



TOWARDS EFFECTIVE VALUE ADDED TAX ADMINISTRATION IN NIGERIA**

Abstract

Value Added Tax (VAT) otherwise known as General Sales Tax in some countries, is chiefly a European creation. It is a tax on goods and services which is imposed at each and every stage of the supply chain where value is added from the incipient production to the point of sale. Value Added Tax is founded on consumption and not on income. It is collected multiple times during the production of a finished product. Whenever value is added to or a sale is made, Value Added Tax is always collected and remitted to the government. VAT is an indirect tax. The very person who ultimately bears the burden of the tax is not necessarily the same person as the one who pays the tax to the tax authorities. According to the proponents of the tax, it raises government revenues without charging wealthy taxpayers more as income taxes do. To the critics of the tax, however, it is essentially a regressive tax which places an undue economic burden on lower-income consumers while increasing bureaucratic burden on businesses. Value Added Tax since it was introduced in Nigeria in 1993, has made and is still making substantial contributions to the non-oil federally collected revenue. Nevertheless, such input and/or contribution to the economy of Nigeria has been found to be abysmally poor when compared to that of other countries where the tax is efficiently and effectively administered. Because of the foregoing, therefore, this work seeks to understudy the Value Added Tax administration in Nigeria with a view to ascertaining the efficiency or otherwise of same and advance workable solutions thereto. The methodology employed in the research is doctrinal, and the approaches adopted are narrative, analytical, and descriptive. Data were obtained from both primary and secondary sources. Findings reveal among other things that lack of accurate data of taxpayers, poor administration of the tax, corruption, insufficient use of technology as well as lack of awareness of the tax are the major challenges to the consolidation of Value Added Tax in Nigeria. Fortunately, the challenges aforementioned are not insurmountable. The research ends with reform proposals and recommendations centred around improved use of technology, sustained sensitization of the taxpayers through Radio, Television, Billboards, and other social media, as well as compulsory registration of taxpayers.

Keywords: Tax, Value Added Tax, Tax Administration, Enforcement, Revenues, Government.

1. Introduction

Nigeria, basically, is a near mono-economic State which relies heavily on revenues emanating from the oil sector. The oil sector of the Nigerian economy provides well over fifty percent (50%) of the country's export ratio, and contributes majorly to the nation's Gross Domestic Product (GDP).¹ With the unfortunate fall in crude oil price in the international market, diversification of the economy thus becomes apparently necessary since reliance on crude oil earnings cannot sustain public expenditure.² As a panacea to the overdependence on oil revenue, the government of Nigeria has resorted to taxation to boost the country's revenue realization.

Taxation is the life wire of every nation, and the level of development of any nation, most times, depends on the amount of revenue generated through taxation.³ Taxation is an extraction for the support of the government.⁴ Value Added Tax (VAT) which is one of the forms of taxation that

* **M N Umenweke**, PhD, FICMC, ACTI, BL; Professor of Tax Law, Department of Public and Private Law, Nnamdi Azikiwe University, Awka, Anambra State. Email: mn.umenweke@unizik.edu.ng

** **Theophilus Williams Nwoke**, LL. B (Hons), LL.M (Unibadan), PhD Candidate, and Lecturer in the Department of Public and Private Law, Nnamdi Azikiwe University, Awka, Anambra State. Email: nt.williams@unizik.edu.ng

¹ C Ede, 'The Nigerian Tax Outlook; A Critical Analysis of the Finance Act, 2020'. (April 15, 2020). Available at SSRN: <https://ssrn.com/abstract=3576733> or <http://dx.doi.org/10.2139/ssrn.3576733>. Accessed 5/5/2022.

² Omesi & N P Nzor, 'Tax Reforms in Nigeria: Case for Value Added Tax (VAT)', *African Research Review, an International Multidisciplinary Journal, Ethiopia*, Vol. 5/No 39.

³ *Ibid.*

⁴ See *United States v Butter* 2276 US, 1 [1936] at P. 61.



Nigeria like other countries of the world has resorted to, is a tax assessed at each step in the production of commodity, based on the value added at each step by the difference between the commodity's production cost and its selling price.⁵ It is a tax on spending/consumption levied at every stage of transaction but eventually borne by the final consumer of such goods and services.⁶ Value Added Tax (VAT), after the introduction of Personal Income Tax and Income Tax Withholding, stands as one of the most important tax policy innovations.⁷

VAT is an ad-valorem tax since the tax which is due is calculated by multiplying the rate by the net Value of the transaction. It is effectively levied only on final consumption as no credits are provided to final consumers of goods and services. The tax has been adopted by well over 160 countries of the world, and it is reported to account for approximately twenty percent (20%) of the total global tax revenue.⁸

The idea of introducing Value Added Tax in Nigeria was initiated by Dr. Sylvester Ugho who led a Study Group on Indirect Taxation in November, 1991. It was the need to accelerate economic growth and development among other things that necessitated the eventual introduction of Value Added Tax in Nigeria in 1993 following the study Group's recommendation.⁹ The tax is a replacement of the then existing Sales Tax which had been in operation in the federal government – legislated Decree No. 7 of 1986 but was operated on the basis of residence.¹⁰

Value Added Tax in Nigeria is a federally collected tax, and it is administered through the Federal Inland Revenue Service (FIRS). The tax, mainly, was introduced as a federal intervention to help the State governments to modernize their Sales Tax and consequently enhance their revenue¹¹. The initial policy on the distribution of the revenue from Value Added Tax in Nigeria was that 80% of it would be shared among the States and the Federal Capital Territory, while the Federal Government will retain 20% as administrative charges¹². When VAT turned out to be successful however, the distribution formula was changed in favour of the Federal Government and also extended to the Local Government Councils in the ratio of 50%, 25% and 25% to the Federal, State and Local Government respectively. owing to protests by State governments, the distribution formula was further reviewed on several occasions in favour of States and Local Government Councils to arrive at the present formula which is 15%, 50% and 35% to the Federal, States and Local Governments.¹³

In spite the review of the sharing formula however, Lagos State has always expressed serious concerns about its fairness or otherwise. In year 2000, the Lagos State Government introduced again Sales Tax,¹⁴ and aggrieved taxpayers in the State instituted a number of actions in the Court to challenge the constitutionality or otherwise of the tax. The court in *Mama Cass & Ors v Federal Board of Inland Revenue & Anor*¹⁵ held that VAT was a tax on sales to consumers, and the sales rates imposed by the Lagos State Sales Tax Law on sales to consumers was one and the same.

⁵ B A Garner, *Black's Law Dictionary* (8th ed, USA, West Publishing Co., 2004) P. 1499.

⁶ M Ugwu & A Ebuka, *Pay as You Consume the Value Added Tax Gauge: A Quarterly Publication of the Federal Inland Revenue Service*, April/June, 2012.

