AN EVALUATION OF THE PERFORMANCE OF VALUE ADDED TAX AS A REVENUE EARNER IN NIGERIA: 1994-2003

BY

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DECLARATION

I hereby 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 application for a higher degree to the best of my knowledge. All conditions and sources of information; are duly acknowledged by mean of references.

Rifuntse Tanimu Akintse

CERTIFICATION

This thesis entitled an evaluation of the performance of Value added Tax in Nigeria, 1994-2003, by Rifuntse, Tanimu Akintse meets the regulation governing the award of the degree of masters of Science (Accounting and Finance) of the Ahmadu Bello University and approved for its contribution to the knowledge and literary presentation.

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DEDICATION

I dedicate this work to God Almighty who has been with me anytime, any day in my educational pursuit, and to my late beloved parents, Chief Rifuntse Yerima Iyannde and (Mrs) Aishatu Yerima Rifuntse who passed on, on the 10th April 2007 and 28th of July 2001, respectively.

ABSTRACT

The instability of the Nigerian economy partly due to fluctuations in international oil prices led to suggestions and decisions that had been made which led to the introduction of value Added Tax (VAT) in 1993.

This thesis work entitled “An Evaluation of the Performance of VAT in Nigeria (1994-2003)” aimed at assessing whether or not the introduction of VAT has be a success.

Research methods adopted included historical and descriptive methods. Data were obtained through the use of questionnaires, interviews, and documents. Data were analyzed through the use of simple percentages and qualitative analysis at the end of which useful information was obtained.

Findings made include the fact that revenue generated are of increase yearly. It was also discovered that the astronomical yearly increase of VAT collection does not really mean performance as the collection would have been higher if the VAT officials were properly remunerated and effective collection strategies and administrative machinery put in place.

Recommendations made include the need for better conditions of service, judicious use of the VAT proceeds by the benefiting governments, supply or provision of required operational tools, incentives to the VAT payers and the collecting agents and good and conducive operating environment.

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ABBREVIATION

L.R	Low Registration
L.O.K	Lack of Sufficient Knowledge
L.B.K	Lack of Book Keeping
L.R.T CBN	Late Remittance of Tax Receipt to CBN
VAT	Value Added Tax
FIRS	Federal Inland Revenue Service
S.B.I.R	State Board of Internal Revenue
LVO	Local VAT Office.
LGAs	Local Government Areas
FGN	Federal Government of Nigeria

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The introduction of the Valued Added Tax (VAT) in January, 1994 was not a welcome development to the majority of the Nigerian populace as witnessed by the widespread criticisms and skepticism arising from the fear of a grand design by the government to further milk the already pauperized Nigerians. There was this suspicion that Nigeria would end up contributing money into private pockets and will therefore not benefit from the returns of the tax system. To make matters worse, its take-off was a little bit clumsy as majority of Nigerians were largely ignorant of it, even after it has taken-off. There was confusion in its implementation, as people appeared not to know the goods that should attract the tax and those goods that should not attract VAT. Federal Republic of Nigeria (1992).

Despite the initial problems, VAT seems to have found its bearing. After about ten years of its commencement, the programme appears no more like the monster that many Nigerians though it was. Besides, Nigeria's relying increasingly on oil revenue at the detriment

of other non oil sectors such as agricultural, industrial and manufacturing etc is not healthy for the growth of the economy. VAT has therefore provided a succour for the various tiers of government.

Recently, as indicated in the records, the Federal Inland Revenue (FIRS), saddled with the responsibility of administering VAT has been exceeding its revenue targets. VAT has therefore become a major source of internal revenue generation to the three tiers of government. This emerging reality is specially gladdening to the states which is reaping immense benefits from the sharing arrangement. Thus, for the three tiers of government, VAT will bring significant relief in the face of pervasive income tax evasions and avoidance and unstable oil revenue situation.

Personal income had been the main focus of Nigerian taxation which began with the Lord Lugard in 1904. Osita, A. (2004). The scope was expanded in 1939 to include income of companies, while petroleum profits first attracted separate tax legislation in 1959. In the period after 1966, several tax laws were enacted culminating in 1975 into the harmonization of the states income tax laws. However,

the dominant aims of the tax laws still remain to raise revenue, enhance capital formation and stimulate economic development.

The various tax laws have witnessed several amendments over the years. The VAT Decree No 102 of 1993 was promulgated to give backings to VAT. The Federal Inland Revenue Service (FIRS) sees this Decree as the most important tax law in Nigeria since the Companies Income Tax Management Act (CITA) and Income Tax Management Act (ITMA) were enacted after the independence.

The promulgation of the VAT Decree also repealed an earlier Sales Tax Decree of 1986. Thus the emergence of VAT brought about the phasing out of sales tax, which had its origin in the early eighties. However, before the Sales Tax Decree was repealed, two study groups were set up to review the tax system. It was then that the group that reviewed the indirect taxation system recommended the introduction of VAT. It was the acceptance of this recommendation that led to the promulgation of Decree No. 102 of 1993, which gave the legal backing to VAT. Given that VAT is akin to the then existing sales tax, the choice was informed by several considerations. Among

these is that VAT has a wider base and would therefore bring in more revenue.

The Federal Inland Revenue Several (FIRS) was charged with the responsibility of administering the VAT laws, and to collect VAT tax in Nigeria on behalf of the Federal Government. Some items were exempted from the VAT Decree. Such items include: basic food items, infant foods, books, newspapers, magazines, educational materials, commercial vehicles and spare parts, agricultural equipments, fertilizers, etc. Despite these exemptions, VAT remains effective and growing because it possesses a very large base.

This study is primarily aimed at evaluating the performance of VAT as a Revenue Earner in Nigeria as from 1994-2003.

1.2 STATEMENT OF THE PROBLEM

With over ten (10) years into the introduction of the Value Added Tax (VAT) in Nigeria and with the successful implementation and collection so far, which has generated revenue in billions of Naira, it is presumed that certain factors could have been the reason(s) for the success recorded in the collection of VAT and its administration.

It is therefore important to attempt to explain the factors that have been responsible for the growth of VAT revenue. However, has VAT been able to replace sales tax successfully. Are there some areas, which will need to be strengthened to enable VAT collection improve remarkably and its performance enhanced and become more efficient and effective? In this regard, the following questions are being raised:

i. What is the level of collection of VAT and to what extent has VAT been able to affect the general revenue base of the country?

ii. To what extent have the huge resources committed to the collection of VAT been able to bring about a general increase in VAT collection?

iii. How effective are the strategies used in the general collection and administration of VAT?

iv. Are there other strategies, which can still be adopted, to further strengthen the collection and administration of VAT?

This work will attempt to address these fundamental questions and other related ones concerning the efforts so far in increasing the collection of VAT.

1.3 OBJECTIVES OF THE STUDY

This study is aimed at evaluating the performance of VAT in Nigeria over the time frame under study. Thus, the specific objectives are:

i. To review, assess and evaluate the Administrative strategies adopted for the collection of VAT proceeds in Nigeria with a view to making recommendations or suggestions for improvement if there are lapses.

ii. To assess and evaluate the performance of VAT in Nigeria as it relates to the staff welfare package and VAT payers' incentives and other associated benefits.

iii. To assess the potentialities and cost effectiveness of collection of VAT in Nigeria.

1.4 STATEMENT OF RESEARCH HYPOTHESIS

In order to achieve the objectives of this research study, we intend to test the following hypotheses so as to obtain validity of our findings:

1. Ineffective Administration is responsible for the lost of VAT revenue.
2. Low motivation of tax officials and tax payers hinders effective administration of VAT.
3. The potential collectible from VAT exceeds the actual revenue collected as VAT proceeds.

1.5 SCOPE OF THE STUDY

This study is intended to evaluate the administrative performance of Value Added Tax (VAT) in Nigeria. The assessment will be limited to available data from the Federal Inland Revenue Service (FIRS) Headquarters and responses from research questionnaire administered. Thus, we shall limit our study to the regulatory framework concerning VAT implementation. The time frame for this study shall be from 1994-2003.

1.6 SIGNIFICANCE OF THE STUDY

A study of this nature, if conducted successfully, will be beneficial and of great importance especially to:

i. The Federal Inland Revenue Service (FIRS) saddled with the responsibility of administering and collecting VAT proceeds.

ii. The three tiers of government, whose expenditures are geared towards the collection of VAT.

iii. The general public who consume to pay the tax and who may enjoy more infrastructural amenities that could be made possible through the use of revenue from VAT.

iv. Research students interested in Tax Administration and Management, especially those interested in studies on VAT.

1.7 PLAN OF THE STUDY

The study will be divided into five (5) chapters. Chapter one, which is the introduction, where the background of the study, statement of research problems, objectives, significance, hypothesis, scope and delimitations of the study are discussed.

The second chapter will discuss data presentation, analysis and interpretation of relevant literatures with respect to VAT. Chapter

three will describe the methodology to be adopted for the study. That is, the research design and data collection and analytical tools to be adopted.

Chapter four will discuss data presentation, analysis and interpretation of related data to the study, and finally, summary, conclusion and recommendations will be made in the final chapter. Areas of further research will be highlighted also.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

In many work, it is important that any available related literature be reviewed. This will automatically broaden both the researcher view and views of persons (who will use this work) on the topic under consideration.

This chapter comprises principally the review of other write-ups on taxation and value added Tax (VAT). Its administration, merits goods and services exempted from VAT and also the sharing of VAT proceeds.

This chapter will therefore serve as basis for proper understanding of the subject matter of this project work and will also sample background information, which will serve as a frame work for determining whether the present work has added to the existing body of knowledge on the topic.

