JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

VALUE ADDED TAX: THE ANTIDOTE FOR A DYSFUNCTIONAL ECONOMY.

Dr. Oporiopo Michael Godknows
University of Africa, Toru-Orua, Bayelsa State.
Department of Accounting

ABSTRACT

The objective of this study is to determine the effective and efficient administration of Value Added Tax in Nigeria. The introduction of VAT in Nigeria was properly conceived. It has improved the internally generated revenue of all tiers of government and consequently promoted even development at all levels of government. The attendant challenges of VAT include: improper book keeping in supermarkets and retail outlets; delay in refunding excess deductions to taxpayers and unawareness of the existence of VAT among others. The recommendation is to amend the 1999 constitution and include VAT in the relevant list in tandem with the provision of Value Added Tax Act of 1993. Taxpayers should also remit returns to the FIRS promptly within the provision of relevant Act.

Key words; Returns, ₦50,000, goods, services, exempt, imported, Tax, Value.

INTRODUCTION

Background to the Study

Value Added Tax (VAT) was formulated in Nigeria in view of the desperation for accelerated economic development in all tiers of government in Nigeria. In the late 1980s, almost all the tiers of government in Nigeria were deficient in infrastructures such as good roads network, good health care, portable water, significant electricity supply among others. In fact, most rural dwellers had no means of assessing the urban centers, and lack of good drinking water in most rural communities which resulted in the outbreak of endemic and poverty as a result of permanent blackout.

Thus, Value Added Tax (VAT) is a consumption tax that is imposed on all stages of the supply chain of goods and services. VAT is charged on all goods and services from the producers to the wholesalers to the retailers and even the final consumers. The burden of the tax is borne by the final consumers, VAT is charged on goods and services supplied and purchased. Value Added Tax is a replacement for sales tax which was introduced since 1986 with barrage of irregulates. The provision of the sales tax Decree was inundated with many inadequacies such as the narrowness of the base, exclusion of imported goods and services, increasing rate of tax evasion and low rate of returns. The sales tax had only nine items such as hotel, motel and similar entities.

VAT is the brain child of a study group headed by Dr. Sylvester Ogor in 1991 which prescribed the introduction of Value Added Tax (VAT) in order to broaden internally generated revenue of Federal Government, shore up state revenue and promote even development in States and Local Government level.

VAT is an indirect tax chargeable on the value added in each stage of production process. It is an indirect tax because the tax is paid by agents to the relevant tax authority and not directly by final consumers. The base of Value Added Tax has been expanded to include imported goods, professional services, banking operations and other consumable goods and services. These have really improved the revenue base of Nigeria considerably. VAT is a modified sales tax that was aimed at promoting economic growth in states. The sharing formula of the proceeds was 80% for states and the FCT. The remaining 20% was to be retained by the federal government. The sharing formula of the proceeds of VAT has seen reviewed many times. After the initial pilot test run stage of VAT, the distribution formula was reviewed in favour of the federal government from 50%, 25% and 25% to the federal government, state government and local government respectively.

Hitherto, February 1, 2020, the rate of Value Added Tax was 5% on all goods and services supplied in Nigeria except those items specifically mentioned in the First Schedule of the VAT Act but following the amendment of section 4 of the VAT act, as contained in the Finance Act 2020, the rate of VAT is now computed at 7.5% (section 42) (4) on all goods and services supplied in Nigeria. Supplies in this context relates to all goods physically present in Nigeria, imported into Nigeria, assembled in Nigeria, installed in Nigeria and the beneficial owners right over the goods provided those goods are located and registered in Nigeria.

All taxable supplies made before 1st February 2020, the rate is 5% and the contract for supply signed before 1st February 2020 and the contract is executed in or after 1st February, 2020 the rate is 7.5%. This includes those subsisting contract of supplies that in which the base of performance is on the milestone achieved (FIRS 2022).

The revenue accruable from VAT is distributed as 15% to the federal government, 50% to state government and FCT and 35% to local government. The VAT payable to the relevant tax authority or Federal Inland Revenue service is the excess of output VAT over input VAT. The VAT payable is remitted by a registered agent who collect the VAT on behalf of final consumers.

STATEMENT OF THE PROBLEMS

The effective administration of Value Added Tax in Nigeria is not without impediments

The assessment and collection of VAT is characterized by improper accounting record and bookkeeping by some business owners. Many super markets, retail outlets and even producers lack adequate accounting system in their entities. Many business owners in Nigeria don’t have bin card and store ledger cards in their entities, how much more maintaining the services of accountant or cost accountant in their business outfits.

The refund of excess deduction to a vatable person is usually delayed or impossible. The return of money is necessary where the input VAT exceeds output VAT. The relevant tax authority is under obligation to refund excess deduction to the VAT agent where necessary.