⁷ A Abdullah, H Doucouliagos, E Manning. Does Education Reduce Income Inequality? A Meta-regression Analysis. *Journal of Economic Surveys*, 2015, 29, 301-316.

⁸ K James, *Exploring the Origins and Global Rise of VAT. Tax Analysis Faculty of Law*, Monash University, Melbourne, 2011.

⁹ F I O Izedonmi & J.A Okunbor, 'The Roles of Value Added Tax in the Economic Growth of Nigeria', *Journal of Economics, Management and Trade*, Vol. 4 (12), 1999-2007.

¹⁰ M T Abdulrazaq, *Revenue Law and Practice in Nigeria* (3rd edn. Lagos, Mathouse Press Limited, 2015) p. 307.

¹¹ A Sanni, 'Current Law and Practice of Value Added Tax in Nigeria', *British Journal of Arts and Social Science*, 2012.

¹² *Ibid*

¹³ Section 40 of the Value Added Tax (Amendment) Act, 2007.

¹⁴ Section Tax (Schedule Amendment) Order 2000 of Lagos State.

¹⁵ [2010] TLRN P. 103.



Applying the case of *Oseni v Dawodu*,¹⁶ the court was of the opinion that the VAT Act has covered the whole field in respect of Sales Tax on the services in question and as such the tax collected from consumers by the plaintiff are hereby regarded as Value Added Tax and not tax under Sales Tax Law of Lagos State. This reasoning of the court in the above case could also be compared with the decision of the court in the *locus classicus* case of *AG Ogun State v Aberuagba*¹⁷ where the Supreme Court held as far back as 1985 that the State Governments are only empowered to impose Sales Tax (a form of consumption tax) on intra-state transactions, without more. The implication of this decision of the Supreme Court is that State Governments cannot validly impose Sales Tax on inter-state or international transactions, both of which are matters exclusively reserved for the Federal Government of Nigeria on the Exclusive Legislative List. Thus, the Supreme Court Struck out the Sales Tax Law of Ogun State in that case to the extent that it imposed Sales Tax on international and inter-state trade and commerce.

In of *AG Lagos State v Eko Hotels*,¹⁸ the Federal High Court (FHC) upheld the constitutionality of VAT Act and declared the Sales Tax Law of Lagos State null and void. Also, in *Princel Court Ltd v AG Lagos State & Ors*,¹⁹ the Court held that the Hotel Occupancy and Restaurant Consumption of Lagos State, 2009 is inconsistent with the provision of VAT Act and the Taxes and Levies (Approved List for Collection) Act. It's also in violation of the Constitution.

In a more recent case of *A.G River State v FIRS & A.G Federation*²⁰, the Federal High Court in Port Harcourt ruled that the Federal Government of Nigeria is not empowered to make tax laws in relation to Value Added Tax, withholding tax and technology tax. it further held that the Constitution does not allow the Federal Government to make laws outside the taxation of incomes, profits, and capital gains.

Value Added Tax has a Directorate in the Federal Inland Revenue Service headquarters in Abuja with a network of zonal and local offices throughout the States of the federation of Nigeria. It is a self-assessment tax which is paid at the point returns are being made.

One thing that is particularly interesting about Value Added Tax is that it is a tax that is paid without cheating but with sweating; it is a tax we pay without thinking about it.²¹

Value Added Tax has been embraced by many countries worldwide.²² The yield from VAT is a fairly accurate measurement of the growth of an economy, since purchasing power of the Naira increases with economic growth.²³ It is relatively easy to administer and difficult to evade by the taxpayer.

For several decades, the Value Added Tax revenue has accounted for a significant percentage of the total public revenue universally²⁴. The tax has been embraced by many nations of the world due to the growing concern about economic efficiency and tax simplicity in the competitive and integrated world economy.²⁵

¹⁶ [1994] 4 NWLR (pt 399) P. 390.

¹⁷ [1985] 1 NWLR (Pt. 3) 395.

¹⁸ CA/L/428/2005.

¹⁹ [2010] 3 TLRN 30.

²⁰ Suit No: FHC/PH/CS/149/2020.

²¹ C S Ola *Income Tax Law and Practice in Nigeria*, (Revised Edn. Ibadan, Heinemeri Educational Books Nigeria Plc, 1999) P. 584

²² M N Umenweke, *Tax Law and Its Implications for Foreign Investments in Nigeria* (Enugu Nolix Educational Publications (Nig), 2008) P. 153.

²³ *Ibid.*

²⁴ M J Ugochukwu & J B Azubike, 'Value Added Tax and Economic Development in Nigeria' *International Journal of Development and Economic Sustainable*, 4 (3); 1-10, 2016.

²⁵ C Kuo, H Jenkins & Jenkins, *Is the Value Added Tax Naturally Progressive?* Working Paper 1059, Economics Department, Queen's University, 2006.



The contribution of Value Added Tax to government revenue in nations where it has been adopted and efficiently administered cannot be overemphasized. However, the revenue generating-potential of VAT is relative to the country's legal framework for Value Added Tax and the administrative capacity. It is against this background that this study seeks to critically examine the Value Added Tax regime and administration in Nigeria.

2. The Concept of Value Added Tax in Nigeria

Value Added Tax is a tax on goods and services which is imposed at each stage of the process of production.²⁶ It is a tax assessed at each stage in the production of a commodity, based on the value added at each step by the difference between the commodity's production cost and its selling price.²⁷

Value Added Tax (VAT) otherwise known in some countries as a General Sales Tax (GST), is assessed incrementally. It is levied on products at every point of sale where value has been added, beginning from raw materials and going all the way to the final retail purchase. The ultimate payers of the tax are actually the final consumers. This is because the buyers at earlier stages of production receive reimbursements for the previous Value Added Tax they paid.

VAT is an indirect tax. It is so because the person that ultimately pays the tax is not necessarily the same person as the one who remits the tax to the tax authorities. It is a multi-stage tax, and the collection guarantees some level of probity, accountability and reliable remittance, hence the preference.

Value Added Tax accounts for about a fifth (5th) of total tax revenues both worldwide and among the members of the Organization for Economic Co-operation and Development (OECD).²⁸ In Nigeria, the tax is imposed and charged on the supply of all goods and services other than goods and services listed in the First Schedule to the Act.²⁹ the current VAT rate in Nigeria is 7.5%.³⁰ The nature of VAT is that it is a consumption tax and because it is a consumption tax, it poses no difficulty in terms of administration as it is hard to evade. It is not a new form of taxation but merely a Sales Tax administered in different form.

The Value Added Tax payable by taxpayers actually depends on their consumptions rather than on their income. The tax applies to every purchase made. Unlike the progressive income tax, Value Added Tax does not discriminate among the classes of income earners.

