

**STRATEGIES FOR EFFECTIVE REVENUE  
GENERATION IN NIGERIA. A CASE STUDY OF  
VALUE ADDED TAX (VAT)**

**BY**

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**BEING A PROJECT SUBMITTED TO THE POST GRADUATE SCHOOL AHMADU  
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**AUGUST, 1999.**

DECLARATION

I hereby declare that this work entitled

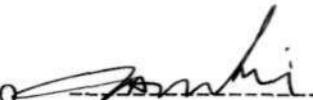
" STRATEGIES FOR EFFECTIVE REVENUE

GENERATION IN NIGERIA" a case study of

Value Added Tax (VAT) is my original work.

All data and works collected have been duly

acknowledged in the references.

ANDREW R. JAURO  27/11/2000

NAME

SIGNATURE

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This project report entitled "STRATEGIES FOR EFFECTIVE REVENUE GENERATION" a case of Value Added Tax (VAT) by Andrew Rufunji Jauro meets the regulation governing the award of the Degree of Masters of Business Administration of Ahmadu Bello University Zaria, Nigeria and is approved for its contribution to knowledge and literary presculation.

  
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SCHOOL.

DEDICATION

This project is dedicated to my parent,  
Mr & Mrs. Jauro Rufunji who nurture me  
and make sure that I become good citizen  
and useful to myself.

A C K N O W L E D G E M E N T

I am indeed most grateful to God Almighty for His infinite mercy and Grace over me throughout the period of the course. I am also grateful to the Federal Inland Revenue Service for allowing me to attend the programme despite my official duties.

I must acknowledged my gratitude to my Supervisor Mallam Ibrahim O. (MIFO) who despite his tight schedules, find time to read through the manuscripts and offer useful suggestions.

I am thankful to my wife, Irisim and my children, Andrew (Jr), Asana-Rimam and Rinyang-Uwae for their patience and endurance in my absence. I also thank Mr. Bala Ishaku who painstakingly typed this project.

Finally, to God be the Glory, Amen.

## A B S T R A C T

The Federal Board of Inland Revenue Service is a Federal Tax authority charged with the responsibility of Assessements and Collection of Federal Taxes like companies Income Tax; Withholding tax on companies; Petroleum profit Tax; Value Added Tax; Education Tax and Capital Gains tax on resident of FCT, Abuja, bodies corporate and Non-resident individuals.

The importance of Revenue generation to the Nigeria Economy cannot be over-emphasised. Because of the importance, the strategies to effectively generate the revenue from Value Added Tax requires careful examination.

The project addresses the problems in the context of Nigeria and reveals that both internal and external constraints, if properly addressed by the government would lead to much higher VAT collection in Nigeria. The proposition profers some recommendation and also suggest some implementation strategies if adopted would lead to higher yields from VAT collection. It also conclude that the Federal Inland Revenue Service needs the understanding and cooperation of the VATable persons and support of the Federal Government to create an enabling environment for effective VAT collection.

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# C H A P T E R     O N E

## 1.1 BACKGROUND OF THE STUDY:

The Nigeria Government like many countries of the world, strives to achieve rapid overall development through optimum tax collection and expanded revenue base. The Nigerian economy being dependent on oil, and moreso, the government needs to boost its revenue earning capacity with the aim of improving the Socio-Economic development of its citizenry. One of the latest forms of taxation introduced into the Nigerian tax system is the Value Added Tax (VAT) which replaces the sales tax.

It is therefore imperative for appropriate strategies to be employed for effective and efficient generation of the Value Added Tax to augument the earnings from the oil sector in order for government to meet the socio-economic demands of the government and the people of the country.

One of the philosophies of taxes is to place proportionately greater burden of tax on the people that have greater ability (pay-as-you-earn). For the philosophy to work effectively, there is need for good tax administration. Where the administrative machinery to effect good result is defective/<sup>realisation</sup>of policy objective of the organisation becomes difficult.

