VALUE ADDED TAX (VAT) AND REVENUE ALLOCATION IN NIGERIA

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Abstract

The study investigated the relationship between Value added tax revenue and Revenue allocation in Nigeria within the period of 2000-2020. Its specific objective was to ascertain the relationship between VAT and Federal Allocations; ascertain the relationship between VAT and State allocations; and determine the relationship between VAT and Allocations to local governments. Expo facto design was adopted for the study while secondary data was utilized for the study. Data was sourced from Annual Statistical bulletin of Central Bank of Nigeria 2020. The data collected was from the period 2000 – 2020. Descriptive statistics and trend analysis were used for data analysis while Regression was used testing of the hypothesis. The result of the study shows that VAT has a positive and significant relationship with Federal allocation in Nigeria; VAT has a positive and significant relationship with State allocations; VAT has a positive and significant relationship with Local government Allocations in Nigeria The study therefore recommends that Federal government should not be left out in the sharing of VAT revenue as clamoured by some quarters where there is agitation for resource control especially the issue of VAT administration and collection; There should be improved and agreed equitable sharing formula that will ensure that the States and Local governments get more share of the allocation especially as it concerns sharing of the VAT revenue; the Local governments should not be starved of the allocated funds by the states, especially as it concerns their share of VAT and other state allocations.

Keywords: *Federal Allocations, Local Government Allocations, Revenue Allocation, State Allocations, Nigeria, Valued Added Tax*

1. INTRODUCTION

It is argued that every government pursues economic development by trying to achieve macroeconomic objectives in a particular system of government, thus they operate various systems of governance that enables them to achieve this goal. The various systems of government include federation, unitary, and confederation. The Nigeria's system favours federation. The federation of Nigeria achieves her macroeconomic objectives by performing the functions of resource allocation, income distribution/redistribution, and economic stabilization within the central government, that is, federal government and its units (states and local governments). This system of performing government functions in different tiers of government is called fiscal federalism (Dang, 2013).

Fiscal federalism is a system of taxation and public expenditure in which revenue-raising powers and control over expenditure are vested in various levels of government within a nation, ranging from the national government to the smallest unit of local government (Anyafo, 1996). Basically,

fiscal federalism emphasizes on how revenues are raised and allocated to different levels of government for development. A large body of literature exists on Nigeria's fiscal federalism particularly with reference to revenue allocation. Despite the profound and lengthy discussions that have taken place on the subject for about four and half decades, consensus has not been reached concerning the optimal formula to adopt to achieve desired economic development. Thus, the issue of revenue allocation has been a recurring theme in Nigeria's fiscal federalism.

There is the problem of how to allocate revenue to different tiers of government in relation to the constitutionally assigned functions. The discordance between fiscal capacity of various levels of government and their expenditure responsibilities, the non-correspondence problem, is a striking feature of the Nigerian federal finance (Mbanefoh & Egwaikhide, 2000; Dang, 2013). There is also the problem of how revenue should be shared among the states and local councils among others, thus stress the importance of revenue allocation and its sharing formula in Nigeria.

The importance of revenue generation, allocation as well as its distribution towards maintaining both the existing and new socio-politico-economic structure in any economy be it centrally planned, market or mixed economies cannot be overemphasized. To this end, what revenue is to an individual or a firm is what it is to the government. Thus, revenue allocation and its distribution remain a vitally sensitive issue which continues to spark off reactions from all stakeholders at all times (Olofin et al., 2021). This issue has become even more pronounced in Nigeria particular, due to its many ethnic nationalities of which all are clamoring for resource control and the need to give them a sense of belonging. Some have called for a review of the revenue sharing formula in recent times while others have continued to agitate for the control of resources including the issue of control of VAT proceeds.

As Olofin et al. (2021) succinctly pointed out that in recent years, the issues of resource control, revenue allocation and fiscal federalism have dominated discussions at various levels of Nigeria's political debate. Like most federal systems, Nigeria has a revenue distribution system in which the federal government shares revenue with the states and local governments. Different formulas at different times have been adopted. Similarly, at different times, ad hoc commissions have been set up to determine the allocation formulae and criteria, yet each formulae adopted seems not to be enough and thus the agitation continues. The agitation has in recent times shifted to the control of VAT proceeds- whether to be administered and collected by the states or federal government. This issue is still in court and until the court decides, the thorny issue still remains (Teriba, 2021).

Prior to the commencement of value added tax (VAT), the three tiers of government in Nigeria relied heavily on their share of federally allocated revenue which in turn depended on the revenue from crude oil and developments in the international petroleum market regulated by Organization for Petroleum Exporting Countries (OPEC). This has serious implications for government finances. Thus, government revenue had been unstable, showing up in deficits and poor delivery of services. This explains the use of tax contractors by some state governments and implementation of various kinds of levies by State and Local Governments to improve their revenue (Ohiomu &

Oluyemi, 2019). With the introduction of VAT pool to the federation account, brings a relieve to the government at all level, as available revenue for sharing increased and thus it becomes increased revenue for growth and development of the nation (Ordu & Nkwoji, 2021).

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. 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 (Omodero, 2020), thus this taxation becomes a veritable means of increasing government revenue available for allocation to the three tiers of government in Nigeria.

Several studies mainly exploratory (such as Olofin et al, 2021, Omodero 2020; Ohiomu & Oluyemi, 2019; Dang, 2013; Suberu, 2006) were carried out on how revenue is shared within the federal government, state governments, and local governments and the basis of sharing the revenue to these federating components. But these studies could not empirically study the impact of the Value added tax revenue on the revenue allocation to the ties of government in Nigeria. Other studies, such as, Salami (2011), and Usman (2011) carried out empirical studies on the effects of the level of decentralization of government activities including revenue allocation on Nigeria's economic development using econometric analysis. None of these studies to the best of our knowledge and literature review utilized the current variables of this study which is allocation to federal government, state government and local governments to ascertain the relationship between the variables and VAT revenue. Consequently, this study intends to investigate how VAT has impacted the revenue available to different arms of government in Nigeria for economic development through the allocations they receive on an annual basis. In the light of the above issues raised, the researchers formulated the below mentioned hypotheses in their null form to guide their investigation thus:

HO_1: There is no significant relationship between VAT Revenue and Allocation to Federal Government in Nigeria.

HO_2: There is no significant relationship between VAT Revenue and Allocation to State Governments in Nigeria.

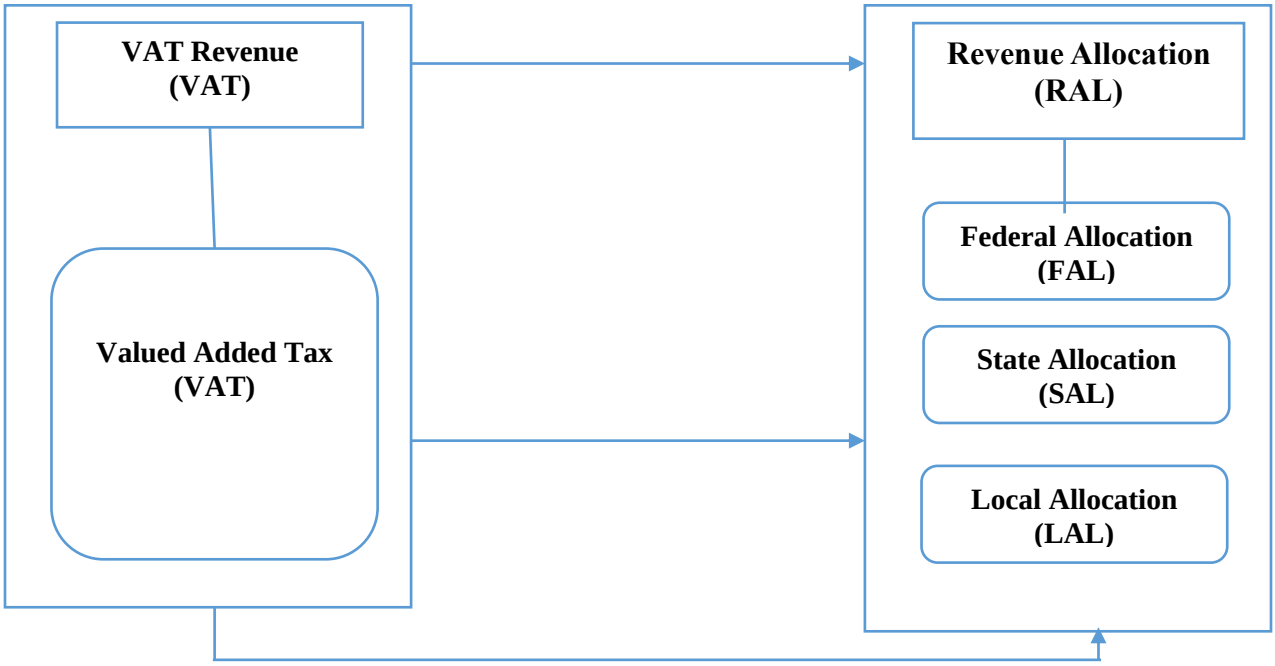
HO_3: There is no significant relationship between VAT Revenue and Allocation to State governments in Nigeria.

