An Appraisal of Value Added Tax as a Source of Revenue to Governments

BY

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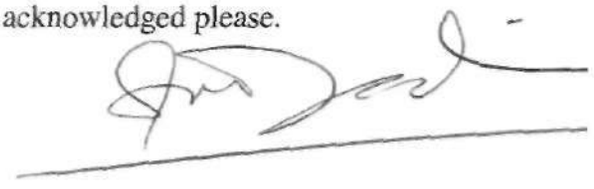
Being a Research Work Presented to the Department of Business Administration, Ahmadu Bello University, Zaria in Fulfillment for the Award of Masters Degree in Business Administration (MBA)

October, 2000

DECLARATION

I Sani Mohammed Dahiru, hereby declare that this Research work was undertaken by my humble self and its contents are entirely original. Mr. I. F. Okeji of the Department of Business Administration Ahmadu Bello University, Zaria was my Supervisor. This Research work was never presented previously for the Award of any academic certificate.

All sources of my data and information are duly acknowledged please.



CERTIFICATION

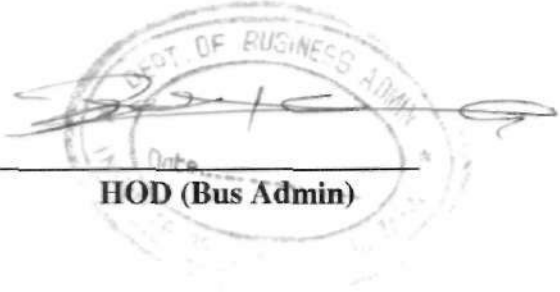
We the undersigne have read this project and approved it as a requisite for the award of Master in Business Administration of Ahmadu Bello University, Zaria.



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DEDICATION

I hereby dedicate this Research work to the memory of my Late mother (Hajia Saadatu Dahiru) who could not live long to see us mature on the path of knowledge seeking which she cherished most Dearly. May Allah Reward us all with Jannatil Firdausi (Amen).

ACKNOWLEDGMENT

Bismillahir Rahmanir Rahim. I begin my acknowledgment with Allah Subhannahu Wata'ala. I wish to express my in depth appreciation to my parents who nurtured my educational career from cradle to this epoch level. I also wish to acknowledge the untiring effort of my supervisor, Mallam Ibrahim Fari Okeji (MIFO) of the Business Administration Department, A. B. U., Zaria for painstakingly going through the manuscript of this research. My friends, relations and well wishes cannot be left out.

Equally, my course mates and roommates whose invaluable contributions remain unshaken must be acknowledged. Most importantly, my Dear wife, Asma'u, for her unfailing aids and reminders of this piece of work.

May Allah reward you all (Amen).

ABSTRACT

The government of any Nation has among its duties Maintain of law, and order; Provision of necessary infrastructure such as Electricity, Education and health facilities. For the government to discharge these duties effectively, it needs fund which it derives from public expenditures. One of the major aveneus to derivation of this fund is Taxation.

More often than not, this avenues of fund derivation are inadequate and insufficient to cover the needed government expenditures. As result, the need for an additional means widening the avenues of derivation Revenue via Taxation to meet government expenditures arose. Consequently, a study group was inaugurated to review taxation in Nigeria (1991) hence the introduction of Value Added Tax (VAT) as an additional source of revenue to the government.

The major objective of this study is to among other things examine; The of Value Added Tax (VAT) as an additional source of revenue to the Federal Government. Analysing the existing collection Strategies of VAT administration with a view to improvement inorder to hinge the pitfalls of VAT avoidance and evasion.

And review any other thing related to VAT Administration to improve efficiency and effectiveness.

Accordingly, in detailed analysis of the data collected was carried out and a lot of findings regarding performance and problems of the strategies was made. Suggestions and recommendations for more effective and reliable strategies for VAT Administration and Collection were made for governmental consideration.

Table of Contents

Title Page		i
Declaration		ii
Certification		iii
Dedication	-	iv
Acknowledgement	-	v
Abstract	-	vi
Table of Content	-	vii - viii

Chapter One INTRODUCTION

1.0	INTRODUCTION	1
1.1	Introduction	1
1.2	Statement of Problem	3
1.3	Specific Objectives of the Study	3
1.4	Significance of the Study	4
1.5	Scope of the Study	4
1.6	Hypothesis	4
1.7	Limitation of the Study	4
1.8	Organisation of the Study	5
1.9	Definition of Relevant Terms.	5

Chapter Two LITERATURE REVIEW

2.0	Literature Review	7
2.1	Introduction	7
2.2	Theoretical Framework of Taxation	7
2.3	Principles of Taxation	9
2.4	Objectives of Taxation	10
2.5	Classification of Taxes	12
2.6	Type of Indirect Taxes - VAT	13
2.7	Value Added Tax -Objectives and Advantages	13

hapter Three RESEARCH METHODOLOGY AND HISTORICAL BACKGROUND OF TAXATION IN NIGERIA

3.1	Introduction	15
3.2	Research Methodology	15
3.3	Historical Background of Taxation in Nigeria	16
3.4	Tax Legislations in Nigerian	19
3.5	The Organisation Structure of the Federal Board of Inland Revenue FBIR	21
3.6	The VAT Directorate	23
3.7	The Zonal Offices	23
3.8	The Local VAT Offices	24
3.9	Enabling VAT Law in Nigeria	24
3.10	The Content of the Decree	25
3.11	The VAT Process and Operation	26
3.12	The VAT Assessment in Nigeria	28
3.13	Obstacles to VAT Operation	31
3.14	Ways of Improving VAT Operation and Collection	32

Chapter Four DATA ANALYSIS

4.1	Introduction	33
4.2	VAT Collection in Relation to Other Taxes	33
4.3	Measure of VAT Effectiveness	33
4.4	Basis of VAT Success	40
4.5	VAT Evasion and Avoidance	43
4.6	Aiding and Abetting	44
4.7	Corporate Offences	44
4.8	VAT Sharing Formular	45
4.9	Findings	45
4.10	Problems and Prospects of VAT in Nigeria.	51

Chapter Five SUMMARY, CONCLUSION AND RECOMMENDATION

5.1	Summary	53
5.2	Conclusion	53
5.3	Recommendation	54
	References	58

1.0 *GENERAL INTRODUCTION*

1.1 Introduction

Money needed by the Government for execution of its projects is derived from a number of sources, for which the major ones are:

i. **Taxes:** A tax is a compulsory payment made by individuals and corporation to the government.

ii. **Borrowing:** Government may borrow either at home or from abroad, if she feels that the revenue required may be too much for the people to shoulder.

iii. **Fees, levies and Charges**: The government provide a number of services for which the citizens/users have to make payment. This money from a small proportion of government revenue.

iv. Rents, Royalties and Profits: Rates royalties are received for public land and mineral rights.
Profits refer to the profits of public corporation and other government commercial enterprises.

v. Grants: At times a government may review financial and from another country of from an international development organization. Within a country, grants and made by the Federal government to the states government for specific projects. Also the Federal Government make statutory allocation to all the states in the federation which categorized as the states statutory
share from the federation account.

Of all these sources, Taxation is the most important because apart from raising revenue to the government, taxation is used to redistribute income, encourage savings and investments as well as curtailed the consumption of certain goods and services on the economy. It should be noted that internally generated revenue by state government is derived almost entirely from taxes.

The major purpose of taxation is to raise revenue to defray the cost of government* 1. In addition to this function, taxation is used in other parts of the world for social and economic reasons. This include the protection of home industries, by the imposition of import duties, stimulating the real sector of the economy by removing or reducing taxes on particular commodities, giving special incentives and capital allowances in plants, machineries and research. It is also used curb excessive consumption of luxury goods by imposing higher tax rates on such goods e.g. Tobacco and alcohol in order to produce the desired effects.

GENERAL PRINCIPLES OF TAXATION

The General principles of taxation are difficult to discern, and when found are frequently contradictory in their effect. Economists and Social researchers from Adams Smith on, have propounded what such requirement should be.

Among them, the following are major importance however not meant to be all inclusive.* 2

1. **EQUITY**: The distribution of the tax burden should be equitable. Everyone should be made to pay his or her fair share:
2. Taxes should be chosen so as to minimise interference with economic decisions in other wise efficient markets.
3. Where tax policy is used to achieve other objective such as granting investment mentions, this should be done so as to minimise interference with the equity of the system.
4. Tax structure and policy should made to facilitate the use of fiscal policy of stabilization and growth objectives. [1]
5. The tax system should permit Fair and non-arbitrary administration and should be made understandable to the tax payer.

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1 Northern State of Nigeria, Study notes for Revenue Officers.

6. Administration and compliance cost should be as low as compatible with other objectives.

These and other requirement may be used to appraise the quality of a tax system and structure. The various objectives are not necessarily in agreement, and where they conflict, trade off between them are needed.

1.2 STATEMENT OF PROBLEM

Nigeria as a developing nation is faced with a number of problem despite its endowment in human resources. The greatest drawback to our developmental efforts gas been the availability of adequate, reliable and stable source of revenue to finance government expenditures. Oil which is the mainstay of the economy faces a lot of fuctuation depending on the trend in the international market. Consequent upon these, revenue accruing to the government is not very stable hence allocation to the states is reflected due to the bad trend. Hence, there is the need to sought for a veritable and reliable source o revenue to the government. It therefore became necessary to expand the revenue base and introduce the Value Added Tax (VAT) as a replacement to the sales tax.

1.3 SPECIFIC OBJECTIVES OF THE STUDY

The study among other things is aimed at examining the contribution of Value Added Tax (VAT) as a source of revenue to the government, the specific objectives of the study inter alia, are:

i. To examine the extent to which Value Added Tax (VAT) has been a veritable source of revenue to the government.

2. ii. To examine the structure, administrative and operation of the tax.

iii. To examine the possibility of reducing the cost of VAT collection to barest minimum.

iv. To explore the possibilities of extending the tax on hither to exempted goods and services.

v. To encourage voluntary tax comply and minimise tax evasion and avoidance.

vi. To examine the shortcomings of the administrative setup, mode of assessment and collection as well as accounting of the taxes collected.

1.4 SIGNIFICANCE OF THE STUDY

The study is expected to delve into all forms of VAT administration, setup, synergy in order to:

i. Assist policy makers to identify pit-falls in the administrative mechanism of the tax with a view to corrections

ii. The assessment and collections strategies adopted the first few years of the tax administration will be revealed from the actual collections of revenue for the period 1994 and 1995 i.e the period of the study.

iii. To seek ways and means of improving collection of the VAT proceeds from VAT payers.

iv. To energise effort to erring all Vatable persons into the tax net.

