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Determinants of Sustainable Value-Added Tax Revenue Generation in Nigeria

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Abstract: Objectives: This study examined the determinants of sustainable Value-Added Tax (VAT) revenue in Nigeria, specifically, it focused on determining the effects of VAT policy gaps, VAT system simplicity, VATcompliance, and VAT fairness perceptions on sustainable VAT revenue performance in Nigeria. **Prior Work:** While extant literature acknowledges VAT's fiscal importance and challenges like complexity and tax gaps, integrated empirical research on how these factors influence VAT revenue sustainability in Nigeria remains lacking. **Approach:** Using a cross-sectional survey, primary data were collected from 384 VATable entities, tax officials, and experts. Partial Least Square - Structural Equation Modelling (PLS-SEM) was employed for analysis. **Results:** All four constructs—policy gap, simplicity, compliance, and fairness perception show a significant positive effect on sustainable VAT revenue. **Implications:** Tax authorities must adopt integrated reforms that close policy gaps via efficient data systems, simplify compliance, and foster fairness perceptions to enhance voluntary compliance and long-term VAT revenue sustainability. **Value:** This study uniquely moves beyond revenue collection to empirically modelling of the drivers of sustainable VAT revenue generation, thus offering a holistic framework linking VAT policy, administration, and taxpayer perceptions for developing economies.

Keywords: Fairness; Gap; Simplicity; Compliance; VAT Revenue performance

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1. Introduction

Taxation represents the quintessential social contract between the state and its citizens, serving not merely as a fiscal instrument but as the primary mechanism through which governments translate sovereign authority into tangible developmental outcomes. Through the generation of various public revenues, each government is expected to have sufficient funds to develop and maintain infrastructure as well as provide public services. Taxation is one of the most important means for mobilizing resources in developing countries to deliver essential public services, create an environment conducive to economic growth (OECD, 2014), and achieve sustainable development without transferring undue liabilities to future generations (Batista de Oliveira, 2020). The strategic importance of a sustainable tax system is further underscored by its role in fostering fiscal autonomy and reducing dependency on volatile natural resource revenues, a challenge particularly acute in resource-dependent economies (Moore, 2020). Nevertheless, an examination of Nigeria's tax income status and pertinent data indicates that the country exhibits a subpar level of tax compliance (Adeyemi & Adeduro, 2020). The Federal Inland Revenue Service (FIRS) reported that the overall tax collection in Nigeria was 5.26 trillion naira ($13.5bn) in 2019, which decreased to 4.95 trillion naira ($12.9bn) in 2020. However, there was a significant increase of 29.4% to 6.41 trillion naira ($15.5bn) in 2021. This rise can be attributed to the adoption of digital methods for tax collection.

Arowolo and Olugbenro (2016) submitted that Nigeria's situation is worse than the majority of developing nations because its ratio of non-oil tax revenue to GDP is substantially less than 10%. It is necessary to evaluate the current VAT system to determine if it is capable for guaranteeing continuous VAT revenue generation by reducing or doing away with the VAT gap and VAT complexity. The foregoing might have established the reasons why the current VAT approach may not be considered sustainable as the active VAT base of 186,744 (7.67%) is narrow when compared with (2,433,285) registered taxpayers for VAT purposes based on the data from the International Survey on Revenue Administration [ISORA] (Crandall et al., 2021). This narrow active taxpayer base, a common feature in many Sub-Saharan African economies, points to systemic issues in registration, enforcement, and voluntary compliance that require urgent attention (Okello, 2014). Thus, the authors emphasises on the adequacy of the current VAT system for sustained VAT revenue generation since VAT performance affects the overall tax revenue performance of a country which in turn determines the availability of government resources to cater for the needs of its citizens. It could therefore, be asked if the VAT regulations are fair, simple or complex to comply with? How would VAT policy gap affect the capability of the VAT system? These questions became relevant because of the global shift towards tax revenue. Hence, it necessary to evaluate the issues that may determine VAT system's ability to generate VAT revenue sustainably in Nigeria.

Accordingly, this study was undertaken with the broad aim of examining these four determinants of sustainable VAT revenue generation – VAT policy gap; VAT collection simplicity, VAT compliance, and VAT fairness perception, and sustainability of value-added tax revenue generation in Nigeria. The specific objective include: assessing the effect of VAT policy gap on sustainable VAT revenue performance; examining the impact of VAT simplicity on sustainable VAT revenue performance; evaluating the influence of VAT compliance on sustainable VAT revenue performance; and assessing the effect of VAT perception of fairness on sustainable VAT revenue performance in Nigeria.

The rest parts of this write-up is organised into literature review and hypotheses development; methodology; results and discussions; and conclussion and recommendations.