2.2 NATURE AND PURPOSE OF TAXATION

Tax is one of the ways nations have used to acquire or raise additional revenue. The history of tax in Nigeria dates back to the

pre-colonial period where there were various systems of tax. For example, the revenue of Hausa States were obtained from forms of taxes like Kharaji-a land tax based on yearly production; Jangali-a tax on livestock, etc.

In most economies today – taxes are the most important sources of government revenue. Tax can be defined as a compulsory levy imposed by government on the income, profit and consumptions of individuals and organizations within a country primarily for raising revenue to execute its expenditure programs. John, C.A. (Ph.D) – 1997.

Taxes as sources of revenue are usually collected; and the benefits received are independent of the individual taxpayers liabilities.

Government imposes taxes for several reasons, some of which are:

i. Raise Revenue to cover public expenditure:

Government imposes taxes in order to raise revenue to execute its various expenditure programs. Government spends a lot of

money on education, defense, health etc. and a substantial part of the money comes from tax.

ii. Economic Management:

Tax is an important instrument for economic management, when the economy is facing instability, taxes could be used to stabilize it.

iii. Redistribution of income:

Government could use tax to reduce or bridge the gap existing in the distribution of income.

iv. Protection of infant industries:

Industries at their early stage of development can be protected from harsh competition between them and foreign – based industries by the use of taxes.

v. Checking the consumption and production of goods:

Government could discourage the consumption of particular goods that may have health implications etc. by imposing high taxes on such goods. But for a particular tax to be effective and efficient, it should posses most of the criteria necessary for a good tax system. Osita, A. (2004).

Two hundred years ago (1807), Adam Smith in his book “The Wealth of Nations” set out certain principles of taxation termed “canons of taxation.” These have been the subject of some elaboration, but are still recognizable in the criteria used by the economists judging a tax system. Conflict between these criteria is inevitable. They are as follows:

a. *Equity* is traditionally divided into two sorts: horizontal equity, which means that those in equal circumstances should pay an equal amount of tax, and vertical equity which means that those in unequal circumstances should pay different amount of tax. The reason why equity is regarded as important is partly an inherent view that it is right and proper in the same way that equality before the law is right and proper, and partly the view that, if a system is believed to be fair and equal, taxpayers will be more willing to cooperate with it. However, the statement that equity is important does nothing to help us to determine what circumstances are equal and what unequal. Equity may be satisfied by a proportional system just as much as by a progressive system of taxation and benefits.

b. *Neutrality:* A tax is neutral if it avoids distortions of the market. The Nigerian tax system has many rules, which break the principle of neutrality. Worse there are many technical rules which make significant tax differences according to which of two or more methods are adopted to achieve a given result. The effect is harmful since it encourages the expenditure of money on expert advice, expenditure which is economic terms unproductive, and on schemes which may make a trade less efficient.

c. *Certainly:* This means first that the scope of tax should be clear. Penumbral areas cause resentment amongst taxpayers cast into the darkness and undermine the principle of equity, besides increasing the cost of the system. It means next the certainly that the tax can and will be enforced. A tax that is easily evaded causes resentment and often a decline in taxpayer morality. It means also that the government will be able to correctly predict how much tax is gathered in and so perhaps the effects of the tax.

d. Administrative Efficiency: Only those who regard the duty of the tax system as being to confiscate wealth in order to provide employment would be happy with a tax whose administration costs exceeded the tax yield. There is the further problem of compliance cost. A good tax structure must take into account many factors: the effects on economic incentives; its fairness as between persons of similar taxable capacity; its effects upon distribution between rich and poor, whether it is compatible with desirable international economic relations and its simplicity, ease of understanding and absence of excessive administration cost. Abdulrazaq, M.T. FCTI (2005).

2.2.1 DIRECT AND INDIRECT TAX

At first, it appears to be easy to differentiate between taxes that are direct and those which are not. This however is not easy. Bhatia (1993) concurs. "... The distinction between direct and indirect taxes is not always a satisfactory or consistent one.

One method of distinguishing between the two forms has been in terms of the incidence of tax and the impact of taxation. A number of economists and tax experts however disagree with such a basis for

distinguishing between direct and indirect taxes because it is obvious that such a distinction is not easy to maintain, especially because in some cases, the incidence of the tax may shift partly and in some cases fully or even has been observed to differ in the cases of the same tax over a time.

> *"According to Mill, "A direct tax is one which is demanded from the very person who, it is intended or desired, should pay it. Indirect taxes are those, which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of the other; such as the excise or customs. The producer or importer of a commodity is called upon to pay a tax on it not with the intention to levy a particular contribution upon him, but a tax through him the consumers of the commodity, from whom it is supposed that he will recover the amount by means of an advance in price."*

This distinction has become less clear as the real incidence of taxation has been explored by economists. Thus some researchers suggests that the taxation of profits of companies results in the shifting of that tax on to customers or employers of the company; such a tax has however been classified as direct. This is because

courts, such as the Privy Council on appeals from Canada, have paid attention to that part of Mill's formulation, which emphasized the intention and expectation that the tax would be shifted. There is thus a fundamental distinction between the economic recoupment of a direct tax and the simple passing on (often in the form of a straight percentage of the price) which is the hallmark of an indirect tax; between the recovery of a direct tax by a more or less circuitous operation of economic forces and the passing on of a tax in recognizable form. In applying this distinction the courts will treat a tax as direct notwithstanding that actual payment may be enforced against some intermediary so that income tax on employment income is not the less direct because the employer must deduct tax.

In respect of this, Bhatia (1973) offers a convincing argument in favour of his basis for distinguishing between the taxes. He says the distinguishing factor between direct and indirect taxes on the basis of the coincidence is not the only one available. In economic literature, we also come across many other bases of this distinction. For example it has maintained that while taxes on production are direct, those on consumption are indirect. Similarly it has also been

claimed that taxes on income are direct but those on expenditure are indirect. It would be noted that these types of distinctions do not have a sound economic basis. For example, why should we tax on production direct and that on consumption indirect? Both are two important activities in the economy and one cannot be sustained without the other. Similarly, to distinguish between taxes on income and that of expenditure would be equally faulty and more so when we notice that in terms of flow of funds in the economy, receipts and expenses are two dimensions of the same activity. If we want to have an economic basis for distinction between direct and indirect taxes, then plausible approach would be to maintain that. In the case of direct taxes the liability is determined with direct reference to the paying ability of the taxpayer, while in the direct tax because the paying ability is assessed directly in relation to the income of the 'assessee' assuming that such an income is a true indicator of his tax paying on the ability. On the other hand, VAT is an example of an indirect tax. VAT is taxed on the consumption of goods and services and its liability is determined by indirect assessment of the taxpayer's paying ability.

However, it should be noted that the divide between the two types of tax is not absolute. Indirect taxes may affect the cost of living and so be taken into account when fixing tax threshold levels.

Indirect taxes are also of interest for the light they shed on social attitudes. It has been observed that it is generally a feature of the civilized world that the most unacceptable vices are punished by imprisonment or worse, the somewhat less serious by fines and the most venial by heavy taxes. It is possible to dismiss the idea that an Erewhon-like reversal of attitude might take place, so that for example sales of tobacco and alcohol will render the vendor liable to imprisonment, whilst excise will be imposed on soft drugs and the use of brothels- as well as income tax on the proceeds of both.

2.2.2 INDIRECT TAX

The Oxford English Dictionary defines an indirect tax as one which is “not levied directly upon the person on whom it ultimately falls, but charged in some other way, especially upon the production or importation of articles of use or consumption, the price of which is thereby augmented to the consumer, who thus pays the tax in the

form of increased price". The economic analysis contained in this definition is shaky and in general such a distinction cannot be made.

Nevertheless, many people do; indeed, it has almost become part of the conventional political wisdom of Nigeria that the tax structure relies too much on direct taxation especially income tax and too little on indirect taxes. In a period of inflation, a progressive income tax taxes an ever-increasing proportion of real incomes while the real yield of indirect taxes (which are in many cases levied as fixed monetary amounts) declines. This shift has not been intended, and it reinforces the case of indexation, which is the only way in which inflation can be prevented from accidentally bringing about changes which no one wants to bring about by design. So it is not surprising that the balance of direct and indirect taxation should now be a subject of attention. But some of the reasons which people have for believing that the present balance of direct and indirect taxation is wrong are bad ones. One is that it is thought that the disincentive effects of high rates of direct taxation can be reduced or avoided by a shift to indirect taxes. This argument is quite simply false. The hope that the disincentive effects of high marginal rates of taxation can be

reduced by recasting direct taxes as indirect is therefore quite cynical. One cannot remove the disincentive effect of high marginal rates of taxation can be reduced by disguising them under a different name. What matters is the relationship between take – home pay and prices in the shops and this seems to be understood much better by the ordinary person than by many tax experts. There are, however, two possible grains of truth in these arguments. One is that people may be more resentful of the fact that over half of the product of their extra effort goes in tax if this fact is intimated to them on their pay-slip than if the same money is extracted by the shops in a slightly more roundabout way, and that this resentment itself leads them to do less work that people are willing to deprive themselves if they can also see that they are simultaneously depriving the taxman. Some people may have this psychological make-up, but a social survey found more people cited high prices than high taxes as an adverse influence on their incentive to work, and it is a weak argument for a particular tax structure that it would help to conceal the realities of the tax system from people who have pathological views about it.