1.5 SCOPE OF THE STUDY

VAT as a veritable source of revenue to the government is not restricted to an area of Nigeria. Hence the scope of this study is expected to cover the entire country; and examine the extent to the revenue to the government between 1994 and 1995.

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1.6 HYPOTHESIS

Nigeria needs a lot of revenue to execute government projects. Value Added Tax (VAT) is one of the veritable and reliable source of revenue to the government. This study aims at testing this hypothesis.

1.7 LIMITATION OF THE STUDY

This study is to assess the extent to which VAT has been a source of revenue to government in Nigeria. Hence it is the entire VAT collection for 1994 and 1995 that is the focus of this study.

i. This study is limited by the fact that one can not go round all the states to authenticate the result of revenue collection for the period under review.

ii. The inadequacy of materials and literature of VAT in Nigeria is a limiting factor itself.

Since tax just came on board on 1st January, 1994.

iii. The government syndrome of "Secrecy" is limiting the extent to which the project intend to evaluate.

iv. Since the tax is relatively new, some of the tax payers are themselves not familiar with the VAT and its application, hence some tax payers are still in the darkness.

However, notwithstanding the aforementioned, considerable efforts is been put to ensure a reliable and fair presentation of the study.

1.8 ORGANISATION OF THE STUDY

Chapter one of this study is primarily on the preliminary consideration which include, the following:

Statement of problem, objective of study and Research Methodology and source of information. The second chapter is mainly concern with the literature review, rational of taxation, theoretical framework and principles of good taxation. While chapters 3 and 4 deals on existing strategies for VAT, its introduction and VAT operation.

Finally, the Summary, Conclusion and Recommendation of the project are given in chapter five.

1.9 DEFINITION OF RELEVANT TERMS

Total Income: is the aggregate (summation) of assessable income from all sums for the year after deduction loses and capital allowances.

Assessable Income: The amount of income after charging expenses and outings gross income, from each source in the year immediately proceeding the year of assessment.

Assessment Year: means a period of twelve months beginning from 1st January to 31st December of the year.

Value Added Tax: It is the tax on consumption. It is borne by the final consumer of goods and services because it is included in the final price paid. It is a multi-stage tax and a replacement of sales tax.

Direct Assessment: This is the process of taxing self employed individual on the basis of a standardised income to be determined in each year of assessment by the relevant tax authority.

B. O. J: Stands for Best of Judgement. This arises when one raises an assessment of a vatable person who refused to file his returns at the expiratory of the vatable period.

Input VAT: This is the VAT that is changed on business purchases and expenses. These include goods and services supplied in Nigeria or imported into Nigeria.

Output VAT: This is the VAT that is due on a VATABLE transaction. It is derived by multiplying the tax value of the aggregate supply by the tax rate.

VAT Rate: That is the rate in percentage (%) applicable to all goods and services within the VAT circle. It is a feat rate of 5% now in Nigeria.

VAT Account: This is the summary of the input and output VAT in a normal ledger account from. (That is VAT on purchase, services bad debt, relief etc. are debited to the account while VAT charged on sales for the month, VAT charged on services are credited.

Vatable Person: This is one who transact business in vatable goods and services for consideration. Every vatable person has an obligation to register for VAT payment/returns.

Zero-rated VAT: All exported goods are zero-rated i.e. such goods are vatable at zero percent (meaning that, no VAT is collected from the foreign buyer and any input VAT is refundable by the VAT Directorate.

Goods and Services Exempt: This goods and services are not in the VAT system at all. So when goods and services are exempted, from that deal exclusively in them may not register for VAT.

CHAPTER TWO

Literature Review

2.1 Introduction

This chapter is divided into five parts. The first part discusses the theoretical framework of taxation in Nigeria. The second part has the principles of taxation, while the third parts deal on the objectives of taxation and the fourth has the objectives and advantage of VAT , finally the fifth examine the classification of taxes.

Literature Review

Prior to the introduction of Value Added Tax (VAT) in Nigeria in 1994, there was no existing literature on VAT authored by a Nigerian. However, other Western Scholars have written a lot of literature on VAT in their countries with peculiar background and principles of their fatherland.

The major literature one was able to review are the Laws and VAT Decrees: Information Circulars and payers presented by eminent financial experts and tax practitioners on the role, impact and recommendations affecting the introduction of VAT in Nigeria.

In 1996, the Chairman of FIRS and JTB authored a book on VAT, its facts and impacts in Nigeria. It is to be noted that other well meaning Nigerians and staff of FIRS are making effort to publish known literatures on Nigeria VAT system in the nearest future.

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2.2 The theoretical Framework of Taxation

Taxation is one of the oldest institutions in the world today. About 3500 years a go, a citizen in Iraq wrote:-

"You can have a lord,
*you can have a king,*1*
but the man to fear is the tax collector"

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However, Lords and Kings have continued to levy taxes on person and these have continued to live with tax collectors.

Tax has been defined in different ways by different people. Some of the definitions are:-

a The International Encyclopedia of social services define tax as a general concept or device used by government to extract money or other valuable things from people and organization by the use of Law.

b Accordingly, Hugh Dalton in his Classic work "Principles of public finance" defines tax as a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as a penalty for any legal offence.

c Another definition from Odiongenyi, O.T says tax is a compulsory contribution from persons to the government to defray the expenses incurred in the common interest of all, without reference to special benefit confined.

From the definitions above, one can deduced that taxation is therefore a process of levying and collection by a legal authority, vested with proper jurisdiction of compulsory contribution from person or body of persons to defray cost incurred by the authority in common interest of all.

In every country of the world, government under takes a lot of activities for common good and government extracts in various proportions some wealth of its citizens for this purpose. The above definitions have made it clear that a tax in the modern content is a legal instrument which is used to extract money payment from citizen (or residents) of a country within a tax jurisdiction. In a nutshell, a tax could viewed as an individual contribution to the cost of government or to the cost of providing collectively consumed goods and services like dense, health, pollution control, water supply and electricity etc.

Tax Formular contains three elements as thus:-

I The definition of the tax base ie the object for which the tax is imposed

ii The rate structure ie ho it is graduated to conform to certain basic objectives of taxing authority.

iii The identification of the person or corporates body who bears the legal liability of the tax, particularly when it is a direct tax.

2.3 Principles of Taxation

In a wider perspective, taxation principles are difficult to discern, and where they are found, they are frequently contradictory in their effects. Four basic principles have been identified as thus:-

I **EQUALITY:**

This means that the burden of taxation should be fairly spread with respect to ability to pay. This means that all citizens should be treated in the same manner with respect to tax payment, no preferential treatment should be accorded to citizen A in preference to citizen B

II **Certainty**

The supposedly tax to be paid by a person or body of persons ought to be certain and not arbitrary. The form of payment, the manner of payment, the amount payable ought to be made clear and unequivocal and unambigous.

In Nigeria before the advent of colonist, chiefs and rulers imposed various forms of taxes and levies and even the colonist themselves imposed some unwieldy and complicated taxes which were subject of abuse and pervasion, and this led to a number of revolts e.g the Aba Women Riot of 1939; and hence the need to curtail all forms of arbitrary tax and levies came up in order to forestall imposition multiple taxes and levies.

iii **Convenience of Payment**

Every tax ought to be levied at the time or manner, most likely to be convenient for the contributors to pay it; Convenience of Payment requires among other things, that object and time of collection of the tax be related to the habit of the people.

Iv **Economy of Collection**

Taxes ceases to be profitable if administrative cost is higher than the actual tax collected. Hence tax collection should be easy, convenient and profitable. The form of payment, the manner of payment and the amount to be paid ought to be clear and plain. The possibility of conflict between the first principle and this one has already been noted. The effort to spread the hinder fairly, so that no hardship of any sort would be possible would require legislation, so intricate and so full of exception and provisions that would not be intelligent to the ordinary taxpayer. Many claim that the tax legislation in the "developed" countries has already reached this state and that the fourth principle is being ignored.

2.4 **Objectives of Taxation:**

The primary objective of taxation is to raise revenue to defray the cost of government spending to private spending varies from country to country. The proportion of the national income take into taxation varies similarly.

Economic and Social Functions of Taxation.

Apart from raising revenue to the government, taxes are important instruments of economic and social policies such that atimes the non-revenue purposes of taxation may account for as close as the revenue purpose of taxation

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I **Re-allocation of Resources**

The distinction of resources is concern with the adjustment that society decides to make inorder to correct for deficiencies in the distribution of resources and wealth. This adjustment is done mainly

through taxation and should involve horizontal and vertical re-distributon e.g taxation might favour those with small earnings against those with large earnings. Similarly, it might favour rualites against the urban dwellers. In the same vein, the government in Nigeria has from time to time given tax consession to encourage activities and establishment of agro-allied industries. Import duties on agro-allied machineries, plants and equipments. The government gave incentives to manufacturing industries of five percent (5%) annual allowance to encourage manufacturing for export on plants and buildings. A lot of capital allowances were given in 1996 to encourage the real sector growth in the economy e.g tax holiday for five years, e.t.c.

II **Taxation and Economic Policies**

Taxation is been used by government both at states and Federal as a means of transferring money from the spending pontential ofl the public sector. It is also used as a means of avoiding inflation of deflation through its controlling influence on consumer expenditures. It is also used as a means of protecting home industries hence all imported goods have to pay import duties while the home good from 1998 do not pay excise duties at all. Pioneer Station are given to new home industries i.e to operate on tax holiday for some years (as specified).

III **Income Redistribution**

The burden of taxation should be spread as fairly as possible, having regard to ability to pay. For a long time, taxation has been used as a means of redistributing income particularly in developed countries. This is done through progressive taxation. In Nigeria, the progressive taxation in Pay as You Earn (PAYE) scheme is an example. In 1998, while citizens earning ₦30,000 = and below are tax exempt, those on ₦120,000 = and above have to pay (25%) Twenty-five percent as their Pay As Yor Earn tax. In this way, the government ensure fair redistribution of income.

IV **Social and Medical factors**

Taxation tries to discourage goods and services e.g. Tobacco. While Tobacco is heavily taxed,

foodstuff is tax exempt. Similarly, while foodstuff in market is VAT free, alcohol is VAT payable at five percent (5%). Apart from the burden the government discourage the consumption of this items because of their social and health hazards in the larger society.

2.5 Classification of Taxes

Taxes are often classified according to method of payment into:-

(a) Direct Taxes

Where the person so taxed makes his paym;ent direct to revenue authorities and bear the burden of ltaxes directly e.g The Personal Income Tax (PIT), Pay As You Earn (PAYE), Companies Income Tax, Licence fees etc.

