VALUE ADDED TAX (VAT) - A STUDY OF ITS ADMINISTRATION AND PROCEEDS IN KADUNA STATE

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DECLARATION

I DECLARE THAT THIS THESIS HAS BEEN WRITTEN BY ME AND THAT IT IS A RECORD OF MY RESEARCH WORK. IT HAS NOT BEEN PRESENTED IN ANY PREVIOUS APPLICATIONS FOR A HIGHER DEGREE. ALL QUOTATIONS AND SOURCES OF INFORMATION ARE DULY ACKNOWLEDGED BY MEANS OF FOOTNOTES AND REFERENCES.

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CERTIFICATION

This thesis entitled Value - Added - Tax: a study of its administration and proceeds in Kaduna State by Timothy Saul Faden meets the regulations governing the award of the degree of Master of Public Administration of the Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

TO THE MEMORIES OF MY BELOVED BROTHER, GODWIN NANSEL FADEN, AND DEAR FRIEND, NESTOR NANLUNG YUSUFU. KNOWING THAT THEY WOULD HAVE APPRECIATED THIS MADE THE EFFORT WORTHWHILE.

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ABSTRACT

As Government expenditure was steadily on the rise and revenue to meet this demand by government continually declined resulting into deficit financing, the Federal Government then decided to introduce the Value Added Tax into the Nigerian tax system. VAT was introduced to complement the financial resources of government needed for development projects. Decree number 102 was promulgated in 1993 introducing VAT as a replacement to the existing sales tax that had been criticized for its non performance. Inspite of the laudable reasons given by the tax policy formulator for introducing the VAT, the tax was at the initial stage received with some misgivings by the Nigerian Public. However, no sooner had this initial hurdle been crossed and the tax illuminated a lot of potential in terms of revenue generation, that reports of irregularities, such as, fraud, perpetrated by both taxpayers and tax officials started making headlines of some of the national newspapers. What could have gone wrong so soon? This questions amongst others inspired this research.

The purpose of this research therefore is to: examine the machinery charged with the administration of VAT with a view to identifying the problems of administration of the tax and suggesting remedies; To determine the amount VAT collected over the years in comparison to projected revenue figures from inception of the tax to the first quarter of 1997; and to show cause for the disparity between actual and projected revenue figures observed, if any exist.

The methodology employed for this study was the social survey research approach. Data were gathered using a stratified random sampling. The sampled population was divided into two strata, each according to the role performed in respect of VAT administration in Kaduna State. Questionnaires were administered

predominate in the state: 50 questionnaires were adminitered to VATable persons.
the remaining 100 questionnaire were administered to VATable persons.

The data which was obtained through primary and secondary sources were analyzed using statistical tools as frequency tables to compute simple percentages ami Ihe mean. Results from this analysis were used in making inferences concerning Iho research related observations and thus draw conclusions about these rel-ith

The findings of the research revealed that the three hypothetical poalllol tested should be accepted as correct based on the data generated. The hypothesis tested are as follows: (i) that ineffective administration is responsible for the lose of VAT revenue; (ii) that low motivation of tax officials and taxpayers hinders effective administration of VAT; and (iii) that the revenue collectible from VAT exceeds the actual revenue collected.

Data from the study revealed that: (a) gaps existed in the administration of VAT in Kaduna State especially between what is provided for in the VAT laws and prnctli These gaps are to be located in two areas of the operations of VAT, the enormity of the task and the comparative weakness of resources for the administration <I the tax; (b) that so many VATable persons have still not registered for the I mo refuse to pay and this has impacted negatively on amounts generated; (c) Um data obtained pointed out that both tax officials and tax payers are not adequately motivated to effectively perform their different roles in the administration of VAT While taxpayers opined that non responsiveness of government towards using lax revenue judiciously as reason for non conformity to the tax, officials advanced that low salaries, inadequate personnel, shortage and lack of work material posed various acute problems to them in their work; (d) that, the so many VATable organizations who failed to conform to the tax went unpunished and this tended to encourage nonconformity and discourage those that had conformed to the law;

(e) that tax officials feel powerless to deal decisively with tax offenders, pj • to interference from superiors; (f) data obtained showed that information on how much was projected revenue receipts from VAT and what were the actual collections over the years was not available due to bureaucratic bottle necks, however information from secondary sources revealed that the actual receipts were below expected.

We conclude from this study that it is not a wise decision to always judge a phenomenon on its face value, but that we should always try to understand its underlying properties. The phenomena may not be what it appeared to be on closer examination.

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CHAPTER ONE: INTRODUCTION

1.1 Background

The current state of the Nigerian economy cannot sustain meaningful development: Nigeria operates a mono-cultural economy with total dependence on the oil sector for financing government expenditure; oil revenue accounted for about 80.6 percent of the estimated total revenue in the 1993 budget 1. A brief history of the Nigerian economy would shed more light on the assertion above. The trend observed above started in the immediate post civil war period when Nigeria witnessed rapid growth of revenue occasioned by the export of crude oil. Significantly too, this success of crude oil as a major foreign exchange earner for the country led to the neglect of other sectors of the economy that were the backbone of the Nigerian economy prior to the 1970s; export products and agricultural production were relegated to a distant second place. The agriculture sector since colonial times provided for over 70 per cent of the labor force and contributed more than 60 per cent of the Gross Domestic product- it served as the engine of growth for the Nigerian economy from 1940 to about the middle of the 1960's[2]. In the years that followed the Nigerian civil war, however, the picture changed; with an almost complete reliance on the proceeds from crude oil to finance development projects.

With the large sums accruable to government from oil production, government now adopted the import - substitution strategy as a vehicle for transforming the economy. This strategy was adopted without consideration for the fluctuating oil prices in the international market. The periodic glut in the oil market which began in the mid - 1970s has had deleterious impact on the Nigerian economy, whose effects have been very consequential for the state of the polity and society.

This total dependence on oil is illustrated by the fact that today, you see the lower tiers of government in the federation behave as if their entire operations depend solely on allocations or subventions of funds from the federal government.[3] Governments were also known to misapply funds accruable to them, for instance, a one-time Enugu State Military administrator was alleged to have deducted one hundred and thirty thousand naira (N130.000.00) from the Value Added Tax share of each local government council in the state and put the sum total to his personal use. [4]

As a result of continued price fluctuations in the international oil market, revenue from crude oil, the most important single source of income for the country has continued to decline; therefore it became imperative for Government to explore other sources of revenue generation. With a depressed economy Nigeria resorted to massive external borrowing to finance government development programmes. As at 1993 the external debt burden stood at $28.6 billion.[5] The borrowing option as a source of revenue to finance development has been kicked against by scholars such as Koleade Oshisami and Peter N. Dean, 1984, who argued that borrowing is not a costless strategy, it has a shackling effect on future generations, spending now in order to shift the burden of the debt to future generations. This is clearly the case with Nigeria today, and borrowing has further compounded our efforts at development; government did not assess properly its capacity to meet all its obligations under the various loan agreements in the future, a situation when the interest payable on the loan can not be repaid either, and has to be met from the proceeds of a further loan is certainly not desirous and thus has created a situation where debt burden has grown bigger and out of proportion to the means of repaying it. The consequence of this on our effort at national development viewed broadly are: the Nigerian Government's credit worthiness declined, and hence making borrowing more difficult and more expensive, further loans have to be incurred at disadvantageous terms; government lost the advantage of normally available credit. Some organisations may refuse to supply goods and services thus creating further disruptions to the economy; cuts in financing disrupt public business and plan achievement, with the resultant waste. Incomplete projects suffer deterioration; and, powerful creditors have been known to seek to impose politically unattractive or even unacceptable economic policies on the governments of debtor nations.[6]

The need to government for more revenue can not be over emphasized, and oil revenue is no longer sufficient, government will have to source for revenue elsewhere, especially those avenues of revenue generation not opened to the vagaries of the international market forces. A parallel development is that government expenditure continues to rise due to pressing social and economic needs of the nation.

This is why government must not only seek other avenues of augmenting its income from oil but also study how to effectively manage these other sources for optimal benefit of society. It is against this background that government accepted the recommendations of the study Group on indirect taxation in 1991, the idea to introduce the Value Added Tax to broaden the revenue base of government. The focus of this study is to examine the effectiveness of the administration of VAT and its proceeds as an important alternative source of government revenue.

1.2 The Statement of the problem

In Nigeria, the introduction of VAT became necessary because government expenditure was steadily overshooting revenue; resulting in deficit financing. In 1991, for example, the total expenditure of the government of the federation amounted to N67,530.4 million, that is, N6,381.3 million or 10.4 per cent and N26,502.2 million or 64.6 per cent higher than total outlays in 1990 and 1989 respectively; the total retained revenue by the federal government however stood at N32,223.5 million compared, to say that of 1990 which stood at N39,467.2 million.[7]

VAT was established by Decree No.102 of 1993 replacing the sales tax Decree No.7 of 1986; the rationale behind replacing sales tax with VAT being:

i) to introduce the principles of consumption tax in Nigeria, thereby expected to cut across consumable goods and services; hence the base of VAT has been broadened as against nine categories of goods and services covered by sales tax, this expanded tax base has the potentials of bringing in lots of money for government,

ii) the incidence of VAT is on the consumer where the price is highest, thus improving fairness in the tax system by ensuring that people pay in line with their ability to purchase goods and services,

iii) to redistribute income by lowering the personal income tax burden of low income earners without necessarily reducing the revenue earnings of the government,

iv) VAT is easy to administer and difficult to evade, and

v) VAT will among others reduce our dependence as a nation on oil revenue and also VAT revenue so collected helps to provide a fairly accurate measure of the growth in the economy, since purchasing power increases with economic growth; VAT also serves as a good gauge of the business well being of a country, in that, when earning power of the population rises, it reflects almost simultaneously in VAT proceeds. [8]

One fact that transcends the above reasons for replacing sales tax with VAT is the enhanced income level for government. Inspite of the laudable reasons given by policy formulators for introducing VAT, the tax was greeted with mixed reaction, numerous controversies, misinformation and to some degree outright hostility on the part of tax payers. Despite these initial misgivings, VAT is expected to become one of the highest non-oil revenue earners in the country; as reports have indicated that economic experts in Lagos have estimated daily revenue to be generated by this tax to be in excess of N30 million.[9] It was also reported that, in its first full month of operation, VAT raked in a whopping N668 million.[10] The Democrat newspaper of 28th November 1995 also put VAT collection figures from January to June 1995 at N7,810,364,372.60 billion.

The above quoted newspaper figures should not however lead us to presume that VAT in Nigeria is a money spinner and thus problem free. This then brings us to the statement of the problem of this study, that is, inspite of this rosy picture, other reports have painted a not too pleasant other side, as would be seen later. So what could have gone wrong? To start with, we should be aware of structural problems that VAT is bound to encounter at its infancy; firstly, most economic activities in Nigeria are conducted underground, well beyond the purview and searchlight of the VAT man; those that are openly carried out are far too disorganized, haphazard, and fragmented to be amenable to proper monitoring and subsequent levying. Secondly, the situation is compounded by the very high illiteracy level in our society, and linked to this is the dearth of manpower and technology as evidenced by lack of cash registers, calculating machines, computers, needed for the effective administration of VAT.

Apart from these initial problems, there already exist serious cases of fraud and sharp practices in the administration of VAT, for example, the vanguard newspaper of 7th November 1994 reported that N2.6 billion revenue from VAT had been lost through fraud and mistakes in VAT declarations; it also quoted a federal audit department personnel as having disclosed that much more may have gone undetected by tax inspectors.

A N12 million fraud was reported at the Federal Inland Revenue Services in the newswatch magazine of 6th May 1996; so also was fraud running into so many millions of naira detected by the Kaduna State Government as was made public by the chairman of the state revenue Board through the Democrat newspaper of 13th January 1995. (the latter even though, not revenue from VAT, however depicts the general trend of how tax officials misappropriate tax revenues in collusion with some tax payers); and It was also reported that, some state governments do not use revenue accruable to them from VAT for the purposes for which it was meant, " the federal government directed state governments to spend money accruing to them from the proceeds of the Value - Added - Tax (VAT) on development projects only."[11] Some States Military Administrators were reported to have diverted such funds to their personal use while others have misapplied such funds by diverting them to payment of salaries and allowances of their civil servants; or other like purposes. It was viewed as unfair to spend allocated money to the entire state from the federation account on civil servants alone who may constitute only about 5 per cent of the entire population of the state, thus cheating a majority of the population in the state who do not benefit as civil servants, and who might infact be contributing more to VAT as a result of their level of consumption.[12] (employees in the private sector, for instance, earn higher incomes and thus have a propensity to consume more, especially, luxury goods and services which are VAT able and hence contribute more to VAT).

In light of these developments, it becomes pertinent to enquire what seems to be the problem with the new tax conceived with the best of intentions. Are these problems as a result of ineffective administration of the new tax?. These are the questions which this study will attempt to provide answers.

1.3 Purpose of the study.

From the background of the study and statement of the problem highlighted earlier, it is evident that recently government expenditure has been higher than its income; that VAT has a strong potential of meeting such a shortfall, it has however, not been the case, which leaves one with the conclusion that all may not be well with certain aspects of the tax afterall. The purpose of this study therefore is to:

i) determine the amount of VAT collected from inception of the tax in January 1994 to the first quarter of 1997, and to compare it with the estimated amount to be collected.

ii) determine the factors responsible for this disparity; and

iii) to examine the machinery responsible for the administration of VAT with the intent of ascertaining its problems and to suggest solutions.

1.4 Significance of the study

That Government is in dire need of money to meet increasing societal demands is stating the obvious. However, revenue from VAT which is expected to bridge the gap with income from crude oil production and other sources, seems not to be contributing enough. We are interested in what could be responsible for the shortfall and what may be done to remedy the situation. This study is significant in three ways:

i) It would put together various documents, materials, write-ups from different sources, and official government publications; this it is hoped will expose all involved with the new tax to an understanding of the various aspects of the VAT;

ii) VAT is a new tax, not much research has been carried out on the subject, hence my believe that this study will provide a reference document on the subject and

iii) Apart from highlighting the weaknesses and problems associated with the implementation of VAT, the study would attempt to provide solutions to the administrative lapses observed.

1.5 Hypotheses

As a guide for this thesis, some hypotheses were formulated based on the theories of some economists who argued that the effective administration of taxation is generally problematic especially in developing countries, such as Nigeria. Wilford and Wilford say, a major impediment to tax enforcement in many developing countries is the refusal to keep required books and records. Most merchants are not competent to keep these records and those that are competent fail to do so deliberately. They also posit that shortage of trained personnel is the most frequently cited cause for administrative weakness in poor countries.[13] Similarly, Alex Radian argues that "taxable resources may be there, but the political willingness to tap them or the administrative capability to implement may lag behind." [14]

These assumptions are:

i) that ineffective administration is responsible for the loss of VAT revenue,

ii) that low motivation of tax officials and tax payers hinders effective administration of VAT;

iii) that the revenue collectible from VAT exceeds the actual revenue collected.

