates leads to a decrease in tax revenue. On the other way, a reasonable increase in the tax rate leads to a corresponding increase in tax revenue, corroborating the arithmetic effect.

### **Increase in VAT Rate and Minimum Wage: Its Implication on the Government and Standard of Living**

VAT is a consumption tax payable on goods and services consumed by individuals, government agencies and

business organizations. VAT rate was upsurge to boost the government revenue to meet up with her commitment to pay the minimum wage to improve the living standard of the people. This is becoming undoable since the government is applying “collect from Peter to pay Paul” principle. VAT is pronounced as a consumption tax whereby the customers/consumers bear the tax burden (Adex, 2015). The tax burden is passed from the manufacturer (producer) to wholesaler to retailer and finally to the customers/consumer who ultimately bears the burden. It implies that the increased VAT rate inflates the prices of taxable goods and services to be consumed by Nigerians.

Undoubtedly, the increase in VAT rate would stimulate an increase in the revenue pool of the federal government of Nigeria and consequently help to fund the minimum wage as stipulated. Economically, it will reduce the budget deficit in terms of the debt that would have been taken to finance the minimum wage. In a developing economy like Nigeria, where revenue sources are limited and tax evasion and avoidance are overwhelming, lack of adequate revenue generation is detrimental to the development agendas. This explains the increase in the price of goods and services witnessed across the country since VAT rate increases.

In a study carried out by Philip and Paul (2017), the empirical results revealed that a 211% increase in the minimum wage of civil servants invariably boosts the output of agricultural and industrial produces and exports while imports dejected marginally and then lead to increase in households' welfare indicators of income, consumption and savings by 6.76%, 5.0% and 3.61%, respectively. Thus, an increase in minimum wage of civil servants has a positive and significant impact on people's standard of living in Nigeria. In a similar study, Mwangi, Simiyu and Onderi (2015) submitted an increase in minimum wage has a significant influence on household income and consumption, as well as government income.

Using Computable General Equilibrium (CGE) model, Erero (2016) investigated the effect of minimum wage in South Africa and unveiled that an upsurge in the national minimum wage has a negative and distortive impact on the reported macro-economic variables. This is particularly revealed by a decline in GDP, employment and welfare level. Also, Falawewo (2007) adopted Computable General Equilibrium model to analyse the effect of minimum wage policy in Nigeria. He added that an increase in minimum wage had a positive effect on the economy as a whole. However, Agbo and Nwadior (2020) opined that the recent VAT rate increment seems to end up enhancing the total revenue of Nigeria but may have some negative effect the new minimum wage.

Obaretin and Uwaifo (2020) analysed the impact of VAT on economic development in Nigeria, which covers the period



of 25 years (1994 to 2018). The results unveiled that VAT has a positive and significant impact on economic standard of living. Hence, the study suggested that the government at all levels should ensure that the revenues generated from VAT are expended on capital projects that will impact on the citizens of the country. Similarly, using Error Correction Model, Ayanduba and Aronmwan (2015) investigated the impact of federally collected tax revenues on infrastructural development proxy by electricity generation in Nigeria for the period 1980 to 2014. The result unveiled that VAT has a non-significant impact.

In a similar study conducted by Ogwuru and Agbaraevoh (2017), it was discovered that increase in VAT rate in Nigeria had a positive and significant influence on GDP. Also, it was revealed that the increase VAT rate has a negative but significant influence on HDI. Thus, the negative relationship could be due to non-utilization of the tax revenue from VAT on social services like education, security and health facilities to improve the Nigerians' living standard. Eyisi, Chioma and Nwaorgu (2015) in their study ascertained the effects of taxation on microeconomic performance in Nigeria from 2002 to 2011. The implication of the results unveiled that government earnings from taxation (VAT) affect consumer spending and boost output production level. Hence, demote the people's standard of living.

Obiakor, Kwarbai and Okwu (2015) investigated the effects of increased VAT rate on consumption expenditure pattern and consumer price index in Nigeria. They considered VAT revenue, household consumption expenditure on durable and non-durable goods as well as consumer price index for the period 1994 to 2014. From the findings, it was unveiled that VAT and one-period lagged consumption expenditure on durable goods significantly affected household's consumption expenditure level on durable goods. Further, positive significant effects were established for VAT in relation to household's consumption expenditures on non-durable goods. Hence, increase in VAT rate significantly negated the consumption of non-durable goods, which navigates the longevity of individual's well-being.