(b) Indirect Taxes

They are normally taxes on goods and services collected from the importer, manufacturer e.g the operation of Sales Tax in Nigeria, although ultimately borne by the consumer, Petroleum Profits Tax, Tobacco and Import duties are indirect taxes.

In general indirect taxes are on income (and sometimes on capital) and direct taxes are on outlay, although the classification is sometimes difficult to lapply and some levies which appear to be on outlay (e.g. Licence duty on a private motor car) are paid direct to the taxing authority.

2.6 Types of Indirect Taxes - VAT

These are
- i Custom duties
- ii Licence duties
- iii Import duties
- iv Value Added Tax (VAT)

Our theme of discussion is the Value Added Tax (VAT).

Types of Value Added Tax (VAT)

There are three types of Value Added Tax (VAT) depending on how purchases of new Capital Input (plants, furniture, equipment etc) are treated in the computation of the tax base.

I **THE CONSUMPTION VAT**

Under the consumptions VAT, capital purchases are treated the same way as the purchases of any other input. This tax treatment of capital purchases is equivalent to expensing one advantage of this is that the tax burden from capital expenses is shifted to the consumer in full and immediately instead of being borne wholly or in part by the company.

Another attraction of the consumption VAT it is easier to compute. The furism those not have separate expenditures on capital from others in determining VAT payable.

2.7 **Value Added Tax- Objectives and Advantages**

The definition of VAT that appears most frequent is the one contained in the U.K. Statement of Standard Accounting Practice (SSAP) No.5, that "VAT is a tax on the supply of goods and series which is eventually borne by the final consumer but collected at each stage of the production and distribution chain.

This definition brings out the (3) essential characteristics of VAT, which are:-

I VAT as a Consumption Tax

II VAT incidence is on the final consumer

III VAT is a multi stage tax.

The introduction of VAT came out of a study ;group that the Federal Government Constituted in 1991 on the Nigerian Tax System. The committee recommended the introduction of VAT in 1993 in line with ECOWAS harmonisation Programme of free regional trade. The tax was hilled to begin in 1993 but the legislation took effect from 1st January, 1994. By VAT Decree 102 of 1993.

The Value Added Tax has a number of advantages that inform its introduction as a

replacement of the former Sales tax. This are:-

i Reduction in over dependence on oil revenue

ii it has an expanded base hence more revenue is expected to accrue to the government.

iii the VAT emphasis as on the final consumer hence more revenue to the government where the price is highest

iv VAT has a refund mechanism hence reduce cascading effect

v VAT does not affect international business, because its emphasis is on consumption

vi VAT provides incentives to exporters and enhance balance of payment

It is however, limited by the tact that:-

I Its burden is spread regressively expecially where there is a single rate

ii One time increase in price ie inflation

iii Increase in the administrative cost of the tax

iv Self-Policing system of job by the tax administrators.

v Record keeping is sometime cumbersome to the VAT collection agents.

CHAPTER THREE

3.1 INTRODUCTION

In this chapter, attempt is being made to present a brief history of Taxation in Nigeria, The Responsibilities of Federal Board of Inland Revenue, The Organisational Structure, as well as the History of Value Added Tax, Its Pioneers Operations enabling Law and Obstacles in Operation . Finally, ways and means were explored for improving VAT collection through its existing strategies.

3.2 Research Methodology and Source of Information

This study is expected to use existing records in the Federal Inland Revenue Service, in addition, personal observations and interviews with selected personnel of the Federal Inland Revenue Service as well as the taxpayers .

The major source of information used are:-

I Studying existing records

This was done by studying all the documentaries on VAT Decree, Periodicals and information circulars issued by the Federal Inland Revenue Service on VAT and related areas.

ii Personal Observations

This took the form of researcher participation in the operation of VAT as an insider in Abuja, Jos and Kaduna. The inter was personally changed with the responsibility of coordinating the work of others involved in the operation of VAT in Nigeria, thus the author was privileged to interact with the accountable persons as well as all the staff in the VAT directorate in Federal Inland Revenue Service.

iii Interview with Staff and Taxpayers

The author had the privilege of seeking clearance from the Chief Executive of Federal Inland Revenue Service who administer VAT who was involved in the studies that recommended the replacement of sales tax with VAT. Also interviewed are the Director for VAT, and other field officers in charge of VAT operations in Jos, Abuja, Kano, Kano and Lagos.

3.3 Historical Background of Taxation in Nigeria.

The Federal Republic of Nigeria was formally composed of four regions - West, North, East and Mid-West and the Federal Capital Territory of Lagos.

The body of the original Inland Revenue Department was made up of following.

I The resident appointed by the Governor

ii The child ;and elders in each district

iii Any native authority why native law and custom was recognised as the tax collection authority.

Iv Any village-council or group of persons appointed bythe governor.

The Law that guided taxation in Nigeria was then know as the Native Revenue Ordinance of 1917. The ordnance of 1917, 1918, and 1928 were later incorporated into the Direct Taxation Ordinace No.4 of 1940 which repealled the Native Revenue Ordinance. However, the present tax laws in Nigeria were borne out of the Raismain Commission of 1957. Raisman's recommendation was the basis for providing in Section 70%. The Nigerian (Constitution) Order in council of 1960 Section (1) which conferred exclusive power upon parliament to make Laws for Nigeria or any part thereof with respect to taxes on the income and profit of companies, while Section(II) and (III) conferred concurrent powers upon parliament to make Laws for Nigeira or any part thereof with respect to certain uniform priciples in respect of personal incme tax. In exercise of these powers, the Federal Government enacted the Income Tax Management Act 1961 (ITMA) and Personal Income Tax (Lagos) Act 1961 No.23 of 1961.

When the Income Tax Management Act(ITMA) came into operation on 1st April, 1961, all other regional Laws on taxation had be amended tobring them into conformity with the Federal Law. Consequently, we had the following laws applicable to the Regions:-

Norther Region - The Western Region Principle Tax Law amended in 1962tp be read in conjuction with ITMA 1961.

Western Region - The wester Region Principal Tax Law amended in 1961 in line with ITMA 1961.

Eastern Region - The Eastern Region Finance Law ,1962, repealled the earlier finance law of 1956.

When Nigeria became a Republic in 1963, the Mid-Western Region was carved out of the |West and they adapted the Western Region Tax Laws accordingly with some amendments.

The Direct Taxation further sub-divided into two - viz The Personal Income Tax and The Companies Income Tax. The personal income tax which is for indiviuals is assessed and collected by the states Board For Internal Revenue on those individuals resident in the state while the companies income tax is charged on corporate bodies , is the responsibility of the Federal Government throught the Federal Board of Inland Revenue (FBIR).

Responsibilities of the Federal Board of Inland Revenue

The Federal Board of Inland Revenue is also responsible for the administration of the following Taxes listed below; assessment and collection are carried outin area offices of the Board in each state in respect of:-

(a) *Companies Income Tax*

(b) Petroleum Profit Tax

(c) Collection of Stamp Duties

(d) Companie pre-operation levy

(e) The Income Tax of

I External Affairs Offices

ii Non-Residents

iii Armed Forces Personnel

iv Federal Capital Territory - Residents

v Capital Gains Tax

(f) Value Added Tax (VAT)

(g) The Board of Inland Revenue is also responsible is for initiating amendments to Tax laws.

The Chairman of the Federal Board of Inland Revenue is also the Chairman of the Joint Tax Board (JTB). The Joint Tax Board is a body constituted under Section 27 of the Income Tax Management Act 1961. Each state of the federation is represented on the Joint Tax Board. Specifically the Board

I Endeavours to promote unfiformity both in the application of Income Tax Management Act 1961 and in the incidence of Income Tax on individuals throughout the federation and

ii Advise the federal Government on matters connected with amendments to Tax Laws and the General tax Administration throughout the country

iii The consideration and approval of benefits and pervsion schemes which may be submitted to it from time to time. Once a scheme is approved, scheme is valid for Income tax purpose throughout the federation.

The following are the various legislation imposing tax on individuals and corporate bodies in Nigeria.

(I) The Income Tax Management Act 1961 as amended.

(ii) The Companies Income Tax Act 1979 as amended

(iii) The Pretroleum Prfot Tax Act 1959 as amended

(iv) The Industrial Development (Income Tax relief) Decree 1971

(v) The Capital Gains Tax Decree 1967

(vi) The Stamp Duties Ordinance 1958

(vii) Income Tax (Armed Forces and Other Persons) (Special Provision) Decree 1972

(viii) Capital Transfer Tax Act 1979

(ix) The Value Added Tax Decree 102 of 1993.

(x) The types of Taxes covered by these Legislations are stated as follows:-

3.4 **Tax Legislation in Nigeria**

(a) **The Income Tax Management Act (ITMA)**

The Income Tax Management Act regulates period income Tax throughout the federation.

(b) **Companies Income Tax Act-1979 (CITA)**

This regulates the assessment and collection procedures for all corporate bodies other than those in the production of crude oil or gas. This clan of corporate bodies are Taxed under the Petroleum Profit Tax Act 1959.

(c) The Industrial Development (Income Tax relief) Decree 1971.

The Decree was not imposing tax as such but it provided for an incentibve by eway of exemption from tax, all companies that might be accorded a pioneer status by the industrial Development coordination committee of Ministers.

(d) **Capital Gains Tax 1967**

This imposes tax on the profits derived from the sale of capital item; e.g. Property shares in companies, etc. The rate of tas is 20% of the net gains after the deeucting original ost of asset, less the expenses of sale.

(e) **The Stamp Duties Ordinance 1958**

This regulates the transaction which adre subject to give them legal backing and for the purposes of revenue. Under this ordinance, those mathers over which the regions had jurisdiction to legislate upon were collected by Federal e.g Stamp Duties for the registration of capital of new companies are collected by the Federal Board of Inland Revenue. Stamp Duties on Legal transction involving individual ony are payable to the states. The Act is now being reviewed to streamline the various ratetherein with a view to having some uniform rates.

(f) **The Income Tax (Armed Forces and other Persons) Special Provisions)**

When it became necessary to hand over the taxation of individual in the Federal Capital

Territory to Lagos State, the Federal Government had to retain the taxation of certain officers and persons who are deemed not to be resident in Lagos or any state for that matter, for Tax purposes. These are the Armed Forces Personnels, External Affairs Officers, Police Officers, and or recent non-resident individuals deriving income from anywhere in Nigeir and the residents of Federal Capital Territory. The provisionof these Decree are similar to those of personal Income Tax in Lagos.

(g) **The Capital Transfer Act 1979**

This is intended to tax capital being transferred from one person to another other than by outright sale. Capital is deemed to be transferred to another when the ownerdies, but the transferee bears the tax; lifts of property from father to children during life-time are deemed to be capital transfers liable to tax, Because the law is designed to catch those that wealthy property less than ₦100,000 worth are not caught. States are supposed to implement this Act, but some states are dragging their feet.