1.6 Definition of terms

It would be expedient to provide operational definitions to some of the key terms used in this study, these are:

i) **Administration-** According to the oxford Advanced learner's dictionary, this refers to the management of public resources for the attainment of public goals. As the VAT decree refers to "the tax shall be administered and managed by the Federal Board of Inland Revenue (FBIR); put differently, the FBIR may do such things as it deems necessary and expedient for the assessment and collection of the tax and shall account for all amounts so collected in accordance with the provisions of the VAT decree. Therefore the importance of tax administration to any tax system as put by J.F. Due, 1963, is that "no tax can conform with expected standard of equity if it can not be administered with a high degree of effectiveness if persons are able to escape, by legal or illegal means, the tax to which they should logically be subject under the general scope of the tax, the theoretical equity of the tax is to a large measure lost." [15]

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ii) **Taxation:-** Various meanings have been given this concept, however, a common principle pervades most existing meanings as would be seen from the few below: Taxation as "compulsory levies on private individuals and organizations, made by government to raise revenue to finance expenditure on public goods and services and to control the volume of private expenditure in the economy."[16]
J.F Due defines taxation as the most common method of financing government activities, the services themselves are provided to the community without charge and the necessary funds are collected by requiring persons to make compulsory payment to government in accordance to some established criterion, such as property owned or income received. That the payment of the tax in itself does not guarantee that the tax payer will receive any governmental services to which he will not otherwise be eligible.

The distinction between taxes and other sources of government revenue such as levies and charges which should be noted here, is that element of compulsion; the individual or organization has no choice in the matter once he is eligible for payment on the basis of standard established.

iii) **Taxable Activity or VATable goods and services.**

This refers to any activity (other than those in exempted categories) conducted as a business, vocation, trade and profession. It includes the activities of public or government authorities, associations and clubs. Note also that, it is not important whether or not the activity is carried on for a profit, but it should involve or be intended to involve the supply of goods and services to another persons for a consideration. There are however a number of activities that are expressly exempted by the law and are therefore not taxable.

iv) **Taxable Person or VATable Person** - refers to all domestic manufacturers, wholesalers, distributors, importers, and suppliers of taxable activities; included are professionals such as accountants architects, engineers, lawyers, and so on, who provide professional services to their clients. So also is a partnership, firm, trust, estate, joint venture or an unincorporated body so long as they provide or are engaged in taxable activity they are VATable persons.

v) **Value Added** - this refers to the value of a firm's output less the value of inputs it purchased from other firms. Professor Sam Aluko explains it as "the increase in the value of goods and services in the process of their production or delivery"[17] From the above we can then say the Value Added of a firm is the difference between its sales and its purchases of inputs from other firms; in otherwords, it is the amount of value a firm puts to an activity by applying its own factors of production namely; land, labor, capital and entrepreneurial skills.[18]

vi) **Proceeds -** will refer to sums of money yielded by the administration of VAT in Kaduna State. The Oxford Advanced learner's dictionary defines its as, "financial results, profits, of an undertaking".

1.7 The concept of VAT

The most recently developed form of sales tax is the VAT, introduced first in France in 1954. It has since been embraced by well over seventy countries around the world, including Japan, Canada, Korea, Chile, Mali, Bolivia, Peru, and the United Kingdom. Many members of the Economic Community of West African States (ECOWAS) have also embraced the new tax.

In Nigeria, the idea of introducing VAT came from the report of the Dr. Sylvester Ugoh led study group set up by the Federal Government in November 1991 to review the Nigerian tax system. A Modified Value Added Tax (MVAT) committee headed by Mr. E. I Ijewere was set up on 1st June 1992, as recommended by the study group. This committee recommended among other things that VAT should be administered by an independent commission to be established for the purpose, the administration was however, finally given to the FIRS which was already charged with the responsibility of administering most taxes in Nigeria.

In January 1993, the Government agreed to introduce VAT into the Nigerian tax system. The scheme (VAT) however took off on 1st January 1994, although the commencement date of the tax according to the enabling decree was to have been 1st December 1993.

VAT is a tax on the supply of goods and services; it is eventually borne by the final consumer, but collected at every stage of the production and distribution chain. VATable goods and services attract a flat rate of 5 per cent in Nigeria. Musgrave and Musgrave, 1984, illustrated this concept of VAT when the wrote, "consider a finished product, such as shoes, tracing it through the various stages of production, we begin with the rancher selling the hides to the tanner, the tanner selling the leather to the shoe manufacturer, the shoe manufacturer selling the shoes to the wholesaler, the wholesaler selling them to the retailer, and who finally sells to the consumer. At each stage the value of the product is increased and the sales prices rises accordingly. Each increment in price reflects the value added at that stage, with the value or price of the final product equal to the sum of the increments or values added at the various stages. A tax imposed on the increments is thus identical in its base to a tax imposed on the final value of the product".[19] VAT is therefore, a consumption tax whose incidence is ultimately borne by the final consumer.

Decree No.102 of 1993 which established VAT in Nigeria replaced the sales Tax decree No.7 of 1986 (see appendix 1.0 for copy of the VAT decree). The rationale behind replacing sales tax with VAT being:

i) to introduce the principle of consumption tax in Nigeria, which by its very nature, cuts across most consumable goods and services as against the nine category of goods and services hitherto covered by the sales tax; hence VAT has a broader tax base thereby ensuring more to government purse;
ii) to ensure fairness in the tax system such that people pay in time with their ability to purchase good and services;
iii) to redistribute income by lowering the personal income tax burden of low income earners without necessarily reducing the revenue earnings of the Federal, State and Local Governments.[20]

1.7.1 Administration of VAT in Nigeria

Some scholars have defined VAT simply as a tax on value-Added, however this definition leaves us a question as to what "Value Added" is, and also it deemphasizes the essentials of the tax which a proper definition should provide.

Value Added of a firm is viewed as the difference between a firms sales and its purchases of inputs from other firms; put differently, it is the amount of value a firm contributes to a good or services by applying its own factors of production.[21] Musgrave and Musgrave, 1984, define VAT as a sales tax administered or imposed in multiple stages on Value Added.[22] whereas, Professor Sam Aluko in a paper titled "classical value Added Tax (CVAT) as operated in selected countries" defined VAT as" a multi-stage tax imposed on the value Added to goods as they proceed through the various stages of production and distribution and to services as they are rendered".

Another definition contained in an article in the united Kingdom statement of standard Accounting practice (SSAP) No.5, which in the opinion of the researcher aptly defines VAT, and which shall constitute the definition adapted for this study, holds that, "VAT is a tax on the supply of goods and services which is eventually borne by the final consumer but collected at each stage of the production and distribution chain." [23]

In the above definitions, certain essential features permeate all of them namely; VAT is a consumption tax, VAT incidence eventually falls on the final consumer, and that, VAT is a Multi-state tax.

An Illustration of the collection of VAT by FIRS

If a product goes through a manufacturer (M), wholesaler (W), and Retailer (R), to get to the final consumer (C), let us assume that: the VAT rate is 5 per cent; the cost of sales of the manufacturer which represents his outlay factor input from suppliers (S) is N1,100; the various suppliers to the manufacturer have no VATable input cost; the value Added by the M,W and R are N1100, N500 and N200 respectively.

The FIRS has been mandated by the VAT decree to administer the VAT system in Nigeria; there is a VAT Directorate within the FIRS which is located within the head office in Abuja and has a network of Zonal and Local VAT offices throughout the country (see appendix 1.1 for spread of VAT offices nationwide) Although VAT is administered centrally by the federal government using the existing tax machinery of the FIRS in close cooperation with the Nigerian customs service (NCS) and the State Internal Revenue Services (SIRS), the net proceeds from VAT accrue to the three tiers of government in the following proportions; federal government gets 35 per cent, the states and local governments are allocated 40 and 25 per cents respectively.[24] The FCT is to share I per cent of the states allocation whereas the states' share is to be distributed between them on the basis of 50 per cent on equality; 30 per cent on population; 20 per cent on derivation. (These amendments are yet to be reflected in the VAT law, nonetheless, they have become operational).[25]

Taxable persons such as manufacturers, distributors, suppliers of goods and services are required by law to register for VAT. A taxable person obtains and completes Form 001 (see appendix 1.2 for sample of Form 001) and submits same to the nearest LVO to him/her; a permanent registration certificate is then issued the person (see appendix 1.3 for sample of certificate) this certificate must be conspicuously displayed at the place of business of the registered taxable person. Note should be taken here, that all exported goods are Zero-rated, that is to say, such goods are VATable but at Zero percent; which means that no VAT is collected from the foreign buyer and at the same time any input tax is refundable. Whereas imported goods not covered in the exempted category are charged VAT irrespective of whether or not the goods have to attract customs duties and other charges that may be due, and the person importing the goods is registered for VAT. Furthermore, any services received from outside Nigeria other than those listed in the exempted category attract VAT, that is to say, VAT is calculated and payable on the amount due to the foreign supplier of items such as consultancy services, patient, royalty, franchise and so on. Credit will however be given for the VAT paid if the services is an input to an output service.

At the moment, seventeen categories of goods and twenty categories of services are taxable as provided for in the VAT decree.[27] Powers have been given the FIRS to add more goods and services as it may deem fit or necessary from time to time.

The goods and services exempted in the VAT decree are as follow: (appendix 1.4 contains an updated list).

(a) basic food items (b) medical and pharmaceutical products

(c) Infant food (d) books, newspapers and magazines (e) educational materials (laboratory equipment etc.) (f) commercial vehicles and spare parts (g) baby products (h) agricultural equipment (i) Veterinary medicine equipment (j) fertilizer and farming transportation equipment (k) Diplomatic goods (based on federal government duty free concession); and, exempted services are:

(a) Medical and health care services
(b) Services by community banks, peoples bank, mortgage institutions (interest earnings on loans by commercial bank and premiums paid to insurance companies).
(c) Performances conducted by educational institutions as part of learning
(d) Social services (orphanages, charities and fire fighting)
(e) Pure postal services (excluding giro services)
(f) Religious services
(g) Non - commercial cultural services
(h) Overseas air transportation; and, other exempted goods and services which by inference fall within the two categories, such as,
(a) Salt
(b) Water
(c) salary or wage from employment or director's emoluments from appointment
(d) Hobby activities
(e) Private transactions, for instance, the occasional sale of domestic or household articles, furnishings, personal effects or private motor vehicles and
(f) House rent, that is, rent on residential accommodation only.[28]

The VAT decree stipulates that all VATable persons must register for the tax and render monthly returns to the LVO on or before the 14th day of the month in which the supply was made; the period has now been extended through an administrative circular by the VAT directorate to the end of the month following the month of the supply, that is, the rendition of return and remittance of tax payable is one calendar month. In this connection, the taxable person must fill in detail supplies made and, received during the period on a VAT return form VAT 002 (see appendix 1.5 for sample) and pay the net VAT due to the LVO or claim a refund if tax is owed him/her.

Table 1.2: Remittance of VAT or Due date of filing VAT returns.

Tax period (period of transaction)	Due date of filing VAT returns plus remittance
1/09/96 - 30/09/96	1/10/96 - 31/10/96
1/10/96 - 31/10/96	1/11/96 - 30/11/96
1/11/96 - 30/11/96	1/12/96 - 31/12/96
1/12/96 - 31/12/96	1/01/97 - 31/1/97

Source: FIRS information circular No. 9301 of 20 August 1993.

Every VATable person is to remit to the relevant LVO the net VAT payable, which is the excess of its output tax collected over the input tax imposed on goods or services supplied to it (or by it). A bank certified cheque for the amount of the net VAT payable must be drawn in favour of the "Federal Government of Nigeria- FIRS -VAT Account".

Currently, the payment procedure entails a tax payer to pay his/her tax by bank certified cheque. The certified cheques and returns form 002 are taken to the relevant LVO for payment. After the payment the VAT return form is stamped and a receipt issued in the name of the payee. The receipt and the payee's copy of the VAT return form are handed over to the tax payer or agent making the payment. For greater efficiency the FIRS have effected a more convenient method of paying VAT. VAT payers are now expected to pay their taxes through designated banks nearest to the relevant LVO.

The taxpayer or his agent will present the following to any of the designated banks for the purpose of payment of VAT:

(i) VAT return form duly completed, signed and stamped;

(ii) Certified cheque for the amount to be paid; and

(iii) a duly completed paying-in-slip of the bank, in, quarduplicate.

The original and triplicate copies of the paying -in-slip duly stamped by the receiving cashiers are given to the taxpayer or his agent. After the payment at the bank, the VAT payer or his agent goes to the relevant LVO for the official receipt.

Receipts are only issued by the tax office when cheques paid in by VAT payers have been cleared and shown on the bank's "manifest". In this regard, payment in cash or in house transfers should have no clearing problems. The bank manifest is a daily analysis of cleared funds which the bank presents to the relevant LVO on a daily basis.

Every VATable person is required by law to keep proper records and books of all transactions, operations, imports and activities sufficient enough to calculate the correct amount of VAT payable - these include cash register, sales and purchases daybook; ledger accounts, balance sheets, among others. Specifically, for VAT purposes, tax invoices are issued for all supplies and VAT accounts are kept. Whenever a person supplies VATable goods and services to another person, he must issue a tax invoice in support of the transaction and retain a copy for himself. The customer also needs the tax invoice to support his claim for input tax.

Essential features which the tax invoice must indicate are:

i) a identifying tax invoice number;

ii) name, address and VAT registration number of the supplier;

iii) name of customer and address;

iv) distribution of goods or services supplied - the quantity of goods or extent of services supplied, the charge made excluding VAT, the rate of VAT;

v) the total charge made excluding VAT;

vi) the rate of any cash discount offered; and

vii) the total VAT payable.[29]

Table 1.3: Illustration of Tax Invoice

PRINCE EVEREST TRADING CO. LTD. 13A AHMADU BELLO WAY KADUNA.			
Alh Bello Abu No.505, Kinshasa Rd U/Rimi, GRA Kaduna			Date: 20th August, 1997 Tax Invoice No.056785 Vat Reg. No. AKL 559882
Qty	**Description of goods and services**	**Unit Price N**	**Total N**
1	1 Thermocool deep freezer	25,000	25,000
2	Sanyo standing fans	8,500	17,000
10	Packets of Duracel batteries	220	2,200
	Sub -Total		**44,200**
	Less Discount (if any) @ 10%		(4,420)
			39,780
	Add VAT @ 5%		1,989
	Grand Total		**41,796**

Source: Field survey materials

The VAT decree compels every registered person to issue a tax invoice for the goods sold and services traded. Failure to comply with the provision calls for a penalty of a fine on conviction, of half of the cost of the goods or services for which the invoice was not issued.

In order to verify and ensure compliance the FIRS has put in place a number of administrative measures which include the following:

VAT Visits- VAT inspectors from the LVOs periodically visit the premises of every VATable person to ensure among others:-

i) compliance with provisions of the VAT law and regulations in all its ramifications,

ii) that full amounts of VAT deducted are promptly accounted for,

iii) that accurate methods of recording transactions are adopted and the inspectors offer suggestions for improvement where necessary,

iv) that VATable persons are availed the opportunity to ask questions and seek clarifications as may be necessary, and

v) that VAT payers have updated knowledge of developments in the system.[30]

VAT tax drive- Tax drives are to take place periodically at the instance of the zonal coordinators, for the purpose of enhancing the collection of VAT from defaulters and enforcing prompt remittance of VAT payable by such delinquent taxpayers; and

Vat audit and investigation- The VAT directorate has been given the power to institute if considered necessary tax audit and or investigation, these involve the checking of both VAT officials and VAT payers' records to ensure strict compliance with the legislation and accountability.