In Nigeria, a VATable person can register with the Federal Inland Revenue Service (FIRS) for the collection of VAT within six months of the commencement of the Act or within six months of the commencement of business, whichever is earlier³¹. Failure to do so would attract penalty of N10,000 for the first month in which the failure occurs; and N5,000 each for subsequent month.³² In-built in Value Added Tax is the refund or credit mechanism which eliminates the cascading effect which is basically a feature of retail Sales Tax.³³

VAT is self-policing and this is made possible by the input-output tax mechanism in the tax. The VAT payable is computed or realized by subtracting output tax from input tax. In other words, it is the equivalent of the VAT paid by the final consumer of the product that would be remitted to the government.

²⁶ M N Umenweke, *Tax Law and Its Implications for Foreign Investments in Nigeria*, (Enugu, Nonix Educational Publication (Nig), 2008) p. 145.

²⁷ B A Garner, *Black's Law Dictionary* (8th ed, USA, West Publishing Co., 2004) P. 1499.

²⁸ Consumption Tax Trends. Secretary-General of OECD. 2018. Doi:10.1787/ctt-2018-en. Retrieved 5/5/2022.

²⁹ Section 2 of the Value Added Tax (Amendment) Act, 2007.

³⁰ See Finance Act, 2020.

³¹ Section 8(1) of the Value Added Tax (Amendment) Act, 2007.

³² Ibid, section 8(2)

³³ M T Abdulrazaq, *Revenue Law and Practice in Nigeria*, (3rd ed, Lagos, Malthouse Press Limited, 2015) p. 307-308.



Value Added Tax is charged and payable on the supply of all goods and services (manufactured) or rendered locally and/or imported),³⁴ other than those specifically exempted or listed as zero-rated under the Act.³⁵

3. Historical Development of Value Added Tax

There is yet to be a consensus on the exact origin of Value Added Tax.³⁶ However, one can say that Germany and France were the first countries to implement VAT, and this they did in the form of a general consumption tax during the World War I.³⁷ In Germany, the origin of Value Added Tax can be traced to a Germany industrialist/entrepreneur (Wilhelm von Siemens) who carried out extensive research and proposed the concept in 1918. In France it can be traced to the Joint Director of the France Tax Authority (Maurice Laure) who implemented it in 1954 in Ivory Coast (Cote d'Ivoire) colony. Seeing that the experiment was successful in Ivory Coast, the French Government introduced it in France in 1958.³⁸ It is the most important source of State finance in France, accounting for nearly fifth percent (50%) of State revenues.³⁹ Initially, it was directed at large businesses in Germany but later was extended over time to include all business sectors.

The Wilhelm von Siemen's concept of Value Added Tax was largely seen as a new but technical method that amended and modified the turnover tax. His variation of VAT gave room for the recovery of taxes paid on business inputs and prevented and escaped the usual challenges that come with turnover tax.

There are still scholars, however who attribute the origin of VAT to an American economist (Thomas S. Adams) whose literary work spanned from 1910 to 1921.⁴⁰ Nevertheless, no matter who it was that initiated the concept of Value Added Tax, one truth that is unimpeachable and undeniable is that VAT was largely a European creation.

The adoption of Value Added Tax progressed basically in two major phases. The first phase took place in countries in Latin America and Western Europe and this was within 1960s and the 1970s. The second phase, however, happened in the tail end of 1980s.⁴¹ From there, Value Added Tax started being adopted in some of the industrialized nations outside the European Union (EU). In the second phase, more so, there was serious and continuous expansion of Value Added Tax in transactional economies as well as developing economies for example, Africa and Asia. This expansion of VAT in developed economies and developing economies, was facilitated by the influence of the World Bank (WB) and the International Monetary Fund (IMF).

In Nigeria, Value Added Tax was adopted in 1993 following the promulgation of Decree 102 of 1993 as a replacement of the former Sales Tax which has been in operation in the federal government-legislated Decree No. 7 of 1986 but was operated on the basis of residence.⁴² It was

³⁴ Section 1 of the Value Added Tax Act, Cap V-I Laws of the Federation of Nigeria, 2004.

³⁵ The First Schedule to the Act exempts from VAT all medical goods, basic food items, books and educational, agricultural and veterinary medicine, farming machinery and transportation equipment and all exports etc. The Finance Act 2020, however amended the Schedule to include locally manufactured sanitary towels, pads or tempons etc.

³⁶ K James, *Exploring the Origins and Global rise of VAT Tax Analysts*, Faculty of Law, Monash University, Melbourne, 2011.

³⁷ A F Helgason, "Unleashing the 'Money Machine': The Domestic Political Foundations of VAT adoption". *Socio-Economic Review*, 2017, 15 (4): 797-813. Available at doi:10.1093/ser/mwxoo4.

³⁸ *Ibid.*

³⁹ "Les recettes fiscales". *Le budget et les comptes de l'Etat* (in French). Minister of the Economy, Industry and Employment (France). 30th October, 2009. Archived from the original on 2nd January, 2010. Retrieved 10/5/2022.

⁴⁰ S Adams, 'Fundamental Problems of Federal Income Taxation', *Quarterly Journal of Economics*, 35(4) (1921), 528-553.

⁴¹ E I Agbo and E O Nwadiakor, 'The Genesis and Development of Value Added Tax Administration: Case Study of Nigeria'. *International Journal of Academic Research in Accounting, Finance and Management Science* vol 10, 2020.

⁴² M T Abdulrazaq, *Revenue Law and Practice in Nigeria* (3rd edn. Lagoes, Malthouse Press Limited, 2015) P. 307.



introduced following Dr. Sylvester Ugoh led study Group recommendation on indirect Taxation in Nigeria in November, 1991. Value Added Act in Nigeria underwent its first amendment in 1998.⁴³ Since introduction of Value Added Tax, it has risen as the fastest growing tax revenue in Nigeria.⁴⁴

Value Added Tax was created to tax only the value added by a business upon the services and goods it can purchase from the market. The sum of Value Added Tax is determined by the country as a percentage of the price of the goods or services provided. VAT, basically, compensates for the shared service and infrastructure made available in the society by the government through the taxpayers-money.

4. Administration of Value Added Tax in Nigeria and the Attendant Controversies

Value Added Tax administration in Nigeria simply put, involves registering, assessing, collecting and accounting for VAT revenue. Administration of Value Added Tax encompasses penalties and cases of appeals associated with the making of returns arising from failure to register in line with the Value Added Tax Act.⁴⁵

The authority or body responsible for the administration of VAT with the power to do such things as may be deemed necessary and expedient for the assessment and collection of tax due is the Federal Inland Revenue Service (FIRS).⁴⁶

Value Added Tax administration in Nigeria has witnessed and is still witnessing several changes due to the ongoing tax reform in the country. The campaign for restricting and grant of administrative and financial autonomy for the Federal Inland Revenue Service has been a very long drawn battle. Success, however, came when the Federal Inland Revenue (Establishment) Act⁴⁷ was enacted which established Federal Inland Revenue Service under a separate statute dedicated solely for that purpose.