(h) **The Petroleum Profits Tax Act 1959**

The Petroleum Profits Tax regulates the Income Tax on the oil producing companies, including NNPC . The oil producing companies are joint venture with NNPC to produce crude oil for sale.

The sale of crude oil, less the cost of szale and overheads, less allowances provided by this Act, represent what is regarded as chargeable profits. This is changed to tax at the present rate of 85% in 1977. The magnitude of the bruises in the oil industry assumed very high proportions as from 1972 and therefore, the tax payable in this sector became substantial from ₦547, 868, 321 in 1972/73 to ₦12,590, 711, 976 - in 1988.

3.5 THE ORGANISATIONAL STRUCTURE OF FEDERAL BOARD OF INLAND REVENUE (FBIR)

Decree 28 of 1979 as amended by Decree 3 of 1993 establishes the Federal Board of Inand

Revenue with its operational arm known as the Federal Inland Revenue Service. The composition of the Board is as contained in the enabling Decree as thus:-

(a) An executive Chairmand,

(b) The Director and Heads of Directorates of the FIRS

(c) The officer from time to time holding or acting in the post of Director with responsibility for planning Research and Statistics Matter in the Federal Ministry of Finance.

(d) A member of the Board of lthe National Revenue mobilisation, Allocation and Fiscal Commission

(e) A member from the Nigeria National Petroleum Corporation, not lower than an Executive Director

(f) A Director from National Planning Commission

(g) The Registrar-General of the Corporate Affairs Commission

(h) A Director-(Deputy Controller-General) from Nigeria Customs Service

(i) The Legal Adviser to the service

The service has:

i The Chairman as the Chief Executive

ii The Directors of the Service

iii The Legal Adviser

iv The Board Secretary

The powers of the Board among other things include

(i) Section 7 (2) of the VAT Decree empower the Board to assess and collect Tax.

(ii) Section 37 - Power to appoint agents for defaulting manufacturers and importers and request such agents to pay tax due from the manufacturers or importers funds.

(iii) Section 39 - Power to specify the forms, statements and notices to be used

(iv) Section 40 - Power (With the approval of the Minister) to make regulations to give

effect to the provision of the decree.

(v) Schedule I & II Authority to determine additional goods and services for listing under the schedules.

The Federal Board of Inland Revenue is changed with the administration and management of VAT in Nigeria. This is contained in Section (1) and (2) of VAT Decree 102% of 1993. No mention is made in the Law of the establishment of the Board or its composition.

The Federal Board of Inland Revenue administer the VAT in close cooperation withth Nigeria Customs Service (NCS) and the States Internal Revenue Services.

The Nigeira Customs Service are the agents of FIRS in the collection of VAT on imported items. They collect the VAT at the points and pay to designated account at the central Bank of Nigeria. On a monthly basis, they render returns of their collection to the FIRS.

The States Internal Revenue Services (SIRS) is limited to their represention on the VAT Technical Committee and the povision of useful information on VATble firms in their territorial Jurisdictions.

The VAT Technical Committee.

Section 3 of VAT Decree established a "VAT Technical Committee" whose function are:

(a) to advise the Board on professional and Technical matters.

(b) to advise the Board on the proper administration of the VAT,

(c) to attend to any other matters that may be referred to if by the Board

473319

Membership of the Committee are as follows:

(a) The Chairman of the FIRS shall be its chairman

(b) All Directors of the FIRS

(c) Director (Deputy Controller General) in the Nigeria Customers Service.

(d) Three representations of the State Government who shall be members of the Joint Tax Board (JTB)

3.6 **THE VAT DIRECTORATE**

The day to day management and administration of the trax is undertaken by the VAT Directorate which is one of the six Directorates within the FIRS. The VAT Directorate is headed by a Director who is stationed at the Headquarter, Abuja.

3.7 THE ZONAL OFFICERS

At the middle of the structure of the Directorate and the (5) five zonal offices each headed by a Deputy Director (Zonal Coordinator). This is the level at which the administration of VAT and income tax are concentrated in one and the same person. This is appropriate because to have only supervising role which does not hamper day to day administration of the tax.

Lagos - for - Lagos

Made up of Lagos.

Ibadan - for - Western Zone

Comprising Delta, Edo, Ondo, Oyo, Ogun, Osun, Kwara and Kogi States

Enugu - for- Eastern Zone

Comprising Akwa Ibom, Cross River, Rivers, Abia, Imo, Anambra and Enugu States

Jos - for - North - Eastern Zone

Made up of Plateau, Benue, Taraba, Adamawa, Borno, Yobe, Bauchi and FCT Abuja

Kaduna - for- North-West Zone

Made up of Niger, Kaduna, Kano, Jigawa, Katsina, Sokoto and Kebbi States

3.8 The Local VAT Offices

This is the level of direct contract with the public is established. Presently, there are 36 Local VAT offices nationwide. The Government in its 1995 Budget gave increased the number to 50, but due to lack of fund, not all are operatives are even though there is indication that the 14 additional will commence in 1996.

As time goes on, it is intended that they will be extended to other commerical centres and all Local Government headquarters in the federation.

The FIRS in under the ministerial supervision of the Finance Minister. Under Section 34 of the VAT Decree, the Minister of Finance has the power to:-

(a) amend the rate of the tax.

(b) amend, vary or modify the list set out in Schedule 1, 2, & 3 of the Decree.

3.9 THE ENABLING LAW OF VAT IN NIGERIA

The Law that introduced VAT in Nigeria is the Value Added Tax Decree No.102 of 1993. The Decree was promulgated on 24th August 1993, and it took effect from 1st December, 1993. (However, invoicing ofr VAT was administratively delayed till 1st January, 1994).

The decree on coming into effect, repeated the Sales Tax Decree No.7 of 1986. The VAT Decree in Section 7 (I) Vests the administration and Management of VAT in Nigeria on the Federal Board of Inland Revenue. (Several aspects of the decree have been administratively amended in line with public demand. For instance, submission of returns is now one full month after the period and not fourteen days as in the decree. The necessary amendments will be effected at the earliest opportunity).

3.10 THE CONTENT OF THE DECREE

The VAT Decree No.102 of 1993 is made up of the following six parts and three schedules.

PART I This part deals with the imposition of VAT. It is made up of Section 1 to 6 dealing respectively with imposition,Taxable goods and Services and rates, Exemptions, Computation of VAT, Value and Value of Imports.

PART II This deals with the administration of the rate. It contains Section 7 to 9 which deals with Administration, Registration, Records and Accounts respectively.

PART III Deals with Returns, Remittances, Recovery and Refund of the tax. This part contains Section 10 to 16 inclusive which deal with payment collection, Rendition, of Returns, Remission of Tax,, failure to render returns, non-remittances and recover

of tax respectively.

PART IV This part sep up the VAT Technical Committee. It contains Section 17 to 20 to which deal with Establishment and Composition, Functions, Procedings, and Staff respectively.

PART V Is on offences and penalties. This part contains Section 20-23 which deal respectively will false documents, evasion, attribution change in address, tax invoice, resistance, unauthorised persons, registration, records and accounts collection tax, submission of returns, aiding and abetting and body corporate.

PART VI Deals on Miscellaneous issues. It contains Section 34 to 43 and they deal with power to vary Schedules, power of inspection, distribution of Revenue, Agents, Signification , Form Regulations, Repeal, Interpretation and citation and Commentcement.

SCHEDULES I - III

SCHEDULE I	Lists taxable goods and States the rate of tax
SCHEDULE II	Lists taxable services and states the rate of tax
SCHEDULE III	Itemise goods and services exempt from tax.

3.11 VALUE ADDED TAX (VAT) PROCESS AND OPERATION

VAT REGISTRATION

Registration is one of the most important determinatiion of the VAT base. In other words, the more the number of registration, the higher the expected tax yield because of the enhanced tax base.

In Nigeria, Section 8 of VAT Decree 102% 1993 provides that:

"A Manufacturer, wholesaler, and importer and a supplier of taxable goods or services shall, within six months of the commencement of the decree or within six months of commencement of business whichever is earlier, register with the Board ffor the purpose of tax"

This provision implies the following:

(i) any type of business, corporate or incorporate must register for VAT

(ii) there is no registration theshold in Nigeria

(iii) even those trading in exempt goods and services must still register.

However, for administrative convenience, small traders are exempt goods and services must still registration for the time being. Only manufacturers, distributors, wholesalers and large retailers are required to register. Registration is applied for form 001.

Residence Code:

This indicates the Location of lthe company. All the taxable persons in particular Local VAT office have identical residence code to identify Jurisdictional area. Thus, we have KV, BV, WV for Ikeja, Ibadan etc.

Business or Trade Code

All busness in Nigeria have been classified into trade groups. Those we have include agriculture and agro-allied business, financial institutions, hotesl and catering establishments, printing and paper publishing, breweries, canning and food manufacturing, commercial and trading establishments, professional services, transport and road haulage etc. The trade codes also feature in the VAT Registration number for each registered person.

Head Office/Branch Code

Where a registerant is a single location business, it is given a single location code. Where it has branches, the particular branch being registered is identified by the number assigned to that branch. A single location business or the head office of a business with a network of branches are given 00 while branches are assigned 01,02,03,04,or 05 etc.

Type of Business Code

We have individuals, registered businesses and incorporated business as possible registrants. These are assigned 0,1, and respectively.

Registration Number

The registration number of the Company is the last component. Registration numbers are unique where the registered person is an individual (with no Regisrration or incorporation number), serial numbers are assigned.

VAT Registration Certificate

Every registered person must be issued with a VAT registration certificate which must be conspicuously displayed at the principal place of business enterprise. The certificate contains the name of VATable person, the address, the VAT registration number and the like of trade. It must be duly signed by the Local VAT officer and be counter-signed by the VAT Director or his accredited representative.

Sources of information for Registerable person include FBIR, SIRS, Nigeria Custom Service, Professional bodies such as Council of Registered Engineers (COREN), ICAN, NBA, NIQS, NIM, NMA, MAN and Trade Directories among others.

Changes affecting Registration

In the life of any business enterprise, changes are inevitable. These changes have varying decrees of importance to the VAT Administration. This therefore, important they should be notified immediately so that even if they will not cause any material alteration in the stauts of the registrant, they would be kept for information purposes. The following changes are important to the status of the VATable company and should therefore be promptly notified. Changes in name, address, additional premises acquired, premises ceases to be in use, change in ownership, change in classification of goods/services supplied, addition/substraction to a line of trade, changes in authorised signatories among others.