A process of returns and reconciliation was evolved by the FIRS for the purpose of accounting for VAT proceeds, the following forms are used at the various stages for rendition of VAT returns.

i) **VAT form 003** - this is the VAT return form to be duly completed by the LVO and sent to the VAT zonal office monthly. It summarises all the information contained in VAT form 002 received during the month by the LVO (see appendix 1.6 for sample of form 003);

ii) **VAT form 004** - this is the zonal office returns of VAT collection to the Headquarters in Abuja. This form sums up the various returns from the LVOs in the zone (see appendix 1.7 for sample of form 004); and

iii) **VAT form 005** - this form is used to render returns of VAT collection made to the Federation Account in a given period (see appendix 1.8 for sample of form 005).

There are various offences with corresponding penalties under the VAT system. These offences carry penalties ranging from fines of up to ten thousand naira (₦10,000.00) to various terms of imprisonment. There are also instances where fines or periods of imprisonment depend largely on the amount of evasion. Offences committed by officers of the FBIR attract stiffer penalties; for example, any officer of the FBIR who aids or abets the commission of any of the offences under the VAT

decree will be liable to a fine of fifty thousands naira (N50,000.00) and/or imprisonment for five years.

Complaints and Appeals

Any aggrieved person may register his/her complaints with the FIRS, which will then review the case administratively. Further appeal can be made to the chairman or the Director responsible for VAT at the directorate headquarters. Such an appeal must be in writing specifying grievances and the grounds of unfairness in the whole process. There is a technical committee whose job is to review all cases which border on technical issues before the Board gives a final verdict.

Where the issues involved borders on matters of law, the case is referred to the courts for appeal. Since the objective of government is to administer VAT in a democratic manner, there is provision for aggrieved tax payers to appeal against any action or assessment of the FIRS. This is to ensure equity and fiscal justice. It also helps to enhance the quality of tax administration by ensuring that tax officials are diligent and meticulous in their operations. An aggrieved tax payer in such a situation appeals to the Highcourt which has the responsibility of adjucating and resolving tax disputes as provided for in the Nigerian law. However, in order to accelerate the dispensation of justice in the various cases of VAT the Federal Government has approved the establishment of five zonal VAT tribunals nationwide. The establishment of these zonal tribunals is to relieve the Body of Appeal commissioners as well as the courts of some of the burden of attending to tax disputes. It is expected that when there special Tribunals become fully operational, it will meet the objective of reforming the tax system through a speedy provision of fiscal justice. [31]

1.8 The law and administrative structure

The VAT decree No.102 of 1993 on coming into effect repealed the sales tax decree No.7 of 1986 which had been the consumption tax law in use.

The VAT decree in section 7 subsection 1 vests the administration and management of VAT in Nigeria on the FBIR. Several aspects of the VAT decree have been administratively amended in line with public demands, for example, the submission

of returns is now one full month from the date VAT is remitted as against the fourteen days stated in the initial decree; information circulars and booklets are continually being published and circulated by the FIRS to take care of such amendments.

The Decree is made up of six parts and three schedules:

Part one is made up of sections and deals with the imposition VAT. It takes care of issues such as, imposition, taxable goods and services and rates, exemptions, computation of VAT values and value of imports;

Part two takes care of administration of the tax. It contains sections seven to nine which deal with administration, registration, records and accounts respectively;

Part three deals with returns, remittances, recovery and refund of tax. This part contains sections ten to sixteen which feature payment, collection, rendition of returns, remission of tax, failure to render returns, non-remittance and recovery of tax respectively;

Part four establishes the VAT technical committee; containing section seventeen to twenty dealing with establishment and composition, functions, proceedings and staff of the VAT committee respectively;

Part five covers mainly issues of offences and sanctions. It contains sections twenty one to thirty three which deal with presentation of false documents, evasion of the tax, failure to notify tax authorities of change of address, failure to issue tax invoice, failure to register, failure to keep proper records and accounts, failure to submit returns, issuance of tax invoice by an unauthorised person, aiding and abetting commission of offence, and offences by corporate organizations, and so forth; and, finally;

Part six is captioned miscellaneous, containing sections thirty four to forty three which deal with the powers of the Board to vary the schedules, powers of inspection, disbursement of VAT proceeds, agents for importer or manufacturer, signification, forms, regulations, repeal, interpretation, citation and commencement.

Three schedules are provided in the VAT decree as follows:

Schedule I lists taxable goods and the rates of tax; schedule II lists taxable services and rates of tax; and schedule III itemizes goods and services exampled from the tax. This schedule has been administratively updated in line with public opinion (see appendix 1.3 for detailed list of exempted goods and services).

1.8.1 Administrative structure

There are four distinct bodies on which the administration of VAT rests in Nigeria; they are inter-related and the functions of each compliment those of the others. The agencies are FBIR, FIRS, the VAT technical committee, and the VAT directorate.

The FBIR is charged with the administration and management of the VAT. No mention is however made in the decree of the establishment of the Board or its composition; drawing from existing statutes, however, the composition of the Board as is contained in decree No.28 of 1979 as amended by decree No.3 of 1993, is thus:

i) the executive chairman
ii) the directors (and head of the directorates of the FIRS);
iii) the officer from time to time holding or acting in the post of director with responsibility for planning research and statistics matters in the federal ministry of finance;
iv) a member of the Board of the National revenue mobilization, allocation and fiscal commission;
v) a member from the Nigerian National Petroleum Corporation (NNPC) not below the rank of an executive director;
vi) a director from National planning commission;
vii) a director (deputy comptroller-general) from the Nigerian customs service (NCS);
viii) the registrar - general of the corporate affairs commission
ix) the legal adviser to the FIRS; and
x) there is the secretary who is an ex-officio member of the Board.

Any seven members of whom one shall be either the chairman of the FIRS or one of the directors in the FIRS shall constitute a quorum. The Board has the following powers as provided for in the VAT decree:

i) Section 7 subsections 1 and 2 empowers the Board to administer and manage the VAT, to assess, collect and account for all amounts so collected;
ii) Sections 37 empowers the Board to appoint agents for defaulting manufacturers and importers and request such agents to pay the 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 of finance, to make regulations to give effect to the provisions of the decree; and
v) Schedules I and II giving authority to the Board to determine additional goods and services for listing under the schedules.

The FBIR administers the tax through its operative arm - the FIRS. This service is made up of six directorates, of which, one is the directorate of VAT with headquarters at Abuja. The FIRS administers the VAT in close cooperation with the NCS and the SIRS. The NCS is the agent of the FIRS in the collection of VAT on imported items; they collect the VAT on such items at the ports of entry and pay into designated accounts at the central Bank of Nigeria (CBN). The NCS renders monthly returns of their collection on VAT form 002 and form 006 to the FIRS. The SIRS on the otherhand has a limited role, that of, their representation on the VAT technical committee and the provision of useful data on VATable firms in their areas of jurisdiction.

1.8.2 The technical committee

Section three of the VAT decree established a VAT technical committee whose responsibility is to advise the FBIR on professional and technical matters, provide expertise on any other matter relating to the effective administration of the VAT in Nigeria. This committee has as chairman the chairman of the FBIR and all directors of the FIRS are members, others are a director in the NCS and three representatives of the state governments who shall be members of the Joint Tax Board (JTB).

The day to day administration of VAT is undertaken by the VAT directorate with its headoffice in Abuja; this office is headed by a director. At the middle of the administrative structure are the five zonal offices, each headed by a zonal coordinator who is a deputy director by rank. At this level, the day to day administration of the tax is supervised: these zonal coordinators oversee the local VAT offices in their zones. There are presently five zones in Nigeria as follows:-

i) Lagos - overseeing Lagos zone made up of Lagos
ii) Ibadan - overseeing western zone comprising Edo, Delta, Oyo, Ondo, Ogun, Osun, Kwara and Kogi states.

iii) Enugu - oversees the Eastern zone of Akwa Ibom, Cross Rivers, Rivers, Abia, Anambra, Imo and Enugu States.

iv) Jos for North eastern zone supervising plateau, Benue, Adamawa, Taraba, Borno, Yobe, Bauchi States and the FCT Abuja.

v) Kaduna for North Western zone made up Kaduna, Kano, Katsina, Kebbi, Jigawa, Niger and Sokoto States.

Each LVO where direct contact with the public is made in headed by a local VAT officer; there are over thirty three of such offices in existence nationwide-they are located in all state capitals and the FCT Abuja and such commercial centres as Onitsha, Warri, Aba, Lagos Island, Zaria - and plans are under way to extend their operations to other centres and all local government headquarters in Nigeria, as announced in the 1997 budget presentation by the president of the federal republic of Nigeria. The LVO in Kaduna state is located at No.8 Alkali Road and the zonal office is on Broadcasting Road (near the Kaduna Central Market) both in Kaduna north local government area.

Lastly, the minister of Finance supervises the FBIR and the VAT decree, section 34 confers on him the powers to amend the rate of VAT and also to cause to alter provisions of schedules I, II and III of the decree.

1.9 Scope and delimitation of the study

The study did not in any way claim to be exhaustive of the complex issues associated with the new tax. Rather, it is limited to the consideration of some of the problems of the administration of VAT.

This research is confined to the administration of VAT in Kaduna State; the focus would, be Kaduna metropolis which is the centre of economic activities in the state, where VATable activities predominate. The concern of this study would be "Inland VAT" as against" import VAT". [32]

A broader review of the tax would however be attempted; VAT being a federal government tax, covering the entire federation of thirty six states and Abuja, the federal capital city. It should be stressed here too, that there is uniformity in the administration of VAT throughout Nigeria, however, amounts collected vary from one state to the other.

It is believed that the findings from this research would be useful and applicable to other states in the federal republic of Nigeria, and also other countries who may want to adopt the VAT.

1.10 Footnotes

1 Shenekan E.A.O 1993 Budget proposal presented to joint session of National assembly in CBN Bullion, Vol.17, No.5, 1993, Pp 7-8.

2. Olowononi G.D. Trends in taxation in Nigeria: Research proposal. C.S.E.R. ABU. Nov, 1979, P.4.

3. Agbo N. et al Article in Newswatch magazine of 22nd February 1993, Pp.10-16.

4. Olaniyono Y. Writing on "the wages of graft" on the WEEK magazine of 24th February 1997, Pp. 10-15.

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6. Oshisami and Dean Financial Management in the Nigerian Public sector. Pitmans publishing Inc.: London, 1984, Pp. 23 - 28.

7. CBN Economic and financial Review, Vol.28 No.4 December, 1990.

8. Adeniyi A.A. "New VAT payment procedures", paper presented at seminar on the new collection scheme for income tax and VAT 1996.

9. Benitie C Article in Tell magazine of 28th June 1993, Pp. 28 - 29.

10. Randle J.K Article in African concord magazine of 2nd may 1994, P.33.

11. Uchella E. Article in Daily champion newspaper of 19th January, 1995, P. 2.

12. This is derived from articles written by Olaniyono and Uchella referred to above in footnotes 4 and 11.

13. Wilford and wilford, Estimates of revenue elasticity and buoyancy in central America 1955-1975, In: Alex Radian (ed), Resource mobilization in poor countries, Transaction Inc., New Jersey, 1980, Pp.86-91.

14. Radian A. (ed), Resource mobilization in poor countries, Transaction Inc., New Jersey, 1980, P.32.

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16. Akanle O. (ed) Tax law and tax Administration in Nigeria, Nigerian Institute of Advanced legal studies press, Lagos, 1991, P.1.

17. Aluko S. In a Handout obtained at the FIRS Abuja.

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19. Musgrave and Musgrave, Public Finance in theory and Practice, Mc Graw Hill Inc., New york, 1984, p.441.

20. Adeniyi A.A, Op. cit.
21. Anonymous, Op. cit.
22. Musgrave and Musgrave, Op. cit.
23. Anonymous, Op. cit.
24. Ibid

25. According to an article by J.K Naiyeju in Vanguard newspaper of January 29, 1998 the sharing in the 1998 fiscal year has been altered, the new arrangement is as follows: Federal Government gets 25 per cent, state and local governments get 45 and 30 per cent respectively.

26. Ogundele A.E VAT theory and practice, University of Lagos Press, Lagos, 1996, p.289.

27. Detailed list of taxable goods and services and their rates is provided in schedules I and II of the VAT decree.

28. See FIRS information circular No.9401 in appendix 1.4.

29. Naiyeju J.K, VAT: the facts of a positive tax in Nigeria KUPAG press, Lagos, 1996, P.57.

30. See FIRS information circular No9304, 1993, P.8.

31. Naiyeju J.K , Op cit., Pp. 64-65.

32. Kaduna state has only one port of entry (the international airport) which rarely operate in that capacity and thus import activities do not occur.

CHAPTER TWO: REVIEW OF RELATED LITERATURE.

2.1 Introduction

Although the dearth of data on tax administration was stated as a problem in chapter one, this did not mean a lack of relevant materials in the entire field of taxation. On the contrary, quite a lot of published and unpublished materials abound in the general field of taxation; very few have however tried to address issues and problems related to the effective administration of taxation. In recent years there have been increased concern with tax evasion, not to mention tax avaoidance schemes perpetrated by tax payers, and the complexities in taxation laws which complicate the task of enforcement. Taxation as the compulsory transfer of private income and wealth to the public sector makes taxpayers unwilling partners in the transaction hence any loophole in the administration is readily exploited.

As a result of the novelty of VAT in Nigeria extensive use of official government publications were relied upon, so also were useful commentaries and reports by economic and tax experts in newspaper publications, news magazines, and articles presented at seminars and workshops.

No matter the nature or form of the tax, the problems of administration are similar and pervasive, as aptly put by David Newberry, "general tax theory emphasizes the importance of information for the design of taxes, but this information must be collected, the liability calculated, the payment enforced. Two of the most difficult problems are: to collect and process the information efficiently and to audit, assess and enforce the taxes in such a way that compliance is increased and evasion reduced". [1]

The art of taxation as of economics in general, should aim at augmenting the resources at the disposal of government for national development. The tax system in many developing nations is often identified as one of the msot powerful levers available to these nations to move their economies from their present position of underdevelopment to higher stages of development as are usually enshrined in their annual budgets or development plans. To be able to obtain this much needed revenue therefore, makes the issue of tax administration a very serious one that has to be effectively tackled.

2.2 Literature Review

The Federal Board of Inland Revenue (FBIR) is charged with the responsibility of administration and managment of VAT in Nigeria. This provision of the enabling law introducing VAT in Nigeria means that the FBIR through its agency, the Federal Iland Revenue Service (FIRS) has the responsibility of the efficient administration of VAT and the management of proceeds accrued therefrom in Nigeria.