Before now, the Federal Board of Inland Revenue (FBIR) was established under the Companies Income Tax Act. The establishment of Federal Inland Revenue Service under a separate statute of its own now makes for easy reference for administrators, practitioners and researchers. The Federal Inland Revenue Service Act has granted arrays of powers and a measure of autonomy to the Federal Inland Revenue Service to enable it discharge its statutory functions. For example, the FIRS is now able to recruit, discipline, and determine the terms and conditions of service of its staff outside the civil service structure. Since the take of the new structure, the FIRS has been re-invented in terms of dynamism and professionalism.⁴⁸

Moreso, before now, taxpayers were required to approach different offices sometimes situated far apart for different tax needs, thus making the process of assessment and collection of tax difficult and distinctly tortuous.⁴⁹ In order to address this problem, the Federal Inland Revenue Service had created 77 Integrated Tax Offices (ITOS) as a One Stop Shop (OSS) for all tax payments including Value Added Tax. This was actually what that resulted to the existence and functionality of Local Value Added Tax Offices. It was on this background that section 2 of Value Added Tax

⁴³ S Ojo, *Fundamental Principles of Nigeria Tax* (Lagos; Sagriba Tax Publications, 2003).

⁴⁴ A A Onaolapo, R J Aworemi and O A Ajala, 'Assessment of Value Added Tax and Effect on Revenue Generation in Nigeria' [2013] 10(1) *Pakistan J. Soc. Sc.* 22-26.

⁴⁵ L A Nwyanwu, "Value Added Tax Administration in Nigeria: An Inquiry into Irrecoverable invoices", (2015) 24 *Applied Economic and Finance Journal* P. 44.

⁴⁶ Section 7(1) (2) of Value Added Tax (Amendment) Act, 2007.

⁴⁷ A Sanni, P. 200.

⁴⁸ *Ibid.*

⁴⁹ J A Arogundade, *Nigeria Income Tax and Its International Dimensions* (2nd edn; Ibadan: Spectrum Books Ltd, 2010) P.



(Amendment) Act, 2007 provides that the word “VAT Office” should be substituted with “Tax Office” whenever it appears in the principal Act.⁵⁰

5. The Value Added Tax Administration War Between the Federal Government and State Governments

Recently, there have been serious issue of dual claim to the administration of Value Added Tax in Nigeria by the Federal Government and the States of the Federation. The controversy has to do with who would make law to administer and collect Value Added Tax in the country.

Nigeria, it should be noted, generated an estimated amount of 1.53 trillion Naira revenue from Value Added Tax in 2020.⁵¹ This very huge amount of money generated from VAT on yearly basis, we believe, is what that aggravated the controversy as to who imposes, collects and administers the tax in Nigeria.

It has been argued that an item like Value Added Tax which is important to the economy of a nation like Nigeria ought to be clearly provided for under the Constitution; that where such is not provided for it may be interpreted that the legislatures intended that such an item be left under jurisdiction of the State Government as a residual matter.⁵²

The subject and indeed the kernel of the controversy between the Federal Government and the States of the Federation is that the Federal Government lays claim to the collection of Value Added Tax owing to the very fact that section 7 of the VAT Act empowers the Federal Inland Revenue Service (FIRS), (an agency of the Federal Government) with the administration of the tax in Nigeria. The Value Added Tax Act, itself, is a law made by the National Assembly under its inherent powers and jurisdiction recognized and acknowledged and in deed guaranteed by the constitution.⁵³ The Federal Government also claims that VAT has continually been legislated and administered by the Federal Government to the exclusion of the states. It further claims that the VAT law predates the 1999 Constitution. This claim, however, is controvertible by virtue of the supremacy clause enshrined in the 1999 Constitution which provides that the provision of the Constitution shall be supreme and any other law in consistent with the provisions of the Constitution shall, to the extent of the inconsistency be void.⁵⁴

On the other end of the controversy is the State Governments which also lay claim to the collection of the Value Added Tax in Nigeria. The State Governments’ claim to VAT is, of course, on the notion that the 1999 Constitution of Nigeria (as amended) lists matters relating to tax collection in the Concurrent List, which inadvertently entitles the State Governments to the collection of Value Added Tax in Nigeria. The State Governments also contend that the Federal Government may only delegate the power to collect taxes under item 58 and 59 of the Exclusive Legislative List to the State Governments, relying on item 7 of the Concurrent List.

More so, the State Governments contend among other things that the power of the Federal Government to impose and collect taxes is limited to the taxes listed in item 58 and 59 of the Exclusive Legislative List, which advertently or inadvertently excludes Value Added Tax.

Furthermore, about 30 States in Nigeria account for less than 20% of Value Added Tax Collection, while Lagos State and Rivers State alone are estimated to account for over 70% of Value

⁵⁰ Value Added Tax (Amendment Act) 2007.

⁵¹ Samuel Oyekanmi ‘Nigeria generates N1.53 trillion VAT in 2020, grows by 29%. January 7, 2021. <https://nairametrics.com/2021/01/27/Nigeria-generates-n-53-trillion-vat-in-2020-grows-by-29>. Accessed 28/12/2022.

⁵² L O Yusuf and S A F Udeorah, “Dynamic Impact of Value Added Tax on Economic Growth in Nigeria”, (2021) 9(5) *Journal of Research in Humanities and Social Science*, 24-28.

⁵³ See section 4 of the Constitution of the Federal Republic of Nigeria 1999 (as amended).

⁵⁴ Section 1 of the Constitution of Nigeria (as amended).



Added Tax pool in the country, with Lagos State as a stand-alone contributing about 55% of Value Added Tax collection due to the high concentration of economic activities in the State.