## 1.2 STATEMENT OF THE PROBLEM:

Federal Inland Revenue Service (FIRS) which has been saddled with the

responsibility of administering the Value Added Tax (VAT) has been accused by some people particularly tax Consultants, that the VAT yields ought to have double what has been collected so far in the 3 years of the introduction of the new tax. That most of businesses, trades or professions which are supposed to Register for VAT are not register and those that are registered, rendered incorrect returns thereby underpaying VAT to the Government treasury. That if the administration of the tax is placed in their hands (ie. the tax consultant), they would perform creditedbly better in terms of higher revenue collection than what the FIRS have done in the three years of the introduction of VAT.

The Management of Federal Inland Revenue Service (FIRS) could be more purposeful by effectively and efficiently applying the relevant sections of the VAT Law to deal with recalcitrant cases (Defaulters) and possibly bring more prospective "VATable persons" into the VAT net.

It is in the light of the forgoing that this research seeks to identify some strategies that would improve revenue generation in Nigeria with particular referece to Value Added Tax (VAT).

### 1.3 OBJECTIVE OF THE STUDY:

The objective of the study is to highlight on the administration of Value Added Tax (VAT) taking into note the strategies that can be adopted

to improve VAT collection. Some possible solution and recommendations would be proffered, with the view to stimulating optimum collection of VAT in Nigeri

#### 1.4 SIGNIFICANCE OF THE STUDY:

Revenue generation is very essential to any government, if that government is to meet all its social responsibilities. The Federal Government of Nigeria in order to belong to the new waves of changes around the world needs to have an effective and efficient process for collection of Revenue.

For the current Financial year, 2000 government expect about ₦ 60 billion from the collection of VAT. This therefore, calls for a more dynamic and strategic ways to strengthen the VAT base.

Specifically, the study is targeted towards students of Taxation and Researchers in the field of Accountancy and Economics. Experts in the field of Taxation would find this study worthwhile.

1.5 HYPOTHESIS: The hypothesis of this research is based on findings or review of literature or papers presented at workshops and seminars.

Theories would be deduced with the view that if such theories or suggestions are adopted, optimum VAT collection would be achieved. It is the belief of this researcher that the machinery of VAT collection if properly harnessed and effectively monitored, higher yields of Revenue would be achieved as compared to the present performance of Revenue generation.

#### 1.6 SCOPE OF THE STUDY:

The discussion on this study would focus on Value Added Tax administration in Nigeria with particular reference to the strategies that would be adopted in order to improve the revenue yields from VAT collection.

Emphasis would be on the machinery of collection and the organisation bestowed with the responsibility of VAT administration i.e. the Federal Inland Revenue Service.

#### 1.7 LIMITATION OF THE STUDY:

Value Added Tax (VAT) is a relatively new tax (even in developed countries) and this fact makes it very difficult for anyone in our own sub-region to have made any significant academic contribution on the subject.

On the strength of the forgoing, therefore reliance is made on papers presented at workshop and seminars and on the job experience of the researcher who is among the pioneer staff, trained at the Obafemi Awolowo University, Ile-Ife under Professor James B. Hom and Mr. Soldubroaf a world Bank Tax Consultant; for six weeks on VAT Train-The-Trainers Course in 1993.

#### 1.8 DEFINITION OF TERMS:

- (a) V.A.T. - Means Value Added Tax
- (b) FIRS. - Federal Inland Revenue Service
- (c) VATable Persons - Means persons or company registered  
under section 8 of the VAT Decree
- (d) MVAT - Means Modified Value Added Tax

Footnotes:

E. AFE OGUNDELE: - Value Added Tax (VAT) Theory and Practice 1996.

## CHAPTER TWO

### LITERATURE REVIEW:

#### 2.0 INTRODUCTION:

The primary goal of any tax system is to raise money in the private sector and transfer it to the public sector for use in promoting government programmes, neither governmental activities in administering the tax nor tax payer activities in complying with it can be characterised as goods in and of themselves. Money unnecessarily spent on administering and complying with a tax system according to William J. Turnier "is money diverted from otherwise useful governmental programmes or from productive or pleasurable use by taxpayers".