The study is divided into five sections. Section I, introduced the study. Section II examined concepts on which this work is based and reviewed existing related literature while Section III focused on the methodology adopted in this research. Section IV presented and discussed the results obtained while Section V concludes the study and made necessary recommendations.

2.0 REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

The conceptual framework of this study is viewed on presumed causal relationship between value added tax revenue and Resources allocation to various arms of government in Nigeria within the periods of 2000 – 2020. While VAT serves as the independent variable, resource allocation serves as the dependent variable. The measures of Revenue allocation are Allocation to federal government, allocation to state governments and allocation to local governments. The hypothesized relationship tested is depicted on the diagram below.



Source (Oladimeji, 2014; Oraka et al., 2017; Teriba, 2021; Adejokun & Nami, 2021).

2.2 Conceptual Review

2.2.1 Value Added Tax

Value added tax (VAT) refers to an ingestion charge imposed at every phase of the absorption sequence and suffered by the ultimate end user of the product or service (Oraka et al., 2017). In Nigeria the implementation of Value Added Tax Act in 1994 has provided a significant amount in the revenue accrued to the government (Omesi & Nzor, 2015; Omolehinwa & Naiyeju, 2015). Somorin (2019) however pointed out that there have been agitations to raise the tax rate of Value Added Tax in Nigeria stating that Nigeria has one of the lowest VAT rate in the world as at that time which was 5%. However, in 2020, VAT tax rate was revised to 7.5% after previous unsuccessful attempts to revise it. In August, 2021 there have been agitations by various States in Nigeria to decentralize the collection of VAT in Nigeria (Audu & Ajibade, 2021).

A review of the VAT rate across nations shows that VAT in Cameroon is at 19.25%; South Africa 14%; Zambia 17.5% and Egypt 10%. Others are: India (between 5.5% - 14.5%); UK (17.5%) and Kenya (12-16%) respectively (Ordu, 2021), thus justifying the call for the increase in VAT rate in Nigeria. Prior to the implementation of the 2020 Finance Act in Nigeria and under the VAT Act of 1993 as emended, it was obligatory for an individual seller to levy and pull together the VAT at a uniform ratio of 5% on all billed sums for merchandises and services that are not freed from VAT. However, with the introduction and implementation of the 2020 Finance Act, all materials and business activities that are not excused from VAT attract a charge of 7.5% VAT, which accounts for 50% increase in the VAT rate. Sections 10 and 11 of VATA offers the dissimilarity amid contribution VAT and production VAT. Involvement VAT refers to the tax paid to suppliers on the purchase of taxable materials and financial undertakings while the productivity VAT is the tax received from customers on the value of taxable supplies and business activities sold or rendered (Akhor & Akundayo, 2016; Andersen Tax Digest, 2020). According to Ordu, (2021), if the VAT received on behalf of the government (production VAT) in a specific period surpasses the VAT paid to other individuals (contribution VAT) in the same period, the taxable individual or company is expected to pay the variance to the government periodically, which is monthly. Wherever the converse becomes the circumstance, the taxpayer is permitted to a reimbursement of the extra VAT funded or he may virtually obtain a tax credit of the surplus VAT from the administration (Andersen Tax Digest, 2020). Following the affirmation of (Umeora, 2013), every export is zero ranked for VAT, i.e., no VAT is billed on products shipped out to other countries for sale. Furthermore, VAT is allocated with the legal tender of the business under which products or financial deeds are contracted (FIRS, 2020).

Sections 8, 28 and 35 of VATA (as amended) enforces a fine of N50,000 for the initial month of not being able to register and inability to notify the Federal Inland Revenue Service (FIRS) of variation in business address or perpetual termination of trade or business and failure to file returns(FIRS, 2020). All other subsequent months of failure attract a fine of N25,000 each month in addition to the initial N50,000 in the first month that the disappointment ensues (FIRS, 2020). However, failure to remit VAT attracts a penalty of the VAT, in addition to 10% of the VAT plus interest rate based on the Central Bank of Nigeria's prevailing monetary policy rate (FIRS, 2020). The new Finance Act 2020 provides punishment for late filing of VAT returns. Inability to remit VAT revenues attracts a penalty of N50,000 in the first month of defaulting and N25,000 for the succeeding months. Due to the upward review necessitated by the Finance Act 2020, the penalty

was reviewed upward from N10,000 to N50,000 for the first month and N5000 to N25,000 for the successive periods the taxpayer fails to file VAT returns. The fine for failing to register for VAT is appraised upwards to N50,000 for the first month of failure and N25,000 for each consequent month of failure to register for VAT (Omodero, 2020).

The components of VAT are as follows: a)VAT on Intrastate/Intra-LG Transactions; b) VAT on Interstate Transactions; c) VAT on International Transactions- VAT on international transactions that transcend interstate and intrastate transactions are legitimately collectible and retainable by the FG and redistributable among all States based on equality of States/LGs and population (Teriba, 2021). Teriaba (2021) further noted that The Value Added Tax (VAT) was introduced in 1993 and it replaced Sales tax in the states. The formula for the distribution when it was first introduced was 50% to FGN; 35% to the States; and 15% to LGAs. With effect from January 1999, the formula was adjusted as follows: FGN 15%, States 50% and LGAs and area councils of the FCT 35%. The share of the States and that of the local Governments is shared amongst them using the factors of Equality 50%, population 30% and derivation 20%.

Looking at the issue of resource control as it pertains to VAT and revenue allocation, Adejokun and Nami (2021) argued that if states are allowed to collect VAT, many of them will be encouraged to develop that aspect of taxation as opposed to going to the tax pool to share. In view of the fact that a lot of the states are trying to beef up Internally Generated Revenue (IGR), allowing them to collect and administer VAT will boost the IGR of states. As much as possible, there should be a way of devolving taxing powers and responsibility to subnational governments as that is what true fiscal federalism is all about. Furthermore, while VAT is currently shared in the ratio of 15 per cent to FG; 50 per cent to states and 35 per cent to local governments, and hence the clamour for states to collect and administer VAT in their various states continues, others argue that it will become difficult if not impossible for states to individually administer VAT within their jurisdictions for lack of capacity. Companies operating in multiple states may also have difficulties dealing with different laws in different states. Others also suggested that Federal Government may resort to appropriating the sizeable contributions of VAT accruing from Customs sources and treat it as independent revenue (Adejokun & Nami, 2021).

2.2.2 Concept of Revenue Allocation

Olowononi (2000) broadly defines revenue allocation to include allocation of tax powers and the revenue sharing arrangements not only among the three levels of government but among the state governments as well. Under government's distribution function, it redistributes incomes and resources to promote national unity and equity. Revenue allocation can be described as a method of sharing the centrally generated revenue among different tiers of government and how the amount allocated to a particular tier is shared among its components for economic development (Dang, 2013). According to the resource allocation function of the government, revenue is allocated to federating units of a country for economic development, otherwise called fiscal federalism. Nigeria's fiscal federalism has emanated from historical, economic, political, geographical, cultural, and social factors. In all of these, fiscal arrangements remain a controversial issue in allocating distributable pool account (DPA) of the federation since 1946 (Ekpo, 2004).

A federation emerges either by aggregation of previously independent sovereignties to become a single sovereign state such as Australia, Canada, and United States, or by devolution, that is, decentralization of certain level of political authority to subnational governments within a sovereign state such as Nigeria, India, and Pakistan (Dang, 2013). Thus, along this line, fiscal federalism could be taken to mean a constitutional arrangement or a system of government where revenue and expenditure functions, otherwise called fiscal responsibilities, are divided among the tiers/levels of government, that is, federal, state, and local governments (Akindele, 2002). In undertaking this division, economics emphasizes the need to focus on the necessity for improving the performance of the public sector and the provision of their services by ensuring a proper alignment of responsibilities and fiscal instruments. The Nigerian Federal system plays a preeminent role in this distributive process. Succinctly, owing to its explicit legitimation and accommodation of sectional-territorial constituencies (Dang, 2013)

2.2.3 Revenue Allocation Overview of Nigerian Situation

Revenue sharing in Nigeria has evolved significantly over the years. Revenue allocation, as it involves the federating system allocating resources to their constituent units for economic activities has been said to have a major issue in the Nigerian political system even from the pre-independence era. At any level, the whole essence of Revenue Allocation is to necessitate a just and fair revenue sharing system. Since Nigeria gained independence in 1960, the relationship between federal government functions and the lower tiers of government have not changed significantly only for few exceptions during the military regimes. About nine fiscal commissions were appointed to examine Nigeria's revenue sharing arrangements between 1948 and 1988. These include Phillipson (1946), Hicks (1952), Chick (1954), Raisman (1959), Binns (1964), Dina (1968), Aboyade (1977), Okigbo (1979), and Danjuma (1988) commissions (Ekpo, 2004).