The second point is that indirect taxes are generally less progressive than direct taxes, mainly, though not entirely, because there is a threshold of income, which is exempt from income tax while all expenditures, however small are vulnerable to indirect taxation. This means the marginal rate of income tax is generally substantially above the average rate; while for indirect taxes there is little difference between the two. These indirect taxes can yield the same revenue from lower marginal rates, and hence distinctive effects (which depend on these marginal rates) would be reduced if this were done. This argument is perfectly valid, but it rests on the reduction in progressivity, not on the shift in the structure of taxation, and this reduction could equally well – and more honestly- achieved by altering the rates of direct tax than by changes to different kinds of tax. Abdulrazaq, M.T. FCTI (2005).

The second bad argument for preferring indirect to direct taxes suggests that the former are voluntary in a sense in which the latter are not: this notion is reflected in an older terminology which distinguishes ‘escapable’ and ‘inescapable’ taxes. It is true that any particular indirect tax can be avoided by any particular individual who

chooses not to consume the taxed good. But it is also true, given that a certain amount of revenue is required, that taxes in general cannot be avoided by individuals in general. So an 'escapable' tax leaves the person who escapes it worse if – since he would have preferred, in happier circumstances, to have consumed the good which is taxed- and it makes everyone else worse off too, since it requires a higher rate of tax on those who continue to consume the good. Thus the tax structure to which this argument would lead is the worst possible in terms of economic efficiency – it maximizes the welfare loss, which is additional to the basic and inescapable burden of the tax.

2.2.3 PRINCIPLES OF INDIRECT TAXATION

What then would an efficient system of indirect tax be like? A first principle is that there should be no taxes on intermediate goods, which are sold to other producers rather than to final customers. Taxes on things must of course ultimately be paid by people, so that levies on producers must finally be borne by taxpayers generally in one capacity or another, as consumers, workers, or owners of firms. Hence the imposition of taxes on producer goods does not reduce the tax burden in any way; in fact it will actually increase it by inducing

producers to make different and (from a social viewpoint) less efficient choices of inputs. Essentially, the principal objectives for indirect taxes- raising revenue, achieving some distributional aims, or encouraging or discouraging particular consumption patterns- can all be more efficiently achieved by the imposition of taxes on final goods alone. The burden of indirect taxation should therefore be confined to final goods; how should it be distributed among them? Economic efficiency requires that indirect taxes should be cast so as to minimize the distortion of consumer choice involved- that as far as possible, the revenue should be raised without diverting taxpayers into less preferred patterns of consumption in their (collectively unsuccessful) attempts to avoid tax.

2.2.4 MERITS AND DEMERITS OF INDIRECT TAX

The merits of indirect tax include:

i. They are less inconvenience and therefore less burdensome. This is because as one is paying for goods and services enjoyed. The amount of tax is in the amount paid.

ii. The instance of tax evasion are less because as we stated above, it is included in the amount paid. If one wants to

evade the tax, then it means avoidance of that particular good or services.

iii. Indirect taxes are flexible that makes them versatile and selective policy tool. Their rates and coverage can be quite selective and more readily modified so suite the occasion. However, it has the following demerits.

i. Indirect taxes are unjust to the poor because the nature of indirect tax allows it to be spread or cover items that are essential and purchased by both high and low income earners. In this way the rich or high income earners pay smaller part of their income as when compared to that of the poor or low-income earners.

ii. Indirect taxes lead to slight increase in prices and services, which could lead to inflation. Abdulrazaq, M.T. FCTI (2005).

2.3 HISTORY OF VAT AND ITS EVOLUTION IN NIGERIA

The adoption of VAT as a comprehensive form of tax started in France in 1954, in the wake of the Network report on tax harmonization, the other European Common Market Countries (ECMC)

agreed to adopt such a tax. On the first of April 1973, VAT was introduced in Britain. The table below states some other countries operating VAT, the date of introduction and also the forms of taxes replaced.

	COUNTRY	DATE OF INTRODUCTION	TAX REPLACED	VAT RATE (%)
1.	Agrentina	January, 1975	Wholesale tax	16
2.	Austria	January, 1971	Cascade Wholesale tax	16
3.	Belgium	January, 1973	Cascade Wholesale tax	18
4.	Bolivia	November, 1973	Multistage ring system	15
5.	Brazil	January, 1967	Cascade tax on sales	15
6.	Chile	March, 1975	Turnover and luxury tax	20
7.	Columbia	January, 1965	No previous ring system	10
8.	Costa Rica	January, 1975	Multistage ring system	10
9.	Cote D' Ivoire	January, 1960	Manufactures tax	8
10.	Denmark	July, 1967	Wholesale tax	10
11.	Dominican Rep	November, 1983	No Previous sales tax	6
12.	Ecuador	August, 1970	Turnover tax on mining	10
13.	France	January, 1968	Less sophisticated VAT	25
14.	Germany	January, 1968	Cascade retail tax	10
15.	Greece	January, 1987	Turnover tax	36
16.	Guatemala	August, 1983	Duty on sales and import	7
17.	Haiti	November, 1982	Seventy-nine excises	7
18.	Hondruras	January, 1976	Single- stage ring system	3
19.	Hungary	January, 1988	Production and turnover taxes	25
20.	India	April, 1985		12.5
21.	Indonesia	April, 1985	Manufacturing ring system	10

22.	Ireland	November, 1972	Wholesale and retail sales tax	21
23.	Israel	July, 1976	Various sales tax	8
24.	Italy	January, 1973	General and local govt. sales tax	18
25.	Japan	April, 1989	No sales tax	6
26.	Korea	July, 1977	Eight sales tax	10
27.	Luxemburg	January, 1970	Cascade sales tax	8
28.	Madagascar	January,1969	Cascade production	12
29.	Mexico	January, 1980	Revoked 18 selected sales taxes	10
30.	Morocco	January, 1962	Cascade production tax	30
31.	Netherlands	January, 1962	Cascade wholesale	12
32.	New Zealand	May, 1986	Wholesale tax	10
33.	Nicaragua	August, 1978	Multistage ring system	6
34.	Niger	January, 1986	Cascade manufacturing tax	18
35.	Norway	January, 1970	Sales taxes	20
36.	Panama	January, 1976	No sales tax	5
37.	Peru	January,1973	Stamp duties	20
38.	Philippine	January, 1988	Eight sales and stamp duties	10
39.	Portugal	January, 1986	Single stage wholesale tax	30
40.	Senegal	March, 1961	Manufacturing Vat	20
41.	Spain	January, 1986	20 different sales tax	33
42.	Sweden	January, 1969	Retail sale and capital good tax	11
43.	Taiwan	April, 1986	Retail tax and stamp duties	5
44.	Turkey	January, 1985	Eight production taxes	10
45.	United Kingdom	April, 1973	Multi-rate wholesale	10
46.	Uruguay	January, 1963	Cascade turnover tax	14

SOURCE: Ogundele, E.A. (1996)

It is important to note here that the first developing country to impose VAT was Brazil in 1967 and also the early emergence of VAT

in Africa was as a result of colonialism, especially in the French speaking countries like Senegal.

In Nigeria, the introduction of VAT was as a result of the activities of the International Monetary Fund (IMF) and the World Bank, which was aimed at helping Nigeria to increase its non-oil revenue. It was suggested to replace the existing sales tax.

In the furthermore of the tax reforms, the Federal Government set up two study groups n 1991. One set up by the Federal Ministry of Finance and Economic Development to study and make recommendations on direct tax reforms. The other formed on indirect tax by the ministry of Budget and Planning, which was headed by Dr. Sylvester Ugoh. This study group was followed with the establishment of modified Value Added Tax Committee (MVAT) under Mr. Emmanuel Ijewere in 1992, which was to prepare the preliminary grounds for their take-off of the tax. It was finally introduced in 1994 through the promulgation of Value Added Tax Decree 102 of 1993 (VATD). Ogundele, E.A. (1996).

2.4 NATURE OF VAT

VAT is a multistage consumption tax levied on the difference between a firm's sales and the value of its purchased inputs used in production goods. Once it is a consumption tax, it is relatively easy to administer and difficult to evade.

The yield from VAT is a fairly accurate measurement of the growth of an economy since purchasing power (which determines yield) increases with economic growth. VAT is a self-assessment tax that is paid when returns are being rendered. Built in this tax is the refund or credit mechanism, which culminates the cascading effect that is a feature of the retail sales tax.

The basic principles of VAT are simple. A supplier, manufacturer, seller or producer of VATable goods or services returns a percentage of the price he charges his customers to the VAT directorate at regular intervals. This percentage is the VAT rate which is 5%. This is called output tax. If the seller has paid VAT on the VATable goods and services when he purchased them for resale or as intermediate input in his production business, then the VAT paid by him is input tax. In this situation, the VATable person expected to

deduct his input tax from output tax before remitting his tax to the directorate. But if the input tax is greater than the output tax then the VAT directorate is liable to repay him for his claim.

As taxable goods and services move from person to another in the production chain till the final consumer, each VATable person in the chain pays input tax when he buys and charges output. When he sells his products and pays the difference between the two as stated earlier. The final consumer then pays the total tax burden.

Naiyeju (1996), identified certain specific inherent characteristics of VAT. Some of these characteristics are:

1. **BROAD BASE:** VAT has perhaps the broadest base in tax history. In most countries, it applies to 'both public and private consumption thus reducing the disadvantage associated with tax holidays. Also private individuals and developing countries are in one way or another compelled to pay VAT.
2. **SHIFTING:** The incidence of the tax is shifted forward or dissolved in successive stages so that at the end it is final consumer that pays the tax. Since the elasticity of both

demand and supply determines the degree of tax, shifting this quality of VAT prevents the substitution effect associated with direct taxes on income and profits. It thus induces the taxable business person to pay tax while encouraging the production and distribution of the taxable items as if no tax has been imposed on them.