Some retail outlets are not even aware of the existence of VAT in Nigeria. This has compounded the voluntary registration of VATable person for the purpose of collecting VAT in Nigeria.

OBJECTIVES OF THE STORY

Generally, the major thrust of this study is to provide a veritable template in the administration of value added tax in Nigeria. Specifically, the objectives are:

1. to ascertain whether the books of account maintained by business owners adequate.
2. To determine whether the refund of excess deduction by relevant tax authority is feasible.
3. To ascertain the extent of awareness of vatable persons of the existence of VAT

SIGNIFICANCE OF THE STUDY

The relevance of Value Added Tax in Nigeria economy cannot be overestimated. Though, there are some misgiving in the administration of VAT in Nigeria, the positive impact outweighs the sentiments.
Value Added Tax will tame the possibility of tax evasion in Nigeria. The effective administration of VAT will reduce and prevent tax evasion in the entire value chain of business, it is an indirect tax that is built into cost of goods and services. The assessment and collection is easy because transaction is invoiced-based with proper documentation. It is on this note that every VATable person is required by the VAT Act to register

with the relevant tax authority or branch or zonal office for the smooth collection and remitting of VAT in Nigeria. Ordinarily, some businesses are unwilling to voluntarily remit returns to the relevant tax authority.
VAT will boost the internally general revenue of government. Statistics revealed that the revenue generated from VAT in 2023 was up to the tune of ₦3.6tr. In 2022 and 2021, Nigeria generated ₦2.51tr and ₦2.076tr respectively. This represents about 21% increase from the preceding year. The geometrical increase in the revenue generated from value added tax and company tax have minimized the dependence on oil revenue in Nigeria. This will in no small measure of stimulate investment in infrastructural development in Nigeria.
VAT has also broaden the tax horizon in Nigeria. The VAT Act requires all Vatable persons (all those involved in the supplies of goods and services) to register with the relevant tax authority for the collection and remitting of returns. It also includes non-residents companies that are performing business in Nigeria. This has not only broaden the tax net but has also increased tax revenue. The non-residents are required to register with the relevant tax authority with the address of the company or agency whom they have a subsisting business relationship with.
VAT is an instrument of economic stabilization. VAT is the basis for stimulating Government expenditure and savings. Generally, the Federal Government budget has been boosted geometrically since the introduction of VAT. Though, some pundits have argued against VAT as a recipe for inflation, it is a potent instrument for fiscal stabilization.

REVIEW OF RELEVANT LITERATURES

CONCEPTUAL FRAMEWORK

FIRS (1993) defined Value Added Tax as a “Tax charged on spending”. It is a tax imposed or charged on consumptions because the charge is built into the cost of goods and services except those goods and services specifically mentioned in the first schedule to the Act.
Unizik Law Journal (2023) defined Value Added Tax as 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 selling price. This definition relates the concept of Value Added Tax to the difference between output VAT and input VAT. It could also be inferred that VAT is charged on advalorem basis on the different stage of the value chain of product. That is, from the producer to the wholesaler and retailer. The tax is imposed on each of the above stages of goods and services.
Statement of Standard Accounting Practice (SSAP) view VAT as a tax on the supply of goods and services which is eventually used by the final consumer but collected at each stages of production and distribution chain. This assertion also lent credence to other claims that Value Added Tax is charged on each value added by a product from the producers to retailers.
It could be inferred that VAT is a consumption tax imposed on every stage of the value chain of goods and services. However, the tax begins from the producer, wholesaler, retailer and the final consumer. It has been argued that VAT is a recipe for inflation because the tax is built into the price of the goods and services. This will even result in multiple taxation.
Thus, the VAT is 7.5% with effect from 1st February 2020 and 5% prior to the amendment of the Finance Act, 2020.
Goods in this context refers to all tangible property both movable and immovable property excluding land and buildings, money and security except those used for hospitality business as well as fees and commission are liable to VAT. On the other hand, SERVICES refer to intangible or incorporeal property other than goods and services in which a company has vested right of control over with an attendant benefits.
The VAT payable is the excess of output VAT over the input VAT. Output VAT relates to all supplies made by registered VAT agent including ministries, department, and agencies of Government that are involved in contract of supplies of goods and services except those items listed in the First Schedule to the Act. The input relates to goods purchased. It is the exclusive preserved of the Federal Inland Revenue Service (FIRS) to assess, collect VAT from taxable persons. It is mandatory for every taxable persons including government MDAs to register with relevant tax agency within six months of the commencement of business. The returns shall be made to the relevant tax authority within 21 days following the month of the performance of the

transactions in the currency in which the transaction was executed. The excess of input VAT over output VAT is refunded to registered agent on the presentation of relevant invoice or other supporting documents to the tax authority after audit. The failure to remit returns to the tax authority shall attract a penalty of ₦50,000 in the first month and ₦25,000 in subsequent months which the default continues. This also applies to failure of taxable persons to register for VAT. It attracts initial penalty of ₦50,000 and ₦25,000 in each subsequent month. This is also applicable to failure in notifying the tax authority in the change of address (FIRS: 2022). The remittance of returns by taxable persons also applies to non-resident who are obliged to register with the tax authority and obtain a Tax Identification Number (TIN) in Nigeria.