In Nigeria's post-independence, so many fiscal review commissions were set up by different governments to work out an acceptable revenue allocation formula for all tiers of government. Just like other post-independence formulae on revenue allocation, the Okigbo Commission's recommendation was accompanied with controversy, disagreement, and conflict. In recent years, the issues of resource control, revenue allocation and fiscal federalism have dominated discussions at various levels of Nigeria's political debate. In Nigeria, revenue allocation is taken as the distribution of National Revenue among the various tiers of Government in the Federation in such a way as to reflect the structure of Fiscal Federalism as shown in Table 1. Federalism refers the existence in one country of more than one level of government, each with different expenditure responsibilities and taxing powers (Ohiomu & Oluyemi, 2019).

Table 2.1: Revenue Allocation formula in Nigeria		
S/No	**Beneficiary**	**Percentage of revenue shared (%)**
1	Federal Government	48.50
2	36 states of the federation	26.72
3	774 local governments	20.60
4	Centrally controlled special Fund	4.18
	Total	**100**

Source (Adapted from Ohiomu & Oluyemi, 2019)

The centrally controlled special funds are allocated on the basis of the following indices and percentage weights: equal shares to each state or locality at 40%; population at 30%; social development needs at 10%; land mass and terrain at 10% and internal revenue generation at 10% (Dang, 2013). Normally each tier of Government should be given adequate resources to be able to discharge its constitutional responsibilities, which is very important for the preservation of the autonomy of the constituent units. The importance of revenue generation, allocation as well as its distribution toward maintaining both the existing and new socio-political economic structure in any economy be it centrally planned, market or mixed economies cannot be overemphasized, hence the need to continually shore up the revenue base, thus VAT revenue is one of the ways this can be done.

2.2.4 Nigerian Revenue Allocation Principles

Revenue allocation refers to the redistribution of fiscal capacity between the various levels of government, or the disposition of fiscal responsibilities between tiers of government. Revenue sharing arrangement is at two levels: One is the vertical allocation, which is among federal, state,

and local councils, second is the horizontal allocation, among the states and the local governments (Ohiomu & Oluyemi, 2019). Revenue allocation is meant to attain two broad objectives, namely, efficiency and equity. However, the allocation formula is guided by certain allocation principles like population, equality of states, internal revenue generation, and landmass and principle of derivation. In other words they are catergorised as Principle of Need, Derivation Principle, Principle of national interest, and Principle of independent revenue. These principles according to Salami (2011) are exhaustively explained below:

Derivation principle. The principle believes that revenue in the federation account should be allocated on the basis of each state's contribution to total revenue. That is, all revenue which can be identified as having come from, or can be attributed to, a particular region or state should be allocated to it. This principle was criticized because it makes rich states (or naturally endowed states) richer because the more endowed or developed states will contribute more to the federation

account, starving the less endowed or less developed states of developmental funds. It can therefore, leads to greater disparity among the States and subsequently lead to instability within the country.

Principle of need. The principle advocated that states are not equally endowed with resources, some states are more populated and developed than others, and therefore, more resources should

be given to the less developed states to bridge the gap in development.

Principle of national interest. The principle is based on the importance attached to developing all states to increase progress and sense of belonging. It will promote national unity by sharing the revenue in the federation account equally among States. This formula was to strike a balance between equity, and needs of national economic/ political growth leading to stability.

Principle of independent revenues. This principle advocates that states can introduce or charge revenue-yielding taxes within the state as long as it is a stable source of revenue but must conform

to the principles of taxation within the economy and take into consideration national interest. The above principles of revenue allocation indicate that there might be tradeoff between conflicting items such as derivation, need and national interest. Hence, optimum tradeoff can be tolerated for development. The above principles were guided by the 1999 Constitutions of the Federal Republic of Nigeria, which is currently undergoing reviews and amendments with the Legislative arm of Government.

2.2.5 Components of Revenue Allocation Formula in Nigeria

It is argued that there are two components of the revenue allocation formula used for the disbursement of the Federation Account in Nigeria namely Vertical Allocation Formula (VAF) and Horizontal Allocation Formula (HAF). These are discussed below: **The VAF**. This formula shows the percentage allocated to the three tiers of government that is, federal, states, and local governments. This formula is applied vertically to the total volume of disbursable revenue in the Federation Account at a particular point in time. The VAF allows every tier of government to know what is due to it; the Federal Government on one hand and the 36 States and 774 Local Governments on the other (Bashir, 2008).

The HAF. The formula is applicable to States and Local Governments only. It provides the basis for sharing of the volume of revenue already allocated emblock to the 36 States and 774 Local Governments. Through the application of the principles of HAF, the allocation due to each State or Local Government is determined. Thus, it can conveniently be concluded that the VAF is for inter-tier sharing between the three tiers of government while the HAF is for intra tier sharing among the 36 States and the 774 Local Governments in Nigeria (Ohiomu & Oluyemi, 2019).

There are also institutions that play key roles towards revenue allocation in Nigeria. These are institutions such as Revenue mobilization and fiscal commission, the central bank of Nigeria and other. Table 2.2 shows the key players and their roles. However, there are calls on the nation to strengthen her institutions and governance to achieve efficiency and effectiveness in the economic process (Ohiomu & Oluyemi, 2019).

Table 2.2 Key Players in Revenue Allocation in Nigeria		
S/No	**Institution**	**Role**
1	Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC)	-Monitors revenue accruals into and disbursements from the federation account. - Determines the allocation indices.
2	Central Bank of Nigeria (CBN)	-Serves as a custodian of the federation account where disbursement is made
3	Federation Accounts Allocations Committee (FAAC)	-It determines monthly disbursement from the federation account. -It comprises of representative of the federal, 36 states government, RMAFC, Accountant General of the Federation and other revenue agencies and so on.
4	State Joint Local Government Account Allocation Committee (JAAC)	-It determines monthly disbursement from the State Joint Local Government Account. -It comprises of representatives of the State and local governments

Source (Adapted from Bashir, 2008; Ohiomu & Oluyemi, 2019)

2.2.6 Allocation to Federal Government:

According to Ujah (2021), reporting on the vanguard news paper online, it stated that the Secretary to the Government of the Federation (SGF), Mr. Boss Mustapha, gave the federal government position at a town hall meeting organized on the New Revenue Formula, in Abuja to state that

"a lot of the resources allocated to the federal government was spent on providing services that were the responsibilities of state governments". He further noted that, "*We are all agreed, as Nigerians, that the present Revenue Allocation formula, both vertical and horizontal, is long over-due for a review not only because the last one was done in 1992 but most importantly, contemporary issues since then, such as heightened insecurity, decaying infrastructure, need for appropriately matching statutory functions and tax powers, need to be taken into consideration".* Furthermore, the reported stated "All over the world, revenue and resource allocation has always being a function of the level of responsibilities attached to the different components or tiers of government. It is therefore important that this Current exercise rests squarely on the 1999

Constitution (as Amended)". Discussing on the responsibility of the federal government on the use of allocation, the SGF stated that *"The Second Schedule of the Nigerian constitution contains Sixty (68) Items on the Exclusive Legislative List, and these are areas in which the Federal Government is supposed to use resources accruing to the federation to provide services and related development needs. On the other hand, the Thirty (30) items on the Concurrent requires both the Federal and State Government to address"*

It is, thus, very clear that to have an endearing vertical review of the present revenue allocation formula, there must be first agreement on the responsibilities to be carried out by all the tiers of Government. "In order to appreciate the position of the Federal Government, the way federal government utilises its own 52.68%, share includes the following (according to the SGF), Federal: Disbursement of the FGN Share of 52.68%; Consolidated Revenue Fund (CRF)48.50%; Federal Capital Territory (Like a State)1.00%; Natural Resources Development Fund (States are the beneficiaries)1.68%; Ecological Funds 1.00% (45% to NEMA, NEDC, NALDA and NAGGW, 55% addressing ecological challenges at Sun-National levels); Stabilisation Account 0.50% (25 % – 0.125 to NSIA and 75% 0.375 managed by OAGF and mostly utilized for emergency requests by States).

Similarly, within the Consolidated Revenue Fund, disbursements are made for Debt Servicing, Statutory Transfers, Salaries, Pension and Gratuities, capital supplementation amongst others (Ujah, 2021). It is, therefore, clear from the above that the Federal Government spends most of its resources on and for the state and local government levels. When you juxtapose this with the equally greater number or responsibilities on the Exclusive Legislative List, you would even want to make a case for greater allocation to the Federal Government. "Alongside the above, other considerations that informed the Federation Government's position on the review of the present vertical revenue allocation formula included Federal Government's increasing visibility in Sub-national level responsibilities due to weaknesses at that level e.g Primary health care, basic primary education; Increasing level of insecurity and increased remittances to State and Local Governments through the Value Added Tax sharing formula, where the Federal Government has only 15 % and the States and Local Government share 50% and 35% respectively (Ujah, 2021, November 9).