From time immemorial, taxation has been one of the most important source of government revenue. While raising revenue remains a major object of taxation, nevertheless, there are other equally important objectives such as the redistribution of wealth and management of the economy. With the increasing disparity in wealth distribution in the society and with a view of the resultant upheaval that may ensue, govermment have often resort to using the tax system to redistribute income. This can be through imposing a progressive tax rate on incomes; imposition of wealth taxes, tax on luxury items, and so forth. Tax systems can also be used to direct the course of the economy - often employed to encourage or discourage certain economic activities through the provision of tax incentives, granting of capital or investment allowances, tax credits and so on. The basic preocupation of any government is the need to offer protection to those subject to it; so also is the provision of social amenities, inform of water, roads, electricity, education and health facilities and so forth. This is a function of economic development whose goal is to enhance economic growth and thereby reduce poverty. However there is no consensus on the relative importance of various factors of production (inputs) in the development process or effort. Whatever emphasis one might attach to one input or the other, finance appears to be the underlying requirement - plant and machinery must be paid for, and so should development of managerial and technical expertise. Similary, the need for funds may be seen as essential for the task of altering or adapting cultural attitudes and creating a general economic environment conducive to sustained economic development. Thus it can be said that the task of development must involve the generation of adequate financial resources, the conversion of finance into requisite factor inputs and the efficient deployment of such inputs.[2]

These introductory remarks therefore draws attention to the importance of the administration of VAT and therefore the seriousness with which it deserves to be viewed. Akanle has noted that there are two components of any tax system, "the law and its administration". He says, the law determines the liability of the taxpayer and it is the law that also provides the framework for the due administration of the law. That while a good law is important to a good tax system, the place of good administration can not be underestimated, as it is the "indespensable element to the attainment of the overrall good of the tax system".[3] He goes further to state that despite the importance of tax administration to the system, required attention is not accorded it, rather attention is focused on issues relating to widening of the tax base or the introduction of new taxes. As a result of pressures on the economy, widening the tax base or introducing new taxes can not be a condition for increase government revenue, instead, with improved adminstration the revenue yields to government can be considerably improved and more people and incomes will be brought into the tax net thereby reducing the inequity of the system.

Expounding the same thought Vito Tanzi opined that the best tax administration is not simply that which collects the most money, how that money is collected - that is, the effect of revenue generation on equity, on political fortunes of governments, and on the level of economic welfare, may be of equal importance. Tax administraton is seen to be at its peak when its tax collection costs are low and there is a high level of voluntary compliance. [4]

Writing on the administrative convinience and equity criteria of any tax system, Vito Tanzi and J.F. Due assert that no tax could be said to conform to acceptable standard of equity if it is not manageable and if persons that are liable to the tax are able evade or avoid, the equity of the tax is eroded. While Due stressed that "no tax is within expected standard of equity if it can not be administered with a high degree of effectiveness, if persons are able to escape, be legal or illegal means, the tax to which they should logically be subject under the general scope of the tax, the theoretical equity of the tax to a large measure is cost". [5] Tanzi on the other hand expressed that "any tax system that is not administrable is not worth much, the theoretically most perfect tax system may become a bad system if the intention expressed in the law is distorted in practice".[6] All those liable to the VAT, the

administration must ensure they comply otherwise prescribed penalties must be imposed on offenders if not those who initially complied will feel cheated and would be tempted to refuse to pay their tax obligations and thereby reducing the money accruable to government from the tax. The equity of the tax is thus lost.

Tax theory emphasizes the importance of information for the design of taxes, but this information must be gathered, the tax liability calculated, the payment enforced. Two problems confronting tax administration are to collect and process the information efficiently and to audit, assess and enforce the taxes in such a way that compliance is increase and evasion reduced. These problems according to Newberry, can be greatly reduced by attracting high quality staff in sufficient numbers with the right facilities and a well defined tax law with the means of enforcement, He says, "revenue departments often lack flexibility and the funds to attract and keep the right calibre of personnel even though it would be highly cost effective to do so. The tax structure is typically complex and in a state of flux. As a result information is processed slowly, audits are rare, and hence enforcement is tax and compliance low". a large part of the explanaton, according to Newberry, is that the political will to improve the system is lacking, though the treatment of tax departments as civil service with low salaries, and so on, should not be underestimated.[7]

Refering to the tax system in Nigeria, Oladunjoye says that, "all forms of taxes in Nigeria are to some extent avoided or evaded largely because the administrative achinery to ensure effectivesness is weak".[8] He further asserts that most of problems confronting tax administration are typical, ranging from inadequate administrative resources (men, money and materials) at the disposal of the tax administrators.

Musgrave and Musgrave in their book, "public finance in theory and practice" agreed that little attention has indeed been accorded the problems of tax administration and compliance cost when they argued that, "assesssment and collection of taxes require personnel and equipment. This activity provides an important public service and like all public services, it should be provided efficiently.

The desired quality of service should be offered at minimum cost". That this conditions as set forth by musgrave and musgrave are not adhered to by governments is again depicted by Oladunjoye who wrote that a Tax Force on the administration of

taxes was established by the Federal Military Government of Nigeria in 1978 to examine the problems of taxation; recommendations were subsequently made and accepted but unfortunately they were totally neglected by the government.[9] He further wondered on this failure to heed advice of a Tax Force set up and financed by same government, if the government of Nigeria had any recognition for a good tax man or a good taxpayer ?.

This feeling was expressed by a one time chairman of the FBIR who at a seminar on taxation in February 1993 stated, " I can not recall any single tax gatherer that has been recognized since I was so honoured with a OON in 1964-19 years ago. I submit that this omission can not be encouraging to tax administrators especially when they see permanent secretaries, judges upon judges, being honoured from year to year. Those responsible for making recommendaiton to the Head of state should please bear this in mind as a means of giving tax officials something to compete for by giving their very best honetly.", There is the need to also recognize good tax payers - those who make prompt and regular payments of adequate tax. All this will encourage effective tax administration which will positively affect revenues in the country.[10]

The resources available to government for satisfying the multiple needs and wants of society are limited. How then should government raise and spend money? One most important issue in the operation of the fiscal system is that of tax administration. To musgrave, "The fiscal system plays a multifold role in the process of economic development:

i) the level of taxation affects the level of public saving and thus the volume of resources available for capital formation
ii) the level and structure of taxation affects the level of private savings;
iii) public investment is needed to provide infrastructure types of investment;
iv) a system of tax incentives and penalties may be designed to influence the efficiency of resource utilization;
v) the distribution of tax burden (along with the distribution of expenditure benefits) plays a large part in promoting an equitable distribution of the gains of economic development;
vii) the pattern of taxation on imports or exports relative to that of domestic products will affect the foreign trade balance." [11]

The task of administration can be disaggregated into two broad areas of operation - tax assessment and tax collection. These basic functions are performed within the context of the existing tax laws of the country, therefore, tax administration could be said to involve the interpretation and execution of tax laws. Thus tax administration would include all of the following: determination of the amount of tax to be paid by an individual (liability or tax assessment); tax collection; review and adjustment of original assessment, and enforcement of legal sanctions against tax defaulters.

One of the most important general hypotheses upon which most economists agree is that emerging nations must increasingly mobilize their own internal resources to promote economic growth, and perhaps the most important tool by which resources may be marshalled is the implemention of an effective tax policy. Kaldor stressed this when he wrote that "the importance of public revenue to the underdeveloped countries can hardly be exaggerated if they are to achieve their hopes of accelerated economic progress. Whatever prevailing ideology or political colour of a particular government, it must steadly expand a whole host of non-revenue yielding services - eduction, health and so on, as a prerequisite to the country's economic and cultural development." [12] The importance of taxation for the revenue generating capacity of government can never be underestimated. To say the least, tax administration plays a pivotal role in determining the real or effective tax system as opposed to the statutory tax system. To further buttress the indespensability of a good administration in any tax system, Bird and De Jantscher in their book, Tax administration in developing countreis" say, "the best tax administration is not simply one that collects the most revenue. How that revenue is raised, that is, the effect of revenue-generation-effort on equity, on political fortunes of governments, and on the level of economic welfare, may be equally important. A poor quality tax administration may collect large amounts from easy - to -tax sectors such as wage earners, while being unable to enfore taxes on business enterprises and professionals. The level of collection therefore is somewhat an unsophisticated measure of the effectiveness of tax administration."[13]

The above position by Bird and De Jantscher is illustrated by the Nigerian experience at implmenting the VAT policy - for example, it has been reported in the

concord newspaper of April 13, 1997 that VAT yielded about N6 billion in the first two months of 1997, and the estimated revenue for the whole year is N35 billion. Simple arithmentic will indicate that going by the former figure, VAT would yield about N36 billion, which is well over the projected amount. Does this mean then that the tax policy is being effectively implemented? It is hoped that data from the research would determine this, however, the two scholars are saying, in appraising the effectiveness of a tax system, we should look beyond the quantum of revenue collected.

Inspite of this basic necessity to generate revenue for the survival of the state, taxation as a source of government revenue has been criticized severally over the years for having not been able to contribute enough due to the problems of admministration of the various taxes. Some of the difficulty associated with tax administration in Nigeria were identified in the report of the 1979 task force on tax administraiton to include:

i) difficulty in identifying or tracing tax payers due to lack of underlying records - lack of registration of births and deaths, and of businesses, lack of street names and house numbers, and in particualr difficulty in tracing migrant workers;
ii) poor postal and telephone links - tax officials can not be sure that their messages had been delivered to tax payers;
iii) lack of knowledge amongst taxpayers about tax requirement;
iv) lack of commpliance with tax requirements - a common preparedness to ignore tax authorities, mislead or out wit them;
v) difficulty in assessing income or profit for tax purposes where written and acounting practices were poor or non-existent and where the underlying transactions were difficult to establish, for example, market traders and subsistence farmers.[14]

This situation described above has not changed since the last 16 years when those observations were made.

Writing in a similar fashion Alex Radian in his book, "Resource mobilization in poor countries" attributed among other reasons the following:

i) a major impediment to tax administration in most developing countries is the refusal of taxpayers to keep required books and records. A substantial number of small merchants are not competent to keep the records required by the tax laws, others who are competnent fail to do so deliberately. These groups constitute sometimes a very great numerical majority of businessmen and traders in these countries;

ii) the tax administrators is burdened with new taxes which he must collect from an over expanding body of taxpayers whereas on the other hand he finds himself saddled with a staff which is insufficient, inexperienced and poorly remenurated. These manifest itself in the performance of the tax system thus: insufficient number of trained staff are responsible for delays in processing paper work and frequent occurence of costly errors; inability to deal with unexpected crises which disrupts operations: and dominance of clerks over personnel with technical expertise creates a tendency to emphasize paperwork at the expense of action leading to results, that is, additional revenue collected.[15]

Though various scholars have over time prescribed remedies to the problems identified, these still persits. What then has gone wrong? It must be that there is something wrong with tax policy implementation or is it that tax officials are disinterested in their job for whatever reason or is it that the government has not put enough pressure on all those concerned with the effective administration of taxes in the country.

Michal Christian in explaining the situaiton as well advancing reasons why the introduction of VAT in Trinidad and Tobago succeded emphasized the importance of a managerial team fully committed in taking steps necessary to improve the quality of tax administration, and with the full political support of the highest authorities. That, "a strong commitment to the implementation displayed by our government, the Finance Minister for instance, was dedicated to the project and = was also knowledgeable about the system, and this allowed him to resist effectively a great deal of lobbying that took place to extend the range of Zero-rated and exemmpt goods and services. A government's commitment is also of vital importance, because it is needed to ensure that all government agencies that have a role to play in the implementation of the system are made aware of the importance of the tax and the need for their cooperation if the established goals are to be achieved."[16]

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That the report of the 1979 task force on tax administration in Nigeria is still relevant is evidenced by the fact that since 1994 when VAT was introduced for instance, only as recently as 1997 was there any conscious effort to bring all VATable persons into the VAT net, as was reported by Muyiwa Adeniyi in the Guardina newspaper of March 17, 1997. According to the articles, FIRS was to commence a nationwide VAT payer census to identify and enumerate all persons and organizations liable to the tax. At the time of writing enumerators are carrying out the VAT payer census - how far this effort will go still remains to be seen.

Various explanations have been adduced by several scholars as to the lack of deserved attention given to tax administration. Vito Tanzi explained that, "probably it has much to do with the fact that an intimate knowledge of how an adminstration works is necessary to write about tax administration. This knowledge is only acquired by years of practical experience. Perhaps because of training, or because of what they do, tax administrators are not inclined to generalizing from the problems they face".[17]

Inspite of the above, several writers have identified some common problems tax administrators face in the tax system (some of these have been mentioned earlier). They identified the following:

i) Tax agencies do not collect taxes, they accept what taxes are paid, in otherwords, they do not make field revenue drives. Alex Radian says it is not enough to inform tax payers of their obligation and of penalties that will be imposed for failure to comply. As a Jamaican tax collected describes her experience in this regard thus; "writing a cheque for the income tax department is something that you postpone until you absolutely must do it ---------- so they wait until I come to collect it."[18] Therefore tax collection must be one of the main business of the tax agency in a developing country because only a small part of the population files or pays voluntary;

ii) Evasion is the scourge of taxation. This is where the greatest gaps between policy goals and implementation achievement are created. No matter how excellent the tax laws are, how high the rates, if many taxpayers evade, government chest will simply stay empty. High level of evasion also reduces the effectiveness of audit and collection (resulting in a further lost of revenue) since there never are, nor can there ever be sufficient resources to handle the large number of evaders. [19]

iii) The area of enforcemnt was also identified as lacking. The enforcement mechanism is based on simple rational choice calculations - taxpayers are induced to pay voluntarily by turning payment into a less painful practice than evasion. In most developing nations the emphasis on tax enforcement had always been on assessment and collection of taxes. The criminal aspect of tax violation had been overlooked, as long as violators paid the taxes assessed against them. Thus the tax agencies had been unable to generate the deterrent effect of convictions for tax evasion.[20]

As many as these problems identified are, so also have various solutions been advanced by various scholars. However it should be emphasized that there exist no single prescriptions or no secret recipe, that once introduced, will ensure improved tax administration in any given country. Different countries exhibit a wide variety of tax compliance levels, reflecting not only the effectiveness of their tax administrations but also tax payers attitudes towards taxation and towards government in general, as a government policy any of the administrative processes may thus influence tax payers attitudes and hence the observed level of taxpayer compliance.[21]

Tax administraton in Nigeria has not succeeded in achieving the goals of revenue adequacy and equity as the review of literature has indicated, and accordingly there has been suggestions as to what measures must be taken to improve the situation. Akanle suggests that:

i) taxation being an involuntary payment by the subject for the support of his government, care must be taken to reduce the taxpayers discontent, this could be through judicious use of tax revenue and towards this end government must put up measures to ensure accountability in public life;

ii) to ensure compliance, machinery should be set in motion for sustained and effective tax law enforcement;

iii) in order to reduce incidence of corruption in the tax system, rules, guidelines, instruction and procedures of the revenue should be made known to the tax paying public; as serious as this issue may appear, not much attention has been accorded

it by the tax authorities in respect of VAT administration. At the LVO and VAT directorate in Abuja, informatin circulars and official publications which should in normal circumstances be available, are not. At the Kaduna office, for example, the registration form to be filled to become registered was readily available. But when circulars partaining to the workings of the new tax were requested for, the response was that it was not necessary;

iv) To ensure accountability and to detect fraud, Akanle says, there should be constituted within the revenue service a special investigting and auditing unit which would responsible for the annual auditing of all tax returns and the detailed investigation of selected taxpayers for periods ranging from five years preceeding the time of investigation; and

v) There should be a system where certificates of compliance are issued to the tax payers who make prompt and proper returns. Presentation of which qualifies one to benefit from certain governmental services such as procurement of government contracts, lodgement of government funds in financial institutions, and so on. [22]

The views expressed by Akanle are worthy of note and interaction with some tax officials in the course of this research reveals a need to train VAT personnel adequately on the working of the VAT system. However, Akanle ignored the issue of adequate remenuration for tax officials. Alex Radian has identified low salaries

paid in the civil service as responsible for the shortage of people with technical training and expertise to work as tax officials.
He says", there are fewer trained people around and most of them do not work for government due to low wages paid which is substantially less than what is obtained in the private sector.", that, "the department (FBIR) not only has less of everything it needs, it also loses it rapidly and is forced to struggle to replenish diminished stocks, ---------- the revenue department is in tough competition with the private sector, which is always trying to recruit people with inside knowledge and experience in taxation".[23]

In line with the above, the task force (1979) on tax administration also proffered

solutions to the problems of tax administration in Nigeria, that "tax administration skills unfortunately are not readily available in the market ---------- it is therfore imperative to invest heavily in manpower development". it emphasized that public sector must not recruit, train and develop such experts, but should also be able to retain them by paying competitive salaries as is obtainable in the private sector. [21] Musgrave and Musgrave, 1984, have made similar recommendations and have identified certain basic issues that must be borne in mine if these attempts at enhancing tax administration must come to fruition, these are:

i) There is the choice of appropriate technologies and administrative procedures. computerization of the operatins reduces cost and provides more detailed information; however, they say, it is impossible to check all return in returns in detail, only a limited number are audited carefully and they have to be chosen in such a way as to ensure effective enforcement.

ii) In legal matters better compliance is achieved etither by the threat of a higher penalty if the offender is caught or by spending more on enforcement so as to increase the probability of being caught. The former is cheaper but less acceptable on equity grounds.

iii) The issue of how complex the tax structure is, for instance, a head tax is cheaper to administer than a sales tax, a sales tax cheaper than income tax, income tax cheaper than VAT, and so forth. They say a "equitable tax system for a highly

complex economy is itself inevitably complex, yet such complexity increases administration and complaince costs". a trade off is needed here.

iv) It is evident that tax administration in Federal systems of government is more costly than in a highly centralized or unitary state, since much of the administrative apparatuses must be duplicated.[25]

This study is under the pretension that if the remedies prescribed by the various scholars are examined exhausively and taken care of, some of the problems enunciated earlier on would be resolved. This is taking into account the peculiar social, economic, cultural and political environment of the society that is applying it.