3. **ADAPTABILITY:** The tax is flexible and has been variously adapted to the political and economic realities of different countries. For instance in developing countries, essential goods and services are exempted from VAT so as not to hamper them, while in developing countries, such goods and services are taxed.

4. **PAPER WORK:** The operation of VAT involves a lot of paper work. Return forms, registration forms, tax, invoices etc.

5. **EXPORT REBATE:** It is a main characteristic of VAT to zero rate export i.e export has a tax rate of zero percent. The taxpayer is consequently entitled to a refund of whatever amount he might have paid as input VAT.

6. **FAVOURABLE RATE:** The tax rate of VAT when compared to other taxes is relatively low for example, Nigeria's VAT rate in 1994 was 5% while the rate of company income tax was 35% and personal income tax was 30%. VAT rate remains 5%.

2.4.1 TYPES OF VAT

There are three types of VAT. The basic difference between them lies how the purchaser of new capital inputs (example Plants, equipment etc) is treated in the determination of tax base. The types of VAT are:

(i) Income VAT

The tax paid on purchase of capital inputs is amortized against the firm's VAT liability) over the expected lives of such capital inputs.

(ii) Consumption VAT

Under consumption VAT, capital purchases are treated like purchases of any other inputs. This treatment of capital inputs is equivalent to expensing.

(iii) Gross Production VAT

Under the Gross Product VAT, no 'deduction of tax input or 'capital purchased is allowed against the firm's output tax: in other

words, the taxable firm is treated as the final consumer of all it's capital inputs. The tax paid on capital input is treated 'as part of cost of that capital input thereby reducing the problem of cash refunds. This is the type of VAT in Nigeria.

2.4.2 RATES OF VAT in Nigeria

There are only two rates of VAT, 5% and zero rated. Zero- rate is the rate on all exported items that is to say that there is no charge of tax on items exported thereby encouraging exportation, which would assist or help the development of local industries.

The 5% rate is charged on all VATable items. Its only advantage is that it makes administration easy. But when compared to the other system of VAT i.e the multiple VAT rates (where there are various rates for different goods and services), it is noticed that the multiple rates is a better tool for controlling the economy because each category of VATable goods and services would have its own percentage thereby making VAT less regressive.

2.4.3 GOODS AND SERVICES EXEMPTED FROM VAT

There are particular goods and services that are VATable items. They are divided into seventeen categories of goods and twenty- four

categories of services. Those not in the above categories are exempted from VAT and these are divided into two part.

Part 1: Goods exempted

1. All medical and pharmaceutical products.
2. Basic food items
3. Books and educational materials
4. newspapers and Magazines
5. commercial vehicles and their spare parts
6. Fertilizer, locally machinery and farming transportation equipment.

But in 1999 budget, items numbered four and six were removed from the exempt list.

Part 11: Services exempted

1. Medical services
2. Services rendered by commercial banks, people's banks and mortgage institutions.
3. Plays and performance conducted by educational institution as part of learning.

2.4.4 VAT ON IMPORT

Unlike export, VAT is charged on non-exempted goods and services into Nigeria irrespective of whether or not these goods and services have attracted custom duties or whether the person importing these goods and services has registered for VAT.

All commercial importers are regarded as making supplies for consideration in Nigeria, either by selling the goods or using them as raw materials for production and must be registered under normal rules. He is to register when his first consignment is cleared at the port for entry purpose. Unregistered persons cannot claim VAT paid at importation.

2.5 ADMINISTRATION OF VAT IN NIGERIA

Ijewere led the committee that made a feasibility study on the introduction of VAT that recommended that it could be administered by an independent commission, opinions of which included the customs department, income tax department or a separate commission. The ‘government however rejected the suggestion in favour of a directorate in the Federal Inland Revenue service (FIRS).

The VAT directorate is the sixth department in the FIRS. The power of the FIRS in this regard is 'backed by section 7 of the 'VAT Degree of 1993. Its head office is located in Abuja with 8 zonal offices in Lagos (Lagos Zone). Kaduna (North East Zone). Abuja (Central Zone), Jos (Middle-east Zone), Enugu (Eastern zone), Port Harcourt (Southern-eastern zone), and Ibadan (Western Zone). These zonal offices exert supervision and control over group of local VAT offices (LVO) under zonal jurisdiction. And the zonal coordinator reports regularly, the activities and performances of the LVO to the VAT Director in Abuja.

VAT as stated above administered by FIRS and is collected through FIRS and its agents of which the Nigeria Customs Service (NCS) can be said to be the largest of the agents as it is empowered to collect VAT imports at all borders ports of Nigeria.

2.5.1 REGISTRATION

Section 8 of the VAT Decree now Act states that a manufacturer, wholesaler, an importer or a supplier of taxable goods or services shall within six months of commencement of the decree or within 6

months of commencement of the business whichever is earlier-registered with the board for the purpose of tax.

A taxable person who knowingly or intentionally fails to registered under 'this decree' is guilty of an 'offence and liable to pay ₦10,000 in the 1st month and ₦5,000 in the other months of default. The premises where the business is carried on shall be sealed up, if the default persists.

Registration carries with 'it the right to charge VAT on VATable supplies, so if a firm has not registered with the FIRS, it cannot charge output tax on its customers or claim input tax suffered on supplies consumed in its business. And if the FIRS discovers that any company or firm has not been registered, it would proceed to work out the output tax on his products since the time he became liable to be registered by treating the prices of his product as VAT inclusive. In such circumstances, the unregistered person won't be allowed to reclaim input tax suffered by him.

2.5.2 SHARING OF VAT PROCEEDS

There have been a number of sharing formulas that have been used by the government to distribute VAT revenue to the various tiers

of governments. This formula is applied on the total amount generated in the country. Below is a table showing the various formulas that have been used in Nigeria since the introduction of VAT.

YEAR	FEDERAL GOVERNMENT (%)	STATE GOVERNMENT AND FCT (%)	LOCAL GOVERNMENT (%)	TOTAL (%)
1994	20	80	-	100
1995	40	35	25	100
1996	35	35	25	100
1997	35	40	25	100
1998	25	45	30	100
1999-2003	15	50	35	100

SOURCE: Central Bank of Nigeria (2003)

2.5.3 VAT ACCOUNTS AND RECORDS

Each VATable person is required to 'keep proper records and books of all transactions, operations, imports and activities sufficient enough to 'calculate the correct amount of VAT payable. These records and books include cashbooks/Sales and purchases day books, ledger accounts, balance sheet among others. This is 'in compliance with section 9 of the VAT Decree, which states that a person who is registered under section 8 of this degree shall keep such records and books of transactions, operations, imports and other activities relating

to taxable goods and services as are sufficient to determine the correct amount of tax due under the degree.

Specifically for VAT purpose, tax invoices are to be issued for all supplies and VAT accounts are to be kept on or before every 14th of the month 'following that sales of VATable persons is expected to render a return to the VAT office. Thus, every VATable person needs to keep records of all supplies made and received so as to be able to pay the net VAT due to the LVO or claim a 'refund' if tax is owed him.

A salient feature of VAT is its ability and promptness in making refunds as and when due. It is the right of the VATable person to demand for a VAT refund where the input tax genuinely exceeds the output tax for a transaction period. A refund is also available for VAT paid on Zero-rated goods and services. VAT refund can be claimed either by credit method, direct cash refund or both.

The FIRS opened accounts in the branches of the Central Bank of Nigeria (CBN) where VAT offices are located or any designated bank where there is no CBN branch office. Through this, money is transferred weekly to the pool account at the CBN headquarter. This

minimizes delay in the refund process and most especially checks fraud.

2.5.4 VAT AUDIT AND VAT INVESTIGATION

VAT Audit and investigation are carried out where there is/are proven or suspected cases of VAT evasion or fraud or artificial transactions. VAT audit and investigation is to be instituted on a regular basis by the headquarters. It involves checking both the VAT officers and VAT payers' records to ensure strict compliance with the law and accountability of VAT collected.

VAT returns are 'subjected' to what is called "desk audit" by the tax inspectors in the LVO where returns are filled. If the inspectors discover any abnormalities or sharp practices, such cases may be referred for a full audit or investigation. Trained officers equipped for the job perform the audit. They have the work of thoroughly looking into the records and books of the firm to ensure that things are done in the right way. If they feel the job is more than the can cope with, the case would be referred for an investigation.

2.6 VAT AS REPLACEMENT OF SALES TAX

Sales tax is an indirect tax levied on luxury goods and services governed by the Federal government. Sales Tax Decree number 7 of 1986 sought to unify and stream line the operations throughout the country. VAT is a form of indirect tax that is distinct from sales tax in the sense that the more you consume the more you pay. It is not levied on luxury goods only.

The introduction of VAT to replace sales tax has increased yield of different tiers of government. This is because of the following:

(a) VAT has broader base than sales tax: the base of sales tax covered nine categories of goods plus sales and services in registered hotels, motels the fundamental principles of consumption tax, which by nature is expected to cut across all consumable goods and services. VAT's base is broad, cutting across consumable goods and services, which also include most professional services and banking transactions which are high profit generating sectors thereby greatly increasing revenue generation.

(b) Under sales tax, only manufactured goods were targeted by the decree of 1986 although this might not have been the intention

of the law. On the other hand, VAT is targeted both on local and imported goods thereby not placing locally manufactured goods at a disadvantage to the imported ones.

(c) Since VAT is based on the general consumption behaviour of the people, the expected high yield from it will boast the fortunes of the state' government within minimum 'resistance from the payers of the tax. Ogundele, E.A. (1996).