2.2.7 Allocation to State Governments:

The allocation to states are supposed to be used for development at the state levels to complement the effort of the federal government in provision of infrastructures as well other services. Tribune newspaper reported that in 2021 in month of November for example. The Federation Accounts Allocation Committee (FAAC) shared a total of N675.946 billion November 2021 federation revenue to the three tiers of government (Inokotong, 2021, December, 18). The report further stated that the N675.946 billion total distributable revenue comprised distributable statutory revenue of N488.674 billion; distributable Value Added Tax (VAT) revenue of N182.678 billion, Exchange Gain of N4.156 billion and Excess Bank Charges Recovered of N0.438 billion. In addition, from the total distributable revenue of N675.946 billion; the Federal Government received N261.441billion, the State Governments received N210. 046 billion and the Local Government Councils received N155.456 billion. The sum of N49.003 billion was shared to the relevant States as 13% derivation revenue.

The distributable statutory revenue of N488.674billion was available for the month. From this, the Federal Government received N231.863 billion, the State Governments received N117.604 billion and the Local Government Councils received N90.668 billion. The sum of N48.540 billion was shared to the relevant States as 13% derivation revenue. Similarly, From the N182.678 billion distributable Value Added Tax (VAT) revenue, the Federal Government received N27.402 billion, the State Governments received N91.339 billion and the Local Government Councils received N63.937 billion. The Federal Government received N1.946 billion from the total Exchange Gain revenue of N4.156 billion. The State Governments received N0.986 billion, the Local Government Councils received N0.761 billion and N0.463 billion was shared to the relevant States as 13% derivation revenue. The Federal Government received N0.231billion, the State Governments received N0.117billion and the Local Government Councils received N0.090 billion from the N0.438 billion Excess Bank Charges Recovered.

While huge revenue is allocated on a monthly basis to the different tiers of government, reports of mismanagement and lack of accountability abounds (Akimpelu, 2021; Olufemi, 2020; Otinche, 2018). A report from premium times news painted a gloomy picture of the situation. According to that report, Nine of Nigeria's highest-earning states from federal allocations also had the highest number of out-of-school children, as data from the nation's statistics bureau, NBS, has shown. It continued that the data is an aggregation of the monthly federal allocations to all 36 states and the FCT from 2015 to 2018 – since the out-of-school children data is as of 2018 (Akinmpelu, 2021). It stated that Nine (9) of the Nigerian states receiving the highest revenue allocations also have some of the highest numbers of out-of-school children in the country, raising concerns over accountability and prioritization.

Within the four years under review, about N7.5 trillion (excluding the FCT's allocation in 2016) was shared among the states as federal allocation, according to the NBS, with the oil-rich Akwa Ibom, Delta, Rivers, Bayelsa and Nigeria's economic hub Lagos the highest beneficiaries. In spite of receiving some of the largest slices of the federal allocations, Kano, Akwa Ibom, Ondo, Borno, Katsina, Oyo, Jigawa, Niger and Kaduna states also housed the highest number of out-of-school children in the country, raising concerns over fiscal accountability and prioritisation by the states (Akimpelu, 2021). Oil-rich Akwa Ibom in Nigeria's south earned the highest with N606 billion, yet had the second-highest number of out-of-school children. Despite getting N249.4 billion, the sixth-highest allocation within the period, the northwestern state of Kano had the highest out-of-school children.

Other top earners that could not keep their children out of the streets include Ondo, which earned N199.3 billion; Borno, N185.2 billion; Katsina, N184.2 billion; Oyo, N176.2 billion; Jigawa, N174.6 billion; Niger, N172.7 billion; Kaduna, N171.8 billion. According to the 2018 data published by the Universal Basic Education Commission, UBEC, Kano had 989,234 out-of-school children, Akwa-Ibom 581,800, Katsina 536,122, Kaduna 524,670, Oyo 418,900, Jigawa 337,861, Borno 330,389, Ondo 317,700 and Niger 292,700. On the flip side, Delta (N541.8 billion) and Bayelsa (N438.7 billion) – among the top four earners – and Edo (N180.4 billion), the tenth highest earner, also had some of the lowest out-of-school children estimates from the same year. Delta had 145,996 of the nation's out-of-school children, Edo – 140,798 and Bayelsa – 53,079. All states and the FCT made a combined revenue (FAAC and IGR) of about N11.1 trillion in four years.

The figure excludes the IGR for Ebonyi and the FCT in 2015, as well as the latter's IGR and FAAC in 2016 and its 1GR in 2017. Lagos alone accounted for N1.6 trillion of the over N11 trillion all the states earned. Rivers raked in N865.5 billion; Delta N737 billion; Akwa Ibom N684.2 billion; Bayelsa N481.5 billion; Ogun N391.7 billion; Kano N380.5 billion.

Other higher earners include Edo N276.4 billion; Oyo N257.8 billion; Kaduna N256.4 billion; Ondo N253.8 billion; FCT N233.4 billion; Enugu N229.8 billion; Anambra N225.7 billion; Abia N214.5 billion. Akwa Ibom, Kano, Oyo, Ondo and Kaduna are again higher earners with high unschooled children. On the other hand, Delta, Bayelsa, Edo, the FCT, Enugu, Anambra and Abia kept their out-of-school children figure low. Meanwhile, all units of the federation, save Lagos and Ogun, are largely dependent on FAAC allocation because it dwarfs their internally generated revenue significantly. Only Lagos and Ogun States earned more from IGR than they did FAAC in those four years combined. More than half of Nigeria's 10.2 million out-of-school children live in 10 states of the country, data published in the 2018 digest of basic education statistics by the Universal Basic Education Commission (UBEC) and corroborated by the National Bureau of Statistics (NBS) in its 2020 report on women and men showed.

All 10 have a combined 5.2 million children not attending primary school. The 10.2 million estimate, more than 60 per cent of them boys, is more than a quarter of the nation's 40.8 million children of primary school age (between six and 11 years). By implication, as of 2018, for every four Nigerian children, one had no access to primary school education. Again, nine of the bottom fifteen FAAC earners from 2015 to 2018 are among the bottom fifteen states with the least out-of-school children. A total of N90.6 billion was earned as FAAC allocation by Osun State in four years, making it the least earner, yet it had 165,114 out-of-school children, the fourteenth least by all states. Again, overall Osun (N129.6 billion), Ekiti (N138 billion), Ebonyi (N149.1 billion), Gombe (N153.2 billion), Nasarawa (N160.3 billion) and Cross River (N186.3 billion) were the least earners among the lowest fifteen states with out-of-school children (Akinmpelu, 2021).

2.2.8 Allocation to Local Governments:

Revenue allocated to the local governments equally are supposed to be used to finance capital and recurrent expenditures just as it applies to other two tiers of government, however they often than not misused in the process by public officials (Otinche, 2018). National powers are shared between the three tiers of government in terms of exclusive (federal government), concurrent (federal and state government) and residual (local government councils). The power of each tier of government to generate revenue is statutorily defined in the 1999 Nigerian constitution. Each tier of government has variable capacities to initiate and implement development policies and programmes. To promote grass root development in Nigeria, the numbers of states were increased from three regions to four regions in 1963, 12 states in 1967 and progressively to 36 states and the Federal Capital Territory and 774 local government councils to alley the fear of ethnic domination and marginalization (Otinche, 2018).

In 2017 for instance between the month of August- December, 2017, the total amount of allocation to the locals governments are as follows August, 98.01bn; September, 131.04bn, October, 114.74bn, November, 110.58bn and December, 124.09bn respectively, (Otinche, 2018). There are the issues of mismanagement of the funds allocated to LGAs by the state government has this has negated the effort towards development by the local governments. According to Olufemi

(2020), the in the last 12 years, 15.5 trillion were duly transferred to states on behalf of the 774 local governments, yet there is no public information on what portion of that 15.5 trillion, each local government received. A monthly average of N139,117,586 or an annual average of 1.67 billion naira (N1,669,411,036) has accrued to each local government in Nigeria.

Local governments are a fundamental part of Nigeria's political landscape; they may understand citizens' daily lives more intricately than politicians at the state and federal level and are sometimes better equipped to respond to localized issues. Yet, public data and information about how state governments manage and disperse federal money specified for redistribution to local governments are scarce. This data could play a critical role in ensuring local government autonomy, holding state governments accountable for mismanaging funds and providing clarity around why certain local governments receive more than others. Based on analysis of the 12-year data sourced from the websites of the National Bureau of Statistics and the Office of Accountant-General of the Federation, about 15.5 trillion naira (N15,505,489,701,816) has been transferred to the 36 states and the FCT on behalf of the 774 local government councils of the country.