2. Literature Review and Hypotheses Development

2.1. Value Added Taxation (VAT)

Taxation refers to the practice of levying a tax on taxpayers' taxable income, capital gain or expenditure within a certain jurisdiction (Asaolu et al., 2018). According to Enahoro and Olabisi (2012), taxes collected, income tax and consumption tax etc, are used for the common welfare of all people within the state to provide services deemed crucial to citizens' well-being. The aforementioned explanations emphasise the primary objective of taxation, which is to create income to support the expenses associated with public services. An indirect tax such as Value - Added Tax (VAT) or Goods and Services Tax (GST) in some countries, has gained global attention. The system of collecting VAT can be referred to as Value added taxation. The final consumer would ultimately bear the burden of this type of tax (VAT) since it is due at several stages of the value chains for the production of products and services delivery (PwC-Nigeria, 2021).VAT, like personal income taxes, is a significant tax that affects economic development (Shakkour et al., 2021). VAT, which possesses attributes including transparency, high efficiency, and self-regulation, is considered a cornerstone of fiscal development and growth (Erfani et al., 2013). One of the features that makes VAT unique as an indirect tax as noted byWarscotte (2018) is that it is collected by a network of intermediaries, the VATable entities or persons (VEPs), who are in charge of collecting the tax from the consumers and remitting it to the government, rather thanby the government directly. It could be argued that VAT is a Decentralised Distributed Consumption Tax (DDCT). Wijaya et al. (2017) contend that VAT has a self-policing aspect that includes a tax credit mechanism in the form of a tax invoice, which serves as evidence that the seller has successfully collected the VAT from the buyer. In Nigeria, VAT is charged at a flat rate of 7.5% of the cost of products and services, but as of February 1, 2020 exports are exempted from VAT. According to PwC-Nigeria (2021), Nigeria's tax system, particularly its VAT system, is obsolete and in poor shape, and it is expected to worsen if the proper strategy is not implemented because the current system could not efficiently cover the whole VATable transaction base, and it is inadequate in keeping up with the pace of digital technology.

2.2. Theoretical Review

This study is anchored on Equity Theory (ET), whose premise was reinforced by the probability that individuals and entities would comply with the law if it was applied equitably to them in the context of fairness perceptions in workplaces (Adams, 1965). By incorporating taxation, Gilligan and Richardson (2005) widened the use of this theory. The theory asserts that if people and businesses are treated fairly in the tax system, the likelihood that they will obey tax regulations will rise (Tusubira, 2018). However, if they feel they are being treated unfairly, they may choose to disobey. Complex tax regulations contribute to a sense of discrimination in the system (Ahangar et al., 2011); hence, having uniform and stable tax laws will simplify the tax system and improve tax compliance (Hassan et al., 2021). Therefore, in a tax setting, the government and taxpayers are the exchange contracting parties, and this theory suggests that they have an exchange contract based on fair remuneration proportional to contribution. Thus, ET offers the subsequent elucidation for this occurrence: The complexity of the tax system leads to inquiries regarding its equity by taxpayers. It was expected that if the procedures used in the exchange contract were seen as fair and less confusing, then taxpayers would be more inclined to comply with tax regulations, hence decreasing non-compliance, which is related with the VAT policy gap, and increasing VAT revenue generation. Thus, perceived fairness of a tax system and

acceptance of its outcomes have necessary and near relationship (Hassan et al., 2021). Sikayu et al. (2022) employed this theory to explain the connection between fairness and tax evasion. In a comparative study of Asian, European English-Speaking, and Romance countries, Conrad (2022) applied the theory of equity to assess citizens' opinions on the fairness of corporation taxation. Despite its widespread application, equity theory remains flawed due to its insufficient consideration of contextual issues beyond the scope of the underlying value exchange contract. Using these theoretical insights as a foundation, the hypotheses in this study have been formulated.

2.3. Determinants of Sustainable VAT Revenue Generation / Performance

Tax revenues are indispensable for the achievement of sustainable development objectives as they furnish governments with autonomous funds for development investments, poverty alleviation, and the provision of public services (OECD, 2014). The concept of sustainable development, which involves meeting the demands of the present society while ensuring that future generations may also meet their own needs, has been formulated, improved, and revised throughout many decades (Batista de Oliveira, 2020). According to Batista's research, the economic dimension comprises growth, efficiency, and stability. In this context and taking into account the current theoretical concepts and priorities of socio-economic sustainable development, the function of a sustainable tax system as an element of economic sustainable development is evident. Therefore, sustainable VAT revenue generation should be seen as a system that helps satisfy the requirements of the present without impeding the needs of future societies.This should be achieved through the implementation of user-friendly compliance procedures, effective tax policies, and a reduction in collection expenses in proportion to the revenue generated. VAT is a complex and challenging system to manage, however, it possesses the capacity to enhance adherence to tax regulations. This is primarily due to its inherent self-regulating mechanism, whereby purchasers are required to divulge their input purchases to offset the VAT they have paid against their own VAT obligation on their sales (Slemrod & Velayudhan, 2022).

Sustaining VAT revenue generation / performance can be affected by such factors such as: VAT policy gap, VAT simplicity of collection, VAT compliance, and Perception of Fairness of VAT. These determinants are examined hereafter.

2.4. Hypotheses Development

2.4.1. VAT Policy Gap and VAT Revenue Generation / Performance

Tax revenue projections are often not achieved, leading to a significant disparity between anticipated and actual tax revenue receipts for a particular fiscal period. This disparity is referred to as the tax gap, or the VAT gap in the case of VAT revenue. The gap is most obviously seen as the difference between actual tax revenues and the maximum that could be realised (Arowolo & Olugbenro, 2016). Oladejo (2021) suggests that the discrepancy could be related to taxpayers underreporting income or overstating deductions in order to pay less tax, as well as their failure to pay their tax liabilities on time, which could be the outcome of assessment risk. Kurotamunobaraomi and Gbomor (2020) argued that tax authorities in developing countries often employ estimates and real tax receipts to fill in the tax gap because of a lack of credible data and a structurally substantial share of the shadow economy, which make the provision of the essential data to calculate the actual tax burden problematic. The value-added-tax (VAT) gap in Nigeria is seen as a deviation from anticipated VAT income. Without a