2.3 The oretical framework for analysis

The theoretical framework for analysis is based in the general tax theory as propounded by Adam Smith, to whose tenets any good tax system must conform if it is to be administrable. The tenets of the theory of Adam Smith on taxation are:

i) The subjects of every state ought to contribute towards the support of govenment, as nearly as possible in proportion to their respective abilities; that is, as nearly as possible in proportion to the revenue which they respectively enjoy under the protection of the state.

ii) The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person (otherwise taxpayers may be subject to estortionate administration)

iii) Every tax ought to be levied at the time or in the manner in which it is most likely to be convinent for the contributor to pay it. That is, taxes should be convinient as to the time and manner of levy.

iv) Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the republik treasury of the state. This position holds that taxes should be economical, not too expensive to collect and not unduly obstructive and discouraging to the taxpayer. [26]

A similar position is propounded by Gottlob Von Justi in his book "system de Fiananzwesens", and Sir William Petty, whose book "A treatise of taxes and contributions". Justi, for instance says among other things that, taxes should be chosen and levied which are not resisted by taxpayers and are paid willingly, taxes should not be unambigous with regards to the objects of taxation and amounts to be paid, so that evasion becomes difficult and that they should be economical in the sense that their cost of collection should be low. [27] Whereas, William Petty, talks of the expenditure policy of government - if tax payers perceive that public revenue is wasted then their compliance to pay taxes is reduced; that government must have information regarding tax paying capacity of its subjects - "Ignorance of the number,

trade and wealth of the people, is often the reason why the said people are needlessly troubled ----------, besides not knowing the wealth of the people, the prince knowns not what they can bear, and for not knowing the trade, he can make no judgement of the proper season when to demand his exhibitions", and he also says that ignorance of the law or misuse of discretionary powers are a source of non compliance. [28]

An appraisal of VAT in Nigeria would be to identify the extent to which the tax has assisted the state to pursue its objectives. To determine if the tax is either successful or unsuccessful; to destil the performance variables and identify the degree to which specific policies have been effective or otherwise. However as stated earlier the focus of the study would be limited to identifying the extent to which government actually harnesses the ability of the tax payers to be VAT responsive, that is, the level of effectiveness of VAT administration.

Using the classical economics perspective therefore the VAT system might be analyzed within the framework of three parameters, namely, efficiency, administrative convinience and equity. It should however be borne in mind that there is no universally accepted yardstick for measuring the effectiveness of a tax system, reason being that socio-economic variables differ from one economy to the other in human society, even within the same entity such a Nigeria, there exist a divergence of cultures, different climatic conditions, uneven literacy spread and so forth, and consequently a nationwide tax might have different levels of efficiency and effectiveness in different parts of Nigeria.

Silvani Carlos has identified shortfalls (scheme) which he argues must be dealt with if the objective of effective tax administration is to be achieved. His scheme is relevant to this study as tax administration must be willing to deal effectively with the identified shortfalls, if compliance to the tax is to improve and by implication increase revenue for government for the provision of social goods and services. The four shortfalls identified are as follows:

i) the gap that exists between potential taxpayers and actual registered taxpayers;

ii) the difference between actual registered taxpayers and those that file their returns;

iii) the difference between actual revenue collected and potential revenue collectible;

iv) the different between the assessed liability of delinquent tax accounts and what is evenutally collected from such accounts.

In evaluting any tax administration, we should be able to objectively analyze data that would permit us to estimate the degree of effectiveness displayed by the administration in dealing with each of these gaps; if the administration is able to effectively control only one of these gaps non-compliance will shift to the gap where the administration exercises weaker control. It will not be wise, for example, to strive to eliminate the informal sector of the economy and register all potential taxpayers if registered taxpayers can not then be made to file returns, to report and remit the proper amount of tax due.[29]

Penalizing tax evaders or going after delinquent tax payers are not in themselves the object of tax administration, the goals of tax administration is to foster voluntary compliance and this may be encouraged if tax administration is successful in establishing a strong prospect that non compliance will be detected and effectively punished. The effectiveness of tax administration is however not the only determinant of tax compliance. The negative influence that macro economic variables such as the rate of interest and inflation may exert on tax compliance; a lower cost to taxpayers of complying with the tax system; its fairness, the simplicity of its laws and procedure; and the services that the tax administration provide to the taxpayers are all important factors in expecting and stimulating voluntary compliance.
However, where the degree of non-compliance is very high, the ability of the tax administration to impose effective penalties is often the best option of shaping the behavior of taxpayers. [30]

The implication of the above for our analysis is that we will attempt to examine the VAT administration in Nigeria to see if can be said to conform to this postulate and it is also important that we examine the effective tax system rather than the nominal or legally defined system. How much revenue is actually collected?, is evasion and avoidance systematically related to income, line of business and so on. According to Tanzi, a poor quality tax administration may collect large amounts from easy - to - tax sectors such as wage earners, while being unable to enforce the tax on business enterprises and professionals. He says the level of collection is therefore not a very good measure of the effectivenss of a tax administration. "A

more accurate measure is the size of the 'commpliance gap' - that is, the gap between actual and potential revenues - and how that gap varies among the different sectors of the taxpaying population".[31] This compliance gap may be as a result of evasive behavior which is encouraged especially in countries with high levels of non compliance, if citizens do not support their government and her economic policies or when the tax is adjudged unfair or the complexity of the laws and procedures and services that the taxing authority provide all affect compliance positively or negatively.

The three parameters (that is, efficiecy, administrative convinience and equity) drawn from the general tax theory are not immutable and quite often a tax may offend one or more of them; and this may not necessarily mean that the tax system in its entirety is bad or unjust. It is sufficient if it shall fulfil the objectives of the government imposing it. This is bearing in mind the fact that all taxes according to Akanle, "regardles of their nature and importance, exert an influence on economic activity - they have a direct effect, for instance, on distribution of resources, and in some cases, even on distribution of income. Their economic inpact can therefore be either harmful or beneficial." [32]

The Nigerian experience with VAT has indicated that the revenue for the 1996 fiscal year was N29.2 billion which substantially exceeded the N22 billion estimated in the 1996 annual budget; the 1997 estimate was N35 billion, and from figures already published in some national newspapers it could be said that VAt in 1997 would far exceed the margin of the previous year. However, the question to ask is, does this translate to read that the shortfalls identified by Silvani Carlos and others do not exist in the Nigerian situation? At the end of this investigation we should have a satisfactory answer.

In summary, it should be emphasized that the task of making tax administration more effective is obviously neither a simple or short term job, moreso as it may require introducing reforms in many areas connected to the tax administration such as, technologies; personnel welfare; infrastructural facilities like good roads, Telecommunication facilities, good postal system, facilities for tax education, access to news media; training programmes for personnel, and so forth.

2.4 Footnotes

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CHAPTER THREE: METHODOLOGY

3.1 Description of Research methodology

All factual knowledge which is ascertained by research may be grouped interms of areas of time: the past; the present; or the future. The area of time in which a problem under investigation is situated determines the basic research method to be employed. Drawing from the above therefore, the survey research method would be used for this study. This is because the phenomena under investigation is of the present, and survey research ultimately deals with the present, and is oriented towards the determination of the status of a given phenomena. E.C Osuala says, "survey research studies both large and small groups of population by selecting and studying samples chosen from the population to discover the relative incidence, distribution, and interrelations of sociological and psychological variables. [1]

The concept of sampling is fundamental to the conduct of research and the interpretation of its results. Except when the entire population is being used, social research is almost invariably conducted by means of samples on the basis of which generalization applicable to the population from which the sample was drawn is reached. Sampling is taking any portion of a population as representative of that population.

Survey research is interested in the accurate assessment of the characteristics of the whole population of people but because of the various difficulties (prohibitive costs and time and scope of research for instance) associated with attempting to study whole population, samples drawn from the population are often studied, and from these samples the researcher can infer the characteristics of the defined population. Random samples often provide the same information as a census at much less cost with greater efficiency and sometime greater accuracy. Random sampling is that method of drawing a portion or sample of a population so that each member of the population has an equal chance of being selected; a sample drawn at random is unbiased in the sense that no member of the population has any more chance of being selected than any other member.

Survey methods are particularly adaptable and practical especially for the administrator, in the sense that, they identify present conditions and point to present needs - they do not provide the decisions for the administrator but can make available to him information on which to base sound judgements and decisions. This method of research is particularly useful in the social sciences, for it does not only uncover the data, but it interprets, synthesizes and integrates these data and shows the implications and interrelationships. It employs various techniques in achieving these objectives; some of these techniques would be employed in the course of this study. These techniques have been classified for convinence by their methods of information gathering, namely: personal interview; questionnaire administration; and Telephone survey. The first two are similar in nature and purpose and are essentially interchangeable.

The personal interview as a research tool is a conversation carried out with the definite aim of obtaining certain information. It is designed to gather reliable and valid data through the response of the interviewee to a planned sequence of enquiries. The interview can either be structured or unstructured, depending on the extent to which the context and procedures involved are prescribed and standardized in advance. Both techniques would be used for this study as each has its particular advantage, the unstructured interview for instance, is flexible and better suited to bring varied and sundry responses and it is more capable of following through on tangential ideas, whereas, the structured interview calls for less versatility and on the spot adaptability on the part of the interviewer (here an interview schedule, which is essentially an abbreviated questionnaire is used).

The questionnaire is of particular advantage especially when the sample size is large enough to make it uneconomical for reasons of time and finance to interview or observe every member of the population. The questionnaire is designed into two sections, the first usually requiring such details of the respondents as sex, age, marital status, occupation and so on; and the second, dealing with questions relating to the subject matter of the enquiry. Usually answers given under the second section can be analyzed according to information in the first. In using the questionnaire, more

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often than not, the tendency is always to cover too much, to ask everything that might turn out to be interesting. This urge must be resisted; lengthy, rambling questionnaires are discouraging to respondents, so they should be no longer than is absolutely necessary. As with the interview technique, a combination of both the open and closed questions are used for this research study. While the open questions possesses greater flexibility and the respondent is given more leeway in deciding the aspect, detail and length of his answer. The closed questions on the other hand, help keep the question to a reasonable length and thus encourage response and validity in terms of the representativeness of the returns.

The last tool used in obtaining information for this study is the telephone survey. This technique was seldom used but it was found to be cost effective and speedy in generating factual statistical data. It should be borne in mind here that the technique was used primarily when information required is not readily available at any of the local VAT offices here in Kaduna and the researcher is referred to the VAT directorate headquarters in Abuja. In such instances, the telephone is used to obtain the required information from the VAT office in Abuja. Though this method may appear less reliable on its face value, however the officials are real and genuine.

Scientific problems can be solved only by obtaining valid and reliable data, and in attempting to achieve this, two major sources of data were used namely; primary and secondary data. The primary data being that which was expressly collected for this specific research, and data obtained for some other purposes, frequently, for administrative reasons, may be used, these constitute secondary data. Having obtained these raw data, the next stage is to attempt an analysis and interpretation of such data. Mention must be made here that, research must be interpreted in light of the conditions under which it was carried out. Also, that through the analysis and interpretation of such raw data will the research problem be answered and the hypotheses tested. The process of analyzing and interpreting raw data consists of the statistical calculations performed with the raw data to provide answers to the enquiries that initiated the investigation. The interpretation entails taking the results of the analysis and making inferences pertinent to the research questions studied and conclusions are drawn about these co-relations. Recommendations are then offered in light with the existing reality.

3.2 Research design

This is the blue print of the research that enables the investigator to come up with probable solutions to research questions. The research design is to be viewed, according to some social science scholars,[2] as a programme that leads the investigator through the process of collecting and analyzing and interpreting data; it is a logical model of proof that allows the investigator to draw inferences regarding casual relationships among the variables being investigated; it permits us to either accept, or reject, or qualify the hypothesis being tested. The hypethesis is very central to any research endeavour and thus to the research design. After the hypotheses have been formulated, they must be empirically demonstrated to be correct or uncorrected. The basic method of this demonstration is to design the research so that logic would require the acceptance or rejection of the hypotheses on the basic of the resulting data.

For this study three basic hypothetical assumptions would be tested:

i) That ineffective administration is responsible for the lost of VAT revenue. In the above hypotheses the independent variable effective administration whose manipulation is suppose to have an effect on the revenue obtained from VAT, which is the is dependent variable;

ii) That low motivation of tax officials and taxpayers hinders effective administration of VAT. Here, we want to establish the relationship between motivation and administration, that, is a change in motivation would invariably produce a change in administration: motivation therefore is the independent variable whereas effective administration represents the dependent variable;

iii) That the potential revenue collectible from VAT exceeds the actual revenue collected. We are interested in establishing the relationship between collectible revenue and the actual revenue collected, collectible revenue and actual revenue are the independent and dependent variables respectively.

A research design is aimed at solving some fundamental problem before the project can be started (in an effort to test hypotheses). The fundamental problem being, whom to study, what to observe, and how will data be collected.

In the first, we are interested in studying the prospects or problems of the administration of VAT in Kaduna; what are the prospects of the tax if administration is efficient, for instance, or what are the problems hindering effective administration, does effective administration have any relation to the amount of revenue collected or otherwise. We want to examine if administrative procedures tally with what is prescribed in the statues. In the second place, we want to observe in general the administration of the tax, as well as, operators of the system of VAT; this would include the tax officials, VATable persons and final consumers of goods and services covered by the tax.