Broadly speaking, an average of N20 billion naira accrued to local governments in Nigeria between 2007 to 2018 with the least Council having a total of 12.8 billion and the highest Council having 56.3 billion in the same period. It should be noted that these statistics are difficult to confirm, as local government chairpersons did not confirm the amount they received from the state government and constituents cannot attest to the exact value of the services they received from their local government. The monthly LGA transfer is the statutory allocation distributed by the Federation Account Allocation Committee. While Abuja Municipal with the highest allocation has had a monthly average of 391.1 million naira (N391,103,922) or an annual average of 4.69 billion naira (N4,693,247,062), Ifedayo local government in Osun State, with the least allocation, has accrued a monthly average of 88.56 million naira (N88,560,331) or an annual average of 1.06 billion naira (1,062,723,969). The question that naturally should follow is how transparent, accountable and prudent have the state governments been with all these funds? (Olufemi, 2020).

Furthermore, nearly all the 774 local governments' executives never got the exact amount distributed to them and many times accuse their state governments of misappropriating the funds received on their behalf while also interfering in the running of the affairs at the grassroots level. This is contrary to Nigeria's legal framework; the law makes it mandatory for the state governments to allocate 10 percent of its internally-generated revenue to the local councils. An OECD report decried how state governments have taken over most local government functions in order to justify spending funds earmarked for councils in the Joint Revenue Account, and funds from the Federation Account do not reach the local level. This is largely because most resources are owned and managed by the federal government, and almost all states and local governments rely on allocations or shares from federal revenues. Two other positions as noted by Olufemi that are consistently troubled the realisation of fiscal federalism are illegal custody and disbursement of federally collected revenue and the refusal to act upon audit reports by prosecuting indicted federal officers who deal corruptly with the federations' treasury (Olufemi, 2020).

2.3 Theoretical Framework

Benefit Received Theory of Taxation. This theory dictates that the state should levy taxes on individuals according to the benefit they derived from government expenditure. The more benefits a person derives from the activities of the state, the more he should pay tax to the government. In other words, this theory proceeds on the assumption that there is basically an exchange or contractual relationship between a tax payer and the state. The benefits theory would imply that a resident should be able to collect personal tax benefits to the extent that her tax payments to the source state exceed the money value of any source state government benefits she already receives, including infrastructure, regulated labour and capital markets, and so on (Otu & Adejumo, 2013). According to Musgrave and Musgrave (1973), the benefit approach or theory was initially developed by Knut Wicksell (1896) and Erik Lindahl (1919), two economists of the Stockholm School, and has then been applied and furthered by several scholars including the likes of Richard Musgrave and Peggy Musgrave.

It is noted that Wicksell's near-unanimity formulation of the principle was premised on a just income distribution. The approach was extended in the work of Paul Samuelson, Richard Musgrave (Hansgrugen, 2000) and others (Musgrave, 1959). It has also been applied to such subjects as tax progressivity, corporation taxes, and taxes on property or wealth (Musgrave & Musgrave, 1973; 2004). As at contemporary times, the benefits received theory is found in almost all writings regarding the issues of taxation and its benefits to not just the individual but to society at large (Ordu & Nkwoji, 2021). Howitt (2007) states that economic policies that promotes trade openness and innovation will drive growth. Hence, this theory fits into this study by explaining that Value Added Tax allocation will not promote human development but the economic policies developed and implemented by states to encourage trade openness and innovation will promote the development of the state and this can be achieved through the allocated revenue they receive.

2.4 Review of Empirical Literature

Audu and Ajibade (2021) studied Value Added Tax Allocation and Human Development Among States in Nigeria. The study hinged on the endogenous growth theory. The Ex-post facto research design was used with secondary data collected in respect to all the 36 states in Nigeria which was gathered and used for the study. The multiple linear regression was used in analyzing the data in order to examine the effect of the explanatory variable on the dependent variables. The results of this study revealed that VAT allocation and internal source of finance have very low positive effect on the level of literacy of Nigerians. The result further showed that VAT allocation has a very low positive effect on the quality of life in Nigeria. The study concluded that VAT allocation have no significant effect on human development among states in Nigeria. The study recommended that state government should focus on developing economic policies that promotes the literacy level and the quality of life of their citizens.

Olofin et al. (2021) in their study investigated fiscal federalism in Nigeria: a cluster analysis of revenue allocation to states and local government areas, 1999 – 2008. The study stated that existing literature on revenue allocation in Nigeria showed more concern for merits and demerits of sharing principles and /or formulae. Several alternatives have been proposed and will continue to be developed to address the unending agitations from beneficiaries. Contrary however, their study analysed two items of revenue (statutory and VAT) shared among the states including FCT and all the Local Government Areas (LGAs) between May 1999 and December 2008. The net statutory allocation after deductions was also analysed. Using Cluster analysis to evaluate revenue

allocation in Nigeria, States and LGAs exhibiting similarity in revenue received were grouped and their common features highlighted. The result of the study showed that that a small number of states constituting each of the clusters in terms of statutory allocation, VAT and net statutory allocation occupied the range of values for highest and lowest allocations. Specifically, the SE zone was found to be the least beneficiary of statutory allocation. In the case of VAT, NW zone benefited more than other zones while NC dominates the cluster of least beneficiary states. The story changed completely in the case of net statutory allocation. The oil producing states received the largest net statutory allocation even above the most industrialized state in Nigeria – Lagos simply because of the derivation fund enjoyed solely by them. Nonetheless, a good number of LGs in Nigeria have similar features in terms of both statutory allocation and VAT.

Omodero (2020) study investigated the consequences of indirect taxation on consumption in Nigeria. The study assessed both Value Added Tax (VAT) and CED to determine their effects on consumption using various econometric tools, such as trend analysis, pairwise Granger causality tests, unrestricted co-integration rank test, least squares technique, and data that cover the period from 2005 to 2019. The results indicated that VAT insignificantly but positively influences consumption, while CED has a considerable auspicious influence on use. The result showed that VAT imposition on merchandises and services is discouraging the absorption of specific foodstuffs and services and allowing the operation of informal economic activities to thrive in Nigeria. However, CED charges do not reduce the use of certain illegal products purposely taxed to discourage their consumption. The study recommended a reduction in the prices of food items and services to enable consumers to increase their patronage, while the products that attract CED but are harmful should be banned entirely. Thus, offenders should be allowed to face the wrath of the law.

Abate (2019) examined the legality of Value Added Tax administration by the Federal government in Ethiopia using a qualitative research design and revealed that Value Added Tax is within the purview of the Federal government while similar form of it is left for the State government.

Ohiomu and Oluyemi (2019) in their study examined ways of Resolving Revenue Allocation Challenges in Nigeria: Implications for Sustainable National Development. The study examined the structure and formula for revenue allocation in Nigeria which has been fraught with challenges, proffers solution, and highlights its implications for sustainable national development. The work used the methodology of Group Unit Root Test, auto regressive distributed lag (ARDL) Bounds Testing and Cointegrating Long Run tests for robust policy recommendations. Time series data from several issues of CBN Statistical Bulletin were collated for the study covering the period 1984-2016. Using the Gross Domestic Product as the dependent variable and revenue allocation to the three levels of government, and oil revenue as the independent variables, the results from the study showed that revenue allocations and the other variables have significant relationship with economic growth in Nigeria. The study recommended among others that the current revenue allocation formula should be reviewed to embrace autonomy in its entirety to achieve national goals and objectives. Various levels of government should be adequately funded to enable it carry out its expenditure responsibilities to accelerate grass root development.

Owino (2019) appraised the effect of VAT on economic growth of Kenya from 1973 to 2010 using the ordinary least squares technique. The results revealed the existence of a positive but insignificant relationship between VAT revenue and Kenya's GDP. The finding implied that VAT revenue in Kenya was not sufficient to influence economic growth.

Ikeokwu and Micah (2019) examined the influence of indirect taxes on the economic growth of Nigeria using data that covered the period from 2000 to 2016. The study found evidence that both CED and VAT exerted a significant positive influence on PCI and GDP used as a proxy for economic growth.

Alavuotunki et al. (2018) examined the effect of Value Added Tax on income inequality and consumption inequality among selected countries using the Ex post facto research design. The study show that Value Added Tax does not have a positive effect on income inequality while it does not have any effect on consumption inequality.

Abomaye, et al. (2018) in their study analysed the contribution of petroleum profit tax (PPT), company income tax (CIT), and customs and excise duties (CED) to Nigeria's economic growth using the Ordinary Least Squares method and data covering the period from 1980 to 2015. The result of the study revealed that PPT, CIT, and CED contributions were insignificant in affecting economic growth in Nigeria

Oraka et al. (2017) investigated the effect of value added tax on the Nigerian economy from 2003 to 2015 using a simple regression analysis. The study found evidence that VAT has a negative relationship with per capita income, while a positive relationship existed between VAT and the government total revenue.