doubt, there is a vast discrepancy in Nigeria due to the high degree of noncompliance by individuals and organizations (Arowolo & Olugbenro, 2016). The VAT gap can be disaggregated into compliance gap and the policy gap, which somewhat interrelated. Noncompliance causes the compliance gap, while policy decisions cause the policy gap. Policy gaps, such as exemptions or waivers, influence the VAT gap, making it more challenging to accurately determine the VAT liability (Hutton, 2017). The policy gap, defined as the difference between the actual and theoretical VAT revenues a nation would receive if it applied a uniform VAT rate to all goods and services, served as the framework for this paper's examination of the VAT gap (Nerudova & Dobransch, 2019). A country's tax laws, through exemptions and variations in tax rates, cause a discrepancy in the value-added tax (VAT), known as the policy gap. This gap creates opportunities for individuals and businesses to avoid or evade VAT, hence, it ishypothesised that:

H_{01}: Value-added tax policy gap has no significant impact on sustainable VAT revenue performance in Nigeria.

2.4.2. VAT Simplicity of Collection and Sustainable VAT Revenue Generation / Performance

VAT system simplicity of collection is viewed in terms of complexity or simplicity of VAT laws and the VAT administration. Saad (2012) noted that the complexity of the VAT system is believed to be one of the reasons why taxpayers do not comply with VAT laws which in turn affects revenue generation. Taxpayers' conducts towards tax payment are expected to improve as VAT rules become simpler and consistent, thereby making tax laws more reliable and less cumbersome, which could promote tax compliance (Ahangar et al., 2011). Complication in taxation creates opportunities for corruption (Liu & Feng, 2015). Thus, increased complexity of tax laws may result in an increase in tax noncompliance (Alshira'h et al., 2020), as such complexity may reduce tax payment compliance (Muche, 2014). Faridy et al. (2014) asserted that inadequate simplicity of tax system necessitates the employment of qualified tax specialists so that businesses can implement strategic tax planning to minimize their tax liabilities. According to Mascagni et al. (2022), while the legislation is clear on how VAT works, conflicting messages and unclear practices regularly emerge in encounters between taxpayers and tax officials due to the complexity and unpredictability of administrative processes. Eneh et al. (2022) identified tax simplicity, penalty threat, and tax service quality as indicators of tax complexity.The policy and legislative structure of the VAT system, as reflected in its collection mechanism, is what drives the complexity of the system (Shwetha, 2020). So, the aforementioned difficulties make deliberate or accidental non-compliance more challenging and are probably going to have an effect on the generation of VAT revenue.Hence, it is hypothesised that:

H_{02}: Value-added tax simplicity of collection has no significant effect onsustainable VAT revenue performance in Nigeria.

2.4.3. VAT Compliance and Sustainable VAT Revenue Generation / Performance

Both developed and developing nations view taxes as a necessary component of total domestic income, using both direct and indirect taxes to stimulate the economy (Alshira'h et al., 2020). All individuals and corporations must remit taxes and voluntarily comply with the tax-regulating authority's policies and laws. Still, there are those who try to evade paying taxes (Kirchler et al., 2014), which is a major problem for the tax authorities (Alm, 2019). The literature lacks a single agreed-upon definition of VAT compliance, but generally understands it as the taxpayer's desire and ability to adhere to tax laws, including VAT laws, while considering moral concerns, the legal

environment, and other relevant factors at that time and place (Palil & Mustapha, 2011; Kirchler et al., 2006). This is why there has been a lot of focus on improving tax compliance, but this is still a complicated and ongoing problem. Tax compliance is a significant concern, particularly in developing countries such as Nigeria. Adegbie et al. (2022) found that Nigerian taxpayers significantly fail to comply with current tax regulations, necessitating the use of enforcement measures to achieve acceptable compliance levels, with voluntary compliance remaining relatively low. It is claimed that the administrative and compliance requirements are one of the primary obstacles facing African tax authorities and are widening administrative cracks (Sebele-Mpofu, 2021). According to Shakkour et al. (2021), a key factor in tax revenue generation for a nation's economic development is VAT compliance. They averred that VAT is of greater significance and non-compliance can hamper progress in generating revenue for development. Thus, Brown and Mazur (2003) identified reporting compliance, filing compliance and payment compliance as multiple measures of compliance which taxpayers are mandated to adhere.Arising from the above, the following hypothesis is formulated:

H_{03}: Value-added tax compliance has no significant influence on sustainable VAT revenue generation in Nigeria.

2.4.4. Perception of Fairness and Sustainable VAT Revenue Generation / Performance

With so many facets, consequently and multiple interpretations of the idea, fairness is an imagination that entails an assessment and comparison of one's own circumstances and those of others (Van den Bos et al., 2006). Tax fairness perception can be conceptualised based on the following dimensions: procedural fairness, retributive fairness, horizontal fairness, exchange equity in line with previous studies (Al-Rahamneh & Bidin, 2022; Gilligan & Richardson 2005; Kassa, 2021; Saad 2012). Taxpayers' behaviour is impacted by tax fairness, which is defined as the equitable payment of taxes and associated penalties to the relevant authorities (Al-Rahamneh & Bidin, 2022). This aspect is seen as a non-economic determinant of non-compliance (Alkhatib et al., 2019; Farrar et al., 2019). One could argue that taxpayers' perception of tax fairness tends to improve when they perceive that their ability to pay taxes is adequately considered; as a result, they are more likely to incorporate their fairness judgment into their decision-making process (Hassan et al., 2021). A well-functioning tax system is crucial for funding essential government activities and is a fundamental part of the agreement between governments and citizens. However, issues such as complexity and inefficiency plague the prevailing approach in many countries, leading to unjust outcomes and impeding economic growth. According to Farrar et al. (2013), tax authorities could benefit from a better grasp of tax fairness if they can incorporate it into compliance efforts. Palil (2010) asserts that fairness is multi-faceted. Based on the foregoing, it is, therefore, hypothesized that:

H_{04}: Value-added tax perception of fairness does not have significant effect on sustainable VAT revenue generation in Nigeria.