2.7 SUMMARY

Taxes are known and have been seen in this chapter to be good economic tools, which the government can use to regulate the economy. For example in highly inflationary economy, taxes will be increased so as to reduce the amount of money in circulation.

In line with the numerous use of taxes, IMF and the World Bank advised the Nigeria government to reduce its dependence on the oil revenue and look else where which later resulted in review of the then existing tax system that led to the introduction of VAT.

VAT is a consumption tax, which has virtually a single rate of 5%. Virtually because the other rates is the Zero-rate which is not

exactly a rate but more or less an exemption of all exported items. This encourages exportation and development of local industries.

The FIRS is the administrative body in charge of VAT. It also works with Federal Parastatals, Nigeria customs service etc. Other importation issues concerning VAT include registration, VAT audit, investigation, records and accounts.

Another important aspect of VAT in revenue generation is the sharing formula of which there have been several modifications since its inception among the three tiers of government i.e Federal, State and local governments.

Finally, VAT was compared to sales tax that it replaced, and other direct taxes. This was to show and understand some of the issues government took into consideration before adopting VAT irrespective of some disadvantages it poses.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 DESCRIPTION OF RESEARCH METHODOLOGY

All factual knowledge that is ascertained by research may be grouped in terms 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. Osuala (2001) says, “Survey research studies both large and small group of population by selecting and studying samples chosen from the population to discover the relative incidence, distribution, and interrelations of sociological and psychological variables.

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 in which the sample was drawn is reached. Sampling is taking any portion of population as representative of that population. Osuala, E.C. (2001).

Survey researcher 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; sample drawn at random is unbiased in the sense that no member of the population has any more chance of being selected than other member. Osuala, E.C. (2001).

Survey methods are particularly adaptable and practical especially for the administrator, in the sense that, they identify present conditions and present needs- they do not provide the decisions for the administrator but can make available to him information on which to base sound judgments 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 employed 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 convenience 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. Osuala, E.C. (2001).

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 interview or 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 section can be analysed according to information in the first. In using the questionnaire, more often than not, the tendency is always to cover too much, to ask

every thing that might turn out to be interesting. Kelinger, F.N. (1953).

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. Combination of both the open and closed questions are used for this research study. While the open questions possess greater flexibility and the respondent is given more leeway in deciding the aspect, detail and length of this 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. Osuala, E.C. (2001).

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 and the researcher is referred to the VAT Directorate

Headquarter in Abuja. In such instances 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 as such raw data will the research problem be answered and the hypotheses tested. The process of analyzing raw data consists of the statistical calculations performed with the raw data to provide answer to the enquires that initiated the investigation. The interpretation entails taking the results of the analysis and

making inferences pertinent to the research questions. Studies and conclusions are drawn about these co-relations. Recommendations are then offered in line with the existing reality. Osuala, E.C. (2001).

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 Kerlinger (1953), 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 hypothesis 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 incorrect. The basic method to 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 supposed to have an effect on the revenue obtained from VAT, which is the dependent variable;

ii) That the potential 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 problems before the project can be started (in an effort to test hypotheses). The fundamental problems being, whom to study, what to observe, and how will data be collected.

In the first hypothesis, we are interested in valuating the performance of VAT administration in Nigeria from 1994-2003. Also, what will be 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 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 survey. Having solved these fundamental problems 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 in turn provide us with a better insight of the subject of our study.

3.2.1 POPULATION OF THE STUDY/SAMPLE SIZE

The population of this study covers all the seven zonal offices of the Federal Inland Revenue Service spread across the country. These are North Central Zone, North East Zone, North West Zone, Western Zone, Eastern Zone, Lagos Zone and the South South Zone. In view of the fact that all the records of VAT proceeds are consolidated at the Headquarters of the Federal Inland Revenue Service in Abuja, the study captured the entire proceeds from VAT for the relevant under review (1994-2003).

3.3 DATA COLLECTION METHODS

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 proving the necessary data that would proffer solutions to his problem, if any circumstances exists that would render the collection of data impossible, arriving at any solution to the problem also becomes impossible. 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 Nigeria. The tools used to generate these information consist mainly of the administration of questionnaire and personal interviews to respondents, and occasionally telephone conversations were used. Bearing in mind that return rate of the responses might not be one hundred percent, a total of 200 questionnaires were distributed to respondents in Abuja, Maiduguri, Kaduna, Jos, Bauchi and Taraba State. The questionnaires were administered principally to respondents who are directly involved with the administration of VAT; personnel of the FIRS, Zonal VAT offices, SSLVO, SIRS, VATable persons and organizations.

Follow-up on respondents to shore up the percentage of returns was carried out. This indeed improved a great deal of the response rate. The questionnaires were designed in simple straight forward English using both the opened and closed 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 defined 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 to clarify where responses proved inadequate.

A telephone survey 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 crosscheck the information by comparing the information with other sources of information.

3.3.2 SECONDARY DATA

Sometimes data may be generated for some other purposes, which a researcher may find useful for is 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. 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 “Economic and Financial Review”.

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

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

3.4 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 prohibition of cost, time, personnel, or scope.

Sampling entails taking any portion of a 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 on the basis of variables significantly correlated with the dependent variables.

Questionnaire administration and interview were conducted within a sample of the population. A population of 200 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, and commercial banks where payments for the tax are made. A sample of 100 units was drawn from this stratum.

ii) Duly registered and not registered VATable business organizations, 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 were VAT matters;

where such formalized schedule of duty does not exist, whoever felt competent enough to provide answers to questions raised was welcomed.

3.5 METHODS FOR DATA ANALYSIS AND INTERPRETATION

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 result of analysis and making inferences concerning the research related observations, 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 the assumptions in the hypotheses were correct or incorrect.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

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 evaluating the performance of VAT in Nigeria, 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 evaluate the performance of the tax, we analysed the process of administration of VAT in the country; 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 Nigeria. 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 QUESTIONNNAIRE ADMINISTRATION AND ANALYSIS

Two sets of questionnaires, each containing sixteen questions, were administered to two categories 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 continuum: Strongly Agreed (SA), Agreed (A), Undecided

(U), Disagreed (D), and Strongly Disagreed (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 hypotheses tested, such as, how effective has the administration of VAT in Nigeria 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 greater 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. Furthermore, 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, presented accordingly. For testing the hypothesis, each hypothesis was presented one after the other and the responses from VATable persons were first presented and analysed after which the responses of tax officials were presented and analysed. This method was employed because separate questionnaires were designed and administered to each group.

The simple average means and percentages were used for the computation and analysis of primary data. In computing the means 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 became A, and SD and D became DA. Total of 200 questionnaires were administred to

the two groups of respondents; a total of 128 responses were returned representing 64 percent of the total number of questionnaires administered, whereas 72 questionnaires were not returned representing 36 percent. To the first category of respondents (VATable persons), a total of 100 questionnaires were administered, 70 of them were filled and returned, this represents 70 percent of the total questionnaires administered to this group. The second group (Tax official) had 100 questionnaires administered to it and the number of responses was 58 representing 58 percent of the total number of questionnaires administered to this group; 42 respondents or 42 percent did not respond. To ensure that the survey did not limit itself to a few VATable goods and services; efforts were 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 from WASC, OND, Advance diploma, postgraduate diploma, HND, Bachelors and Master degree. They were of varied marital status.

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	70	70
VAT officials	100	58	58
Total	200	128	64

Source: Field Survey, 2002

4.2 TEST OF HYPOTHESIS

The hypotheses tested were:

1. Ineffective administration in response to the list of VAT revenue;
2. Low motivation of tax officials and taxpayers hinder effective administration of VAT; and
3. 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 wanted to identify if VATable persons had any problems with the administration of VAT. The result is presented below:

TABLE 4.2: PROBLEMS WITH ADMINISTRATION OF VAT

Value of table	Frequency	Percentage
Yes	47	67.1
No	13	18.6
Undecided	10	14.3
Total	**70**	**100**

Source: Field Survey 2001

From table 4.2 there exists a strong favourable responses that tax administration has not been very effective, this is so because actual responses of 67.1 percent of the 70 respondents agreed that there existed one problem or the other. Only 18.6 percent disagreed (simple percentage is used because of the 2-points scale).

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 out if taxpayers file their returns regularly and as when due, and what action(s) is/are taken against them in default.

The table below presents their assessment.

Table 4.3.1: How VATable Persons filled their Returns

Value of Table	Frequency	Percentage
Regularly on due dates	29	41.4
Irregularly	41	58.6
Total	**70**	**100**

Source: Filed Survey, 2001

Table 4.3.2: Assessment of Whether Penalty was imposed

Value of table	Frequency	Percentage
Never default	21	30
Compromise when in default	36	511.4
Penalty automatically imposed	13	18.6
Total	**70**	**100**

Source: Field Survey 2001

Table 4.3.2 indicates that 30 percent of the respondents said they have never been in default to warrant imposition of penalty; 51.4 percent of them agreed that some forms of understanding is reached to accommodate the defaulting taxpayers. However, when this data is juxtaposed with that in table 4.3.1, conclusion drawn is

that, even though 58.6 percent of the total number of respondents were in default to the tax, only 18.6 (table 4.3.2) of the sampled population have indicated that penalty was automatically imposed; 51.4 percent of the respondents said some compromises were reached including instalmental payments. As a follow up, as to why there existed the problem of understanding which limits effective enforcement and also that the VAT tribunal has still not been established, as this will ensure swift penalties 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.

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?