For the government of a country to meet this social responsibility of distributing Revenue from taxes to the public sectors it has to ensure that the machinery of tax collection are in the condition that cost of collection is cheaper than the expected Revenue. W. J. Turnier beliefs that countries in which there is substantial non compliance with taxes, administrative and compliance costs are often sound to be quite high. This he said results in several factors. i.e. Government in order to beef up compliance, often spend considerable amounts of money in creating a bureaucracy to police the tax system. He is of the opinion that in order to engender greater compliance,



it is often necessary to develop substantial reporting and recordkeeping obligations for tax payers. Similarly, in countries in which compliance is relatively high, both administrative and compliance costs are often relatively low" Thus, it should come as no surprise that administrative and compliance costs are said to be relatively high in a country such as Italy, in which there is a Value Added Tax non-compliance rate of approximately 30 to 40 percent" . Such costs are however lower in countries like Sweden or the United Kingdom in which the non compliance rate is approximately five percent".

It is worth noting that the comparison in the compliance rate varies from countries to countries and it depends on the societal and economic variables. For example, the British Administrative cost per dollar of Income Tax raised is appropriately four times that of American administrative cost per dollar of Revenue raised".

Another area is that "both administrative and compliance costs are fairly static and not dependent upon the rate of tax that is imposed". Consequently, the inefficiency of a tax measured as a proportion of revenue raised, can be dramatically raised or lowered by adjusting rates upward or downward.

Although information about compliance cost is quite limited and of questionable reliability, we have some data available with respect to VAT and retail sales taxes. Studies of retail sales tax compliance costs as percent of revenue in U.K. put those costs in the range of from two percent to about four percent depending on the state surveyed and the Survey examined.

The study conducted in United Kingdom in 1977 through 1978 indicated that British taxpayers incurred £392 million of compliance costs in producing £4,226 million of VAT revenue and that such costs were 9.27 percent of revenue. Because of this the British Government raised the effective VAT rate in 1979 with the result that by 1980 - 1981 aggregate government VAT revenue almost tripled over what they were in 1977 - 1978, resulting in £12,450 million of aggregate VAT revenue in summary.

## 2.1 HISTORY OF TAXATION IN NIGERIA:

The History of Tax administration in Nigeria is as old as the history of the country. The concept of taxation can also be found in the Holy Bible ie. Romans chapter 13 v 7 and St Luke's Gospel chapter 20 v 25

Taxation is an important instrument in Socio-economic policy of any country. Over the years, Tax Administrators have found it difficult to collect enough revenue to meet the expenditure needs of the government.

The task of Revenue collection inform tax has not been easy. This view was expressed by Rabiou (1981) when he said, "Tax collection is not a simple task, Tax has to be collected with caution, especially in a developing country-----".

In an attempt to tackle the problems of Tax Administration in Nigeria, the Federal Government set up a task force committee to study the problem and find some solutions to improve the collection of taxes. The Task force on Tax Administration (1979) gives considerable insight into the difficulties of collecting revenue in Nigeria.

Olorunleke in a paper presented at a seminar of Accountants (ASCON) 1987, enumerated some of the problems in tax administration as follows:-

2.1.1 Tax Evasion:- According to Olorunleke as most people would like to get away with tax money people engage in malpractice to either escape of pay less tax than they ought to pay. This ranges from total refusal to disclose any income or false declaration to hide away income for tax purposes: This is very bad as voluntary compliance is very low. Besides, the mode of business transaction whereby no records are kept or poor ones are kept, makes tax evasion easier and more difficult to control or arrest.

2.1.2 Tax Avoidance:- This is associated with the ability of tax payers to make use of the loopholes in our tax laws to avoid tax. Sometimes when such loopholes are spotted it takes time to correct the legislation especially under a civilian regime, Such that the tax payers take advantage of the law indefinitely.