2.5. Conceptual Model of the Study

The conceptual model of this study is depicted in Figure 1. The figure showed the interrelationships among the study's constructs which include VAT Policy Gap (VGP), VAT Simplicity of Collection (VSC), VAT Compliance (VCP), and Sustainable VAT Revenue Generation (SVR). It seeks to establish the extent to which VGP, VSC, VCP and POF would influence SVR in the light of the current VAT system.

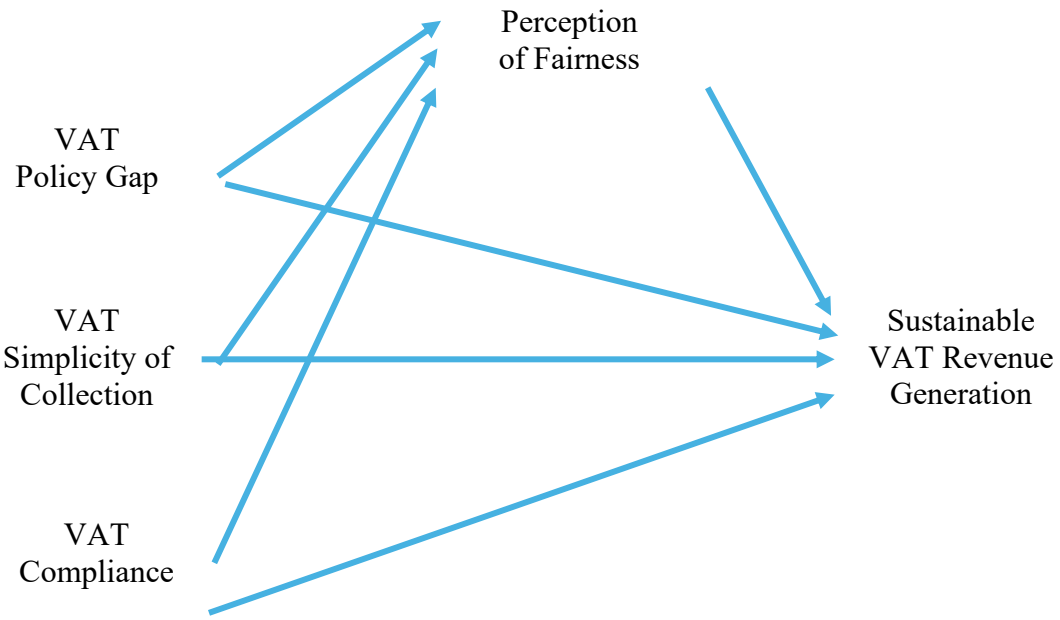

Figure 1. Conceptual Model

Source: Authors' Conceptualisation (2023)

3. Methodology

The study employed a cross-sectional survey design and selected 384 respondents drawn from registered VATable Entities or persons (VEPs), tax officials, and tax experts in Nigeria (see Appendix 2). For this purpose of this study, the VEPs include 157 listed firms, and all the 943 Federal Ministries, Departments and Agencies (MDAs) and 541 Federal government owned corporations (Nweze, 2021). The tax officials included 3,972 staff of FIRS. The tax experts include tax researchers (university lecturers) and tax professionals, who are officials of the big 4 consulting firms (PwC, KPMG, Deloitte and Ernst & Young) and other indigenous tax consultancy firms (non-big 4) in Nigeria. However, the number of tax professionals could not be determined with certainty. Therefore, there are both known and unknown aspects to the population size in this study. In addition, the population in this analysis is broken down into three subgroups: VEPs, tax officials, and tax specialists. Cochran's (1977) sampling technique was utilized to select 384 respondents due to the indeterminate size of the tax expert stratum. The utilization of this methodology yielded a greater magnitude of sample size in contrast to the 373 respondents yielded by the application of Yamane's (1967) formula for the finite components only (refer to Appendix 2). Therefore, 384 participants from Cochran's techniquewere used as sample size of this study.

Questionnaire instrument anchored on a seven-point Likert scale was used to generate the required survey data. The questionnaire was design in such a way to capture the relevant data relating to all the variables of the study. The questionnaire was sent to three hundred and eighty-four (384) sampled respondents through a google form. The response was quite successful as it achieved a hundred percent (100%) rate of success. This was achieved after one month follow up with respondents via mails.The study's constructs (variables) were measured using a scale derived from past studies (Arowolo & Olugbenro, 2016; Batista de Oliveira, 2020; Chau & Leung, 2009; Eneh et al., 2022;

Faridy et al., 2014; Farrar, 2011; Kurotamunobaraomi & Gbomor, 2020; Liu & Feng, 2015; Miller, 1993; Oladejo, 2021; Spiegel & Kloss, 2017; Tusubira, 2018).