Interestingly, the Courts of law have at many times, have tried to intervene in this controversy. For example, in *Ukala v FIRS*,⁵⁵ the Federal High Court took the judicial reasoning that the National Assembly is statutorily not allowed to make law on head of taxation not covered in item 58 and 59 of the Exclusive Legislative List of Part 1 of the Second Schedule of the Constitution. Taxes such as Value Added Tax (VAT), Withholding Tax (WHT), Tertiary Education Tax (TET), the National Information Technology Development Agency (NITDA) Levy etc. which are not specifically listed under the said items are outside of the jurisdiction of the Federal Government of Nigeria. As such, the Value Added Tax Act⁵⁶ which empowers the Federal Government with the collection of Value Added Tax is unconstitutional. In the *Registered Trustees of Hotel Owners and Management Association of Lagos v AG of the Federation & ors.*,⁵⁷ the Federal High Court in Lagos ruled on October 2019 in favour of Lagos State Government by upholding the power of the States “charge and collect consumption Tax (Sales Tax or VAT) from hotels restaurants and event centres within the State. The court held that based on the provisions of the 1999 Constitution and the Taxes and Levies (Approved List for Collection) Act,⁵⁸ the power to impose consumption tax was a residual power within the exclusive competence of the States and therefore the Federal Inland Revenue Service (FIRS) is restrained from, imposing VAT on goods and services consumed in hotels, restaurants and event centres as this was already covered by the Lagos State Law. This reasoning was also upheld in various other cases including that of *A.G Rivers State v FIRS & A.G Federation*⁵⁹ where the court also noted that the provisions of item 7 (a) and (b) of part 11 of the Second Schedule of the 1999 Constitution do not by any stretch of imagination extend the legislative competence of the National Assembly beyond Capital Gains, Incomes or Profits of Persons other than companies, and documents or transactions by way of Stamp Duties, and the Federal Government cannot impose and collect VAT where the law does not expressly allow it to do so. The court further held that the National Assembly can only legislate on the class of taxes listed in items 58 and 59 of the Exclusive List and not outside it. The court also held that it was bound by the decision of the Court of Appeal in *Uyo Local Council v Akwa Ibom State Government & Anor*⁶⁰ where the court mollified the Taxes and Levies Act for being inconsistent with the provisions of the Constitution. It consequently ruled that the Taxes and Levies Act⁶¹ was unconstitutional, null and void.

In the wake of the legal tussle between Rivers State Government and the agency of the Federal Government (FIRS) over the collections of VAT and Personal Income Tax (PIT) in the State, the Federal Inland Revenue Service (FIRS) asked the National Assembly to include Value Added Tax collection in the Exclusive Legislative List of the Constitution of Nigeria. The Federal Inland Revenue Service proposed the insertion of Value Added Tax immediately after Stamp Duties under item 58 Part II of the 2nd Schedule of the 1999 Constitution. The proposal, however, was rejected by the National Assembly because it negates Part II of the Concurrent Legislative List of the Second Schedule of the 1999 Constitution (as amended), delegating the collection of such taxes to the State Government or other authority of the State.⁶²

⁵⁵ Suit No: /FHC/PH/CS/30/2020.

⁵⁶ Section 7 (1) (2) of the Value Added Tax (Amendment) Act, 2007.

⁵⁷ Suit No: FHC/L/CS/360/2019

⁵⁸ Taxes and Levies (Approved List for Collection) Act, 2015.

⁵⁹ Suit No: FHC/PH/CS/149/2020.

⁶⁰ [2020] LPELR-49691 (CA)

⁶¹ Taxes and Levies (Approved List for Collection) Act, Cap T2, Laws of the Federation of Nigeria, 2004.

⁶² Samuel Akpan, The National Assembly has rejected a bill seeking to include Value Added Tax (VAT) in the Exclusive List, March 1, 2022. www.theacable.ng/breaking-nassemly-rejects-bill-seeking-to-include-vat-on-exclusive-list/amp. Accessed 18/12/2022.



However, the position of the courts on this issue does not seem to enjoy uniformity. For instance, the Supreme Court in the famous case of *A.G Lagos State v Eko Hotels, Ltd*⁶³ held that the VAT Act had covered the field of Sales Tax, thus, the VAT Act applies to invalidate any legislation made by the State on the same or similar subject matter. In *Nigeria Employers Consultative Association (NECA) and Ors. v AG Federation and Ors.*,⁶⁴ the Federal High Court in Kano nullified the Kano State Consumption Tax Law on the basis that it imposed consumption tax at 5% on goods and services which were already subject to the VAT Act.

The issue of the collection and administration of Value Added Tax as it appears, seems to have been won by the Federal Government. The Federal High Court which hitherto gave judgement in favour of the State Governments on the tax has now acknowledged that the Federal Government has power to administer and collect VAT in the *Incorporated Trustees of Kogi State v Kogi State Board of Inland Revenue and Ors.*⁶⁵ where the court rightly held that:

Value Added Tax Act Cap. Iv LFN, 2004 was original Value Added Tax Decree No. 102 of 1993 promulgated by the Federal Military Government and remained in effect with necessary amendments until coming into effect of the 1999 Constitution as canvassed by the 1st and 2nd Defendants' counsel. The Act is an existing law by virtue of section 315(a) of the 1999 Constitution which provides thus: 'subject to the provisions of the Constitution, an existing law shall have effect with such modifications as may be necessary to bring it into conformity with the provision of this constitution and shall be deemed to be an Act of National Assembly to the extent that it is a law with respect to any matter on which the National Assembly is empowered by this Constitution to make.

The court went further to state that by

Section 4 of the 1999 Constitution the National Assembly has power to make laws for the Federal Government for collection of taxes. The Value Added Tax Act is an existing law by virtue of the Constitution.

It concluded that Value Added Tax prevails over the Kogi State Tax Law on Consumable Goods and Services, 2015 as Value Added Tax Act is deemed to have covered the field.

Well, the Federal Inland Revenue Service (FIRS) has appealed at the Court of Appeal against the judgement of the Federal High Court in A.G Rivers case. It is hoped that the matter would eventually get to the Supreme Court which will put a final nail on the coffin of this issue. However, one thing that cannot be denied is that the Federal High Court sitting in Port Harcourt rendered an earth-shattering decision which currently has ignited and revitalized the debate over fiscal federalism in Nigeria.

6. Prospects of Value Added Tax in Nigeria

- a. **Generation of Revenue:** Value Added Tax is one of the indirect taxes paid in Nigeria, and it has its significant function which is raising of revenue for the government required to meet its

⁶³ [2018] 36 TLRN P. 1.

⁶⁴ [2018] (36) TLRN. P. 1.

⁶⁵ Suit No: (FHC/LKJ/CS/58/2018).



expenditure.⁶⁶ The revenue is required for the provision of goods and services which members of the public cannot provide such as defence, law and order and also the provision of other services which the government feel are better provided by itself such as health services and education.⁶⁷

Value Added Tax revenue would increase the government revenue stream which can be invested in infrastructure, other developmental projects and stimulate economic growth it would also help reduce government's dependence on oil revenue and could reduce overall consumption and further slowdown the economy making it counter-productive.⁶⁸ The drop in oil prices which has led to dwindling revenues for government in Nigeria has once again brought into sharp focus the need to diversify the source of revenue away from oil and more taxation. This is because, apart from being a major source of revenue for governments all over the world, taxation has the remarkable effect of stimulating economic growth and job creation through its impact on investment and capital formation in the economy. In other words, the more tax revenue a country generates, the greater development it attains.⁶⁹

The positive impact of Value Added Tax being a major source of revenue for the government in Nigeria, cannot be overemphasized. For instance, the former FIRS chairman Mr. William Babatunde Fowler disclosed at a workshop on taxation in Lagos that the FIRS made N3.30 trillion Naira revenue from taxes in 2016.⁷⁰ The FIRS also generated N1.2 trillion Naira revenue from Value Added Tax in Nigeria R390.7 billion in year 2021/2022. This represents 18.0% increase compared to year 2019/2020.⁷¹