2.1.3 Tax Authorities who are expected to administer the tax laws under very difficult Nigerian situation, and who also have to deal invariably with very difficult Nigerian taxpayer are not adequately backed up in terms of full recognition as respected authorities within the society, as a result, the tax payers even treat them <sup>with</sup>/contempt and get away with it under our currently defective legal backing or prohibition under the law. For example, the Chairman Inland Revenue has no protection from assault by any aggrieved tax payer. **479116**

2.1.4 It is a difficult task to identify tax payers as well as their incomes.

Taxpayers continue to refuse to declare their world income accurately and because records are not kept by every business enterprise, it is not easy to track down many business transaction yielding incomes.

Oshisami and Dean (1984) opined that revenue department to administer tax laws fairly and effeciently, there is need to treat cases that are alike equally. They however noted that it is not easy to achieved uniform fairness

because of different classes of taxpayers have different opportunities for avoidance and evasions.

There is therefore the need for more training opportunities, more experienced hands to handle this highly skilled task of collecting revenue from people and persons. Government over the years have had laudable and incessant drive towards more revenue generation, the result of which have not really matched the drive. One of the reasons for poor results is mainly because of the economic situation of the country. The authorities should pay attention to training, experience and improve working condition for tax.

## 2.2 VALUE ADDED TAX DEFINITION:

"Value Aded Tax (VAT) is a tax on the supply of goods and services which is eventually borne by the final consumer but collected at each stage of the production and distribution chain".

This definition is as defined by United Kingdom statement of Standard Accounting Practice (SAP- No.5) The definition highlights three essential characteristics of Value Added Tax. These characteristics are as follows:-

- VAT is a consumption Tax:- This means that VAT can only be paid if there is consumption of VATable goods or service. This fact has a very important implication on the effeciency of the administration of the tax and ease of the compliance with it on the part of the administration and

the taxpayer respectively. It makes administration easier and cheaper and the rate of compliance higher.

- VAT incidence is on the Final Consumer:- The incidence of this tax is borne by the final consumer only. Since it is a multi-stage tax, the intermediate handlers of the goods or service only bear the burden or incidence temporarily. It does not mean that the tax paid by the intermediary consumers are not regarded, but they serve as input VAT which is claimable by them when the goods or service is finally purchased by the final consumers. What is collected by the final consumers is the output tax. This characteristic self-police the intermediate goods or service handlers in such a way that

because of the rebate which they want they voluntarily report their transaction

- VAT is a multi-stage tax:- This means that VAT is paid at each stage of purchase and/or sales or at each stage value is added VAT is calculated and paid. At the end of the day, the final consumption price of the good will be the addition of all the values added at the various intermediates stages of handling the goods. So the sum of the tax paid at the various stages will add upto the tax payable on the consumer price of the good or service.

When the tax satisfies these three conditions, it is regarded as classical

VAT. While one or two of the conditions is satisfied, it is regarded as

modified Value Added Tax which was initially intended to be implemented in Nigeria which the government later change its mind to go for full classical VAT.

### 2.3 THE CONCEPT OF VALUE ADDED TAX :

Chief E. Afe Ogundele (1999) enumerated three "intrinsic value or utility" of value Added concept in the following three ways:-

2.3.1 He says value added takes place by "altering" the form of an article "thereby improving its usefulness or attractiveness (e.g manufacturing, processing, drying, frying, roasting" etc.

2.3.2 By moving an item to an area of higher need or where it is scarce through transportation.

2.3.3 By passage of time through storage thereby making an article available at a time of higher need or allowing it to ferment.

It is generally noted that when good appreciate in appearance that one notice that value has been added. Value can however be added when one, two or all of the three situations above takes place. It is the taxation of <sup>these</sup> these added value that is known as value added Tax.