Variables (constructs) measurements in the study are shown in Table 1. There are five variables (constructs) in this study. The dependent variable also known as the endogenous variable in Structural Equation Modelling (SEM) is: Sustainable VAT Revenue (SVR) which is a proxy for sustainable VAT revenue generation / performance and this is measured in the study as showned in Table 1. While the independent variables, also known as the exogenous variables (constructs) are: VAT Policy Gap, VAT Simplicity of Collection (VSC), VAT Compliance, and Perception of Fairness. These independent variables which are proxies for determinants of sustainable VAT revue / performance were measured in the study as showned in Table 1.

Table 1. Variables Measurement Items

Construct / Variables	Items of measurements in the Questionnaire	CODE
Sustainable VAT Revenue (SVR)	The current system is maximising its growth potential?	SVR1
	Nigerian VAT system is efficient?	SVR2
	VAT administration and regulations are stable?	SVR3
	A sustainable VAT revenue system should simplify compliance.	SVR4
	The current VAT system has good and fair tax policies?	SVR5
	The current VAT system is sustainable?	SVR6
VAT Policy Gap	VATable entities overstate deductions through VAT exemptions.	VGP1
	VAT entities understate income to avoid VAT duty through exemptions	VGP2
	The current system permits arbitrary application of exemptions.	VGP3
	Poor quality VAT data widens the policy gap	VGP4
	Policy gap may result from waivers to stimulate the economy growth	VGP5
VAT Simplicity of Collection (VSC)	VAT calculations and VAT returns are too complicated?	VSC1
	Complex VAT legislation causes VAT system complexity.	VSC2
	Tax professionals are needed to understand the relevant VAT laws.	VSC3
	Keeping so many books and records for VAT purposes is difficult.	VSC4
	The VAT structure permits VATable entities to use aggressive tax planning.	VSC5
VAT Compliance	The current VAT system ensures registration compliance.	VCP1
	The current ensures VAT reporting and filing at the stipulated time.	VCP2
	The current VAT system ensures payment of correct amount of VAT payable.	VCP3
	Taxpayers declare all taxable transactions willingly	VCP4
	VAT compliance is enforced in the current VAT system	VCP5
Perception of Fairness	VAT procedures lead to consistent outcomes.	POF1
	In a dispute, tax authority evaluates the information provided by VATable entities objectively and fairly	POF2
	VAT system ensures fair incentive for compliance.	POF3
	There is fair punishment for non-compliance in the current system.	POF4
	Taxpayers get fair value of social services in exchange for the tax paid.	POF5

Source: Authors' Conceptualisation, 2023

Partial Least Square Structural Equation Modelling (PLS-SEM) was used in analysing the data collected for the study. This was facilitated using SmartPLS version 4.0.9.2 software. In order to evaluate multiple latent constructs or variables at once, SEM was widely adopted due to its two-stage procedure (Hair et al., 2012). A bootstrapping method (with 10,000 re-samples) was also used to calculate the statistical significance of the loadings, weights, and path coefficients.

4. Results and Discussions

4.1. Measurement Models Assessment

The measurement model depicts construct-indicator relationships. The evaluation of the measurement model was bifurcated into reflective and formative components, owing to the characteristics of the study's constructs. Indicator reliability, internal consistency, convergent validity, and discriminant validity assessed the reflective measurement model. The aforementioned outcome was attained via a series of analytical techniques, namely factor loading, composite reliability, average variance extracted (AVE), and cross loading respectively. In comparison to the permitted limits of 0.60, 0.70, and 50%, the computed values of factor loading, composite reliability, and AVE respectively were above those values (see Table 2 and Figure 2). SVR's and POF's discriminant validity was demonstrated by their indicators loading higher on their respective latent constructs than any other latent variable (Table 5).

Table 2. Indicators, Factor Loadings, Composite Reliability and AVE

Construct	Indicators	Loadings	Composite Reliability	AVE
Sustainable VAT Revenue	SVR1	0.850	0.901	0.632
	SVR2	0.780		
	SVR3	0.781		
	SVR4	0.705		
	SVR5	0.788		
	SVR6	0.856		
Perception of Fairness	POF1	0.799	0.905	0.656
	POF2	0.825		
	POF3	0.809		
	POF4	0.795		
	POF5	0.821		

Source: Authors' Computation (2023)