De-registration

A taxable person has to be de-registered if the condition for his registration no longer exist. This can occur when a business is liquiedatee. Where this happens, it is necessary:

(i) to notify the tax authority of the date of ceasation of business

(ii) furnish returns showing details of stock and their value

(iii) pay tax due within 30 days of the caesation of business

(iv) submit the certificate of VAT registration to the Local VAT office.

3.12 VAT ASSESSMENT IN NIGERIA

VAT As a Self-Assessment Tax

Value Added Tax in Nigeria is based on self assessment. The computation and payment are done by the Taxpayer without any interference from the Vat offices. The payment is made when the returns are submitted.

The computation of VAT payable is done on form VAT 002 which is submitted to the Local VAT Office monthly by the taxable person. The forms to be completed by a principal officer of the company. The form has a column forl the computation of the input tax and another for the computation of output tax. The VAT period is one calendar month. Inother words, no taxable person is allowed to choose the middle of the month as it VAT accounting date. So a company can submit returns for periods beginning on the 15th and ending on the 14th of each Month. The rendition of returns and remittance of tax pa;yable is the calendar month following the VAT period.

Tax Period(ie Period of Transaction	Due Date of filling VAT Returns Including Remittances
1/1/94 ------- 31/1/94	1/2/94----------28/2/94 1/3/94----------31/3/94 1/4/94----------30/4/94
1/2/94 ---------- 28/2/94 1/3/94 ---------- 31/3/94	

Liability to VAT

Liability to VAT arises when the output tax is more than the input tax. The net tax in a tax period is the VAT to be remitted to the Local VAT Office.

Payment

Cheques for the amount remitted to the Government are made payable to the

47331

Re-assessment:

Re-assessment of VATable person are made by the VAT officer when the taxable person has under assessed himself. The re-assessment from is from VAT 007 and it is also used toimpose penalty administratively under Section 23, 24, 29, 30 and 31 of Decree 102 of 1993.

Refund:

Refund could be made to taxable person if the input tax exceeds the output tax. The claim for refund is made in the normal process of rendering and filling tax returns claims for refund is made in the normal process of rendering and filling tax returns. Claims for refund should ve supported by such documents as are required by the Board as provided for under Section:31(1)(b) of the VAT Decree. Once the documents supporting refund claims are made available to the Revenue, the process of verification of the case is set in motion through

(i) Office verification ie checking the authentical accuracy of the excess of input tax over output tax and ascetainment of proper application of VAT Law e.g VAT paid on Fixed asset are to be recovered in the process of claiming capital allowance rather than been included as input VAT.

(ii) Field verification may be conduucted by way of scrutinising invoices. The verifying officer then invite a report of his findings. Recommendation for refund should be acompanied by committee to be held responsible if demand for refund is later found to be spurious.

Refund claim if approved are mde out of fund set aside for that purpose from VAT proceeds. In refund cases, care must be taken to ensure that refunds are made timely and faily to generate confidence in the system, if otherwise, then the tax system will not be respected and a lot of taxable person will lhave no restrain in rendering false claims.

The Tax Invoice.

The tax invoice isan important part of credit of VAT. It is the single most important source

of verification of transactions. It does not need to accompany VAT returns, but must be kept by the taxpayer. The exact amount of sales, rate of VAT and the VAT payable must be stated clearly inaddition to taxpayers identification Number, Name and address of VAT registration number, customers name and number, type of supply, tax rate, and VAT payable.

Mechnaics of the Credit Method of VAT

The Mechanisms of the credit method of substractive VAT which is the type adopted by Nigeria can be illustrated with the case of a product that goes through a manufacturer (M) Wholesaler(W) and Retialer(R) to the final Consumer(C).

I that the vat rate is 5%

ii the cost of Sales to the manufacturer which represent his outlay on factor inputs from suppliers is ₦1,100

iii the various suppliers tothe manufacturer have no VATable input cost

iv the value added by the manufacturer , wholesaler and retailer are ₦1,000, ₦5,000 and ₦200 respectively.

The basic prinicples involved in deriving the VAT payable could be illustrated as follows using the above simpliefied example.

Tax Agent Collector	Selling Price	Cost of Sales	Value Added	VAT Collected	VAT Remitted to Govt.
Supplier (S)	1100		1100	55	55
Manufacturer(M)	2100	1100	1000	105	50
Wholesaler(W)	2600	2100	500	130	25
Retailer (R)	2800	2600	200	140	10

From the above, the following three points are evident:

I that the tax remitted to the government is the sum of Column 6 which is ₦140 and exactly 50% of Consumer Price of ₦2800.

ii that the history of each good must be follwed up in calculatin tax at each stage

iii that at each stage, the seller is able to fully pass on the burden of the tax (ie no incidence falls on the seller at each stage).

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3.13 OBSTACLES TO VAT OPERATION

There are cetain obstacles associated with tax assessment, those perculiar to VAT include

I Gross understatement of VAT payable. More often than not, the volutary and self assessment nature of VAT gave room for this.

Ii Non-availablity of invoicing at all levels of VAT payment. Sometimes, a retailer may claim input, but does not possess invoice to back up his claims.

Iii Not all vatpayers use receipt, hence sometimes BOJ assessment is raised which may be understated or overstated.

Iv Small Business holders tht do not have receipt ;are not within the VAT net because of poor assessment.

V Non-availability of trained and skill VAT officers to monitor and enforce compliance.

Vi VAT with respect to Government establishment can not be enforced because of the Government to Government Syndrome.

3.14 WAYS OF IMPROVING VAT OPERATION AND COLLECTION

In order to have effective and efficient VAT collection mechinery, trained and skillful staff are necessary. The self-policing nature of VAT should bve improvised with period VAT field audit to enforce compliance and educate Vatpayers. The VAT base should further be inividual to include Retail owners and they should be made touse receipt on purchases and sales.

VAT Aurdit rreports should be senitinised to bring to book the VAT defaulter to face appropriate penalties as specified by the Law.

VAT Officials should be moved round from time tto time to avoid much familiarity that can bring about avoiding and abetting todefraud government. The government should introduce VAT clearance certificate to be issued to VATable person bi-annual that will indicate that the VAT

liability of one is cleared, and this should be an important requirement for his business transaction. The introduction of VAT tribunals/Courts to to try VAT defaulters of all categories of offences will minimise VAT avoidance and evasion.

4.0 DATA ANALYSIS

4.1 Introduction

Traditionally, taxes are based on the income of individuals or profits of an economic activity. Other bases of tax are Wealth, Capital, Property and Consumption. All lforms of consumption tax falls within the previews of indirect taxation. Income taxes and those based on Capital , Profit, and Wealth are in the realm of direct taxation.

The imposition of tax is based on certain considerations. One of these is how effective as well as equitable the tax can be . Since a tax can be equitable being effective and vice-versa, the Capacity of the base to reflect both equit and effectiveness is important. The level of equity and effectiveness determines the level of compliance and thus collection of taxes.

4.2 VAT COLLECTION IN RELATION TO OTHER TAXES

Taxation, like the exercise of any governmental power, say education, communication, law, and even the railways is only a means to an end; An appraisal of the operation of VAT in Nigeria is therefore expected to unravel the extent to which it has assisted the state to pursue its objectives. Having at the back of one's mind the general assessment of developing countries' tax systems as weak and less productive, appraising the VAT operation becomes a necessary exercise.

4.3 Measure of VAT Effectiveness

Before delving into a full-scale appraisal of the Nigerian VAT, it is perhaps necssary to say there are, so far, no univesally accepted yardsticks for measuring tax effectiveness. The reason is that socio-economic situation vary from one economy to another. Even a country like Nigeria, with divergent cultures, different climates, and uneven literacy spread, a nationwide tax might have varying efficiency and effectiveness levels in different parts of the country. In assessing the nationwide Federal tax therefore, the following points should be borne in mind as measure of effectiveness.

Budget Objective

An exclusive appraisal of the tax can only be valid on the good that government is duly informed of Macro-economic variables including VAT potentials and political system. the rate of inflation, and the overall tax system as well as exclusive appraisal of a tax can be made on th assumption tht the degree of under or over estimation of the tax potentials is not too disproportionate to the tax capacity of the economy or the tax base. The more realistic the tax estimate are vis-a-vis the taxable capacity, the easier it is to assess tax effort.

On this good, several groups had varied opinion of the tax targets. One was of the opinion that the 1994 being the exeperimental year, the revenue projection of ₦6 Billion was unrealistic while the second felt the projection of ₦6 Billion was under estimation given that the government give all necessary attention to ground work to its introduction and the third group felt it is realisable projection pointing that it will test the operability of VAT in Nigeria and the ability of the tax administrators to execute a novel scheme.

By generating over ₦8 billion and ₦21 billion in 1994 and 1995 respectively, the tax has effectively assisted the three tiers of government in the mobilisation and redistrivution of scarce resources to needy section no matter where the revenue is sourced. This amount generated had exceeded target for both 1994 snf 1995.

(1994 VAT Revenue Cumulative Curve is shown over-leaf).

Note from the above chart, the 1994 VAT target was exceeded by ₦2.1 Billion while in 1995, half year collection stood at ₦7.8 billion as against the estimate of ₦6 Billion.

Comparative appraisal

It is very likely that assessing a tax policies in the same tax system would soothe the nerves of people who doubt the soundness of the exclusive appraisal approach. The Federal Inland Revenue Service being tthe principal tax agency of the country administer the following Federal Government taxes:

I Petroleum Profit Tax (PPT)

ii Companies Income Tax (CIT)

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iii Personal Income Tax (PIT) (for members of the armed forces, the police, external affairs functionaries, residents of FCT and non-residents in Nigeria)

iv Capital Gains Tax (CGT)

v Stamp Duties

vi Value Added Tax (VAT)

A look at the revenue profit of these taxes show that in five years before the Value Added T ax was lamented, FIRS had been able to fulfil its statutory obligations tothe fiscal system. Oil taxes, which realised ₦23.8 billion (that is a substantial percentage of total FIRS collected taxes of ₦25.6 billion) in 1989 had infact more than doubled by 1993. Non oil revenue had risen from ₦1.8billion in 1989 to 5.9 billionin 1993. Meaning that the non-oil tax revenue in 1993 was below estimated 1994 VAT revenue of ₦6 billion and about ₦2.2 billion lower than the ₦8.1 billion revenue from VAT in 1994 alone. VAT collection stood at ₦21 bilion in 1995, showing an annual growth of 163% against the budgetted targetof ₦12 billion.