### 2.4 HISTORY OF VAT IN NIGERIA:

By the authority of Decree 102 of 1993, Value Added Tax (VAT) came

into operation in Nigeria on the 1st January, 1994 as a replacement of sales tax Decree No.7 of 1986 which was hithertoto managed by the state government.

The idea of VAT in Nigeria started with the acceptance of Dr. Sylvester Ugoh led study group on indirect taxation in November, 1991. The acceptance of introduction of VAT was made public in 1992 Budget speech.

An (MVAT) modified Value Added Tax committee was established under the chairmanship of Mr. Emmanuel Ijewere. The Committee conducted a world-wide research and made recommendation to the government on the generation of VAT in Nigeria. The committee strongly recommended for a separate body as Commission to administer the new tax but government thought otherwise and decided to use the existing machinery at the Federal level - the Federal Inland Revenue Service to administer the VAT.

## 2.5 STRATEGY DEFINITION AND IMPORTANCE:

The basic principle of management is to get things done through others. For effective collection of Revenue, strategic management of the machinery of collection therefore needs to be overhauled.

Thompson and Strick land (1987) define strategic management as "the process whereby management establish on organisation's long-term direction set specific performance objectives, develop strategies to achieve these objectives



in the light of all the relevant internal and external circumstances, and undertake to execute the chosen action plans".

The strategic management function is perhaps the most fundamental and most important aspect of management and managing. According to Thompson & Strickland, "it takes superior entrepreneurship (a well-conceived strategic plan that positions the organisation in the right way at the right time) and competent strategy implementation and execution to produce superior organisational performance over the long-run."

A strategic plan therefore needs to be carefully executed as poor execution of plan would reduce optimum performance. It is in the light of this that Thompson and Strickland believes that the chances would be excellent when an organisation has "a well-conceived, well-executed strategy it will be a high performer - a winner". They say "Superior performance is the most trustworthy sign of good management.

Strategy has five components and these are:-

#### 2.5.1 Defining the organisation's business and developing a strategic

mission as a basis for establish what the organisation does and doesn't do and where it is headed.

#### 2.5.2 Establishing strategic objective and performance targets.

#### 2.5.3 Formulating a strategy to achieve the strategic objectives and targeted

results.

2.5.4 Implementing and executing the chosen strategic plan.

2.5.5 Evaluating strategic performance and making corrective adjustments

in strategy and/or how it is being implemented in the light of

actual experience, changing condition, and new ideas and opportu-

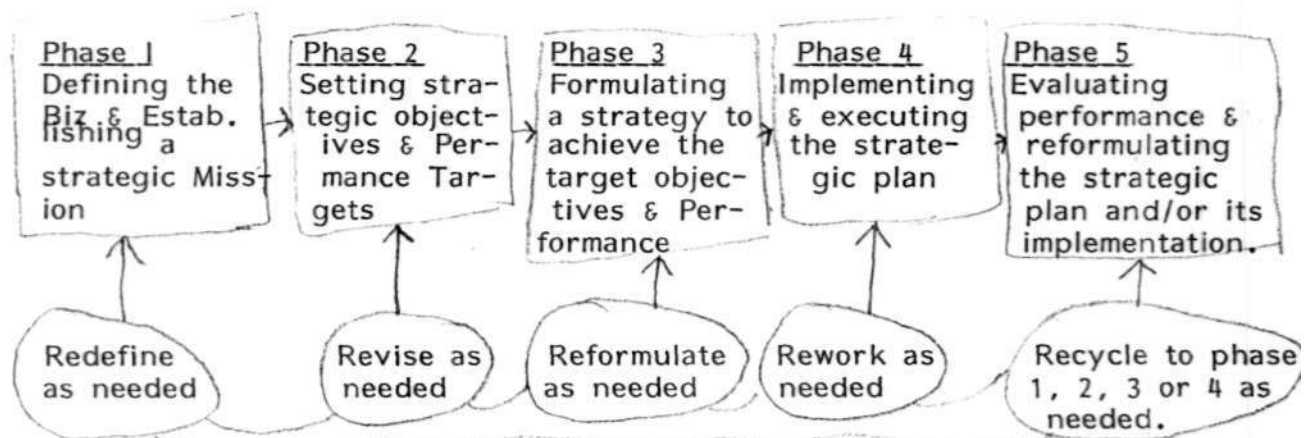
nity. The task of managing strategy is a dynamic process as all strategic

decisions are subject to future modification changes in the organisation's

situation and ups and downs in financial performance are constant drivers

of strategic adjustments.