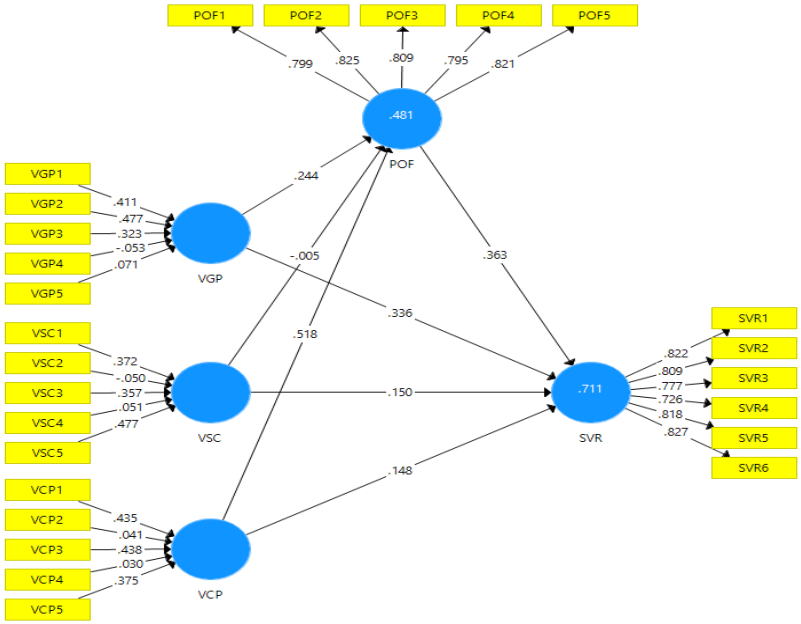

Figure 2. PLS-SEM Measurement Model

Source: Authors' Analysis (SmartPLS Result), 2023

Table 3. Cross Loading

Indicators/Constructs	POF	SVR	VCP	VGP	VSC
POF1	**0.799**	0.563	0.565	0.442	0.427
POF2	**0.825**	0.574	0.503	0.456	0.431
POF3	**0.809**	0.537	0.472	0.411	0.397
POF4	**0.795**	0.665	0.549	0.505	0.434
POF5	**0.821**	0.609	0.599	0.464	0.471
SVR1	0.522	**0.822**	0.604	0.713	0.564
SVR2	0.613	**0.809**	0.524	0.456	0.437
SVR3	0.613	**0.777**	0.622	0.585	0.619
SVR4	0.582	**0.726**	0.485	0.426	0.441
SVR5	0.644	**0.818**	0.541	0.475	0.446
SVR6	0.542	**0.827**	0.625	0.734	0.579
VCP1	0.536	0.521	**0.763**	0.420	0.412
VCP2	0.216	0.313	**0.385**	0.354	0.344
VCP3	0.541	0.587	**0.816**	0.533	0.539
VCP4	0.312	0.390	**0.509**	0.397	0.583
VCP5	0.476	0.552	**0.745**	0.487	0.865
VGP1	0.468	0.624	0.549	**0.852**	0.504
VGP2	0.488	0.625	0.528	**0.867**	0.501
VGP3	0.433	0.500	0.458	**0.722**	0.407
VGP4	0.389	0.464	0.443	**0.662**	0.402
VGP5	0.293	0.401	0.331	**0.542**	0.264
VSC1	0.411	0.532	0.569	0.416	**0.797**
VSC2	0.259	0.352	0.426	0.337	**0.518**
VSC3	0.429	0.528	0.560	0.514	**0.806**
VSC4	0.305	0.382	0.506	0.400	**0.580**
VSC5	0.475	0.553	0.746	0.490	**0.865**

Source: Authors' Computation (2023)

The formative measurement models, however, do not always correlate well since the statistical evaluation criteria for reflective measurement scales cannot simply be applied for the formative measurement scales because the indicators in these models are more likely to reflect the independent causes of the construct. Henseler et al. (2009) recommended evaluating the formative measurement model for collinearity issues, convergent validity, and significance and relevance using the variance inflation factor (VIF) and outer weights and outer loadings. All VIF values and path coefficients for formative latent constructs were within the permissible range of 3 and 0.70 respectively (see Table 4 and Appendix 2). The outer loadings for all the indicators of the formative latent constructs were all significant with p-values less 0.001 (see Table 4).

Table 4. Significance of the Outer Weights and Outer Loadings, and VIF

Formative indicators	Outer Weights			Outer Loadings			VIF
	Original Sample	T Statistics	P Values	Original Sample	T Statistics	P Values	
VCP1 -> VCP	0.435	8.730	0.000	0.763	18.749	0.000	1.300
VCP2 -> VCP	0.041	0.886	0.376	0.385	6.675	0.000	1.170
VCP3 -> VCP	0.438	6.851	0.000	0.816	22.319	0.000	1.460
VCP4 -> VCP	0.030	0.566	0.571	0.509	9.336	0.000	1.380

VCP5 -> VCP	0.375	5.952	0.000	0.745	18.129	0.000	1.470
VGP1 -> VGP	0.411	5.892	0.000	0.852	26.889	0.000	1.780
VGP2 -> VGP	0.477	7.663	0.000	0.867	29.778	0.000	1.710
VGP3 -> VGP	0.323	4.278	0.000	0.722	16.757	0.000	1.990
VGP4 -> VGP	-0.053	0.539	0.590	0.662	13.273	0.000	2.920
VGP5 -> VGP	0.071	0.843	0.399	0.542	9.231	0.000	1.940
VSC1 -> VSC	0.372	4.790	0.000	0.797	18.860	0.000	1.570
VSC2 -> VSC	-0.050	0.719	0.472	0.518	8.571	0.000	1.520
VSC3 -> VSC	0.357	4.081	0.000	0.806	16.918	0.000	1.770
VSC4 -> VSC	0.051	0.708	0.479	0.580	9.985	0.000	1.560
VSC5 -> VSC	0.477	5.760	0.000	0.865	24.225	0.000	1.710

Source: Authors' Computation (2023)

4.2. Assessment of Structural Model

The structural model is assessed using the Variance Inflation Factor (VIF), the coefficient of determination (R^2), the effect size (f^2), predictive relevance (Q^2), and the path coefficients (β) in order to determine the strength and direction of associations among the constructs. Path coefficients and p-values were used to confirm or reject hypotheses. The VIF values range between 1.816 and 3.330, which were clearly below the threshold of 5 (Table 8), showing that collinearity among the predictor constructs is not a critical issue in the structural model. The R^2 value was 71.1% (Table 8, Figure 3), which indicates that all independent latent constructs (VGP, VSC, VCP and POF) explain 71.1% of the variance in the dependent latent variable.The effect size (f^2) also fell within the threshold of medium and large. In addition, the Q^2 value for the endogenous construct (SVR) was 0.442, which is above the thresholds of strong Q^2, hence, the out-of-sample predictive relevance was established. The effect size (f^2) ranges between 0.03 and 0.236, which were within the threshold of small and medium. This means that all the independent latent constructs have non-negligible effect on the outcome variable. Finally, the values of the path coefficients were all within the allowable range of +1 and -1 (Figure 3, Table 9).