Onoalopo and Fasina (2013) did an investigation of the effect of vat on revenue profiles of south-western Nigeria. The study examined the effect of Value Added Tax (VAT) on the income profiles of State Government in South-Western Nigeria. The choice of South West Nigeria was based on its being a non-oil producing state except Ondo state. Secondary data from the approved budgets of five out of the six states that made up South Western Nigeria were used for the study. Osun state was excluded because it shares the same characteristics with Ekiti State. Panel regression method was employed since the sample contains data across States and for the periods 2002 to 2011. Fixed effect (FE) , Random effect (RE) and Hausman-test based on the difference in fixed and random effect estimators were conducted. The study concluded that the panel estimates indicate that Random effect is best fit . From the random effect estimates, VAT is positive and significantly (β=0.7318<.05) related to revenue profile of States. It is recommended that Governments, policy makers should concentrate efforts at ensuring that more VAT is generated by developing strategies of poverty alleviation as VAT is a consumption tax which is a function of real income in the hands of the people. Increased consumption will increase the revenue input from the state into VAT component of the federation account.

3.0 METHODOLOGY

This study employed the ex-post facto research design. Ex post facto research design is basically concerned with how to perform impact analysis on already existing data. It is relevant for this study since it was used to find out if one or more already existing conditions could have possibly caused subsequent differences in groups of subjects. The study's target population was the entire

three arms of government (federal state and local governments) and the periods that allocations have been shared among the three tiers of government starting from 1960 when Nigeria gained independence till date (1960-2022) (62 years' period). However, using judgmental sampling technique, a sample of 21 years' period (2000-2020) based on the amended constitution which took place in 1999 and subsequently the provisions of revenue allocation was affected and it reflected in 2000 revenues shared by the three tiers of government. Secondary sources of data were used for the study. The data collected from the secondary source were extracted from CBN annual Statistical Bulletin 2020 . The variables were that of Value added tax revenue (VAT), Federal allocation, state and local government allocations shared from the federation account (table 3.1). For the period of 2000-2020. Correlation as well as regression analysis were used for data analysis and testing of hypotheses

3.1 Model Specification

In line with the hypotheses earlier stated in at introduction, regression models were formulated as shown in the following implicit equations:

$RAL = (VAT)$ (1)

$FAL = f(VAT)$ (2)

$SAL = f(VAT)$ (3)

$LAL = f(VAT)$ (4)

Where;

RAL = Revenue Allocation

SAL = State Allocations

LAL = Local government Allocations

VAT = Value Added Tax Revenue

f = functional notation

The ordinary least square for the above models is stated thus:

$VAT_{it} = \beta_{0i} + \beta_1 FAL_{it} + \varepsilon_{it}$ (4)

$VAT_{it} = \beta_{0i} + \beta_1 SAL_{it} + \varepsilon_{it}$ (5)

$VAT_{it} = \beta_{0i} + \beta_1 LAL_{it} + \varepsilon_{it}$ (6)

Where;

β_0 = Unknown constant to be estimated

β_1- = Unknown coefficients to be estimated

i = observations

t = time

ε = Stochastic error term that captures variables not included and expected to be identically distributed with zero mean and constant variance.

$\beta_0, \beta_1, \geq 0$

Using Statistical Package for Social Sciences (SPSS) software, the variables were subjected to complementary statistical test and the results will be used for analysis and for hypothesis verification.

Table 3.1: Table of variables for the study

S/NO	Year	VAT('B)	FAL(N'B)	SAL(N'B)	LAL(N'B)
1	2000	58.5	503.3	246.6	207.1
2	2001	91.8	723.92	404.61	324.23
3	2002	108.6	842.51	442.06	360.23
4	2003	136.4	948.41	489.16	396.8
5	2004	159.5	1180.81	666.44	507.87
6	2005	178.1	1456.96	815.18	622.1
7	2006	221.6	1739.93	976.26	744.81
8	2007	289.6	1869.19	1070.86	815.32
9	2008	401.7	2655.45	1511.51	1151.53
10	2009	481.4	2151.1	1387.78	992.28
11	2010	564.89	2416.51	1538.65	1252.42
12	2011	659.15	3237.04	1921.61	1459.35
13	2012	710.56	3451.76	2084.69	1583.01
14	2013	802.69	3711.75	2251.34	1708.58
15	2014	802.96	3404.45	2062.63	1563.15
16	2015	635.35	2600.98	1597.64	1205.19
17	2016	828.2	2081.41	1347.23	1011.04
18	2017	972.35	2564.04	1681.47	1263.39
19	2018	1108.04	3483.89	2210.73	1667.25
20	2019	1188.581	3344.56	2174.97	1636.76
21	2020	1,628.35	3010.57	2108.32	1576.78

Source (Computed from CBN Annual Statistical Bulletin, 2020)

4.0 RESULTS AND ANALYSIS

Descriptive analysis

For effective analysis of the data collected for this study, the descriptive statistics was applied to appraise the structure or nature of the data so collected. Presented in table 4.1 below is the result of the descriptive statistics of the data as generated by the SPSS version 21

Table 4.1 Descriptive Result of variables of study

	N	Minimum	Maximum	Sum	Mean	Std. Deviation
VAT	21	58.5000	1628.3500	12028.3210	572.777190	424.8838324
FAL	21	503.3000	3711.7500	47378.5400	2256.120952	1021.5333865
SAL	21	246.6000	2251.3400	28989.7400	1380.463810	672.5177941
LAL	21	207.1000	1708.5800	22049.1900	1049.961429	502.1028234
Valid N (listwise)	21					

Source (SPSS OUTPUT of Data, 2022).

Table 4.1 above shows the result of the descriptive analysis of the data used in this study. It shows that listed allocation to federal government called FAL, averaged N2256 billion with a standard deviation of N1021.53b ranging from N505 billion as minimum to N3711.8billion as maximum values. There is a great variability amongst the three tiers of government in terms of their allocations as indicated by the minimum and maximum statistics. State allocations hereafter referred to as SAL, has its mean value as N1380.46 billion, a standard deviation of N672.52 billion with a range from N246.60 billion as minimum to N2251.30 billion as maximum. Allocation to local governments, hereafter referred to as LAL showed a mean value of N1049.96billion, a standard deviation of N502.10 billion and ranges between a minimum of N 207.10billion, and maximum value of N1708.58 In all the total sum of VAT for the 21-year period (Sum) amounts to N12028.32 billion, FAL N47378.54 billion, SAL N28989.74 billion and LAL N22049.19 billion respectively

Analysis of Multi-Collinearity and Normality of Residuals

Table 4.2 Test of Multi-Collinearity

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	FAL	.015	6.5948
	SAL	.002	4.19224
	LAL	.002	4.26669

a. Dependent Variable: VAT

Source: SPSS Output of Data

Table 4.1 revealed a highest VIF value of 6.5948 that is less than 10, tolerance value is less than 1. This means that the independent variables used in this study do not suggest multicollinearity problem.

Table 4.2. Checking Normality of data

Descriptive Statistics

	N	Sum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
LVAT	21	125.9973	5.999872	.9513853	-.540	.501	-.862	.972
LFAL	21	159.3140	7.586379	.5842286	-.976	.501	-.024	.972
LSAL	21	148.3584	7.064687	.6569437	-1.011	.501	-.002	.972
LLAL	21	142.8345	6.801642	.6298022	-.954	.501	-.144	.972
Valid N (listwise)	21							

Source: Output from SPSS version 21

Decision: Normality assumption not violated using skewness and Kurtosis **values**

Table 4.3 Table of Correlation Matrix

		VAT	FAL	SAL	LAL
VAT	Pearson Correlation	1	.798**	.862**	.856**
	Sig. (2-tailed)		.000	.000	.000
	N	21	21	21	21
FAL	Pearson Correlation	.798**	1	.992**	.992**
	Sig. (2-tailed)	.000		.000	.000
	N	21	21	21	21
SAL	Pearson Correlation	.862**	.992**	1	.999**
	Sig. (2-tailed)	.000	.000		.000
	N	21	21	21	21
LAL	Pearson Correlation	.856**	.992**	.999**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	21	21	21	21