Fig. 1 The strategic management process:



The first 3 phases in combination gives the direction to the enterprise,

establish the directional map for strategic action and, in effect, define the organisation's strategic plan.

The fourth phase is the most tasking phase which is complicated and challenging. It involves not only deciding on but also undertaking the

administrative actions needed to convert the strategic plan into results; The fifth phase is the evaluation stage. This also means both the end and the beginning of the strategy as correction is taking when there is any deviation from the set standards.

## 2.6 SOME STRATEGIES FOR SUCCESS OF VAT:

### 2.6.1 FINANCIAL STRATEGY.

As effective measure towards optimum collection of taxes, government made effort through deliberate tax policy to raise higher revenue from the non-oil tax sources, particularly from the consumption taxes (VAT and duties), without Jeopadizing the liberal tax policies of the immediate past.

In 1999, for instance, goverment intensified efforts towards increasing the VAT base with the view to gradually phase out VAT exemptions and intensifying collection of all due taxes, while at the same time strengthen the tax authorities to be more aggressive in the collection of all legitimate taxes from both individual and corporate taxpayers.

To make the tax administration more effecient, government in 1998 legislated on the demarcation of the jurisdiction of the respective tax authorities in the country. In 1999, all tier of Government were required to put in place the Institutional framework to enable the tax authorities to administer these taxes and levies effeciently. These include the Body of

Appeal Commissioners and the VAT Tribunal which are the traditional first point of call through which the objections of aggrieved taxpayers may be redressed and for the prosecution of tax defaulters.

Another strategy adopted by government in the 1999 year was to improve the purchasing powers of workers through the grant of perquisites and allowances. Accordingly, government granted exemptions from taxes to some allowance given to workers subject to certain limitation.

In order to encourage taxpayers compliance, ensure equity in tax administration and widen the VAT base, the present exemption list, according to Government would be phased out gradually. It is the intension of the government to hopefully by the year 2000 have no items of exemption in the VAT scheme. As a deliberate measure, Government in 1999 removed from the VAT exempt list the following:-

- Commercial vehicles, Airoplane, Ships, Locomotives and spare parts.
- Newspaper and magazines; and
- Water treatment chemicals.

Though the issue of newspapers and magazine was so contentious, Government has not been able to make a categorical statement as to whether it stands by the exemption or it has withdrawn the exemptions. It is however,

the opinion of this researcher that Newspapers and magazines are consumed by the rich and Corporate bodies in the society and the removal of exemption on them is in order.

In its commitment to achieve greater efficiency through improved services to the taxpayers, the Government, through the F.I.R.S. introduced payment of all taxes direct by the taxpayers to some selected banks nearest to the Area Office or Local VAT office of the F.I.R.S. The new strategy or scheme is designed to save taxpayers' time and safeguard government fund according to Government. But experience have shown that most taxpayers incurred more cost as they are expected to pay to the approved designated bank after which they have to drop the pay-in-slips in the tax office thereby incurring more cost in terms of transport. It is also observed by this researcher also that some of the VATable persons deliberately withheld or delay the payment of the taxes collected either to earn interest in the Bank or the taxes are used to settle some of their overhead expenses.

**479116**

The designated Banks are not left out as "fat cheques" when cleared are not remitted to Local Central Bank immediately as evidences abound that some Banks keep cleared funds for upward of 40 to 50 days before they remit to the Central Bank.