Value of table	Frequency	Percentage
SD	5	7.1
D	28	40
U	6	8.6
A	16	22.9
SA	15	21.4
Total	**70**	**100**

Mean of scale =3

Observed mean =3.26

Source: Field research, 2001

Again, here too, the mean observed is 3.26 which is >3 (the mean of scale) so we accept the hypothesis. Furthermore, the findings presented in table 4.4 indicate that in spite of the discontent shown with the administration of VAT, 47.1 percent of the respondents were not disposed to the idea that a separate and autonomous body should be established to administer VAT (this position was taken by most of the respondents for fear of the magnitude of amount obtainable from VAT to be controlled by private individuals), they however called for various measures put in place to remedy the observed lapses. 44.3 percent of the respondents out rightly agreed that a separate 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, because the Service is not an autonomous body and always seeks permissions/approvals from the Federal Ministry of

Finance that is headed by a Minister who is mostly a politician before any decision could be implemented.

Test of hypothesis number one (VAT officials)

This set of respondents were asked to indicate whether or not they had encountered any problems with the administration of VAT. The results were presented in the table below:

Table 4.5.1: problem of administration of VAT

Value of table	Frequency	Percentage
Yes	49	84.5
No	9	15.5
Total	**58**	**100**

Source: Field Survey, 2001

Table 4.5.2: Various Problems of Administration Encountered

Value of table	L.O.U	P.F.A	L.R	L.B.K	L.R.T CBN	TOTAL
Frequency	9	11	18	6	5	49
Percentage	18.8	21.9	37.5	12.5	9.4	100

Source: Field Survey 2001

In table 4.5.1, majority of the respondents at 84.5 percent admitted to having met with some difficulties in their encounter with the system of VAT administration. Of this 84.3 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 received to the Central Bank of Nigeria by designated commercial Banks respectively.

Tax officials were further in question 4 and 6 asked 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 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 principles 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	52	6	0	58
Percentage	0	7	10.3	0	100

Source: Field Survey, 2001

Result from the above indicates that not only is emphasis placed on collection (89.7 percent feel so) in the administration of VAT. Little or no attention is placed on the other instruments. Result obtained from question reaffirmed this position. The question was design to ascertain whether penalties were automatically imposed on the defaulters – the response is tabulated below:

Table 4.7: Are penalties imposed automatically?

Value of Table	Frequency	Percentage
Yes	20	34.5
No	38	65.5
Total	**58**	**100**

Source: Field Survey, 2001.

The above table shows that 65.5 percent of the respondents in this category affirmed that penalties are not immediately imposed.

From the result of two groups of respondents therefore, it would be safe to say that 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 states that, “low motivation of tax officials and taxpayers hinder effective administration of VAT”. This hypothesis was tested using data obtained from the same sample population.

VATable persons were asked in question 5,7,8 and 10 to determine if there were motivational measures 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 relate to VAT matters.

Table 4.8: Do you like job that relates to VAT?

Value of table	Frequency	Percentage
Yes	60	85.6
No	10	14.4
Total	**70**	**100**

Source: Field Survey, 2001

85.6 percent of the respondents answered in the affirmative, whereas 14.4 percent 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 to 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 were familiar with any incentive(s) put in place by FIRS to elicit voluntary compliance. All VATable persons (70) who responded answered negatively, that no incentive whatsoever has been put in place in order to bring about voluntary compliance. As a follow up to questions 7 and 8, 47 respondents or 67 percent suggested various incentive schemes they would want established to elicit VAT compliance, whereas 23 of them representing 33 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	5	7.8
Use tax revenue for development projects	17	24.4
Reduce rate	4	5.6
Establish enlightenment unit and do mass enlightenment	14	30.0
Give merit certificate or annual bonuses	6	8.9
Total	**47**	**66.7**

Source: Field Survey, 2001

The above table shows taxpayers do perceive that government has not done anything to make VAT compliance easy, hence the high rate of non-compliance and subsequent loss of revenue. In which case, we should accept hypothesis two as stated. Result from table 4.9 indicates that 7.8 percent of the respondents said most VATable organizations were not registered for VAT and are left unpunished, hence, those that have complied feel cheated and thus their suggestion that penalty be imposed immediately on offenders to bring out compliance; 24.4 percent said tax revenues should be used for development projects which would benefit the masses. 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 felt 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 result 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 three years grace-period for, particularly, small businesses which were exempted from registration and rendering returns within this grace period, that the 30 days 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 funds within the extended period, make some profits, before remitting the principal to government, and exemption of certain goods and services in the VAT Decree is supposed 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 question 7,8 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	47	81.6
No	11	18.4
Total	58	100

Source: Field Survey, 2001

Even though 81.6 percent of the respondents indicated they liked their job, 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 competent work force.

Table 4.11: Wages are low

Value of table	Frequency	Percentage
SA	12	21.1
A	29	50.0
U	6	10.5
D	6	10.5
SD	5	7.9
Total	**58**	**100**

Mean of scale =3

Observed mean = 3.65

Source: Field Research, 2001

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, 73 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 administrative office had competent and properly trained manpower to carry out its assigned functions.

Table 4.12: Tex Personnel are not Adequately Trained

Value of table	Frequency	Percentage
SA	5	7.9
A	28	47.4
U	8	13.2
D	14	23.6
SD	5	7.9
Total	**58**	**100**

Mean of scale = 3

Observed mean = 3.23

Source: Field Survey**, 2001**

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	23	39.5
No	35	60.5
Total	**58**	**100**

Source: Field Survey, 2001

The above table shows that 60.5 percent of tax officials are of the opinion that their work-situations do not provide them with sufficient power-authority effectively with problems encountered in the performance of their duties.

4.2.3 TEST FOR HYPOTHESIS NUMBER THREE

The next hypothesis states that, 'the potential 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 know whether or not revenue obtained from VAT 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 officials. The results to questions 12,13 and 15 were 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	25	36.66
A	21	30
U	16	22.22
D	5	6.66
SD	3	4.44
Total	**70**	**100**

Mean of Scale = 3

Observed mean =3.87

Source: Field Survey, 2001

Results from the above indicate that 66.7 percent of the respondents said VAT revenue obtained 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 'Agreed' 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	34	48.88
A	28	40
U	3	4.44
D	5	6.66
SD	0	0
Total	**70**	**100**

Mean of scale = 3

Observed mean =4.31

Source: Field Survey, 2001

In table 4.15,88.9 percent of respondents to this question were of the opinion that some taxpayers under declare their taxes. The observed mean is 1.31 greater than 3, and pointing towards 'Agreed' so we accept hypothesis three as stated.

Table 4.16: Revenue is lost due to fraud

Value of table	Frequency	Percentage
SA	24	34.44
A	26	53.33
U	7	10
D	2	2.22
SD	0	0
Total	70	100

Mean of scale = 3

Observed mean = 4.2

Source: Field Survey, 2001

Out of a total of 70 respondents, 50 of them (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 also accepts the hypothesis based on this data.

As a follow up to above positions, question 14 was designed to determine what possible reasons respondents have for taking positions they did. Result is as shown below:

Table 4.17: If people do not pay

Value of table	Frequency	Percentage
Yes	62	88.9
No	8	11.11
Total	**70**	**100**

Source: Field Survey, 2001

Table 4.17 indicates that 88.9 percent of the respondents agreed that taxpayers are in default and went ahead to give various reasons why respondents have taken positions they did. They were asked their opinions on why taxpayers refuse to pay or under declare their tax liabilities. Result is as shown below:

Table 4:17.1: Why VAT agents do not remit?

	Value of table	Frequency	Percentage
i.	Misapplication and misappropriation of tax revenue.	20	28.9
ii.	Down turn in the economy and taxpayers desire to maximize their profits	23	33.3
iii	Lack of proper supervision by tax officials	9	13.4
iv	Small nature of businesses with no book keeping practice	10	11.1
v	Lack of understanding of tax totally	8	13.3
	Total	**70**	**100**

Source: Field Survey, 2001

The above reasons according to the respondents account for why the potential revenue from VAT in Nigeria cannot be met.

Test for hypothesis number three Tax officials

This Hypothesis was tested using questions 12,13,14,15. Oral interviews with some Tax officials were also used to gather information. The questions were designated 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 Nigeria is a true reflection of revenue potentials of the country. Their responses 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	24	42
A	21	36.8
D	13	21.1
Total	**58**	**100**

Mean of Scale = 3

Observed mean = 4

Source: Field Survey, 2001

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 personnel gave an example with three companies -UNT PLC, PAN PLC, NNPC- which hitherto 1996 accounted for about half of the VAT collected from Kaduna State but now the story has changed. The official said PAN and NNPC now render returns with heavy claims of input VAT using invoices whereas UNT PLC has paid only paid only once since then. The official said in dealing with such organizations the genuineness of such claims must be clearly examined.

4.3 ANALYSIS AND INTERPRETATION

This study appraised the performance of VAT in Nigeria to show the extent to which it has been able to meet the objectives of government. In measuring the effectiveness of VAT, 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 suggests a lot of attention needs to be directed towards issues relating 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 taxpayers not to avoid the tax. This incentive is achieved by demonstrating to the taxpayers that the system is able to detect potential avoiders and to sanction them. An important support to desistence is court prosecution and penalties – an organization that systematically and severally 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 consists of the three instruments/processes 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 behaviour 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 systems 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, filling 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 cannot expose evasive behaviour or does not produce the data required for prosecution, enforcement will not be able to deliver the deterrence it is supposed to. Similarly, if enforcement does not prosecute fast enough or obtain deterrent penalties once the case reaches the court it will be difficult for collectors to carry out their function – there will 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 levels of supports from its taxed environment. For example, it has been acknowledged in the literature that enforcement alone cannot bring compliance, other factors also count. Compromise is often used when quick settlements are to be accomplished, however, in negotiating a compromise, the auditor/collector or even prosecutor, if not adequately remunerated by the taxing authority, might connive with the delinquent taxpayers and thus getting less money into government coffers. Where tax

officials are adequately motivated unhealthy behaviour on their part is discouraged. Primary data from this survey suggest that there is no provision for compromises or installment 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 indicate that we accept the basic assumptions of all three hypotheses. The study shows that gaps exist 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 tax 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 indicate that there exist some problems with the administration of VAT. 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 taxpayers; lack of sufficient records on taxpayers; and

lack of book keeping practice by taxpayers due to the small nature of their businesses.