Also, Madugba and Joseph (2016) in their study investigated the relationship between VAT and economic development: in Nigeria. They suggested that the Nigeria federal government should educate the general public more on the indispensable of VAT payments and also that machineries should be put in place to ensure that VAT revenue does reduce as this will help foster economic development via improvement in the citizen's standard of living. Timilehin (2019) suggested in his study that a deep-seated change in VAT system and how it currently operates should be considered by the government so that it becomes a better tax system in Nigeria.

From another perspective, there seems to be a lot of hitches to the increase in VAT rate. Eastuagh and Olakiigbe (2019)

noted that there are downsides to the new VAT rate in terms of inflation and a decrease in disposable income. One of the multiplier effects of the new VAT rate is inflation, which is a general increase in the prices of goods and services. Increase in the prices of goods and services will reduce the purchasing power of the limited income of the household and further increase the volatility of the economy. A reduction in the purchasing power of the disposable will practically reduce the volume of transactions of businesses. A decrease in the sales volume will in turn reduce the production capacity. This might lead to the retrenchment of workers and increase other various social vices in the country.

Like many countries in Africa, Nigeria's economy seems to be fragile and as such, every tax regulation appears to be the function of the economic reality. Undeniably, the government needs funds to pay the minimum wages and to cater to other pressing challenges. However, the government should not be oblivious of the burden-bearer of tax regulations. VAT rate increase could be of little importance to workers earnings as the increased minimum wage end up in a no better position than before since inflation trend as a result of VAT would have enrolled a good proportion of it. This seems to underline the effort of the Nigerian government to exempt some basic, common goods from the new VAT rate.

Businesses selling directly to the final customers especially in the fast-moving consumer goods and services sector would experience pressure to remain competitive and may have to absorb part or all VAT increase so that the price of goods and services are not affected. Eastuagh and Olakiigbe (2019, December 17) explained that businesses whose goods or services are VAT exempt would experience an increase in cost as they are not able to claim input VAT incurred since their products are exempt. There is also a cascading effect on customers and businesses that operate in a value chain where VAT is unclaimable. For example, if a business sells a service that has a ratio of costs that suffer VAT to sales of 50%. 5/105 of the costs the business incurs is unclaimable VAT, which represents 2.4% of sales. Businesses pass on the unclaimable VAT cost to the customer by increasing the cost of the service provided which means that the actual VAT that the customer pays is 7.4% (which is the current 5% plus unclaimable 2.4% of sales).

## CONCLUSION AND RECOMMENDATIONS

This paper is a qualitative attempt to examine VAT, increase in its rate, minimum wage and their implications on the government revenue generation and living standard of the populace. Based on the content analysed, it was established that the increase in VAT rate was predicted on the effort of the federal government to pay the minimum wage and that the revenue pool of the government will be greatly enhanced.



It was also concluded that increase in VAT rate undoubtedly reduces the purchasing power of the disposable income of the citizenry through an increase in the general price level of goods and services. The overall conclusion is that increase in VAT rate could reduce the expected benefit of the increase in the minimum wage in Nigeria. Thus, it was recommended that:

- Small businesses with a threshold of about ₦10m should be exempted from VAT. This might positively affect the living standard of the populace through increase in the purchasing power of their limited income.
- The government, through the appropriate agencies, should ensure a thorough supervision of how government revenues are utilized and how expenditures are controlled. This might avail the government-needed revenue to defray its expenditures.
- The business environment should be made friendly to investors. This might engender the establishment of more companies through which tax revenue will be increased.
- The recent announcement of restrictions on business travel for government officials and office holders is welcome especially if it will be strictly enforced.
- The ₦30,000 minimum wage does not reflect the economic reality in Nigeria. Hence, the government is urged to revise accordingly.
- 50% increase in the rate of VAT reduces the benefits of the minimum wage, especially for low earners. The government is therefore advised to pay more attention on how to protect the poorer members of the society.

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