**. Correlation is significant at the 0.01 level (2-tailed).

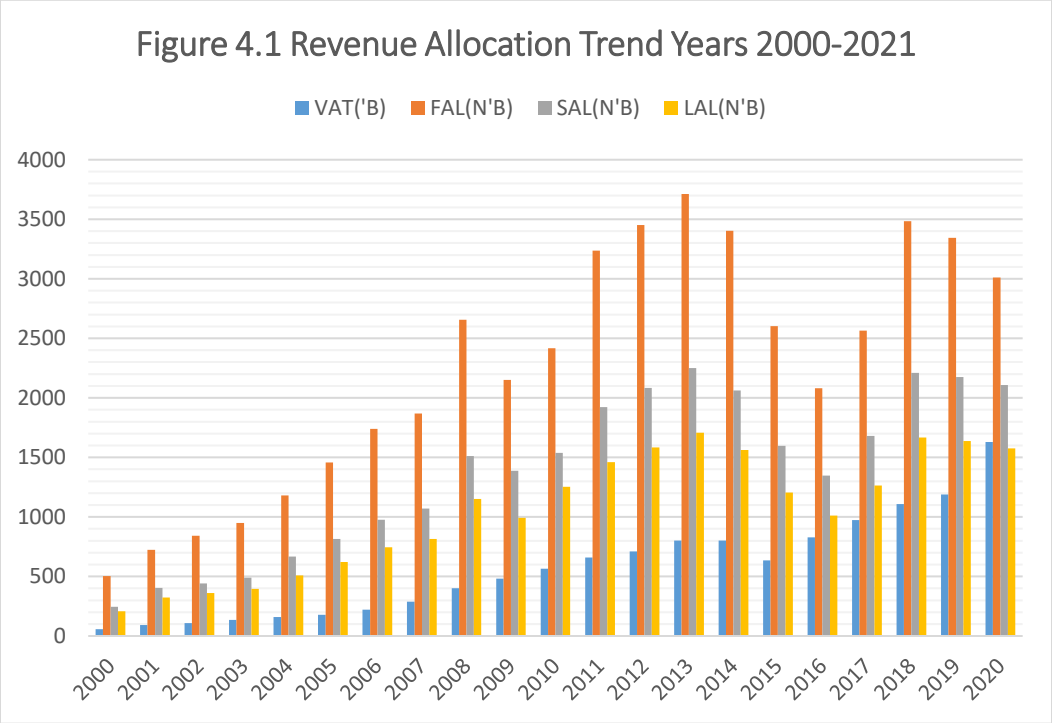
Source (SPSS OUTPUT, 2022).

All variables have high and positive correlations amongst each order.

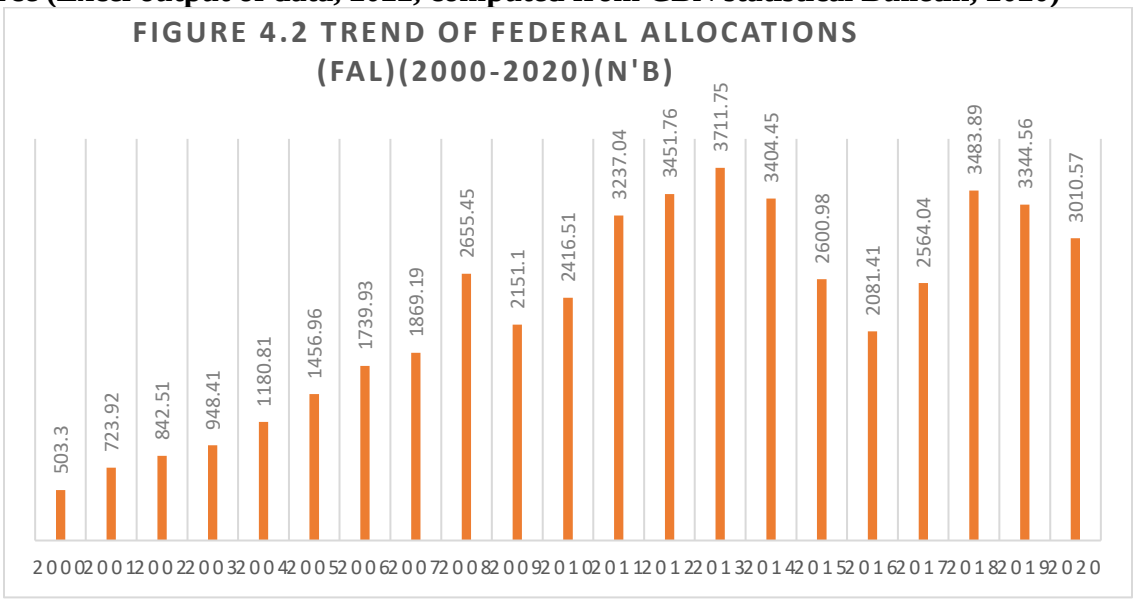
Trend Analysis

Within the last twenty-one years period under review, Allocated revenue to the tiers of government has broadly maintained an upward trend within a thirteen-year period before falling (Figure 4.1). Federal allocation for example increased from N503 billion in 2000 to as high as N3.7 trillion in year 2013 and 2014, after wards it began to drop in years 2015 and to as low as N2,081 trillion in 2016 (figure 4.1). Whilst it recovered from the falling trend to an upward movement in subsequent years of 2017 and 2018, it has continued with downward trend in recent years 2019 and 2020. This implying that there is need to boost the funds accruable to the federation account and perhaps looking for alternative sources of funding needed for development by the federal government. Similar situation applies to VAT. While it has experience an upward trend, however the increase is a modest one with VAT revenue increasing from approximately N59 billion, N92 billion, and N109 Billion in years 2000, 2001 and 2002 respectively to as high as over N802 billion in 2014 (figure 4.3). It dropped marginally in 2015 however, it quickly rebounded in year 2016 and has continued with upward movement in recent years with VAT revenue increasing to over N1.6 trillion in year 2020. The implication of this is that VAT revenue is a reliable source of funding

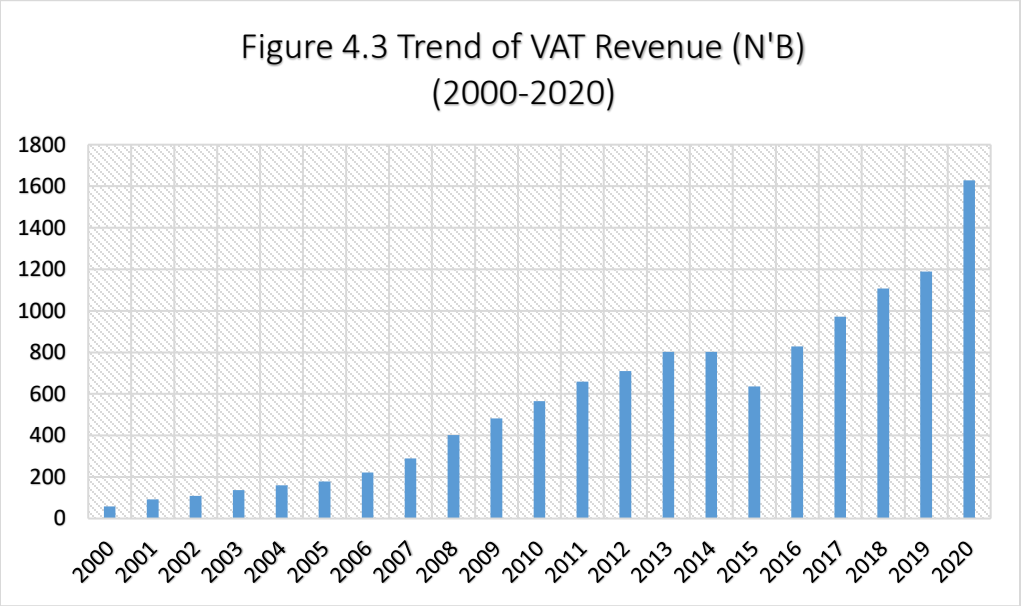
the federation account as such equitable way of distribution needs to be actualised, so that the three tiers of government would have the needed funds for its activities as enshrined in the constitution.



Source (Excel output of data, 2022, computed from CBN statistical Bulletin, 2020)

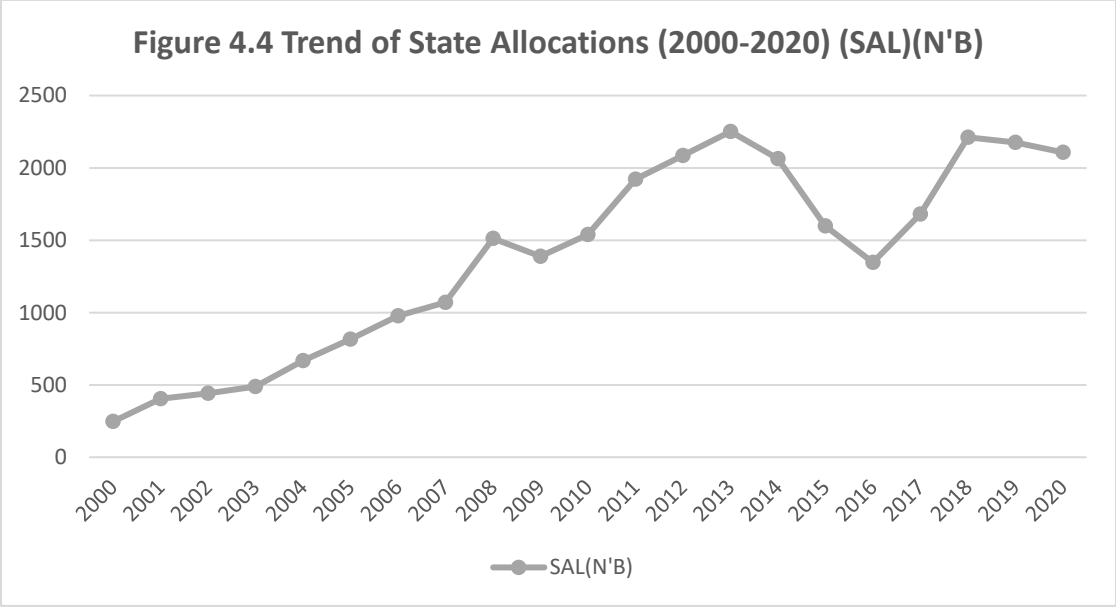


Source (Excel output of data, 2022)