Months in 1995

VAT Collection figures from Jan - June 1995

	IMPORT (₦)	NON-IMPORT (₦)	TOTAL (₦)
January	**291,296,431.00**	**766,937,412.00**	1,058,233.843.00
February	**321,757,049.00**	**685,910,563.00**	1,007,667,612.00
March	**309,038,789.00**	**847,156,140.00**	1,156,194,929.00
April	**323,969,855.00**	**831,473,608.00**	1,155,443,463.00
May	**834,493,674.65**	**865,506,971.65**	1,700,000,646.30
June	**962,391,631.00**	**870,432,247.44**	**1,732,823,879.30**
Total	**2,942,947,430.51**	**4,867,416,942.09**	**7,810,364,372.60**

GRAPH

Federal Tax Performance (Jan - Dec 1995) In Billion

	1994 Actual	1995 Estimate	1995 Actual	Variance	% Growth over 1994
Custom Duties	18	34	39	+5	116
PPT + Royalty	42	50	57	+7	36
Companies Tax	13	15	21	+6	62
VAT	8	12	21	+9	163
	81	111	138	27	70.4

Summary of Tax Collection by FIRS for Jan to Oct 1996

Actual Collection Jan - Oct 1995 ₦billion	Types of Taxes ₦billion	Budget Jan - Oct'96 ₦billion	Actual Collection ₦billion	Variance ₦billion
29.3	PPT and Royalties	29.4	34.6	5.2
15.9	Companies Income Tax	17.5	19.4	1.9
16.5	Value Added Tax	18.3	25.8	7.5
61.7		65.2	79.8	14.6

Over all, the government projection compares favourably with the position of VAT in such countries as Indonesia, Argentina and Brazil, at the time of introducing VAT in those countries. The VAT vis-a-viz other taxes is finacially productive in its fiscal regime and it is the strongest cmparative determinant of its status in the Nigeria tax system. The VAT has achieved the single harmonisation of the tax sykstem and thus causing the reduction of inert taxes and tax rates within

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few years of its operation by shifting emphasis from taxation on income to taxation on consumption. Specifically, the Government was compelled to van many petty pettjy taxes which were administered in various parts of the country through the mounting of road blocks by council officials. In January 1995, VAT caused a further reduction of the highest and Lowest bads of the rate of personal income tax from 35% and 10% to 30% and 5% respectively. Again, the 1996 budget which was laden with tax incentives coninued to reflet the positive effects of VAT on the entire tax system, income tax from 35% to 30% with effect from January 1996 was made as a result of Financial receipt from VAT.

Compliance Gap

The effectiveness of VAT can be measured by examining the gap between actual revenue and the potential revenue vis-a-viz the different tax bases comply with the tax laws. Before the introduction of VAT in Nigeria, government had gathered, pocessed and digested many data about the feasibillity of the tax, its operational demands and dynamics, as well as how these squard with the nation's overall fiscal goals. Since Nigeria gross domestic product (GDP) stood at ₦100.98 billion in 1994 and about ₦103.2 billion in 1995, when VAT estunates were
₦6 billion and ₦12 billion respectively, it can be argued that the VAT estimates were not an under-estimation of the capacity of the economy to welcome the tax. Of course the estimated revenue of a tax does not necessarily determines its actual revenue. If the taxable capacity of a country is say ₦9billion of the ₦9 billion. The reason is that the tax need not be expected to achieve in a given fiscal year all that might be desirable in a tax, some times too in developing countries, it might be just a fraction of the potential base. This could be seen in Nigeria's VAT inspite of large number of business, the active VAT base is rather small at reception.

In addition, a number of factors limit the level of compliance to VAT laws. This has been highlighted earlier. E.g. import based VAT shrank as a result of political crisis in 1994 by 22.6%, this naturally affected the volume of internally traded goods and services.

It can be assiled that although efforts are continually being made to hidge compliance gaps, the prelative proportion of Inland VAT revenue to the total VAT revenue is indicative of the level of suceess of tax efforts. That the economy had been much of a tax haven prior to VAT, and that the tax rate is low (5% one of the lowest in the word) have made many observers agree to the deduction that the estimate revenue and the actual revenue of VAT have so far been reflective of the taxable capacity of Nigeria. E.g. in Tobago and Trinidad, VAT at introduction yielded TT&899.7 million against estimate of TT&863 million dreflecting about 4% excess yield whereas in Nigeria in 1994 was 35% excess yield from VAT. This does not mean tht they operate under the same conditions. VAT was introuced in oil-rich Trinidand and Tobago at a time of relative peace, whereas it was introduced in oil-rich Nigeria at a time of political crisis.

Cost - effectiveness

The implementation of VAT in Nigeria was assumed to be met with high monitoring cost. However, this was later found to be wrong going vy the estimate of the first year revenue estimate and the staff strenth.

An affirmative and valid measure of cost effectiveness must however involve three elements profit rating, efficiency rating and cost rating . A tax can not be effective if it fails to be profitable or achieve target revenue . But the profitability of taxation, like that of any economic effort. is better assessed in the light of the investment that generates a particular amount of revenue. It is internationally accepted that the capital for financing a tax project should neither be more than 10% of the yield nor less than 5% of estimated revenue for efficient tax administration. Using this standard, and considering the shoe-string financing of VAT relative to the returns, reputable scholars have hailed the Nigeian VAT as cost-effective. The approved hinget of FIRS, which is only 0.5% of the cost of collecting all FIRS taxes in 1994 proved predictably insufficient. Such has been the situation year after year.

Progressivity

Nigerian VAT is at a flat rate of 5% on all goods and services. Consumable eg. The logic is that 5% charge on lexus car of ₦1.2 m would earn ₦60,000=00 to the state revenue, whereas only ₦5,000=00 revenue could be realised from a Tokunbo car of ₦100,000=00. It should be noted that a higher degree of demand elasticity exist in the consumption pattern of the non-rich. In other words, at an extra charge of 5%, more of the rich are likely to be inelastically disposed to consume what they are used to consuming, whereas less of the poor are likely to stick to consuming luxury goods and services at a 5% extra cost. Thus, although burden weighs more heavily on luxury consumers the ricer, the heavier.

Concentration and Dispersion Effects

The introduction of VAT turned around the uneviable state of Taxation by first causing the death of the Sales tax, operations in the states; Secondly, the operation of nuissance taxes collected at roadblocks by the state and local council officials. It has led to the elimination of multiple taxation from the witholding tax system, and caused a Marinal decrease in the rates of direct taxes. This will enable Taxpayers pay less but contribute optimally to public revenue.

Enforcement Index

For any tax to be adjudged soun it must not only be enforceable, (Statutory) but must also be enforced (effective). How does this apply to VAT andthus to the Nigeian Version?

As pointed out earlier, VAT's a self-assessment feature ie the taxpayer have to deteremine his tax liability, while the tax administration retain the enforcement power to compel compliance with the tax Laws. This they do through Litigation in Courts of Law as specified in the VAT Decree.

Erosion Index

By erosion, in taxation is meant the nullification of the revenue performance of a tax base through such loopholes as smuggling, corruption, personal exemption. Zero-rating, tax holidays, evasion and if we may suffix this, tax planning. The performance of an eroded base equals non-compliance. It is a testimony to the commitment of policy makers that, despite the prodings, the

Nigerian VAT administration have generally kept down the volume of official erosion of the tax baxe. There is virtually no group of exclusion - seekers that has had its VAT status alterned as a result of sentiments, hor has FIRS authorised or herard of non vatting of taxable goods on personal goods without evoking the provisions of the VAT law to deal with the situation.

4.4 THE BASIS OF VAT SUCCESS

It is not sufficient to evaluate a fiscal policy on specific areas. The reasons for the success or failure of particlar policy can be better understood on the basis of evalutating criteria. Besides, no one criteria is independent of another, but each is understood on the basis of its distinction to give a good view of the operational determinants of the tax outcome.

Groundswell Opinion

The introduction of VAT ignite a high class degate on Nigerian Tax system which helped the tax administrators to create the much-needed awareness for the new product in the fiscal market. The strategy helped in fine-tunning VAT policy and sharpening publicity and enlightenment programmes. It might be said that, due to this measure and others there was virtually no reported cse of misdemeanor on the part of the tax officials.

Publicity

High clss publicity was organised to sensitized the taxpaying puyblic on the VAT. Over 55 VAT workshops and seminars throught the country were organised preparatory to lauching the tax, while between in January and Decmber, 1994, most of such form toook place in the different VAT zones enlighten the professional groups on VAT. The FIRS undertook publicity campaign in the media, discussion and interview sessions were held with the key offices on VAT.

Management by Objective (MBO)

The FIRS adopted the management by objective (MBO) philosophy introduced by Peter Druellar. They know their business and how to go about it e.g. The Taxpayer that pa;ys his tax does

implicitly buys an (abstract) article: Obligation on the tax-collector to report to the Taxpayer how much he collects, as well as obligation on the part of government to be payer - consciousness in the Management of tax matters and in the provision of desired social goods and services. Thus the Taxpayer who pays 5% VAT on say a pair of shoe has not only purhcased the shoes but the obligation ofl tax collector to be fiscally responsible. VAT aims at elicitiyng a response to taxation, the FIRS aims at a philiosophy that the tax be managed according to such tenets, by making regular reprorts to lthe taxpayer of

I how much is realised

ii disbursed to the 3 tiers of governmnent in the Federal Tax system.

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Flexibility

The VAT is not only dynamic but flexible to reflect changing and immediate realities. Any attempt to administer the tax in an undending style might be equal to tying the taxpayer to a procrus tean bed for a fiscal surgery aimed at obtaining a pound of flesh.

The FIRS Edge

The effective implementation VAT in Nigeria depends largely on who and who administer it. Following the recommendation of MVAT Committee, a number of interest group lobbyied and cajolled to administer the tax, this include independent Commission, States Inland Revenue Services etc. After two years of running the Tax, the Nigerian experience shows that the FIRS is best palced to collect the tax, because most of the VAT payers are already in the Income Tax Net. They have taxation history and the FIRS have a data bank already of most VATABLE persons in their possession to march and check returns to aboid fraud. Also of the 24 countries that constitute the Organisation for Economic Cooperation and Development and operate VAT, 18, uses the Income Tax authenticates to administer VAT, and of the 12 countries of EEC, only UK is not using the

Income Tax Department to run VAT. Even in U.K, it is the custom and Excise Department that collects VAT. If in Nigeria, the states are to administer VAT, wewould have propably more than 30 different mode of returns procedure, a situation that would have created lack of harmony in the tax. Again, the existing facilities are used for the take-off of VAT, if the Government were to establish an Independent Commission. the necessary infrastrutures would have to be put in place, as well as the manpower which would have delayed the take-off effectively.

Low Flat Rate Regime

The Nigerian VAT has a Low Flat rateregime of 5% on all Vatable items. If precludes the complexities and manifpulation associated with multiple-rate system.