### 2.6.2 PERSONNEL AND TRAINING STRATEGY:

The training of personnel for the VAT administration is very important. This explains why about 62 crop of officers were selected from all over the State of the Federation to attend Train-the-Trainers course at Obafemi Awolowo University, Ile-Ife. The 62 officers were the pioneer staff that form the nucleus of VAT administration in the Nigeria. Since the training exercise, there has been continuous training and series of workshops organise by the management of Federal Inland Revenue Service to abreast the staff with contentious issues raised during the course of administering VAT. The management of FIRS places a great premium on staff training and development. It is the policy of FIRS management that every new staff who joins the service must undergo preliminary course after which the regular course for each grade of officer will follow as the years progress during the service years. The management of FIRS also encourages self development of individual staff. It is common to see staff of FIRS undergoing private and internal courses in higher Institutions on part-time basis.

In order to make the staff position themselves in a vantage position in the discharge of their duties Naiyeju charged the staff to always "act as stabilizing force to foster a rapid economic growth and development in the

ways and manners the staff administer the tax laws".

As a matter of fact he told the staff to handle taxpayers as a king and not make the taxpayer discharge his civic responsibilities under duress or bitterness. This is the modern approach in tax administration as experience have shown elsewhere that it yields more revenue without much discomfort to the taxpayers and investment than the orthodox and crude method of tax collection.

Their steadfastness and massive support to management policies and objectives in achieving optimum collection of by staff explains the steady achievement in VAT collections in the years of 1994, 1995 and 1996.

#### 2.6.3 Marketing Strategy:

The marketing strategy here is defined by the product - VAT which has to be marketed to the public. Being a new tax; There was need for the public to be enlightened or educated about it, The public need to be told the importance and its effect on their lives. There was therefore the need for strategic marketing planning, which focuses on the market environment which in this case is the generality of the people ie. the Labour Unions, the organised private sector, the multi-National companies in Nigeria etc. The unit responsible for strategic planning and image protection of the FIRS is the Corporate Affairs branch. The duties of the corporate Affairs unit

<sup>Spans</sup>  
spans through the entire service. The unit is responsible for public relations, programme Evaluation, Taxpayers Education and Corporate Affairs development. It also functions as a protocol office. The unit works hand in hand with the VAT Directorate in organising Seminars and workshops on Value Added Tax (VAT).

#### 2.6.4 REGISTRATION STRATEGY

Section 8 (i) of the VAT Decree makes it compulsory for "a manufacturer, wholesaler, an importer and a supplier of taxable goods or service to within six months of the commencement of the decree or within six months of the commencement of business whichever is earlier, register with the Board for the purpose of the tax.

It is an offence not to register as the punishment is punitive as it makes a taxable/<sup>person</sup> who fails to register to pay as penalty, an amount of

- (a) ₦ 10,000.00 for the first month in which the failure occurs and
- (b) ₦ 5,000.00 for each subsequent month in which the failure continues.

The Registration strategy is very punitive and experience have shown that the enforcement is very difficult because, the Registration strategy does not have a threshold. That is to say, there is no limit as to the qualification of companies to register for VAT. And this makes it difficult for the strategy to work even though the Registration is free, those that are in petty trading see no reason to register for the VAT.



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## C H A P T E R   T H R E E

### RESEARCH METHODOLOGY:

#### 3.0      INTRODUCTION:

The method adopted in this research work is narrative or descriptive as the outcome of workshops and Seminars attended by the researcher has been reflected in this project.

I also collected data and relevant information about the activities of the Federal Inland Revenue Service from its Headquarters in Abuja.

Materials were also collected from text Books, Journals, Magazines, Newspapers, papers presented at workshops and seminars. The fifteen years working experience as Assistant Chief Inspector of Taxes also helped in writing this research work.