The small businessmen, traders, wholesalers and retailers 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 supposed to be involved with VAT, they argue that only big organizations should participate.

From interviews with VAT officials it was discovered that even when organizations register for the tax, they seldom file returns and even when they do such returns are inaccurately filed with bogus claims for refunds. Other VATable organizations out rightly refuse to register; there are also those large conglomerates with headquarters in Lagos and other cities in Nigeria that 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 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 cannot 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 taxpayers 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 payments 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 loses. It is this that informed the call by most respondents that a VAT tribunal be set up 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 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 handled

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 strengthen the administration of the tax so that it can meet with the challenges of its tasks.

We cannot assess 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 complained of inadequate logistical supports 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 they 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 conditions 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 identified; 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 inevitable 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 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 was the case with the Petroleum Special Trust Fund (PTF).

Some organizations complained 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 in turn kept their sales figures down as less people patronize them. With the down turn in the economy, this part explains why some organizations do not remit VAT collected because the volume of sales is declining. Data from these respondents also indicate that a mass enlightenment campaign be organized to bring more people into the tax net.

Furthermore, this study also attempts to examine the effects of VAT on economic recovery in Nigeria. VAT has achieved mush in harmonizing the tax systems. In the course of the study, we discovered that, the framework of VAT in Nigeria appears to permit a comprehensive approach to the taxation of goods and services that hitherto were not taxed under retail sales tax. We found out that the collection of VAT alone in 1994 represented over 390% of the total sales tax collected in the country between 1986-1999. This impressive

performance justified the shift from retail sales tax to the value Added Tax.

Also, we discovered that VAT proceeds have been on the increase since inception and if carefully and judiciously administered, VAT will significantly improve the revenue base of all the three (3) tiers of government in Nigeria. This is shown in the table below:

Table 4. 19: VAT Revenue Collected (N Million)

YEAR	VAT TARGET N000'M	REVENUE COLLECTED N000'M	TOTAL FEDERALLY COLLECTED REVENUE	VAT PERCENTAGE TO TOTAL REVENUE (%)
1996	6,000	7,260.8	201,910.8	3.6
1997	9,000	20,761.0	459,987.3	4.5
1998	15,000	31,000.00	520,190.0	5.95
1999	19,000	34,000.00	582,811.1	5.8
2000	23,000	36,867.7	463,608.8	7.95
2001	28,674	47,135.8	949,187.2	4.97
2002	56,614	65,000	1,686,000	3.9

Source: CBN Bullion (2003)

From table 4. 19 above, it can be observed that VAT revenue collected exceeded the VAT target for the available years. Hence, VAT has fetched more revenue to the government than all other non-oil revenue bodies thereby boosting the Nigerian economy.

Furthermore, we found out that the contribution of VAT to non-oil revenue has been positive. This can be seen in table 4.20. out of ten items that make up the total non-oil revenue to the Federal Government, VAT single handedly is contributing an average of 20% i.e 1/5 of the total revenue is derivable from this source. In other words, the remaining nine items jointly make up of 80% (4/5) of non-oil revenue.

Table 4.20: Contribution of VAT to Non-Oil Revenue

YEARS	NON-OIL REVENUE (MILLIONS)	VAT REVENUE (MILLIONS)	VAT PERCENTAGE OF NON-OIL REVENUE (%)
1996	41.718.4	7,260.8	17.4
1997	135,4397	20,761.0	15.3
1998	151,000.00	31,000.00	20.5
1999	166,000.00	34,000.00	20.48
2000	139,279.6	36,867.7	26.5
2001	210,389.2	47,135.8	22.4
2002	345,600	65,000	18.8

Source: CBN Bullion (2003)

More so, in comparing VAT with other Federal Taxes, Table 4.21 below reveals the relative importance of VAT.

Table 4.21: VAT and other Federal Taxes 1996-2002 (N Millions)

FEDERAL TAXES	1996	1997	1998	1999	2000	2001	2002
VAT	7,260.8	20,761.0	31,000	34,000	36,867.7	47,135.8	65,000
Customs and excise duties	18,294.6	37,364	55,000	63,000	57,683.0	87,906.9	100,000
Company income tax	12,274.8	21,878.3	22,000	26,000	33,315.3	46,211.2	65,000
Petroleum profit tax	42,802.7	42,857.9	76,667.0	68,574.1	67,986.6	164,273.4	242,95.0

Source: CBN Bullion (2003)

From the table above, taking company income tax as another form of the government non-oil revenue, it is noticed that in 1998, the VAT figure collected was ₦31,000 million or N31 billion but exceeded the company income tax which had ₦22,000 million just when VAT was barely four (4) years old whereas the tax in question is over thirty two (32) years old.

Furthermore, a point to note is that, out of all the non-oil sources of government revenues, only VAT has a progressive records from its inception till date. But the others (Oil and Non-oil revenue)

have fluctuating records over time. See table 4.22 below for more analysis.

Calculating the percentage change critically within these federal taxes taking 1996 and 2002 years into consideration, the following are obtainable:

Value Added Tax

$$\frac{65{,}000 - 7{,}260.8}{7{,}260.8} \times 100 = 446.6\%$$

Customs and excise duties:

$$\frac{100{,}00 - 18{,}294.6}{18{,}294.6} \times 100 \times 100 = 446.6\%$$

Company income tax:

$$\frac{65{,}000 - 12{,}274.8}{12{,}274.6} \times 100 = 429.6\%$$

Petroleum profit tax:

$$\frac{4{,}950 - 42{,}802.7}{42{,}802.7} \times 100 = 467.6\%$$

It can be seen vividly that the percentage change of VAT cannot even be comparable with the other Federal taxes of which the difference between them is too wide. This is enough to prove that VAT revenue figures have increased since inception till date and will

continue to be on the increase based on the above analysis. VAT proceeds increased by 795.2% as against 446.6%, 429.6% and 467.6% for customs and excise duties, company income tax and petroleum profit tax respectively. VAT contributions to the revenue base of the federal government is commendable and its trend has been progressive.

Judging from the forgoing performance, one can say that the contributions of VAT could have improved if all the categories of goods and services, which attract VAT, have been covered. For instance, the 1998 VAT value is derived in from 21.89% of 58,665 identified VAT paying establishments and if the 78.11% unregistered establishments had been registered by FIRS, the 1998 VAT proceeds would have probably tripled. The same goes for VAT collection from imports and Non-import between 1994 – July 2004. This can be shown in table4.22 below.

Table 4.22: VAT Collection from Import and Non-Import from 1994-July 2004

Years	Import (N)	Non-Import (N)	Total (N)
1994	-	-	8.20B
1995	-	-	20.32B
1996	18.94B	13.53B13.35B	32.47B
1997	20.54B	14.74B	14.74B
1998	19.36B	18.92B	38.28B
1999	21.73B	25.95B	47.68B
2000	29.02B	31.66B	60.68B
2001	47.10B	44.65B	91.75B
2002	48.49B	60.121B	108.60B
2003	59.32B	72.20B	131.42B
2004 JULY	39.42B	50.73B	221.57B

Source: VAT Directorate, Federal Inland Revenue Service (FIRS).

Referring to Table 4.22 above, total VAT collection in 1994 was ₦8,20 billion as against ₦20.32 billion in 1995 which revealed an increment of government revenue of which more funds will be available to better the economy since VAT revenue is specifically for expenditures or project and not for recurrent expenditures thereby a means of economic recovery in Nigeria. Also, from the table, it can be seen that there has been a tremendous increase in VAT collections from import and Non-import between 1994 to date. One reason for

the high yield of VAT is that, it is not easy to evade because most at times one does not even know that he is paying such a tax. Also, it is important to consume than to save and thereby resulting to higher VAT generation.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

While Government particularly those in poor countries may want to make life easier for their citizens by providing more and better health services, educational and communication facilities. It typically fails to meaningfully expand its services because demand grows faster than available resources. The government will usually develop plans for moving away from the state of poverty to a desired state of health; such plans which may seem beautiful and well thought out on paper are often very disappointing in their implementation. The money to spend and invest is simply not enough, this is made worst when it can easily estimate how much money will be available, though it can rightly be assumed that there would be less than original projected or expected. The ground is constantly shifting under the budget officers' feet and hence priorities in spending must be changed to adapt to the new revenue conditions with its additional problems.

The need to raise revenue from the country will always prompt government to examine the issue of taxation, the ability of government to raise revenue internally is determined by the relatively limited number of channels through which economic develops, government revenue would rise because there would be more opportunities to effectively levy taxes. Less developed economies have fewer taxable bases. It is against this general background that this study was conducted.