Table 5. Explanatory Power

Predictors	Outcomes	R-Square	f-Square	Q-Square	Inner Model VIF
VGP	SVR	0.711	0.216	0.442	1.816
VSC			0.030		2.559
VCP			0.023		3.330
POF			0.236		1.926

Source: Authors' Computation (2023)

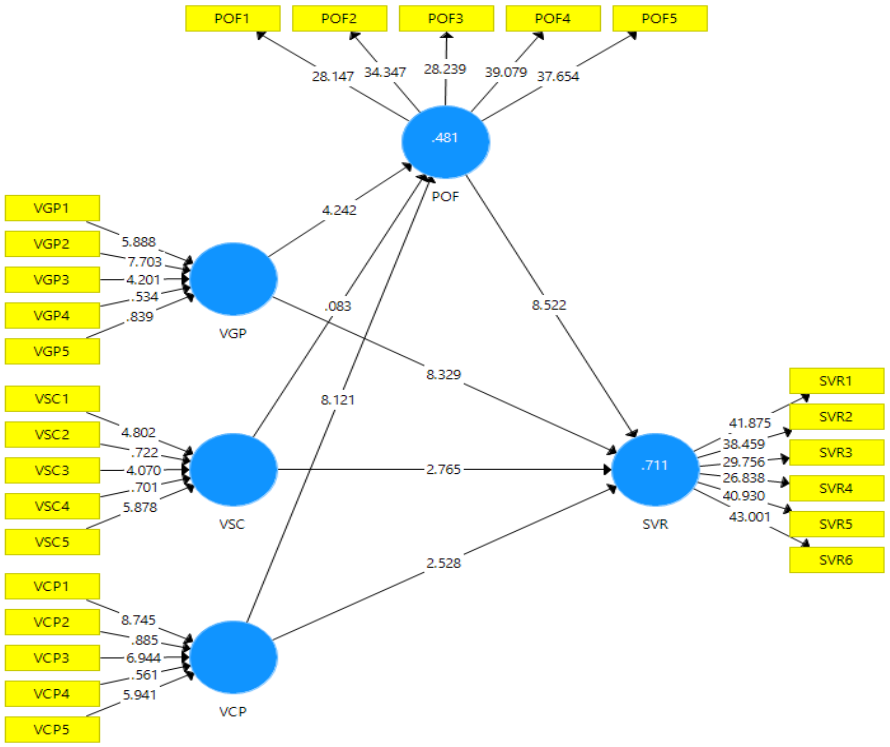

Figure 3. PLS-SEM Structural Model

Source: Authors' Analysis (SmartPLS Result), 2023

4.3. Test of Hypotheses

The relevant statistics for testing the hypotheses in this study are shown in Table 6. Consequently, in testing hypothesis one (H_{01}), the empirical analysis as seen in Table 6 revealed that the VAT policy gap has a positive and statistically significant effect on sustainable VAT revenue performance (β = 0.340, t = 8.329, p < 0.001). Hence, this hypothesis is not accepted. Theresults in Table 6 also shows that hypothesis two (H_{02}), which states that VAT simplicity of collection has nosignificant influence on sustainableVAT revenue performance is not accepted (β = 0.150, t = 2.765, p = 0.006). Similarly, the results in Table 6 revealed thatVAT compliance has a positive and statistically significant impact onsustainableVAT revenue performance (ß = 0.148; t = 2.528; p = 0.011). Hence, H_{03} is not accepted. Likewise, hypothesis four (H_{04}) which states thatperception of fairness of VAT has nosignificant influence on sustainableVAT revenue performance is not accepted (ß = 0.363; t = 8.522; p < 0.001). These empirical results here demonstrate that the VAT policy gap, simplicity of collection, compliance and perception of fairness are significant predictors of Nigeria's ability to generate sustainable VAT revenues.

Table 6. Direct Effects Results

Hypothesized Paths	β	T-Statistics	P-value	Decision
H_{01}: VGP -> SVR	0.336	8.329	0.000	Rejected
H_{02}: VSC -> SVR	0.150	2.765	0.006	Rejected
H_{03}: VCP -> SVR	0.148	2.528	0.011	Rejected
H_{04}: POF -> SVR	0.363	8.522	0.000	Rejected

Source: Authors' Computation (2023)

4.4. Discussion of Results

The relationship between the VAT policy gap and sustainable VAT revenue generation or performance was found statistically significant in this study. Thus,VAT policy gap has a positive significant effect on sustainable VAT revenue generation.This empirical finding suggest that effective use of VAT policies could enhance the capacity of the VAT system to raise more revenue since such policies, which are usually in the form of waivers, exemptions or zero-rated are often deployed to bolter certain sectors of the economy from where additional VAT revenue could be raised. This outcome is consistent with prior studies such as Raczkowski and Mroz (2018) and Nerudova and Dobransch (2019). While the finding of this study contradicts the finding of Usman et al. (2019) what discovered a negative and significant correlation between the VAT policy gap and VAT revenue generation. As such, when investigating the effects of the VAT policy gap on the sustainability of the VAT system in realizing its revenue potentials, it is necessary to adequately consider VAT policy gap indicators identified in this study, such as overstatement of deductions through VAT exemptions; understatement of income through exemptions; arbitrary application of exemptions; poor quality VAT data; waivers to stimulate the economy growth; and growing magnitude of VAT gap.