- b. **Prevention of Tax Evasion:** Tax evasion has to do with the illegal way of avoiding liability for tax. Such practice is a fraudulent one. It is an act of illegally paying less in taxes than the law permits, committing fraud in filing or pay of tax⁷². Tax evasion has also been described as any form of fraud, willful default or neglect to reduce the tax liability or escape the payment of tax altogether⁷³. It entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authority to reduce their tax liabilities and this includes dishonest tax filing, under-declaring income profits or gains or overstating deductions.⁷⁴

The Nigerian tax statutes have provided no definition of tax evasion. However, from the various offences and penalties sections, the offences stated therein provided an insight into what may be regarded as tax evasion.⁷⁵

Tax evasion may be perpetrated in some of the following ways:

failure to make returns for income tax or capital gains tax;
failure to make return for corporation tax; and

⁶⁶ A Dennis and E Okoye, *The Impact of Taxation on Revenue Generation in Nigeria: A study of Federal Capital Territory and Selected States* (2014) 2(2) *International Journal of Public Administration and Management Research*, (IJPAMR), P. 28.

⁶⁷ *Ibid.*

⁶⁸ VAT in Nigeria: The Economic Impact of Proshareny.com. Assessed on 10/01/2023, P. 1.

⁶⁹ Babatunde Fowler, *Synopsis of Value Added Tax Administration in Nigeria*, The Guardian Newspaper, 29th September, 2016, P. 42.

⁷⁰ *Ibid.*

⁷¹ *Ibid.*

⁷² J A A Agbonika, *Problem of Personal Income Tax in Nigeria* (1st edn, Ibadan: Ababa Press Ltd, 2012) P. 134.

⁷³ J A Asohondabe, *Nigerian Income Tax and the International Dimensions* (Ibadan: Spectrum Books Limited, 2005) P. 74.

⁷⁴ J A A Agbonika Pp. 296-297.

⁷⁵ M T Abdudrazaq, *Taxation System in Nigeria*, (1st edu, Ikeja-Lagos, Gravitas Legal & Business Researches Ltd, 2016) P. 177.



incorrect returns or accounts.⁷⁶

Suffice it to say that the various acts mentioned above must be done with fraud, willful default or neglected⁷⁷ and knowingly⁷⁸ for them to constitute the offence of tax evasion.

The method of administration of Value Added Tax will no double lesson or prevent tax evasion among taxpayers. This is because the Value Added Tax which is an indirect tax paid on consumption of goods and services is invoice-based. And because it is invoice-based and documented, it would not be easy at all for taxpayers to evade the payment of the tax.

- c. **Widening of Tax Net:** The Act provides in Nigeria that a taxable person is expected to register with the Federal Inland Revenue Service for purpose of payment of Value Added Tax within six months of commencement of business⁷⁹, and failure to register and/or refusal to do so shall amount to payment of penalty of an amount of N10,000 in the first month in which the failure occurs, and N5,000 for each subsequent month in which the failure continues.⁸⁰ In addition, every government ministry, statutory body and other agency of government shall register as agent of the revenue authority for purpose of collection of Value Added Tax⁸¹, and every contractor transacting business with a government ministry, statutory body and other agency of the Federal, State or Local Government shall produce evidence of registration with the Board as a condition for obtaining a contract.⁸²

The non-resident companies carrying on business in Nigeria shall register for the tax with the revenue authority, using the address of the person with whom it has a subsisting contract, as its address for purposes of correspondence relating to the VAT⁸³, and the non-resident company shall include the VAT in its invoice and the person to whom the goods and services are supplied in Nigeria shall remit the tax in the currency of the transaction.⁸⁴

The Federal Inland Revenue Service has always raised an awareness complain of bringing more taxpayers into the tax net in order to generate more revenue for the government. The former chairman of the Federal Inland Revenue Service Mr. Fowler noted that in a bid to expand the tax net, his agency commenced a massive and aggressive nationwide registration exercise of new taxpayers, culminating in the registration of 814,000 additional taxpayers by December, 2016⁸⁵. According to him, 3.4 million taxpayers were also registered by the State Internal Revenue Service (SIRS) as at December last year.⁸⁶

- d. **As an Instrument of Government Fiscal Policy:** Fiscal policy means the use of taxation and public expenditure by the government for stabilization or growth. It refers to government actions affecting its receipts and expenditures which we ordinarily take as measured by the government's receipts, its surplus or deficit.⁸⁷

⁷⁶ *Ibid.*

⁷⁷ Section 94(1) (b) (ii) of Companies Income Tax Act, 2004.

⁷⁸ *Ibid* section 94(1) (a); section 94 (1) (a) of Personal Income Tax Act, 2004.

⁷⁹ Section 8(1) of Value Added Tax (Amendment) Act, 2007.

⁸⁰ *Ibid* section 8(2).

⁸¹ *Ibid* section 9(1)

⁸² *Ibid* section 9(2).

⁸³ *Ibid* section 10(1)

⁸⁴ *Ibid* section 10(2)

⁸⁵ Ndubuisi Francis, Fowler: *FIRS Collected N3.03 trillion on tax in 2016 says national taxpayers its 14m*. This Day Newspaper, 11th April, 2017 P. 41.

⁸⁶ *Ibid.*

⁸⁷ S M, Chad, *Fiscal Policy: Meaning, Objectives and other Information*, available at <http://www.yourarticlelibrary.com/economics/html>. Accessed on 10th January, 2023, P. 1.



Fiscal policy involves the government changing the levels of taxation and government spending in order to influence Aggregate Demand (AD) and the level of economic activity.⁸⁸ Aggregate Demand means the total level of planned expenditure in an economy. The government may offset undesirable variations in private consumption and investment by compensatory variations of public expenditures and taxes. Fiscal policy is a policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment.⁸⁹ Though the ultimate aim of fiscal policy is the long-run-stabilization of the economy, it can be used to achieve and moderate. In this context therefore, it can be defined as changes in taxes and expenditures which aim at short-run goals of full employment and price level stability.⁹⁰

The role of fiscal policy for economic growth relates to the stabilization of the rate of growth of an advanced country. Fiscal policy through variations in government expenditure and taxation profoundly affects national income, employment, output and prices.⁹¹

The purpose of fiscal policy is to stimulate economic growth in a period of recession, to keep inflation low and basically to stabilize economic growth, avoiding a boom and burst economic cycle.⁹² When speaking of fiscal policy, the government, generally, is referring to two major governmental economic activities, which is taxation and spending.⁹³ Fiscal policy is to triangular relationship between Government Income, expenditure and borrowing. The government borrows when bills are due but income (taxation and others) are still expected. The development of a fiscal policy generally has four primary purposes and function, which are:

- i. **Allocation:** The major role of fiscal policy is to determine exactly how funds will be allocated. This is closely related to the issues of taxation and spending because the allocation of funds depends upon the collection of taxes and the government using that revenue for specific purposes. The national budget determines how funds are allocated. This entails that a specific amount of funds is set aside for purposes specifically laid out by the government and it has a direct economic impact on the country.⁹⁴
- ii. **Distribution:** Whereas allocation determines how much will be set aside and for what purpose, the distribution function of fiscal policy is to determine more specifically how those funds will be distributed throughout each segment of the economy.⁹⁵
- iii. **Stabilization:** Stabilization on as to do with the process of stabilizing. It is another function of fiscal policy in that the purpose of budgeting is to provide stable economic growth. And without restraint on spending, the economic growth of the nation could become unstable, resulting in periods of unrestrained growth and contraction.⁹⁶
- iv. **Development:** Development is another function or role that fiscal policy plays. Development entails economic growth, and that is, in fact, its overall purpose. Fiscal policy, however, is far more complicated than determining how much the government will tax the citizens in one year and then determining how that money will be spent. True economic growth occurs when various

⁸⁸ Fiscal Policy, Available at www.economicshelp.org/macro.economics/fiscal-policy/. Accessed 10th January, 2023.

⁸⁹ Smirt Chad, *Fiscal Policy: Meaning, Objectives and other Information*, available at <http://www.yourarticle.library.com/economics/html>. Accessed 10th January, 2023.

⁹⁰ *Ibid.*

⁹¹ *Ibid.*

⁹² Fiscal Policy, *op cit.*

⁹³ Jared Lewis, *The four major functions of fiscal policy*, available at <https://smallbusiness.chronic.com/formajorfunctions-of-fiscal-policy-32485.html>. Accessed 10th January, 2023, P.

1.

⁹⁴ *Ibid.*

⁹⁵ *Ibid.*

⁹⁶ *Ibid.*



projects are financed and carried out using borrowed funds. This stems from the belief that the private sector cannot grow the economy by itself. Instead, some government input and influence are needed and borrowing funds and raising funds for this economic growth is one way in which the government brings about development.⁹⁷

From the above, therefore, there is no doubt that Value Added Tax can be used as a tool of government fiscal policy. This can be achieved by exempting some class of goods and services in order to achieve specific economic objectives.

- e. **It will Enhance Compliance:** VAT is levied indirectly. It is levied on commodities before such commodities would reach the final consumer, and it is ultimately paid by the consumer as part of the market price.⁹⁸ It is called indirect tax because the administering authorities which levy the taxes on goods and services do not collect the taxes from the consumer but do so indirectly through importers, manufacturers or other intermediaries. The shifting or passing on of the liability is effected by loading the tax element on the selling price of the commodities sold to the next person on the commercial chain until it is finally borne by the consumer.⁹⁹ Since VAT is an indirect tax, it has the following advantages which is the fact that the payment and collection of that tax are easy and convenient and in general, its yield is elastic. It would be difficult for taxpayers to evade the payment of Value Added Tax because it is documented in the invoice. Also, it aids restriction of harmful consumption¹⁰⁰. One thing about this type of tax is that most taxpayers pay it indirectly without even knowing it.
- f. **It is neutral:** Value Added Tax is a neutral tax. It has no influence on the behaviour of both the consumers and the producers.

7. The Challenges of Value Added Tax in Nigeria

There are a lot of challenges facing Value Added Tax in Nigeria. Below are some of the identified challenges:

- a) **Taxpayers' Lack of Awareness of the Existence and the need to Pay their Value Added Tax:** Majority of the taxpayers in Nigeria are not even aware of the existence of VAT not to talk of seeing the need to remit the tax to government. The government seems not to have created enough awareness about VAT and the need for taxpayers to pay it. Some of the taxpayers who know of the tax are not even certain about how much they should remit to government or the procedure for filing of returns for assessment, their right objection or appeal against tax assessment.¹⁰¹
- b) **Lack of Data of Taxpayers:** Identification of every individual and business taxpayers is very important if there will be effective VAT administration in Nigeria. Although the government through Federal Inland Revenue Service has now started issuing Tax Identification Number (TIN) to taxpayers, there are still many of the taxpayers whose data and identity have not yet been captured for the purpose of taxation. The Act¹⁰² provided that a taxable person who makes a taxable supply shall in respect of that supply, furnish the purchaser with a tax invoice which must contain the Taxpayers Identification Number and Value Added Tax registration number. The Tax Identification Number (TIN) will enable the tax authorities get easy access of the

⁹⁷ *Ibid.*

⁹⁸ O Igweonyia, *The Analysis of Value Added Tax and its Impact on the Nigerian Economy*; A Master's Degree Thesis presented at the University of Nigeria, Enugu Campus, Department of Accounting in November, 2011, P. 46.

⁹⁹ *Ibid.*

¹⁰⁰ *Ibid.*

¹⁰¹ I U Ibeh, *'Major Impediments to Effective Implementation of Tax Laws in Nigeria'*, An LL.M Thesis Seminars presented at Faculty of Law, Nnamdi Azikiwe University, Awka on October, 2011, P. 11.

¹⁰² Section 13A (1) of Value Added Tax (Amendment) Act, 2007.



taxpayers' personal information like his address, his place of business, address of his company and particulars of incorporation, nature of goods sold, nature of services rendered etc.

Majority of the businesses that ought ordinarily to be registered are not even registered. This makes it very difficult if not impossible to identify them for purposes of assessment and payment of tax. Consequently, a large chunk of enterprises or businesses especially the small and medium businesses do not remit value Added Tax thereby accessioning huge revenue leakage.¹⁰³

- c) **Poor Business Accounting and Records Keeping Among Taxpayers:** The Value Added Tax Act required every taxable person to keep such records and books of all transactions, operations, imports and other tax related activities to goods and services as are sufficient to determine the correct amount of tax due.¹⁰⁴ However, in Nigeria, most businesses or taxpayers don't keep accounting records of their businesses especially the informal sectors as well as the faintly "organized" sectors¹⁰⁵. This makes it difficult to determine the correct amount of tax payable by the taxpayer.

Moreso, unlike the situation in the developed countries, tax and accounting consultancy services are rarely engaged by Nigerian middle-level organizations except for the purpose of financial auditing or occasionally, tax planning.¹⁰⁶ This situation makes it very difficult for potential Value Added Tax payers to discharge their VAT obligations and also hamper effective consumption of tax liability, making tax evasion more preferable option.