The Prevailing Inflation rate

The prevailing inflation rate in Nigeria at the introduction of VAT was 57.2%/annum; and foreign exchange was inadeqately accessiblible and Government was finding if difficult to fence its projects. Because of low rate of VAT, and a high inflation in the country, the VAT is not pronounced on the level of inflation. VAT or no VAT prices will contiue to rise. Secondly, the FIRS expedite the release of the VAT to the 3 tiers of Government to circumvent the effect of inflation on the value of public revenue.

Focus on Opps.

The VAT initial focus was the Organised Private Sector (OPPS) who aready have data and inflation fir VAT returns. The VAT include the expert packaging ie the policy makers and implementors have a common vision, so the work was a synergy, the Tax reform ie by replacing the Sales Tax reform ie by replacing the Sales Tax with VAT and the simplicy of VAT at a flat rate and easily to administer and understand.

4.5 VAT EVASION AND AVOIDANCE:

We can't discuss VAT evasion and avoidance without first understanding Tax Evasion and Avoidance. Tax Avoidance is a deliberate act of the taxpayer topay less than he ought to pay

Legally. According to Professor Whactcroft, Tax avoidance is an art of winning games without actually cheating, thereby beating the internal Revenue in their own game. Examples include fraudulent under declaration of income and making of an incorrect returns; false statements of account, representation, and refusal to pay tax, counter-avension of provision of the Law, failure to pay outstanding Tax Liability. The same Tax avoidance is applicable to VAT. In VAT. avoidance, is is concealmentt of vital information to ascertain a true position of one's tax liability.

It is usually deliberate with a new to paying less of the VAT outstanding. In Tax evasion, which iis illegal archieves the same goalas tax avoidance but have difficult methods. Illegal lmethods of reducing one's tax liability such as incorrect returns by omitting or underestimating one's income or non-declaration of one's income and incorrectinformation constitute tax evasion and are punishable as specified in the Tax Laws.

In the same way, VAT evasion is the illegal methods of reducing one's VAT Liability to his advantage . By this act the Taxpayer is defrauding the Government and it is punishable as contained in the VAT Decree under Section 22 on conviction by a fine of ₦30,000=00 or two times the amount of the tax being evaded, whicheber is the greater or to an imprisonment for a term not exceeding three years.

It is worth tol mention that nearly all the other offences will lqualify for prosecution under this Section since they amount directly or indirectly to tax evasion.

4.6 **Aiding and Abetting**

The VAT Decree frowns seriously at aiding and abetting the commission of offences covered by the Decree expecially when a Government official is involved. This is because officials collusion is bound to embolden prospective tax evader and even discourage honest rendition of returns.

The penalty for the offecnce of aiding and abetting tax is ₦50,000=00 or imprisonment for five years. The penalty is imposeable on conviction on officers of the Board or any othr persons proved to have committed the offence.

Where any person's conduct is found to be involved in committing the offence above, he will be deemed to have committed an offence punishable on vonviction by ₦10,000= or 4 times the tax evaded or intended to lbe evaded, whichiever is higher and/or to imprisonment for a term not exceeding 6 months.

4.7 Corporate Offences

When an offence under this Decree is committed by a body, corporate or fim or the other association of individual, every Director, Manager, Secretary of the Body Corporate or every partner or officer of the firm or every ;person concerned with the management ofl the Affairs of the association or anyone acting in any of these capacities shall be severally guilty of that offence and shalll be liable to be proceeded against as if committed the offence him;self unless he is able to prove that the offence was committed without his knowledge.

4.8 Sharing Fomular of VAT Proceeds

The proceeds of VAT receipt is lodged into the VAT pool account at the CBN. At the end of every month, the proceeds is shared at the Federation accunt allocation.

Committee meeting which is held on rotational basis amongst the States ofl the federation. In 1994 and 1995 the VAT proceeds is shared in this formular:-

	Federal Government	States	Local Government
1994	20%	40%	40%
1995	40%	30%	30%

4.9 Findings

From the foregoing analysis, it is apparently clear that VAT has achieved a lot of success in the Fiscal regime of Nigeria. From a conservative Government estimate of ₦6B in 1994 to record an actual collection of ₦8.2B and, ₦21Billion in 1995 from a target of ₦12B as well as ₦32.2B

collection in 1996 from estimated target of ₦22B.

The future remain very high for the fiscal investment to thrive harder in the economic terrain of Nigeria. But to achieve this, a systematic implementation with a view to beefing-up loopholes in the Tax adminstration is necessary to achiege the desired objective. We are determined to suceed and we shall; according to J.K. Naiyeju, Chairman, FIRS.

4.10 PROBLEMS OF VAT IN NIGERIA AND PROSPECTS OF VAT IN NIGERIA

The effectiveness or otherwise of any tax is a reflection of the quality of the fiscal system, which is a reflection of the domestic economy development of the socio-polity. In most situations, especially in the case of the Nigerian VAT,fiscal policy reverly creates its own problems, rather, it merely mirrors or accentuates the weaknesses existing in the society. A consideration of the myriad of provlems that are likely to stall VAT engineering and VAT adminstation in developing countries had made some economists argue that VAT is more siutable for the developed Nations. A number of such fiscal problems were encountered at the introduction of VAT in Nigeria and indeed in countries with similar socio-political and economic development background as Nigeria.

Public Resistance

Two factors underlie public resistance on the path of VAT administration in Nigeria. The first is the prevalent lack of confidence in the capacity of Government to judiciously use fiscal resources. Secondly, is the lingering economic stagnation marked by rising inflation, growing unemployment and under utilisation of industrial capacity. Public resistance to VAT could be measured by the level of compliance, the barrage of exemption applictions and outright attempts to run-down the tax. The Taxable public even those who acknowledged the need to reform the nation's tax revenue collection was scarcely eager to comply with VAT at least in the introductory years. By the year of introduction ie 1994, 89% of Media reports/opionion published about the tax were negative.

In Nigeria the public resistance was arrested by allowing Journalists and Taxpayers free

access to VAT reports and data that would have remain confidential. However, with grounds well job and dedicaion, the tax was found effective even though public acceptance is not reflected in compliance to VAT Law.

Small Enterprises and Accounting Culture

The Nigeria VAT does not exempt goods and services of small enterprises, but effort is first geared towards the organised sectors. The reason is that it is more difficult to pursue the taxation of informal sector where record keeping is low and illiteracy prevails among the operators. In the small enterprise. However this does not means that they don't deal on goods worth million of Naira. Furthermore, the accounting culture required to compute VAT liability is absent in small enterprises and the informal sector, unlike the situation in the developed countries tax accounting consultancy services and rarely engaged by Nigeria Middle blevel organisations save for the purpose of financial auditing or occasional tax placing. This make it fairly difficult for potential VAT payers to disscharge their VAT obligations. It also hampers effective computation of tax liability and make tax evasion a preferable option. Yet the introduction of VAT has stimulaed a new interest in both corpotate taxation and better invoicing and accounting culture in business management because many consumers of taxable goods and services now demand for VAT receipts or the stipulation of VAT payment on business receipt to enhance the settlement of their VAT bills.

Tax Refunds

Although the VAT Directorate and Decree provides for a refund where the input tax exceeds the output tax. Taxpayers and their consultants anticipated immediate cost refund, FIRS was reluctant to rant antomatic cash refund in ordert to avoid a reckless abuse of the system. The Tax authorities later clarified the refund process in their information circular on the subject matter early in 1995.

Post-Statute Exemption

The efectiveness of VAT suffered a set back by the post - statute exemption. Seekers in both

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publicand private sectors. In the case of certain government agencies that bad placed orders for foreign goods prior to the commencement of VAT, attemps were made to ensure such imports were untaxed. At the inception of the tax some organised. Private sector exemption seekers' practically placed little or no stress on the vatting of their goods and services whlie lobbying for exemption lasted. This post statute exemption hence poses threat to the tax base.

Accounting Culture

One factor that influenced the VAT from inception is the low level of accounting in Nigeria's business. This is more pronounced in the informal sector, but fairly absent in the organised private Sector. Hence, it is more diddicult to bring the informal sector into the VAT Net because of non-invoicing and accounting records. However, the introduction of VAT has stimulated awareness among consumers of goods and services to demand receipt for settlement of their VAT Bills. The FIRS on its points has produced a simplified accounting. Manual for traders and other small businesses in the unorganised private sector. It is expected that the project with improve the book-keeping and accounting culture of small enterprises and encourage their compliance with VAT Decree.

VAT and Multiple Taxes

The principles and photocopy of introduction of VAT is that it is aimed at replacing the myriads of taxes on consumption levied by various states goverment. To achieve this lofty goals, the proceed from VAT is been shared among the 3 tiers of government on an agreed formula. This principles not only allow the VAT alive and ensure the resurgence of various taxes in various states of the federation. Unfortunately, the introduction of VAT has not put a stop on multiples taxes which is currently on upsurge in Nigeria.

Administrative Complexity

The VAT system in developing countries and Nigeria in particular is that administative complexity. The real effect of VAT Administrative Complexity is operational distance among tax

officers an taxpayers. Attempts at limiting the problems was assisted at least initially by the limited number of LVO'S and VAT officers throughout the country. A deliberate encouragement was given to vertical and horizontal flow of tax information as well as inter-departmental communication. Above all, VAT injuction requires a complex system of adminstration at both public and private levels to continually remind us of the need to similarly encourage taxpayers to simplify their corporateaccounting systems to enhance easy collection, assessment and remittance of VAT e.g representatives of government agencies and parastatals were gathered in Lagos and Abuja on how to compute VAT due on contracts following the fiscal adjustments announced in 1995 Budget. The price that developing countries pay for the complex administrative nature of VAT is that they are daily assaulted by the pains of inadequate funding of overhead expenditure.

Scanty Infrastuctural facilities

Taxable person that are not locate within easy reach of LVOS would have to pay more to attend VAT Seminars or to file tax returns each month, such situation could be equated to a kind of disineentive to tax compliance. The general insufficiency of telecommunications facillities at both ends of VAT transaction does not encourage taxpayers to want to pick-up their say telephone to call the VAT office for clarification of issues of VAT collection, assessment and remittance. The same holds for the VAT adminisrators who rather than eassily take up the telephone to cross-check information from taxpayers have had to embark on official visit or writing letters that may take weeks to pass through an unreliable postal system. The situation contrast sharply to what obtain in U.K. where the new electronic logement service serves the taxpayer to send their tax returns via their personal computers (PCS) to those of the tax authorities.

Tax Lag:

Tax tax lag is the timing deffece between when VAT liabiltity is incurred and maximum time allowed for making remittance of the next VAT due to the tax authority.