On the last count, data collection refers to both primary and secondary data that would enable us to understand the phenomena under study - gain a better understanding of the subject. Three techniques would be employed for the collection of data, namely, the personal interview, questionnaire, and telephone surveys.

Having solved these fundamental problem of research design, the next step would be the analysis and interpretation of the raw data so collected. This would enable us draw inference which will inturn provide us with a better insight of the subject of our study.

3.3 Data Collection

Problems of social science, as in natural sciences, can be solved only on the basis of data and a major responsibility of any researcher is to set up a design capable of providing the necessary data that would proffer solutions to his problem, if any circumstance exists that would render the collection of data impossible, arriving at any solution to the problem also becomes an impossibility. Two sources of data were used for this investigation, namely; primary and secondary data.

3.3.1 Primary data

This refers to data expressly obtained for a specific purpose, that is, data obtained with a view of solving one particular problem. The collection of facts and figures relating to the population in a census, for instance, provides primary data. This source of data provides the researcher with exact information required for his investigation, terms are carefully defined so that as far as it is humanly possible misunderstandings are avoided.

The generation of primary data indeed provided valuable insights into the administration of VAT in Kaduna State. The tools used to generate these information consist mainly of the administration of questionnaire and personal interviews to respondents, and occasionally telephone conversation was used. Bearing in mind that return rate of the responses might not be one hundred percent, a total of 150 questionnaires were distributed to respondents in Kaduna metropolis and Zaria Local Government Area.[3] The questionnaires were administered principally to respondents who are directly involved with the administration of VAT; personnel of the FIRS, Zonal VAT offices, LVO, SIRS, NCS, VATable persons and organizations. Follow-up on respondents to shore up the percentage of returns was carried out this indeed improved a great deal the response rate.

The questionnaire were designed in simple straight forward English using both the open and closed ended questions. The closed ended questions are of the Likert scale type.

The personal interview technique was equally very important in generating both factual and opinionated information. This technique is commonly used in generating data in social surveys; it is similar in nature and purpose to the questionnaire method. The interview as a tool of generating data is a conversation carried out with a definite aim of obtaining certain information, it is designed to gather reliable and valid information to a planned sequence of questions. Both structured and unstructured patterns of interviews were employed. An interview schedule was prepared in order that we may gain insight into the implementation of the tax, to ascertain, for instance, if any variation exists between practice and what is prescribed in the statutes, and what factors could be responsible for such a discrepancy. Contingency questions were asked for clarity where responses proved inadequate.

Telephone surveys was occasionally used for obtaining data from the VAT directorate head office in Abuja. This method, even though may appear defective , however caution was taken to cross-check the information.

3.3.2 Secondary data

Sometimes data may be generated for some other purpose which a researcher may find useful for this own study; this constitutes secondary data. These data must be used with caution, the data may not give the exact information needed, and the data may not be in the most suitable form. Secondary data used for this investigation were those obtained from available records and published materials. As a result of the novelty of the tax (VAT) in Nigeria and coupled with the dearth in literature on the subject, extensive use was made of official records and newspaper publications. The following official government documents and publications were consulted: The Value-Added-Tax decree No.102 of 1993; FIRS information circulars and pamphlets published administratively to clarify, update or revise any aspect of the VAT system as may be necessary; CBN official publications - the "Bullion" and the "Economic and Financial Review".

Other secondary sources of information relied upon were articles written in national newspapers and magazines.

Extensive use of available published literature in the field of economics, taxation, and public finance for the sourcing of secondary data; unpublished theses were also referred for relevant information and guidance.

3.3.3 Sampling technique

A major function of sampling is to obtain external validity, in addition it serves the practical purpose of making possible the study of phenomena which otherwise could not be undertaken due to prohibitions of cost, time, personnel, or scope. Sampling entails taking any portion of a population or universe as representative of that population; or the total universe.

A stratified random sampling technique was adopted for the study to ensure that each member of the population or universe has an equal chance of being selected, and also since a heterogeneous population of subgroups might respond differentially to the independent variables. This sampling procedure is to ensure that the population is divided into subgroups on the basis of variables significantly correlated with the dependent variables.

Questionnaire administration and interview were conducted within a sample of the population in Kaduna state (Kaduna and Zaria metropolis). A population of 150 respondents was divided into two subgroups or strata - each stratum according to the role performed in the administration of the VAT policy. The subgroups must never overlap and together must comprise the whole. Having determined the strata, a sample was drawn independently from each stratum, using a simple random sampling technique. The sample frame fell within the following strata.

i) all agencies responsible for the implementation of the VAT policy, namely, FIRS, VAT zonal offices, LVO, NCS, SIRS, and commercial banks where payments for the tax are made. A sample of 50 units was drawn from this stratum.

ii) duly registered and not registered VATable business organisations, 100 units were selected from 100 business organizations, taking into account the various diverse economic activities of the VATable persons, such as banking, manufacturing, aviation, retail trade, and so on. In this stratum caution was exercised so as to involve respondents whose responsibilities within their organizations was dealing with VAT matters; where such formalised schedule of duty does not exist, whoever felt competent enough to provide answers to questions raised was welcomed.

3.4 Analysis and interpretation of data

The importance of any research work, is that it must be interpreted in the light of the conditions under which it was conducted. The analysis and interpretation of raw data from an investigation are the means by which the research questions are answered and the hypotheses stated are tested. Analysis refers to the ordering and breaking down of raw data into constituent parts; it consists of the statistical calculations done with raw data to provide answers to questions that warranted the research. Interpretation on the other hand, involves taking the results of analysis and making inferences concerning the research related observation, and thus draw conclusions about these relations. Tools for analysis are statistical instruments such as simple percentages, mean and frequency tables. These simple instruments were used so we can juxtapose our findings against each of the hypothesis, to determine if they should be accepted or rejected, or accepted with modification. Simple percentages were also employed to determine the extent to which the respondents thought that the assumptions in the hypotheses were correct or incorrect.

3.5 Limitations

A major limitation to this study which should be acknowledged is that because of the novelty of the tax in Nigeria, data on its administration are not readily available; data on the cost of introducing and administering the tax, for example, is not available neither at the zonal VAT office or the LVO in Kaduna. Closely related to the above is that procedures are constantly being revised through administrative circulars and pamphlets emanating from the FIRS. These circulars and pamphlets are meant to be distributed free of charge to all concerned and to all interested parties. But even such circulars and pamphlets are difficult to obtain in the VAT offices in Kaduna State as they are always never promptly delivered from the VAT directorate headoffice, or are out of stock. It should be noted here that these information circulars and pamphlets are meant to enlighten and update the tax paying public about developments in the administration of VAT, so when they are unavailable the taxpayer remains ignorant about current changes and developments in the tax system.

Another observation from the study worth mentioning is that, VAT, like any tax system entails transferring private revenue to the public purse, which taxpayers generally resent, VATable persons were therefore, not too forthcoming in their responses, especially those who should have registered for the tax but have not. Providing honest responses in such circumstances would mean reporting their evasive behaviour.

3.6 Footnotes

1. Osuala E.C, Introduction to Research methodology, Africana-FEP Publishers, Ltd., Onitsha, 1993, P.180.

2. Kerlinger F.N, Foundations in Behavioral Research, Holt, Renehart and Winston Inc, New York, 1953.

3. The choice of Kaduna Metropolis comprising Kaduna North and Kaduna South LGAs and Zaria township was based on the premise that VATable activity predominate in these areas of the state, other LGAs are mainly rural where agriculture is the major economic activity which is not VATable.
   The samples drawn from Kaduna and Zaria areas are therefore considered

adequately representative.

4. Osuala E.C, Op cit, P.181.

5. Turabian K.L, A manual for writers of Term papers, Theses and Dissertations , University of Chicago Press, USA, 1973.

CHAPTER FOUR: FINDINGS (ANALYSIS AND INTERPRETATION OF DATA)

4.1 Introduction

The success or failure of any given policy is usually judged by its results and quite often these results amount to the achievement of declared policy objectives. In assessing the administration of VAT in Kaduna State, we examined the entire machinery put in place for the implementation of the VAT policy in Nigeria; and the extent to which these structures and processes impacted on the effectiveness or otherwise of the administration of the tax.

The theoretical framework for analysis as indicated earlier in chapter two of this study is rooted in the classical perspective of taxation, which is based on the principles of efficiency, administrative convenience and equity. In an attempt to measure the efficiency of the tax, we analyzed the process of administration of VAT in Kaduna State; attempt was also made to juxtapose the actual revenue obtained with the potential revenue, where a gap existed the factors responsible were considered. Questions bordering on equity of the tax system were also examined. However, an analysis of a policy or programme can have both administrative and scientific values, particularly where the assessment indicates that the policy is not achieving desired objectives. Locating the factors determining performance may result in modifying the programme or improving the process of implementation so that the level of success will be enhanced.

The analysis in this chapter therefore, will involve the use of data from both primary and secondary sources to test the efficiency and effectiveness of the administration of VAT in Kaduna State. Finally, Locating the factors for the failure or otherwise will enable us proffer solutions and recommendations that would improve the efficiency of VAT administration and increase VAT yields.

4.1.2 Summary of questionnaire administration and analysis.

Two sets of questionnaires, each containing sixteen questions, were administered to two category of respondents - those who administer VAT and VATable persons. The closed ended questions were of the Likert scale type; they were structured along the following continum: Strongly Agree (SA), Agree(A),

Undecided (U), Disagree (D), and strongly Disagree (SD). These five factors were also given values in order to allow for the computation in measure of central tendency, particularly the mean. The values given to the Likert scale were SD =1, D=2, U=3, A=4, and SA=5. The total sum of these values were then divided by the number of observations, 5, giving us the mean of the scale, which is at 3, that is, 1+2+3+4+5/5=3.

The questions sought opinions on the three hypotheses tested, such as, how effective has the administration of VAT in Kaduna State been, how motivation of tax personnel or taxpayers impacted on the level of compliance and therefore revenue obtained from VAT, and so forth. A condition for approving or disproving the stated hypotheses, the mean of scale which is constant at 3 is compared to the observed mean, that is the average scores of those who SD, D, U, A, and SA. Where the mean of the observed is equal (=) or grater than (>) 3, the hypothesis is accepted as it is tending towards the region of A and SA. On the other hand, the hypothesis is rejected when the observed mean falls below (<) 3. The scores were also computed in percentages in order to provide a valid illustration - this measure was extensively used. Further more, interviews were conducted and information from secondary sources were extensively used to validate the surveys or findings made from the primary sources.

The stratified sampling method was adopted which separated the respondents into two broad categories namely; tax officials and VATable persons. The analysis of respondents involved simple percentages computed using the total responses of each group, that is, each group was analyzed separately and the responses of each group presented accordingly. For testing the three hypotheses, each hypothesis was presented one after the other and the responses from VATable persons were first presented and analyzed after which the responses of tax officials were presented and analyzed. This method was employed because separate questionnaires were designed and administered to each group.

The computer was used for the computation and analysis of the primary data. In computing the mean and percentages, those responses that tended towards the same general direction of positive or negative responses to each question asked were lumped together, such as, SA and A become A; and SD and D become

A total of 150 questionnaires were administered to the two groups of respondents; a total of 128 responses were returned representing 85.33 percent of the total number of questionnaires administered, whereas 22 questionnaires were not returned representing 14.7 percent. To the first category of respondents (VATable persons), a total of 100 questionnaires were administered - 90 of them were filled and returned, this represents 90 percent of the total questionnaires administered to this group. The second group (tax officials) had 50 questionnaires administered to it and the number of responses was 38, representing 76 percent of the total number of questionnaire administered to this group; 12 respondents or 24 percent did not respond. To ensure that the survey did not limit itself to a few VATable goods and services, efforts was made to make the questionnaire applicable to a wide range of goods and services covered by the VAT decree, such as, manufacturing; banking and financial establishments; petrol and petroleum products; aviation; textiles; household furnishing and equipment; automotive assembly; legal; courier; telecommunication; hospitality and catering; estate agency; goods assembly; imported goods, and so forth.

Respondents in both categories had a minimum standard of education with qualification ranging fro WASC, OND, Advanced diploma, postgraduate diploma, HND, Bachelors and Master degrees. They were of varied marital statuses.

Table 4.1: Summary of Questionnaire Administration.

Value of table	No. Of respondents selected	No of actual responses	Percentage of actual responses
VATable persons	100	90	90
Tax officials	50	38	76
Total	150	128	85.33

Source: Field research, 1997.

4.2 Test of hypotheses

The three hypotheses tested were:

i) that ineffective administration is responsible for the lost of VAT revenue;

ii) that low motivation of tax officials and taxpayers hinders effective administration of VAT; and

iii) that the potential revenue collectible from VAT exceeds the actual revenue collected.

4.2.1 Hypothesis number one

This hypothesis states that, "ineffective administration is responsible for the lost of VAT revenue."

A set of questions were asked the VATable persons in order to test the validity or otherwise of the hypothesis. In this regard the first question asked wanted to identify if VATable persons had any problems with the administration of VAT in Kaduna State, the result is presented below:

Table 4.2:Problems with administration of VAT

Value of table	Frequency	Percentage
Yes	57	63.3
No	23	25.6
Undecided	10	11.1
Total	90	100

Source: Field research, 1997

From table 4.2, there exist a strong favourable response that tax administration has not been very effective, this is so because actual response of 63.3 percent of the 90 respondents agreed that there existed one problem or the other. Only 25.6 percent disagreed (simple percentage is used because of the 2-point scale). The percentage of favourables calls that we accept the hypothesis.

The respondents were further asked in questions 6 and 9 to assess some specific processes in the administration of VAT. The questions sought to find our if taxpayers filed their returns regularly and as when due, and what action was taken against them when in default.

The tables below present their assessment.

Table 4.3.1: How VATable persons filed their returns

Value of table	Frequency	Percentage
Regularly on due dates	39	43.3
Irregularly	51	56.7
Total	90	100

Source: Field research, 1997

Table 4.3.2: Assessment of whether penalty is imposed

Value of table	Frequency	Percentage
Never in default	27	30
Compromise when in default	46	51.1
Penalty automatically imposed	17	18.9
Total	90	100

Source: Field research, 1997

Table 4.3.2 indicates that 30 percent of the respondents said they have never been in default to warrant imposition of penalty; 51.1 percent of them agree that some form of understanding is reached to accommodate the defaulting taxpayer. However, when this data is juxtaposed with that in table 4.3.1, conclusion drawn is that, even though 56.7 percent of the total number of respondents are in default to the tax, only 18.9 (table 4.3.2) of the sampled population have indicated that penalty was automatically imposed; 51.1 percent of the respondents said some compromise was reached including instalmental payments. As a follow up, as to why the observed disparity, in an interview with some senior tax officials, it transpired that there existed the problem of understaffing which limits effective enforcement, and also that the VAT tribunal has still not been established, as this would ensured swift penalty imposed on offenders and hence serve as a deterrent to others; besides they averred that there were no guarantees that offenders would be arraigned in regular courts. A compromise action was therefore better than no action at all.

Finally, respondents in this category were asked in question 4, if a separate and autonomous tax authority would solve the present problems ? The responses were as follows:

Table 4.4: Should VAT be administered by independent body?