- d) **Lack of and/or ineffective use of Technology in VAT Administration:** One of the problems facing VAT administration in Nigeria is ineffective use of technology. Nigeria still lags behind when it comes to the use of technology in tax administration and in deed in other sector of the economy. Ineffective use of technology is the major reason Nigeria is losing so much revenue.
- e) **Tax Refunds Delays:** The Federal Inland Revenue Service Act ¹⁰⁷ as well as Value Added Tax Act made specific provisions for tax refunds. However, this provision of the tax law seems not to be fully functional or effective as there is usually delay in paying the refunds to the taxpayers who have been over-taxed. This is so even when the Federal Inland Revenue Service requires the tax authorities to pay a taxpayer's refund claim within 90 days of applying for the refund subject to appropriate tax audit. In Nigeria, tax-consuming ad sometimes running into several years. If and when taxpayers are eventually refunded, they would not get the value for their money because of the effect of inflation.¹⁰⁸
- f) **Corruption:** Corruption, as a term, means a dishonest and immoral conduct.¹⁰⁹ Within an official context, corruption is the act of doing something with an intent to give some advantage in consistent with official or fiduciary person who unlawfully and wrongfully uses his station or character to procure some benefits for himself or for another person contrary to the duty and rights of others.¹¹⁰ It is the use of power by anybody for capricious or arbitrary use of any other purpose foreign to which it is meant. Pertaining Value Added Tax administration, corruption has manifested itself in many ways. It can be seen among the taxpayers when they intentionally refuse to file tax returns, hid some pieces of information for assessment purposes with the intent

¹⁰³ *Ibid.*

¹⁰⁴ *Ibid* section

¹⁰⁵ A B Onodere, *Implication and Implementation of Value Added Tax in Nigeria: A study of Federal Inland Revenue Services*; Radwire; A project submitted to Department of Business Administration, Ahmedu Bello University, Zaria in Partial Fulfilment of the award of Masters Degree, October 2000, P.59.

¹⁰⁶ *Ibid.*

¹⁰⁷ Section 23 of the Federal Inland Revenue Service (Establishment) Act, 2007.

¹⁰⁸ O D Akintoye, "The Nigerian Tax Administration in Perspective: The Way Forward" op cit.

¹⁰⁹ P O Itua et al, *The Nigerian Police and the Fight Against Corruption: An Assessment of Government Policies*, in Abdulqadir (ed) et al, *Corruption and National Development* (Ilorin, Unilorin Press, 2013) pp. 55-56.

¹¹⁰ B A Garner, *Black's Law Dictionary* (8th edn, St. Paul M N: West Group, 2004) P. 371.



to paying less tax etc. Most tax inspectors or tax officers, many of the times, willfully and criminally collect bribes from taxpayers just to waive their tax liability. Some of the taxpayers, moreso, evade payment of taxes intentionally. These corrupt and criminal practices defeat the aim of achieving effective Value Added Tax administration in Nigeria and thereby seriously affect revenue generation in the country through VAT.

8. Conclusion

It was the former US president (President Franklin D Roosevelt) in 1936 who defined taxes as: “...the dues that we pay for the privileges of membership in an organized society” By his definition, it is meant that governments across the globe need to impose and collect revenues from taxes in order to be able to provide public goods and services to their citizens.

There are a number of forms of taxes of which one is Value Added Tax. Value Added Tax has become one of the mainstays of the tax system and the darling of many governments because of its revenue-raising and neutrality contents. It is these characteristics of the tax that have made it attractive in a rapidly integrating high-tax world.

In this research, the researchers beamed their search lights on the concept of VAT, its meaning, and the history. The researchers, also, extensively discussed administration of VAT in Nigeria while also analyzing the controversies thereto.

From the study, it is crystal clear that Value Added Tax is a tax to be watched for the future of Nigeria. It is also obvious from the research that Value Added Tax has wonderful prospects. Nigeria, however, still has a lot to do to ensure that it achieves and realizes more from the Value Added Tax hence the recommendations below.

9. Recommendations

From the observations and/or findings made in this study, the following are recommended by the researchers:

- a. There is a serious need for the 1999 Constitution of Nigeria to be amended so as to specifically and clearly provide for the imposition of VAT and which level or tier of government that has power to administer and collect such tax. If this had been done, the country would have been saved from the recent and embarrassing Value Added Tax “War” between the Federal Government of Nigeria and the States of the Federation.
- b. The Value Added Tax rate in Nigeria should, at least, be further increased to 12%. The Nigerian Value Added Tax rate, even at 7.5%, is about the lowest or among the lowest in the world. An increase in the VAT rate will certainly in the VAT rate will certainly result in increased revenue for the government to meet its spendings especially now that the price of oil in the international market is not stable. It will be more beneficial to the government as the country is now diversifying and moving away from over dependency on oil revenue. The government, however, should expand the list of exempt goods to cushion the effect of the increase in the VAT rate on the poor when finally implemented.
- c. Government should intensify effort of get accurate data of taxpayers. The government can do this by embarking on business census all over the country to capture the data of all businesses both in the formal and informal sectors.
- d. Efficient tax administration is dependent on the quality of the machines used in the administration and enforcement of the tax. The machine here means well-trained tax personnel devoted to tax assessment and collection; tax officers who are courteous and devoted to their duty. Good administration of VAT will help government realize more revenue. It will also make compliance easier.



- e. There is need for Nigeria to fully embrace technology in its administration of tax. Technology will help Nigeria in generating more revenue from VAT and tax generally. Most of the tax personnel are not computer literate and the effect of this is that the country loses more revenue it would have generated from tax. CCTV and other monitoring gadgets should be placed or mounted in strategic positions in the stores or shops of the VAT agents so that government can monitor the sales made and the VAT received from the sales. This will also help the government know whether the VAT agent is keeping record or account of his sales or not for the purposes of VAT.
- f. Nigeria should adhere to quick refund approach by making sure that a claim for refund by taxpayer is attended to without delay. Interest to a delayed refund should be paid immediately to taxpayers when demanded. This will motivate the taxpayer.
- g. Government of Nigeria should carry out aggressive sensitization of taxpayers and in deed all citizens on the existence of VAT and the need to remit same to government. This can be done through Television Stations, radio stations, billboards, social media platforms, town hall meetings etc. When taxpayers come to the understanding that there is a tax called Value Added Tax and the benefit of such tax to the society and the economy when paid to the government, they would easily comply and administration of the tax would be easier thereby resulting to more revenue to the government.
- h. Corruption in Nigeria like what is obtainable in China, should be made a capital offence. Stiffer punishment should be meted on tax personally and taxpayers who engaged in mismanagement or corrupt practices.
- i. Government, more so, should insist that retail trades should be carried out in departmental stores and shops where all sales can be accounted for and the business addresses registered and not open places. With this, it is convenient and safe for any government to appoint retailers as its agent for the collection of Value Added Tax. Every amount collected will ordinarily get to the government's coffers because the agents are known and the shops and stores known too.