Although the allowance of the tax lag is a kind of technical or expenditure by government, the

taxpayers can exploit the incetive to the disadvantage of the short-run fiscal objectives of a policy such as VAT. Essentially, witholding tax has a time lag of 30 days from the time of the transaction within which taxpayer should render his returns with VAT, the time lag was initially 14 days from month in which the activity occured but government granted 30 days later. The crux of the matter is for the differential in tax lag ie VAT and WT.

For VAT, on input, it is presumed that VAT is payable on paym;ent of import duty while VAT on non-import is effectively 30 days. The Nigeria experience does not support the allowance of different tax lags for different segments of the tax base since such may further, complicate the accounting system of taxable persons dealing in different goods and services in both domestic and international trade, rather it justifies VAT administration on a single tax lag.

Illieteracy Level

In Nigeria, many taxable persons are either barely educated or much uniformed of the workings of VAT in spite of all the tax propagation programme. There are many family high-time traders who, generally because ofLow Literacy Level, have found it difficult to understand and implement VAT in their businesses. Suchtaxablel person have tended to be part of the fiscal rumour industry where tax information is verbally communicaged often in a distorted form, with very little or nol attemps at personally verifying the fact in the credible Media. A publlic commentator but the literacy nail on the head when he observed that non-compliance with VAT often resulted from such factors as ignorance, discountenance, of mediated messages and growth of the informal sector which results substantially from the high level of illiteracy.

Motivation

Nigeria's fiscal planners were not unmindful of the possible impacts of under-motivation of both VAT collectors and VAT-payers in the administration of the tax. The reason is that no tax system, no matter the tightness of its architecture and engineering, can thorougly shut its doors to loopholes. Administrators of VAT all over the world would find that its major perennial problem

is the manipulation of tax accounting, tax preferences and tax shelters to the disadvantages of the tax revenue.

On the few occasion FIRS has had reports of attempts at understating tax revenue, it has swiftly moved to complete the taxable person to declare their real tax liablity, and penalized tax collectors that might have been involved in such manipulation. The profit table implementation of the tax has econouraged incentives to Nigerian tax collectors in thr form of bonus as well as taxable persons in the form of tax cuts.

Inflation:

Inflation generally usually subject taxpayers to rising tax burdens. VAT across the world is associated with inflation. Hence inflation either real or imaginary free consumers to shift their consumption pattern from the elastic products to inelastic and this means that inflation affect the degree of tax compliance and therefore, the whole of financial resources required to succesfully collect taxes.

Prospects of VAT in Nigeria

The Nigerian VAT system with a lot of ground work cannot be likened to a plant which life-cycle ends at death. Of course, it is expected that there would be ups and downs in the economy which VAT administtration and revenues will reflect; but as long as fiscal system exist so long will VAT continue to play a major role in the conduct of business in Consurmer behaviour in the mobilisation allocation and redistribution of economic resources. Certain variables of VAT development in Nigeria such as higher compliance, elimination of competing taxes etc are already visible in the fiscal horizon.

Another dynamic prospects of VAT in Nigeria is that of continued growth in revenue. The tax was expected to realise about 6% of GNP in the first year of operation, it did not only meet the revenue target but exceeded it by an average of ₦175million on monthly basis in the period 1994. In the year 1995, the tax achieved about 175% of its budget estimate of ₦9 Billion excess revenue. All things been equal, the tax growth will continue and even accelerate in Nigerian economy

stabilises in the near future.

If the 1994/95 growth rate of about 163% is sustained, VAT may yield an estimated 50% Federally - collected taxes in a decade and contribute substiantially of Nigeria's tax ratio. By the year 2000, VAT revenues will have effectively rivalled, if not overtaken, that of Petroleum Profit, tax, and other taxes including Custom duties, Companies income tax, stamp duties and personal income. Since VAT, has the highest growth rate, if government decides in the future to continue to streamline the tax system, VAT will likely lead to further shrinkage of the rates and trends of personal income tax as well as companies income tax. Incation are already aloud, that should VAT continue to provide state and local governments, the much-needed revenue, may more nuisance taxes will be eliminated by the three-tiers of government.

Public compliance with the tax, may be considered rather low in view of the large number of taxable activities in the economy. It is on record, that no Fiscal Programme in Nigeria ever secured the public compliance VAT has recorded in its first two years. If government continue to effectively mobilised and enlighten the tax paying public, the VAT popularity will grow in an unprecedented manner to reach its optimal point. The rate of VAT may not be changed until these optimal point is attained. The government in the nearest future have to open more VAT ofices in each council ofl the states to enlighten, monitor, and collect VAT. But should be systematic, gradual and comprehensive.

At that optimal point, the States Internal Revenue Services may be delegated the function enlightenmnent and monitoring compliance while llocal government may be used to collect the VAT in such places as the market place and public arenas.

5.1 SUMMARY

By all standards, V AT in Nigeria in its first few years of its implementation was a huge success. The FIRS pursued its logical complementation with zeal and enthusiasm despite contention call by the Organised Private Sector (OPS) to stop the introduction for economic reasons.

The FIRS uses its existing facilities for the assessment of income tax to complement the operation of the VAT. Moreso, some Nations uses the sxame income tax for VAT operation.

The low and flat rate of the tax assisted immensely in the realisation of the much needed Revenue for the government. The training offered for offices at FIRS in 1993 and 1994 assisted and exposed staff to the working of the VAT system.

To complement the effort of officers in the implementation of the VAT system, the FIRS made extensive use of the Media to publicise the benefits of VAT at introduction. This include print medias as papers and electronic as Radios and Television in addition to Seminar, Workshop, Information Circulars and debate. This effort paid off because at the end of the first year of VAT introduction, over ₦8.0 billion was collected and this soon increased in geometrical fold to ₦21 billion in 1995 and ₦32 billion in 1996.

From the above, it is clear that VAT has recorded a tremendous success.

5.2 CONCLUSION

The Nigerian VAT project revolves around three segments:-

I Tax Architechture

ii Tax Structure and Package

iii Tax Implementation.

An analysis of Nigeria VAT should invove a critical analysis of the inter-relationship among the three tax elements. The Nigerian experience on VAT projects is that administration appears as the meeting point, the moment of truth for the rightness or otherwise of tax architecture and

engineering is shown in the diagram below.

VAT Development stages.

STUDY GROUPS

VAT ARCHITECTURE = VAT COMMITTEES

VAT ENGINEERING = VAT DECREES

VAT ADMINISTRATION

In the Nigerian VAT project, Step I is the conception level, Step II is the decision level while level III, the Legislation level and Step IV the implementation level. This steps are elucidated in Chapter III and IV of this work. ie the potentials of VAT and the limitations as expected.

5.3 RECOMMENDATIONS.

The success of VAT in Nigeria can be a reference point to other Africa countries who are yet to lintroduce the Fiscal Programme. The focus point should be whether the focus point should be consumption, product or income oriented is opted with the use of computer based calculation to ensure effective data base of information, tthis proved quite successful.

The goods and services to be taxed have to be defined and a lot of publicity has to be undertaken to educate the taxpayers.

The rate ofthe tax should be modest and simple to compute to avoid ambiquity. In Nigeria, the rate is feat at five percent (5%). The tax system should if it is to operate without impending productive activities should take a special of capital goods. In Nigeria, goods and mechineries meant for the production of exempted goods are capitalised and owners claim their usual deduction for depreciation on such assets from their gross income. Government should never allow the existence of VAT with similar taxes or trade or expenditure inorder to avoid multiple taxation. The government may also decide on whether to give out the collection of VAT to consultants as in Trinidad and Tobago; though in Nigeria consultants are used in specialised areas

in VAT such as training, computer and enumeration of vatable persons.

The above are recommendation to states wishing to introduce VAT, but other recommendation that general include:-

i **Adequate Planning**

The implementation of VAT should be premised on adequate planning. The duration will depend on a country's level of socio-economic development, the quality of tax collectors, the tax budget to mention a few. It is necessary for any country introducing VAT to plan well ahead of time and introduce the fiscal programme in systematic sequential manner agreeable with the socio- economic deveopment of the country.

ii **Effective Communication:**

For a VAT operation to succeed, the reason for the imposition of the tax, details of the tax, the requirements and the responses expected of taxpayers as well as periodic progress report of VAT activities, must be communicated to the public on a regular basis. This is because the tax can easily be miscontrued as a strategy by government to squeeze life out of certain industries, to raise money unduly to promote inflation. VAT operators must be ready must be ready to dialogue with VAT payers on every aspect of the tax, to educate VAT collection agents on their roles and to favourably sensitize the newsmedia on the need, administration and relevance of the tax.

iii **Staff Training and Welfare**

The effectiveness of tax legislation depends on the quality and efficiency of tax collection. Hence there is the need for government to pay special attention on the welfare of revenue officers, tax offences should be made a criminal offence and defaulters be treated with despatch to serve as a deterrent to others. Others include allocation of benefits and previledges including appointment to public position and election to the National Assembly as well as bestowing National Honours to serving and former tax officers, tax bills should

be given accelerated hearing in the National and States assemblies and special indentary allocation to finance tax collection.

iv **Implementation Schedule**

It is important that tax administrators have an implementation schedule for VAT. The programme may be basedon the grouping of lthe tax base for enlightenment purposes. For instance, if it is the organised private sector that are first to get fairly enlightened on VAT, the administror may begin by taxing such sectors, thereafter nbext presumedly enlightened groups can then be brought into the tax net one afier the other. The strategy will allow the tax to seep into the fiscal consciousness of lthe society without incurring the wrath that can accompanyan attempted effective taxation of all statutory taxable persons at once.

v **Fiscal Coordination**

The VAT administration should be such that tax officers do not get distanced from policy developments nol matter their location in the tax territory. The chief executive of VAT must constantly keep in touch with his outstation to ensure that the VAT network permits easy flow of information vertically and horizontally.

vi **Computerisation**

The benefits of modern data processing and management technologies should be relied upon to enhance VAT business. Of course, the tax system cannot be fully computerised from the outset even in the developed nations. Yet computerised VAT collection or audit department is likely to be more efficient than a non-computerised one.

vii **Monitoring and Research**

If the policy of VAT must be credible in the public, government must give priorityto the monitoring and implementation of VAT at different levels ie collection. remittances, assessment, public compliance, and media coverage. In addition, since VAT is a dynamic

policy, it should be continually reseadrched to make policy changes realistic and worthwhile.

viii **Localisation**

The VAT system is indeed foreign to many system, hence there is the need to make it localised to any country introducing it. The Socio-economic perculiarities of the country should be taken also account before implementing the VAT systems chosen, since one form of VAT suitable in country A may be difficult in country B, and no one form is all exhaustive.

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