Valve of table	Frequency	Percentage
SD	6	6.66
D	36	40
U	8	8.88
A	21	23.33
SA	19	21.11
Total	90	100

mean of scale = 3

Observed mean = 3.26

Source: Field research, 1997

Again, here too, the mean observed is 3.26 which >3 (the mean of scale) so we should accept the hypothesis. Furthermore, the findings presented in table 4.4 indicated that inspite of the discontent shown with the administration of VAT, 46.7 percent of the respondents are not disposed to the idea that a seperate and autonomous body should be established to administer VAT (this position was taken by most of the respondents for fear of the magnitude of amounts obtainable from VAT to be controlled by private individuals), they however called for various measures put in place to remedy the observed lapses. 44.4 percent of the respondents outrightly agreed that a seperate and autonomous body should be established to administer VAT. On the whole a total of about 91 percent of the respondents agreed that there existed a problem with FIRS as is presently constituted.

Test of hypothesis number one - Tax officials:

This set of respondents were asked to indicate whether or not they had encountered any problems with the administration of VAT in Kaduna State. The result are presented in the tables below:

Table 4.5.1: Problem of administration of VAT

Value of table	frequency	percentage
Yes	32	84.2
No	6	15.8
Total	38	100

Source: Field research, 1997

Table 4.5.2: Various problems of administration encountered

Value of table.[1]	L.O.U	P.F.A	L.R	L.B.K	L.R.T. CBN	Total
Frequency	6	7	12	4	3	32
Percentage	18.8	21.9	37.5	12.5	9.4	100

Source: Field research, 1997

In table 4.5.1, majority of the respondents at 84.2 percent admitted to having met with some difficulty in their encounters with the system of VAT administration of this 84.2 percent of respondents in table 4.5.2 , 37.5 percent of them identified non registration by most VATable organizations as the major problem, 21.9 percent said poor funding of VAT administration; whereas, 18.8 percent of them indicated lack of sufficient knowledge of VAT matters by taxpayers; 12.5 and 9.4 percent respectively among the sampled population said they encountered lack of book keeping practice by most taxpayers and late remittance of tax receipts to the central Bank of Nigeria by designated commercial banks respectively.

Tax officials were further asked in questions 6 and 4 to indicate whether or not the instruments of tax administration - audit, collection, and enforcement were being effectively utilized. It should be mentioned here that these three instruments with which VAT is administered are all linked to each other in a system of mutually reinforcing relations; each instrument must be well enforced to permit the others to work equally well. Each instrument brings out the strengths and weaknesses of the others . The data in table 4.6 below brings out the problem associated with this important principle of the administration of any tax system.

Table 4.6: Which instrument is given more attention

Value of table	A(audit)	B(Collection)	C(Enforcement)	D(others)	Total
Frequency	0	34	4	0	38
Percentage	0	89.5	10.5	0	100

Source: Field research, 1997

Results from the above table indicate that not only is emphasis placed on collection (89.5 percent of respondent feel so) in the administration of VAT, little or no attention is placed on the other instruments. Results obtained from question 4 reaffirm this position; the question was designed to ascertain whether penalties were automatically imposed on defaulters - the response is tabulated below.

Table 4.7: Are penalties imposed automatically

Value of Table	Frequency	percentage
Yes	13	34.2
No	25	65.8
Total	38	100

Source: Field research, 1997.

The above table shows that 65.8 Percent of the respondents in this category affirmed that penalties are not immediately imposed.

From the result of the two groups of respondents therefore, it would be safe to say that the data presented permit us to accept hypothesis number one as having been proved to be correct.

4.2.2 Hypothesis number two

The second hypothesis to be tested state that, 'low motivation of tax officials and tax payers hinders effective administration of VAT". This hypothesis was tested using data obtained from the same sample population.

VATable persons were asked in questions 5,7,8 and 10 to determine if there are motivational factors put in place by FIRS or government to bring about voluntary compliance and thereby simplifying the administration of VAT. Question 10 specifically asked respondents if they liked their tasks which relates to VAT matters.

Table 4.8: Do you like job as it pertains to VAT

value of Table	Frequency	Percentage
Yes	77	85.6
No	13	14.4
Total	90	100

Source: Field research, 1997.

85.6 Percent of the respondents answered in the affirmative, whereas 14.4 percent other answered negatively. As a follow up by way of personal interview on respondents who answered positively, it was discovered that most took the position in order not offend their employers and risk being fired, while others did so because it was their only means of sustenance. It can be inferred therefore that most of the respondents were not too happy about their tasks.

Question 7 and 8 designed to test this hypothesis sought to know if respondents are familiar with any incentive put in place by FIRS to elicit voluntary compliance to the tax, and if not, what can be done by Government/FIRS that would increase voluntary compliance.

All VATable persons (90) who responded answered negatively, that no incentives whatsoever have been put in place to bring about voluntary compliance to the tax. As a follow up to questions 7 and 8, 60 respondents or 66.6 percent suggested various incentive schemes they would want established to elicit compliance to VAT, whereas 30 of them representing 33.3 percent abstained from commenting. Of the 66.6 percent who made suggestions, table 4.9 contains their opinions.

Table 4.9: Incentives to make people pay VAT

Value of table	Frequency	Percentage
Impose penalty immediately on offenders	7	7.8
Use tax revenue for development projects	22	24.4
Reduce rate of tax from 5 percent to between	5	5.6
Establish enlightenment unit and do mass	18	20.0
enlightenment Give merit certificate or annual bonuses	8	8.9
Total	60	66.6

Source: Field research, 1997.

The above shows that tax payers do perceive government has not done anything to make compliance to VAT easy, hence the high rate of non-compliance and subsequent loss of revenue. In which case, we should accept hypothesis two as stated. Results from Table 4.9 indicate that 7.8 percent of the respondent said most VATable organizations are not registered for VAT and are left unpunished, hence, those that have complied felt cheated and thus their suggestion that penalty be imposed immediately on offenders to bring about compliance; 24.4 percent say tax revenues should be used for development projects which would benefit the masses - by so doing they could identify with the tax and comply voluntarily; those calling for the reduction in the rate of VAT said 5 percent VAT is rather high therefore less customers patronize their (VATable persons) businesses and thereby affecting their turnover; 20 percent are of the opinion that there should be aggressive mass enlightenment campaign especially amongst the small businesses in the informal sector; and the remaining respondents of 8.9 percent feel that merit certificates and bonuses should be given to those who comply promptly to the tax as encouragement. From the findings as presented above, we can conclude that we accept the hypothesis. However, from the interview results with some VAT officials, we identified some administrative measures which were put in place to elicit voluntary compliance (even though VATable persons did not perceive it as such) namely; that, the VAT system from inception in Nigeria, provided for a three year grace-period for, particularly, small businesses which were exempted from registration and rendering

returns within this grace period; that, the 30days as against 14 days (in the initial VAT decree) within which organizations were expected to render returns is an incentive, in the sense that, these organizations can invest such funds within the extended period, make some profit, before remitting the principal to government; and that, exemption of certain goods and services in the VAT decree is suppose to be a motivational factor for the tax paying public.

Test of hypothesis two-Tax officials:

In testing the validity or otherwise of this hypothesis, respondents were asked in questions 7,8,9 and 10 of the questionnaire to express their opinions on whether or not their work environment was conducive for optimum performance. The personal interview approach also provided a lot of information. The following results were obtained: question 7 sought to know if respondents liked their jobs.

Table 4.10: Do you like your job?

Value of table	Frequency	Percentage
Yes	31	81.6
No	7	18.4
Total	38	100

Source: Field research, 1997

Even though 81.6 percent of the respondents indicated they liked their jobs, they however, indicated also that it was their source of sustenance and most of them called for improved conditions of service. Question 8 reaffirmed the call for an improved service conditions, respondents were asked if salaries in their organizations were too low, that it was difficult to employ and retain or competent work force.

Table 4.11: Wages are low

Value of table	Frequency	Percentage	
SA	8	21.1	71.1
A	9	50.0	
U	4	10.5	
D	4	10.5	18.4
SD	3	7.9	
Total	38	100	

Mean of scale = 3

Observed mean = 3.65

Source: Field research, 1997

The picture presented above is that 71.1 percent of the respondents agreed that salaries are indeed low; and the observed mean of 3.65 >3, mean of scale, tending towards Agree, therefore we accept the hypothesis. This trend is repeated in respect to question 9, when respondents were asked whether or not VAT administration had competent and properly trained manpower to carry out its assigned function.

Table 4.12: tax personnel are not adequately trained

Value of table	Frequency	Percentage	
SA	3	7.9	55.3
A	18	47.4	
U	5	13.2	
D	9	23.6	
SD	3	7.9	31.6
Total	38	100	

Means of scale = 3

Observed mean = 3.23

Source: Field research, 1997

From the table above, 55.3 percent of the respondents agreed that tax administration is in need of a more competent work force and also of periodic training programmes, to update tax officials on modern practices in the administration of the tax. The mean of the observed is 3.23 which is greater than the mean of scale, therefore we accept hypothesis number two.

Finally question 10 tried to examine if respondents feel their work situation is motivating enough for them to perform their various tasks optimally-the survey shows:

Table 4.13: do you exercise enough power - authority in your job?

Value of table	Frequency	Percentage
Yes	15	39.5
No	13	60.5
Total	38	100

Source: Field research, 1997

The above data shows that 60.5 percent of tax officials are of the opinion that their work-situation does not provide them with sufficient power-authority to deal effectively with problems encountered in the performance of their duties.

From interview with some of these respondents there were indications that the FBIR has introduced annual bonuses for VAT officials whenever revenue targets are exceeded; that a certain percentage of the excess tax is calculated and issued as bonus to tax officials. Bonus payments have been effective since 1995. As for 1997, going by the figures published by the Punch Newspaper of February 3rd, 1998, as part of the minister of finance press briefing on the 1998 annual budget, we are not able to determine if bonuses were awarded; the minister said N35 billion was expected as revenue from VAT for 1997 and actual was N34 million.

4.2.3 Test for hypothesis number three

The last hypothesis states that, 'the revenue collectable from VAT exceeds the actual revenue collected'.

In an attempt to test this hypothesis, questions 12, 13 and 15 designed according to the likert scale were administered to VATable persons. These questions sought opinions to whether or not revenue obtained from VAT in Kaduna state represents the true picture of what ought to be. That is, if VATable organizations under declare their tax liabilities or not, and if VAT revenue is lost as a result of sharp practices between tax payers and tax officials. The results to questions 12, 13 and 15 are presented in tables 4. 14, 4.15 and 4.16 respectively:

Table 4.14: VAT collected is below collectible

Value of table	Frequency	Percentage	
SA	33	36.66	66.7
A	27	30	
U	20	22.22	
D	6	6.66	11.1
SD	4	4.44	
Total	90	100	

Mean of scale = 3

Observed mean = 3.87

Source: Field research, 1997

Results from the above indicate that 66.7 percent of the respondents said VAT revenue obtained in Kaduna state falls below potential revenue, only a small 11.1 percent think otherwise and 22.2 percent of the respondents were undecided. The observed mean of 3.87 is tending towards Agree and is greater than the mean of scale, so we accept hypothesis number three as stated.

Table 4.15: Some taxpayers refuse to pay or under declare

Value of table	Frequency	percentage
SA	44	48.88
A	36	40
U	4	4.44
D	6	6.66
SD	0	0
Total	90	100

88.9

6.66

Mean of scale = 3

Observed mean = 4.31

Source: Field research, 1997

88.9 percent of respondents to this question were of the opinion that some taxpayers under declared their taxes. The observed mean is 1.31 greater than 3, and pointing towards Agree, so we accept hypothesis three as stated.

Table 4.16: Revenue is lost due to fraud

Value of table	Frequency	percentage
SA	31	34.44
A	48	53.33
U	9	10
D	2	2.22
SD	0	0
Total	90	100

87.8

2.22

Mean of scale = 3

Observed mean = 4.2

Source: Field research, 1997

Out of a total of 90 respondents 79 of them, representing 87.8 percent agreed that VAT revenue is lost through fraudulent activities of both taxpayers and tax officials. The observed mean is 4.2 which is also >3, the mean of scale, so we also accept the hypothesis based on this data.

As a follow up to the above positions, question 14 was designed to determine what possible reasons respondents have for taking positions they did. They were asked their opinions on why taxpayer refuse to pay or under declare their tax liabilities. Result is as shown below:

Table 4.17: If people do not pay

Value of table	Frequency	percentage
Yes	80	88.9
No	10	11.11
Total	90	100

Source: Field research, 1997

Table 4.17 indicate that 88.9 percent of the respondent agreed that taxpayers are in default and went ahead to give various reasons for this as is presented in table 4.17.1. The table below gives a summary of the various reasons given for this.

Table 4.17.1: why people do not pay

	Value of table	Frequency	Percentage
i)	Misapplication and misappropriation of tax revenue	26	28.9
ii)	Down turn in the economy and taxpayers desire to maximize their profits	30	33.3
iii)	Lack of proper supervision by tax officials	12	13.3
iv)	Small nature of businesses with no book keeping practice	7	11.1
v)	Lack of understanding of the tax total	90	5.6
	Total	90	100

Source: Field research, 1997

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The above reasons according to the respondents probably account for why the potential revenue from VAT in Kaduna State can not be met.

Test for hypothesis number three- Tax officials

This hypothesis was tested using questions 12, 13, 14, 15. Oral interview with some tax officials was also used to gather information. The questions were designed in the survey to ascertain if collected revenue is lower than collectible revenue and why this was so. Tax officials were asked in question 12 to state whether or not they felt VAT revenue collected in Kaduna State is a true reflection of revenue potentials of the state. Their response presented in table 4.18 below indicate that 78.9 percent of them agreed that revenue obtained falls short of the expected.

Table 4.18: Collected VAT is below potential

Value of table	Frequency	percentage
SA	16	42.1 — 78.9
A	14	36.8 — 78.9
D	8	21.1
Total	38	100

Mean of scale = 3

Observed mean = 4

Source: Field research, 1997

The mean of the observed, 4, is >3, the mean of scale, so we accept the hypothesis. In an interview, a senior VAT official asserted that about 70-80 percent of registered VATable organizations do not render amounts due to Government as tax; that they render frivolous claims as input tax. The tax personnel gave an example with three companies - UNTL, PAN, NNPC - which hitherto 1996 accounted for about half of the VAT collectible from Kaduna State, but now the story has changed, the official said PAN and NNPC have since seized paying and only claim refund with invoices, whereas UNTL has paid only once since then. The official said in dealing with such organizations the genuineness of such claims must be clearly examined.

Exploring the same possibility the respondents were asked in question 13 to provide revenue targets for 1994, 1995, 1996 and state if these targets were met. This proved difficult as the respondents were not willing to provide any figures; oral probing also met a brick wall. They alleged that only the Chairman of FBIR had the authority to give out "classified information". However, on a seperate occasion, in the course of another interview, a senior VAT official said that the VAT target for Kaduna State in 1996 was not met.

According to figures published by Naiyeju, 1996, VAT collection in Kaduna State for 1994 and 1995 stood at N345, 002, 665.00 million and N679, 400, 462.24 million representing 8.42 and 8.5308 percents respectively of the total national VAT revenue. The performance of VAT at the national level was given as N31 billion being the actual figure for 1996, in 1997, expected revenue was N35 billion, the actual was however lower at N34 billion, and the expected for 1998 is N40 billion.[3] The 1997 figures shows an increase over the 1996 figures, but this could be due to the fact that more people have since registered. The figure is however lower than expected and this is probably due to the reasons these respondents have adduced so far; if these issues are sufficiently dealt with there is a possibility that the 1998 targeted figure may even be surpassed in concrete terms.