The introductory chapter deals with issues relating to the problems warranting the study; the need for government to shift from oil revenue to non oil sectors for revenues and to generate revenues internally to meet the challenges of ever increasing public demands for social services. This led the Nigeria government to accept the recommendation of the Sylvester Ugoh committee to introduce VAT to the regime. VAT replaced the sales tax, which had been in existence and plagued with multiple problems. VAT was introduced formally to the Nigerian public in 1994 and there was hope on revenue that would accrue to government from this tax. VAT started quite well in spite of the initial resistance by the Nigerian

public; however, not very long thereafter reports started filtering out that fraud had been uncovered here and there in several tax offices, state governments were reported to have misapplied VAT allocation. It is these negative reports that influenced the decision to embark on this research, to examine what could be responsible for the problems in the administration of tax. This study sought to determine the actual amounts of VAT collected over the years compared to estimated amounts to determine the factors responsible for the disparity and most of all to examine the machinery responsible for the administration of VAT in Nigeria with a view to identifying problems and suggesting remedies.

The concept of VAT and the machinery put in place for its administration in Nigeria were examined. Also examined were the laws establishing the tax and the administrative structure for its implementation. From the set evident that tax administration, as a component in the field of public finance has not been given adequate attention, scholars were preoccupied with how much revenue was generated through the taxing process.

Hypotheses were made which formed the basis of this study. Operational definitions to key concept related to the field were provided. As a new tax problem created by inadequate knowledge of how VAT works and inadequate preparation on the part of government tended to make the tax unpopular initially and this also made obtaining information on tax very difficult. The period covered by this study is from inception in 1994 to 2003.

In chapter two relevant literature was reviewed to acquaint readers with the fields; the theoretical framework for analysis. Due to the uniqueness in Nigeria, government publications on the tax were relied on. So also were commentaries, magazines, and articles presented at seminars and workshops.

The importance of administration to the success of any tax policy was emphasized by various scholars such as Akanle, for him, “while a good law is important to a good tax system, the place of administration can not be underestimated, as it is the indispensable element to the attainment of the overall good of the tax system” (Akale 1991). The theoretical basis for analysis is founded in the general theory of taxation which is in the works of classical economic

theories such as Adam Smith's principles of efficiency, administration convenience and equity, which theorist and this project use for analysis.

Chapter three of this study was concerned with the methods used for gathering of information for the research. The time in which a problem under investigation is suited determines the basic research method to be used. Survey research studies large and small groups by selecting and studying proportion or samples chosen from the proportion to discover the relative incidence, distribution and other underlying variables. The concept of sampling was fundamental to the conduct of this study and the interpretation of results there from. Survey research wants to understand the characteristics that make up the whole population, but due to limitation of time, resources, and so forth, a sample of that population could be made. Stratified random sampling technique was used in selecting the sample population. The sample population used for the study fell within two strata; the VATable persons and tax officials, and from these major groups another sample was selected. Questionnaire administration was carried out on the two groups of respondents to obtain factual and

opinionated data. The persons interviewed and questionnaires were the major information gathering techniques used to obtain relevant data that would validate or invalidate secondary data. A total of 200 questionnaires were produced for two groups – 100 of the questionnaires were administered to VATable persons and 100 tax official. Each questionnaire contained 16 questions designed to answer questions raised by the hypothesis. The questions were emanating from the FIRS, unfortunately, those too are difficult to obtain.

Chapter four contains the test of hypothesis – the three major assumptions stated in chapter one, which informed these researches were tested. The data obtained from the questionnaires were used for testing. Each hypothesis had relevant questions amongst the 16, which were designed to solicit answers posed by the assumptions. Because two sets of questionnaires were designed for two sets of respondents, for each hypothesis, the test was first conducted with data from the VATable persons after which they were subjected to further test with data from the tax officials.

The data obtained from the respondents were computed and drawn in frequency tables to determine the mean and percentages, which were used to test the hypothesis for each that was tested, evidence from study suggested that we accept all the hypothetical taken.

5.2 FINDINGS/CONCLUSION

The effectiveness or otherwise of any tax policy is a reflection of the fiscal system of the domestic economy which in turn reflects the level of development of the socio – political environment of that society. Therefore, the examination of the effectiveness of VAT administration such as this has to be understood within the social, political, and economic culture of our society. Taking such a view has brought out the various problems that have bedeviled the administration of VAT in Nigeria.

i. The lesson to be drawn from this study is that we should not 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 after a closer examination. The question had

been asked in chapter one of this study if the positive reviews given the VAT system in Nigeria by some newspapers means that the tax is performing optimally. Inspite of the high amounts collected from the tax indicated in chapter four, a lot still needs to be done particularly with regard to the process of its administration, which in the long run increases the amounts collected.

ii. In the course of this study, we discovered that, VAT proceeds have been on increase as indicated by facts and figures available at the Headquarters of the FIRS. This is so because VAT collection has been exceeding its yearly target since inception so far.

iii. Another finding is that the contribution of VAT to non-oil revenue has been positive. This is so because VAT is contributing not less than 20% out of the items that make up the total non-oil revenue. Besides, only VAT has progressive records from its inception till date.

iv. Another finding is that the contribution of VAT would have been higher if all the categories of VATable goods and services should have been covered. For example, the percentage of the VAT paying

organisations that actually complied during the period covered by this research is too small (just about 20%).

v. Another conclusion drawn is the illiteracy which prevails amongst the operations in the informal sector, makes books keeping practice almost no existent; and on this VAT depends on its operations. One way out of this is to concentrate the VAT efforts on the more formal sectors of the economy.

vi. We can conclude from the study that there exists a tax lag. There is the official tax lag permitted the VATable persons, that is, the difference in time when VAT liability is incurred and the maximum time allowed for making remittance of the net VAT due to the tax authority 30 days. However, this allowance that is made as a form of incentive to taxpayers is being exploited. Commercial banks that were commissioned to collect VAT from organizations and to remit to CBN do not remit same as required and at when due.

5.3 RECOMMENDATIONS

Often when considering tax reforms there is always a tendency to focus attention on the need for a new and more progressive tax structure, ignoring the administrative inadequacies of the existing

system. Any policy that makes implementation for granted is bound to have some problems, because it is implementation that separates policy from outcomes; no policy can be better than implementation, poor implementation leads to poor policy outcomes. Most observers agree as indicated by findings of this survey that, without any substantial change in policy, tax revenues could still be increased significantly simply by strengthening implementation. The goal of reforming tax administration is strengthening the ability to mobilize resources, however, the problems facing the tax authority are enormous-resources such as budgets, information technologies, expertise personnel facilities – are so limited and the instruments of administration are so weak, unless positive steps are taken to bridge the gap, procedures would not have noticeable impact on the total revenue that is collected. Therefore for any reform to be meaningful to the implementation of VAT, it must be brought to bare on all aspects of the taxing process; tax administration is made up of a number of processes which is integrated to work simultaneously, each process impacting on the other to make the system operate effectively, as concentrating on some aspects of the administration

without considering the effects on the other aspects would result in a lopsided tax administration which would fail to meet the objectives set for it. The following recommendations are made to improve VAT administration.

i. One practical suggestion to be made here from the findings of this research is that the instruments of administration should be strengthened, so that taxpayers would comply voluntarily and thereby, little or not action is necessary to make them pay. This process works on the basis of two principles: Certainty and deterrence. The desired objective here is not to influence each taxpayer directly to comply, but to trigger in each to the conclusion that compliance is preferable behaviour to evasion. It is for this reason that it is recommended that a VAT Tribunal established and constituted for speedy adjudication of VAT cases. The mere fact of the existence of such as tribunal would make complying taxpayers to remain so and those delinquents to comply.

ii. Information or lack of it would make or may take tax administration, records, invoices, ledgers and so forth as the

back borne of administering VAT, and therefore, solid data base would enhance the administration. Therefore we recommend FIRS computerized the entire operations of the VAT directorate. This will smoothing fiscal coordination and also enhance staff efficiency in computing tax liabilities or cross referencing of information from one taxpayer's returns to the others. It will improve data base information matching, VAT auditing and the general provision of taxpayers services. It will generally enhance access to information.

iii. Because of the difficulties encountered with informal businesses and the prevalent illiteracy level of big businesses, men who as a result are ignorant of the requirements of the tax, public enlightment units should be constituted and adequately funded so that it can educate the illiterates, ignorance and generally those who do not see the need for the tax. Information circulars and pamphlets can be published/printed in local languages, staff of this units must have basic understanding of the local language.

iv. The need to recruit more personnel with requisite qualifications and skills; provide continuous training for existing staff to meet the challenges encountered in the performance of their duties should be taken seriously.

v. Due to the complexity and anticipated spread of the tax, much funding is required especially if all LGAs were to be fully covered by operational LVOs. The issue of funding is particularly significant because data from this study have indicated that office infrastructure are inadequate; basic furniture such as chairs and tables have to be shared amongst three to four staff in VAT offices. There are poor communication facilities; there are shortages of office stationary, lack of serviceable vehicles. These problems must be addressed seriously. The administrative process must be made effective if the desired level of revenue generation is to be achieved.

vi. Data from the study also indicate that government does not make judicious use of VAT revenue for developmental projects, government is seen as interpreting VAT revenue as a windfall that should be recklessly shared and spent. This study is

therefore recommending that a system of accounting should be introduced whereby three tiers of government can periodically account to the Nigeria people specific developmental projects they have utilized VAT proceeds for. This is in line with the operations of the PTF where the effects were visible and are still being felt by the citizens of Nigeria-in areas of road network, drugs to our hospitals, renovation and refurbishing our schools at primary, secondary, and university levels and the provision of other amenities.

Finally, and on the general note, unless and until the cost of VAT administration/collection is at its best (cost effective), what is collectible is collected and the VAT revenue is judiciously utilized by the stakeholders through provision of infrastructural amenities for enhancement of socio-economic development for the benefits of its payers and the citizenry, the target making or how much has been collected should not be yardstick for measuring performance. In other words, the astronomical yearly increase of VAT proceeds collected should not be taken as a performance unless other factors are taken into consideration and proven to be so.

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