Furthermore, in examiningthe relationship between VAT simplicity and VAT revenue generation, this study found that VAT simplicity has a significant positive influence onVAT revenue generation. This result provided empirical support for VAT simplicity of collection as a reliable predictor of sustainable VAT revenue generation since it was established that the simplicity (or complexity) of the VAT system influences VAT revenue generation. This finding is in line with the empirical evidences from several scholars such as Alshira'h et al. (2020), Mascagni et al. (2022), Hassan et al. (2021), and Ahangar et al. (2011). The empirical evidence discovered in this study indicates that the technical complexity, compliance complexity, and structural complexity of the Nigerian VAT system make the specific computations involved in VAT too onerous and expensive for VEPs (PwC-Nigeria, 2021; Faridy et al., 2014).

In addition, this study found that a positive significant relationship between VAT compliance and VAT revenue generation in Nigeria. Hence, VAT compliance will significantly affect sustainable VAT revenue generation in Nigeria. This implies that when non-compliance with VAT is high, there is greater likelihood of impeding VAT system capacity to generate revenue for development. This empirical finding aligned with the finding of Shakkour et al. (2021), who found that VAT compliance plays a significant role in generating tax revenue for a country's economic development.

Finally, this study found a positive and significant relationship between perception of fairness of VAT and VAT revenue generation. The results provided empirical support for perception of fairness of VAT system as an important predictor of sustainable VAT revenue as it was found that VAT revenue generation would be influenced by how VAT taxpayers perceived the VAT system as procedurally and retributively fair or otherwise. This finding is consistent with the position of Oladejo (2021), who associated low perception of fairness with VAT administration in Nigeria to low VAT revenue generation. The empirical finding of significant positive relationship is also consistent with the finding of Hassan et al. (2021), who found that when taxpayers realise that their ability to pay taxes is given adequate consideration, tax fairness perception tends to improve and consequently use their fairness judgment as input in their decision.

5. Conclusion and Recommendations

The continually low VAT-to-GDP ratio in Nigeria has called into doubt the capacity of the VAT system to generate VAT revenue sustainably as a legitimate source of public revenue. The empirical findings from this study and a review of the existing literature indicate that the indicators of VAT policy gap, simplicity, compliance and perception of fairness affect sustainable VAT revenue generation in Nigeria. The empirical evidence of this study make it clear that if a tax administration's goal is to generate VAT revenue in such a way as to be fair with the present and future generations, it is imperative to control for the factors related to the VAT gap, simplicity, compliance and perception of fairness, which could determine the capability of the current VAT system to generate revenue sustainably in Nigeria.

In the light of this study, the following suggestions are made:

Relevant tax authorities should adopt a tax information gathering and reporting system that is both effective and efficient with opportunity to access quality data about VATable entities or persons (VEPs) and their associated VATable transaction data in order to apply VAT fairly. This will strengthen the system in detecting unethical use of VAT waivers and exemptions as well as aid in the collection of unpaid VAT that may have previously slipped the system, closing or reducing the VAT gap. In order to streamline the VAT system and ensure that all VAT due is collected after a VEP has completed a VATable transaction, the study recommends switching to a completely automated and cutting-edge method, such as digital invoices. A fully automated VAT would ease the technical, compliance, and structural complexities associated with Nigeria's current VAT system. As diverse institutions involved in the VAT process are expected to be integrated into the automated system, the tax authority is expected to support such a system with an appropriate policy.

Consequently, tax authority should implement measures such as VAT compliance cost reduction for the VATable entities or persons and enforcement of high ethical behaviours among tax professionals especially those acting on behalf of the VATable entities. In addition, monetary and non-monetary incentives are recommended to tax authority to incentivise compliance and adequately reprimand noncompliance, which will enhance positive perception of fairness of the VAT system among the VATable entities since citizens are not offended by the tax burden as such but rather the uneven distribution of this burden.

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Appendix 1. Sample Profile

Details	Respondents (N = 384)	Percentage (%)
Organisation Type:		
Listed firms	77	20.1%
MDAs/public corporations	103	26.8%
Tax Authority	79	20.6%
Tax Consultancy (Big 4)	43	11.2%
Tax Consultancy (Non-Big 4)	82	21.4%
Position:		
Executive	13	3.4
Top Management	85	22.1
Manager	204	53.1
Senior Consultant	19	4.9
Tax Accountant	40	10.4
Others	23	6
Duration of Professional Experience:		
Less than 5 years	51	13.3
Between 5 and 10 years	196	51
Between 11 and 15 years	90	23.4
More than 15 years	47	12.2
Professional Affiliation:		
CITN	116	30.2
ICAN	211	54.9
ANAN	47	12.2
Others	10	2.6
Knowledge of Nigeria Tax System:		
Expert	250	65.1
Middle Level Expert	108	28.1
Adequate	26	6.8