HISTORICAL ANTECEDENT OF VAT

Value Added Tax started in Europe in the 20th century. It was a pioneering effort of two notable scholars: Wilhelm Von Siemens and Thomas S. Adams. The former regarded VAT as a means of settling protracted complaints of turnover tax and the latter regards it as an improved corporate income tax. Wilhelm was a German scholar.

In Nigeria, Value Added Tax is a product of a study group set up by the Federal Government of Nigeria in 1991 to review all the taxes and levies in Nigeria. The study group enunciated the concept of modified Value Added Tax with effect from December 1993. The Value Added Tax replaced sales tax that has been in existence and sales tax was abrogated for narrowness of its base, low revenue yield and the festering of tax evasion.

However, the administration of VAT in Nigeria has been characterized by many countries and litigations. The controversy has been hinged on the provision of the 1999 constitution between the Federal Government and State Government bothering on jurisdiction. The argument is that Federal Government has the power to collect taxes and levies only from the items contained in section 58 and 59 in the exclusive list of the constitution while VAT is contained in the concurrent list within the ambit of the State Government. But the value tax degree, 1993 of the military government has conferred the administration of VAT on the Federal Government. Legal pudits have argued that 1999 constitution is supreme and takes precedence over every other legislations. Another schools of thought opined that the National Assembly has the powers to legislate on tax to be collected by the different level of Government.

However, there have been quite a lot of litigations between States Government and Federal Government notably the suit between UKALA Vs FIRS, Registered Trusties of hotel owners and management Association of Lagos Vs AG of the Federation and AG of Rivers State Vs FIRS and AG of the Federation among others. The Federal High Court ruled in the favor of the State Government citing the exclusion of VAT in the exclusive list of the 1991 constitution as the basis (UNIZIK Law Journal 2023)

The supreme Court of Nigeria seems to differ from the position of the lower court in the same subject matter. In the popular suit between AG Lagos State Vs Eko Hotels, the Supreme Court noted that the VAT Act supersedes any other Act enacted by any State of the Federation on consumption tax, therefore, the purported claim of any state Government on the assessment and collection of VAT is statute bared, null and void and of no effect.

Though, the refund of excess input VAT is almost impossible, the Federal Inland Revenue Service (establishment) Act 2007 has provided a period of 90 days for refund along-side back duty admit of the transaction (Seyi:2009).

Similarly, those goods and services that are regarded as zero rated are vatable and are charged at 0%. Such goods include non-oil export, goods and services purchased by diplomats and goods and services for humanitarian projects.

Hence, the following are the goods and service covered by the Value Added Tax Act.

a. All goods manufactured and assembled in Nigeria
b. Petroleum products
c. Soap and detergents
d. Furniture and fittings (toiletries inclusive)
e. Cigarettes

f. Second hand goods
g. Furniture & equipment for office use
h. Aircraft and its spare parts
i. Perfumes and cosmetics
j. Textiles materials including clothes
k. Drinks including beer, liquor, bottle water, mineral
l. Jewelries
m. All goods imported into Nigeria
Etc except those items in the exempt list.

The list of taxable services include:

a. Services provided by banks such as commercial banks
b. Legal services
c. Accountancy related services including audit etc.
d. Services provided by stock brokers
e. Security services by security companies
f. It includes telecommunication services by telecommunication providers
g. The services rendered by surveyors
h. The services rendered by architects
i. All restaurant services
j. The services of estate agents, values and auction
k. It includes entertainment services including concert
l. Hotels services including motel and resort
m. Etc except those exempted in the first schedule

ADOPTED FROM SEYI (2009)

Those goods exempted in the VAT Act include:

a. Basic food items
b. Baby products
Plant and machinery used in the export processing zone
c. All exports
d. Medical and pharmaceutical services
e. Books and educational materials
f. Agricultural equipment and product
g. Fertilizers and farming implements

The services exempted from VAT include:

a. Exported services
b. Education related services
c. Medical related services
d. All exported services
e. The services of community banks and mortgage banks are exempted.