In question 14, the research used the instruments of administration to measure VAT receipts. This is done using the premise that any disproportional weakness or strength in any of the instruments distorts administration of the tax and thereby impacts on the revenue figures. The result is as follows:

Table 4.19: Instruments of administration do not work well

Value of table	Frequency	percentage	
SA	3	7.9	
A	22	37.8	65.8
U	4	10.5	
D	7	18.4	
SD	2	5.3	23..7
Total	38	100	

Mean of scale = 3

Observed mean = 3.44

Source: Field research, 1997

65.8 percent of the respondents according to the data presented above affirmed that the process of administration is not effective. The observed mean of 3.44, is >3, the mean of scale and tending towards agree therefore warrants us to accept the hypothesis.

The respondents from this sample were further asked to indicate their preferences in question 15, as to whether or not, the administrative reform which commissioned some designated commercial banks to collect VAT receipt from taxpayers has improved VAT collection. The result is presented below:

Table 4.20: Reform to pay taxes to commercial banks

Value of table	Frequency	percentage
Yes	34	89.5
No	4	10.5
Total	38	100

Source: Field research, 1997.

The above shows that 89.5 percent of the respondents were positively disposed towards the measure, especially, as it safeguarded public funds. Some respondents are of the opinion that certain commercial banks do not remit their collections immediately as at when due to the CBN thereby reducing the volume of VAT revenue in government purse at any given time.

4.3 Findings and Interpretation

This study appraised the administration of VAT in Kaduna State to show the extent to which it has been able to meet the objectives of government. In measuring the effectiveness of VAT in Kaduna State, it should be borne in mine that there is probably no universal yardstick for such a measurement. This is because of the different socio-economic, situation found in different societies - the divergence of cultures, difference in climatic conditions and uneven literacy spread - a nationwide uniform tax is bound to have varying degrees of effectiveness in the different states of the Federation.

Primary data from the research has indicated that enough attention has not been given the issue of effective administration of the VAT. It would be fair to assume that public affairs commentators are only interested in figures so collected. On the contrary, there is evidence from this study that suggest a lot of attention needs to be directed towards issues related to the administration of VAT.

Issues such as those relating to the process of administration namely: audit, collection and enforcement require attention. As no organization can go about collecting taxes directly from every individual taxpayer; an incentive must be created which would make it expedient for a majority of the tax payers not to avoid the tax. This incentive is achieved by demonstrating to the tax payers that the system is able to detect potential avoiders and to sanction them. An important support to deterrence is court prosecution and penalties - an organization that systematically and severely penalizes its delinquents can expect that majority will tow the line, whereas one that does not put a high price on delinquency can expect avoidance and evasion to become the norm rather than the exception. The taxing process therefore, which consist of the three instruments/process of administration works effectively only when most taxpayers comply voluntarily. This process works on the basis of certainty and deterrence. Certainty, that there is no or virtually no escape from meeting ones tax obligations, and deterrence, that the price paid for non-compliance is likely to be higher than the benefits of evasion; complying then becomes a preferable behavior to evasion. The process of administering by these instruments which are linked to each other in a mutually reinforcing relationship must be maintained at a balance. Each of the system must work optimally to allow the others do the same. The goal of audit, for instance, is to ensure that the tax statements and related information furnished the tax office by taxpayers would be reasonably accurate and correct; collection on the other hand, is to ensure that registration, filing and payment deadlines are strictly adhered to and that the number and amounts of delinquent returns are kept to the barest minimum or a very small proportion of amounts collected annually; and the task of enforcement is to provide the ultimate thrust that the system needs to keep running well, by detecting any significant deviation and penalizing it to deter others from repeating.

If audit can not expose evasive behavior or does not produce the data required for prosecution, enforcement will not be able to deliver the deterrence it is suppose to. Similarly, if enforcement does not prosecute fast enough or obtain deterrent penalties once the case reaches the court it would be difficult for collectors to carry out their function - there would be too many defaulters who disregard deadlines and reminders to pay up. It should be however, emphasized here that no matter the importance of these instruments, no organization, particularly one that takes rather than provides, can expect to function well without some level of support from its task environment. For example, it has been acknowledged in the literature that enforcement alone can not bring compliance, other factors also count. Compromise is often used when quick settlements are to be accomplished, however, in negotiating a compromise , the auditor/investigator/collector or even prosecutor, if not adequately remunerated by the taxing authority, might connive with the delinquent taxpayer and thus getting less money into government coffers. where tax officials are adequately motivated unhealthy behavior on their part is discouraged. Primary data from this survey suggest that there is no provision for compromises or instalmental payments of backlog of unpaid taxes in the VAT statutes. However, experience in the field shows that it is a common method of settlement in cases of default or disagreement.

In the course of this study, three hypotheses were stated and tested, accordingly, data obtained from primary sources indicated that we accept the basic assumptions of all three hypotheses. The study showed that gaps existed in the administration of the tax especially in the provision of the VAT laws and practice. These gaps could be placed in two areas of the operation of the tax; the enormity of the task and the comparative weakness of resources (information and data base, personnel, expertise and the instruments of administration). In testing hypothesis number one, data from the research indicated that there exist some problems with the administration of VAT in Kaduna State. These problems range from refusal by VATable person to register for the tax or even when registered refusal to file returns; lack of understanding of the VAT by tax payers; lack of sufficient records on tax payers; and lack of book keeping practice by tax payers due to the small nature of their business.

The small businessmen, trader, wholesaler and retailer in the informal sector of the economy have been identified as the most difficult group to deal with in matters of VAT administration. One tax official says that, "they don't have any records, they are very uncooperative, and show outright hostility, that you fear you might be mobbed". This group (small businessmen) claim ignorance, that they are suppose to be involve with VAT, they argued that only big organization like PAN, NITEL should participate (this tax official was recounting his experience with VATable person at the Kaduna central market).

From interviews with VAT officials it was discovered that even when organizations register for the tax, they seldom filed returns and even when they do such returns are inaccurately filed with bogus claims for refunds, as was the case with NNPC and PAN. Other VATable organizations outrightly refuse to register; there are also those large conglomerates with headquarters in Lagos and other cities in Nigeria outside Kaduna; they are not registered in the LVO nearest to them as should be the case, they claim that their VAT accounts are handled by headquarters. Where people don't register, others do not pay, records are not kept - it becomes difficult to assess administration as being effective. When some people do not pay and others do, the equity of the tax is eroded. Besides information required for audit, collection and enforcement can never be timely, sufficient, accurate and reliable. Without these basic data, it becomes very difficult, for example, to accurately calculate the amounts that the government loses annually through non filing, under reporting and late remittance.

Taking into account the number of VATable persons that are not registered, do not file returns or under report their tax liabilities it is being estimated that 25 percent of collectible revenue is lost.

Data obtained in this study also pointed to the fact that the system of administration emphasizes and places attention on collection, but we are aware that with inaccurate and unreliable information the process of collection can not be efficient. Moreover, it has been shown earlier that the taxing process works best when the administrative instruments work in a mutually supportive manner.

Most respondents sampled for this study also agreed that even though they were in default of the provisions of the VAT laws and procedures, penalties were not enforced. Agreements were reached between VAT officials and defaulting taxpayer to effect instalmental payments. This trend is confirmed by the fact that there has been only one court case and the case was eventually settled out of court. The irony here is that, this particular case was a disagreement over a tax liability of 1994; and the case took over 7 months to be settled, this was in 1997, and terms of payment were extended into 1998. It is this type of prolonged process or procedure of settling disagreements that has been known to encourage delinquency, because by and large, it is government that looses. It is this that informed the call by most respondents that a VAT tribunal be set to dispense with cases relating to the tax as soon as such cases come up. The knowledge of the existence of such a Special Tribunal would make defaulters change their behaviour. Information obtained from VAT officials indicated that the VAT Tribunal should have come into being; the VAT directorate headquarter, it is alleged had made the pronouncement to that effect, but why the VAT tribunal has still not become operational, no one in the VAT office in Kaduna seems to have an answer.

With the multitude of problems identified by primary data the question as to whether the administration of VAT should be handle by an independent body, either contracted or established becomes significant. The results showed that respondents were divided. Majority felt there was need to inject some tonic into FIRS as is presently constituted; about half of this majority wanted an independent body to manage the tax. On the other side of the divide, where respondents who agreed FIRS is not doing well should however continue to manage the tax based on the existing network of offices and experience they have garnered over the years administering other taxes nationwide. That, what however needs to be done is to strengthened the administration of the tax so that it can meet with the challenges of its tasks.

We can not asses any tax such as VAT based on the income it generates alone without considering how this income was obtained. "Public affairs commentators" have given VAT administration a pass mark based simply on the

amount so collected, but experience from this study has shown that this is not always a very good measure. For instance, staff in the LVO in Kaduna complain, of inadequate logistical support such as, transportation, stationery, communication facilities. The condition of office furniture is so deplorable that 3-4 officials share a desk in the routine performance of their tasks. All other factors discussed earlier in the process of administration must be considered in order to obtain a fair assessment of the tax.

This study also examined how motivation of tax payers and tax officials alike impacted on effective administration of VAT. Data from the survey indicated most respondents were comfortable with their jobs, to the extend that it could sustain families, the tax officials went further to say a lot still needed to be done to make their condition of service "really comfortable". It can be argued that when one finds ones job unchallenging and unsatisfying, when there is no self actualization, one may not be encouraged to put in his best in the performance of a given task.

Regarding the issue of incentives to elicit voluntary compliance, two groups of respondents were divided; while all VATable persons said no incentive has been provided to make compliance easy on them, tax officials say the period allowed before returns are made monthly should be enough motivation, because according to them, such funds should be investable capital within those 30 days. Tax officials however agreed that there was need to review their (tax officials) salaries upwards if they must be expected to put in their best in the discharge of their duties.

The study sought to know what other measures could be put in place to make administration more effective and by implication compliance. Respondents recommended various measures including - penalties imposed automatically on offenders; the revenue collected to be used for development projects; the rate of VAT reduced; engage in mass enlightenment campaigns on VAT; and give annual bonuses. The imposition of penalty has been discussed earlier, the respondents are of the opinion that if those that register for the tax refuse to pay and are not reprimanded, this kind of delinquency would become popular and those tax payers that are faithful to their tax obligations would alter their attitudes and thereby make the tax unmanageable.

Taxpayers also perceive government as not being responsive enough to the needs of the citizens, tax revenues are misapplied and misappropriated. They therefore called for VAT revenue to be disbursed for specific development programmes that would benefit the masses as is the case with the Petroleum Special Trust Fund (PTF).

Some organizations complain that the rate of VAT at 5 percent should be reduced to between 2 and 3 percent. According to this category of respondents, customers complain about this rate and that it has inturn kept their sales figures down as less people patronize them. With the down turn in the economy, this in part explains why some organizations do not remit VAT collected because the volume of sales is declining. Data from these respondents also indicated that a mass enlightenment campaign be organized to bring more people into the tax net.

The issue of personnel and expertise was also addressed. Respondents were of the opinion that tax officials were not sufficiently trained and competent to effectively administer VAT. From interview conducted, it was clear that expertise in the administration is not in abundance, this can be illustrated with the Zaria LVO situation. In Zaria, when the LVO was opened, only one senior officer had the necessary qualification and experience to administer VAT. He was expected to give the rest of the staff attached to that office an on the job training. This kind of situation would be too demanding and would serve as a disincentive to the officer who is so stretched.

Tax officials felt powerless to deal decisively with delinquent tax offenders. They feel they do not have enough power-authority to deal with such situations because of interference from superiors.

The last hypothesis was designed to discover the level of VAT revenue, that is, if revenue generation in Kaduna state is at its optimum and if not what possible explanations are there for this failure. This study tried to obtain factual figures of targeted revenue over the years in Kaduna State with which to compare the actual collected for the corresponding years. This proved very difficult as mentioned earlier. This being the case, it became impossible to obtain accurate data or revenue that is lost by government as a result of the activities of non filing taxpayers, those who remit late and (or) under declare their obligations to the tax, this is working under the

assumption that such information is readily available, that is, putting aside the "classified information" ploy.

From the primary data it is right to argue that the tax potentials of Kaduna state are not exploited optimally, because VAT as a self -assessing tax depends on records and information and when this information is non existent or inaccurate, its reliability becomes suspect. Several visits to various VATable organizations in the course of questionnaire administration affirmed to this claim. Providers of various VATable goods and services were not registered for VAT four years after its inception. These were not the same calibre of people as those referred to earlier in Kaduna Central Market, but those who provide services such as legal services, estate valuers, brokerage firms, electronic goods and machinery, automobile sales outlets, consultancy services and so forth.

For the above reasons tax potential became problematic to define, we therefore relied on secondary data to juxtapose between actual revenue obtained and the expected revenue, that is, budgetary projections. Naiyeju, 1996, puts the expected VAT receipts nationwide for 1995 at N12billion whereas actual collected was N9.019,327,247.47 billion, and for 1997, the expected revenue was N35 billion while actual was N34 billion. Going by this trend, and information obtained by way of interviews of senior VAT personnel who posited that actual VAT collection in Kaduna State for 1997 did not meet the revenue target, only about three quarters or so was achieved, this confirms that about 25 percent gap exists between expected revenue and revenue collected.

Indications from the data suggest that most respondents were disposed to the administrative reforms which stipulated that VAT payments be made by organizations to designated commercial banks, they argued that this tended to safeguard government revenue and at the same time discourage tax officials from engaging in under - the - counter deals which short changes government. However, some of these respondents also argued that from their experiences, some of these designated commercial banks do not remit amounts they collect immediately to the CBN, they further suggested that a monitoring unit be established at the VAT directorate headquarters with field offices in all LVOs for monitoring the activities of these commercial banks.

This they believe is appropriate because these commercial banks in acting as collection agents of the FIRS are paid some commission.

The study also attempted to explain why a lot of people refuse to register for the tax, why some people refuse to pay and also what reasons others have for under reporting their tax liabilities; from the data obtained various reasons were adduced for these trends. In the first place, respondents argued that taxpayers do not have sufficient knowledge of the mechanisms of the tax -what goods and services are VATable and which goods and services are in the exempted category. Secondly, respondents said that taxpayers perceive government as being irresponsible in the use of tax revenue hence they are discouraged from paying the tax. Thirdly, due to the down turn in the economy of the country and the need to maximize profit or even break even, businesses withhold VAT receipts collected. Fourthly, the data showed that as a result of poor supervision on the part of tax officials, delinquencies go undetected and unpunished hence no incentive to comply to the demands of the tax. Lastly, respondents identified small nature of businesses and the lack of book keeping practice as causes of inability to correctly assess and levy the tax.

Finally, all those interviewed agreed that harsher penalties do not necessarily bring about compliance, at best, they said the VAT tribunal should be established and by its very presence would elicit compliance. This is in addition to moral suasion. As a way of determining what areas of administration respondents feel should be reformed or overhauled. They made the following recommendations:

i) rate of VAT should be reduced and rate should be graduated (from 2,5,10 up to 15 percent) depending on the nature of goods and services - essential for the household should attract 2 percent whereas luxury items such as cars should be VATed at 15 percent;

ii) established a seperate account for VAT just like PTF and give the VAT directorate autonomy so that expenditure can be controlled and revenue applied strictly for development projects;

iii) that no tax personnel should spend more than two years at any given VAT office, rotation should be regular;