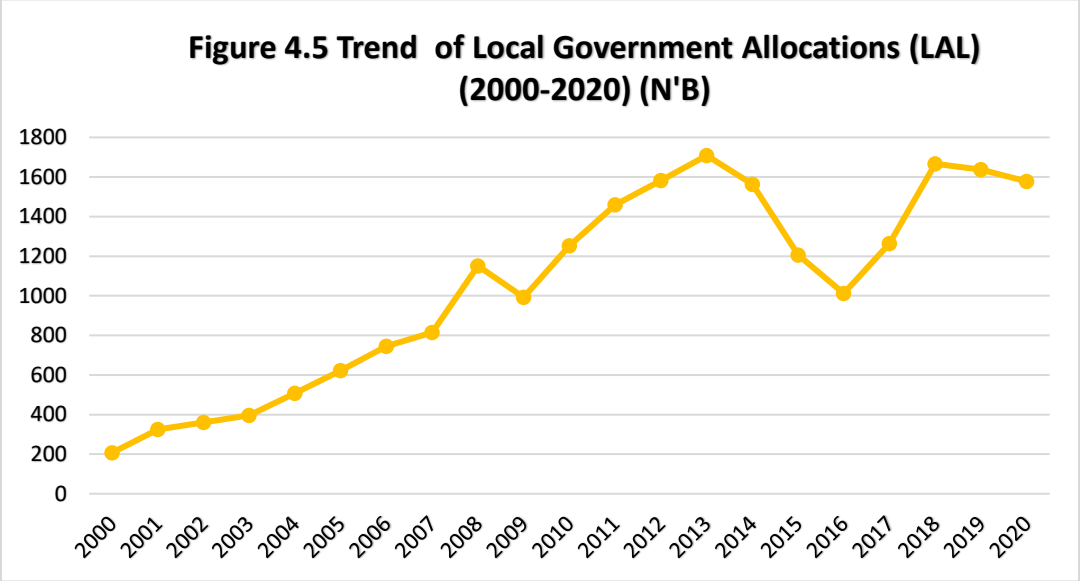


Source (Excel output of data, 2022)

Looking at the trend of allocation to states and local governments, their allocations have witnessed a cyclical movement, rising from 2000 to 2007 and falling sharply in 2008 before rising again. It witnessed its biggest fall in year 2016 where the allocations to the state fell as low as N1.3 trillion and N1.0 trillion for states and local governments respectively. However, there is good news as in recent times the allocations to state and local governments have been rising, perhaps the reason for increased calls for resource controls including the issue of VAT and the need for more allocation from the federation account to the states and LGAs (see figure 4.4 and 4.5).



Source (Excel output of data, 2022)



Source (Excel output of data, 2022)

4.1 Bivariate Analysis and Test of Hypotheses

Test of Hypothesis 1

HO_1: There is no significant relationship between VAT Revenue and Allocation to Federal Government in Nigeria.

Table 4.4 Regression result for Hypothesis one

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.938[a]	.881	.874	.207111147	.881	140.143	1	19	.000

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.129	.296		13.971	.000
	LVAT	.576	.049	.938	11.838	.000

a. Dependent Variable: LFAL

Source (SPSS Output of data, 2022)

From table 4.4 above, the result of the data regressed on VAT shows a positive and significant relationship with Federal allocation in Nigeria (p-value= 0.000). It means that a 1% increase in VAT will bring about a 0.938% increase in Federal Allocations all other variables are held constant. Since the p-value of the independent variable is less than 0.05, we therefore reject the null hypothesis and therefore concluded that there is significant relationship between VAT and federal allocation in Nigeria.

Test of Hypothesis 2

HO_2: There is no significant relationship between VAT Revenue and Allocation to State Governments in Nigeria.

Table 4.5 Regression result for hypothesis two

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.959[a]	.919	.915	.191347810	.919	216.743	1	19	.000

a. Predictors: (Constant), LVAT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.092	.273		11.325	.000
	LVAT	.662	.045	.959	14.722	.000

a. Dependent Variable: LSAL

Source (SPSS Output of data, 2022)

From table 4.5 above, the result of the data regressed on VAT and State Allocations shows a positive and significant relationship with state allocations in Nigeria (p-value= 0.000). It means that a 1% increase in VAT will bring about a .959% increase in State Allocations all other variables are held constant. Since the p-value of the independent variable is less than 0.05, we therefore reject the null hypothesis and therefore concluded that "There is a significant relationship between VAT and state allocations in Nigeria.

Test of Hypothesis 3

HO_3: There is no significant relationship between VAT Revenue and Allocation to State governments in Nigeria.

Table 4.6 Regression result for hypothesis three

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.959[a]	.919	.915	.183787220	.919	215.859	1	19	.000

a. Predictors: (Constant), LVAT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.994	.262		11.416	.000
	LVAT	.635	.043	.959	14.692	.000

a. Dependent Variable: LLAL

Source (SPSS Output of data, 2022)

From table 4.6 above, the result of the data regressed on VAT and Local government allocations shows a positive and significant relationship VAT on Local government allocations in Nigeria (p-value= 0.000). It means that a 1% increase in VAT will as well bring about a .959% increase in State allocations all other variables are held constant. Since the p-value of the independent variable is less than 0.05, we therefore reject the null hypothesis and therefore conclude that there is significant relationship between VAT and Local government allocations in Nigeria.

4.2 Discussion of Findings

Relationship between VAT and Federal Allocations in Nigeria

The study evaluated the relationship between VAT and Federal Allocations in Nigeria. Findings show a positive and significant relationship between VAT and federal allocations in Nigeria (p-value= 0.000). It means that a 1% increase in VAT will bring about a 0.938% increase in Federal Allocations all other variables are held constant. In addition with R squared value of .881 (88.1%) show that 88.1% of the variation of the Revenue allocation in terms of Allocation to Federal government is accounted for by VAT revenue. The findings here is in agreement with the study

of Ujah (2021), Ohiomu and Oluyemi (2019), Onoalapo and Fasina (2013) whose study findings revealed that VAT pool significantly affects the revenue allocation to the three tier of government

Relationship between VAT and State allocations in Nigeria.

In this case, similar situation as VAT and federal applies. There is a positive and significant relationship between VAT and Allocation to States in Nigeria (p-value= 0.000). It means that a 1% increase in VAT will bring about a .959% increase in State Allocations all other variables are held constant. In addition, with R square value of 0.919 means 92% of the variation of Revenue allocation in terms of allocation to states is accounted for by VAT revenue. The findings here aggress with that of Olofin et al. (2021), Akimpelu (2021) as well as that of Onoalapo and Fasina (2013). Result here however disagrees with that of Audu and Ajibade (2021) whose study result reveled that VAT has insignificant effect on state revenue allocated that is needed for economic development in Nigeria

Relationship between VAT and Allocation to Local governments in Nigeria.

Again, there is a positive and significant relationship between VAT and Local allocations in Nigeria (p-value= 0.000). It means that a 1% increase in VAT will as well bring about a .959% increase in State allocations all other variables are held constant. In addition, with R squared value of 0.919 means 92% of the variation of Revenue allocation in terms of allocation to states is accounted for by VAT revenue, while on adjusted basis, the Local government allocations is 91.5% relative to the VAT Revenue. Study result here also agrees with that of Otinche (2018), Olufemi (2020) and Olofin et al. (2021).

5.0 CONCLUSIONS AND RECOMMENDATIONS

The study evaluated the relationship between VAT and Revenue allocation in Nigeria within the last 21 years. Based on the findings made, it is concluded that VAT revenue has a positive and significant relationship with Federal allocations, State allocations as well as with Local government allocations in Nigeria, thus the inevitability of using the VAT revenue pool for inclusion in revenue accruing to federation Account in Nigeria. The study thus recommended that:

i) Federal government should not be left out in the sharing of VAT revenue as clamoured by some quarters where there is agitation for resource control especially the issue of VAT administration and collection. This is important as VAT share is significant factor for federal government funding for its own exclusive list of development activities.

ii) There should be improved and agreed equitable sharing formula that will ensure that the States and Local governments get more share of the allocation especially as it concerns sharing of the VAT revenue. This is important as the allocations are needed for carrying out their own developmental activities at the states and local levels.

iii) The Local governments should not be starved of the allocated funds by the states, especially as it concerns their share of VAT and other state allocations. This is important as result has indicated that VAT revenue affects local government allocations and the allocations where withheld affects the delivery of services at the local level

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