VALUE ADDED TAX RATE IN THE WORLD 2024

	Country	Standard rate
1.	Austria	20%
2.	Algeria	19%
3.	Belgium	21%
4.	Angola	14%
5.	Bulgaria	20%
6.	Croatia	25%

7.	Cameroon	19.25%
8.	Denmark	25%
9.	Ghana	12.5%
10.	France	20%
11.	Kenya	16%
12.	Germany	19%
13.	Egypt	14%
14.	Ireland	23%
15.	Botswana	12%
16.	Italy	22%
17.	Malta	18%
18.	Netherland	21%
19.	Poland	23%
20.	Spain	21%
21.	United Kingdom	20%
22.	Switzerland	8.1%
23.	India	18%, 12% and 5% (categorized)
24.	Morocco	20%
25.	Mauritius	15%
26.	Nigeria	7.5%
27.	Rwanda	18%
28.	Suo tome and principle	5%
29.	South Africa	15%
30.	Tanzania	18%
31.	Tamisua	19%
32.	Zimbabwe	14.5%
33.	United State	sales taxs
34.	Turkey	18%

The rate of Value Added tax in Europe is not below 15%

RESULT AND DISCUSSION

The research was conducted in Yenagoa, Bayelsa State. Interview was conducted in some supermarket and retail outlets. It was found out that the concept of VAT is alien to many of them though they pay tax. They noted that they are paying tax but they are not aware of the existence of Value Added Tax especially, the fixed percentage of 7.5% especially the retail outlets.
Some of the supermarkets operators who pleaded for anonymity claimed knowledge of the existence of VAT but decried the increase of the rate from 5% to 7.5% on VATable goods. This is in view of the lack of knowledge that the rate of 7.5% chargeable on taxable goods in Nigeria is among the lowest rate of VAT in Africa and the world at large. They noted that the new VAT rate is one of the causes of inflation in Nigeria in the last four years. They bemoaned the negative effect of the new rate as the basis for decrease in sales revenue. In fact, the effort of the federal government of Nigeria, especially the National Assembly, Federal Inland Revenue Service (FIRS) in keeping VAT rate at 7.5% is commendable because it is one of the lowest in the word. In Europe, VAT rate is not below 15%.
Investigation also revealed that most supermarkets and retail outlets do not keep proper books of account. It lacks adequate accounting system and without accountant of any cadre to observe complete book keeping principles in their domain.
In the same vein, the refund of excess vatable input by relevant tax authority is almost impossible. The refund of excess deduction within three months after auditing the records is still a mirrage. In some clime, such excess deduction could be set off against subsequent tax liability but it is not common in Nigeria.
Also, the lingering controversy between FIRS and state government are being laid to rest following supreme court Judgement on the matter.

CONCLUSION AND RECOMMENDATIONS

The introduction of Value Added Tax (VAT) as the replacement for sales tax has reduced or completely tamed the incidence of tax evasion in Nigeria. The scope of VAT base is inclusive of every consumer. The burden of the tax rest on the final consumers.

The intention of the framers of the concept was to drag everybody into the tax net. The web of Value Added Tax does not only include locally manufactured goods but also imported goods and services as well as non-resident companies performing businesses in Nigeria.

Value Added Tax has also increased the tax yield and internally generated revenue of Nigeria in the last decades. In fact, the yield is in trillions of Naira. It has also in no small measure stimulated development in all tiers of government in Nigeria especially the states. However, it is not yet an uhuru because many states are still grappling with under development and misappropriation of fund.

The following recommendations are being adduced:

a. Federal Inland Revenue Service (FIRS) should carry out sensitization campaign with retail outlets and supermarket operators on the existence of VAT.
b. It should be made compulsory or mandatory for all Vatable person to register with the relevant tax agency and obtain Tax Identification Number (TIN).
c. In fact, all tiers of government, leaders and those in authorities should implement the budget equitably. Development should be equitably distributed.
d. The fight against corruption should be sustained and strengthened by incorporating value for money audit on the allocation accruable from Value Added Tax. This is because, the consumers who are bearing the burden of the consumption tax should feel the impact of their contributions.
e. State government should respect the decision of the supreme court on VAT, even though it was inadvertently included in the concurrent list of the 1999 constitution. Value Added Tax Act has earlier conferred the assessment and collection of VAT on the agency of the federal government of Nigeria. The VAT collected by FIRS is not an exclusive revenue of only the federal government but distributed amongst the three tiers of government.
f. The FIRS should expedite action in refunding excess deductions to tax payers were necessary.
g. The 1999 constitution should be amended to include Value Added Tax in the appropriate list to avoid the endless debate between federal government and state government.
h. The use of technology in the tax drive will promote effectiveness and efficiency in tax collection.
i. Tax payers should remit the returns more promptly as prescribed by the Act.

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