#### 3.1      METHODS OF COLLECTION OF DATA:

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The data collected for the purpose of this project are from Secondary source. That is from the compilation of mouth to mouth collection of Revenue figures collected by the Value Added Tax (VAT) offices throughout Nigeria. Since the project is aimed to measuring the performance of Inland Revenue Service in terms of quantum of collection, the figures or data obtained for the analysis of this project is at least about 99% accurate.

3.2 METHOD OF COLLECTION:

The methods of collection of data for this project is by way of Reports . That is, Reports of workshops seminar etc, were analysed and used.

3.3 The Nature of Data used: - The nature of data used are quantitative data ie. Revenue estimate and actual collection of VAT collected by the various VAT officers throughout the country.

3.4 MEASUREMENT: - The measurement of performance of FIRS in terms of VAT collection is the comparison of VAT Estimates with the actual performance (Collection) to know whether 100% was achieved.

From the data collected, percentages were computed to know whether the FIRS was able to exceed its Revenue target base on Revenue estimate by the Government. The computation of the percentage were done for the years under study and comparison made as to whether optimum collection has been achieved.

## C H A P T E R F O U R

### 4.0 DATA ANALYSIS :

#### INTRODUCTION:

For effective and efficient administration of Value Added Tax (VAT) the Federal Inland Revenue Service makes use of one principal Law, ie. Value Added Tax Decree No. 102 of 1993. This law determines the categories of goods and service that are subject to the 5% rate of VAT. This Decree deals with the procedure and process for Assessments and collection of VAT, Law to file a return, when VAT is due to be paid, the rate of VAT and the list of exempted goods and services etc.

Federal Inland Revenue Service has six Directorate that collect Federal taxes. Value Added Tax Directorate is responsible for the collection and accounting of VAT and it has branch offices spread throughout the state capitals, some Local Government Council Headquarters and some major towns in the country. The Federal Inland Revenue Service is expected to collect all the Federal Taxes and account for them. To achieve this objective, it has to, not only collect Revenue, but should at least strive to achieve a reasonable percentage of the estimated revenue. It is a difficult task and is not easy to collect revenue to meet the Socio-economic needs of the state.

Value Added Tax is self-assessment in nature and collection Agent

merely collect this tax from the customers base on the face value of the invoice. But the collection of VAT over the years has been a difficult task inspite of the appreciable performance of the FIRS. The corporate bodies individuals, Enterprises and of recent 1996 Government department, Ministries Parastatals and Local Government Counsils are collecting Agents. These VATable persons have failed in the responsibility of promptly remitting VAT collected on behalf of the Government. Though appreciable performance is recorded since the introduction of the VAT scheme, public outcry expects that the revenue yield from VAT ought to have been more than what has been collected so far.

Naiyeju, in a speech in one of the workshop organised said VAT Report sheet has continued to rank high in the rating of government functionaries judging from an estimated collection of ₦ 6 billion to actual of ₦ 8.1 billion in 1994 and actual collection of ₦ 21 billion as against an estimated of ₦ 12 billion in 1995. Similarly, in 1996, ₦ 22 billion was estimated while ₦ 32 billion was collected and in 1997, ₦ 35 billion was estimated and ₦ 35.29 billion was actually collected.

Types of Revenue	1 9 9 4		1 9 9 5		1 9 9 6	
	Budget	Actual	Budget	Actual	Budget	Actual
VAT	6,000000000	8,195,154,145	12,000000000	20,320,580,661.00	22,000,000,000.00	32,473,664,241.01

TABLE 1:

Comparative figures of Revenue collection 1994 - 1996 source FIRS 1996 Annual Report.

From the above facts, it is clear that since the inception of VAT, the Agencies saddled with the responsibility of VAT collection ie. Federal Inland Revenue Service and the Nigerian Custom Service have justified the confidence reposed in them by government and thereby justifying their relevance in the modern tax system of tax administration.

Naiyeju, though congratulated the members of staff of FIRS and the NCS in terms of the quantum of collection made, he charged them to pursue the policy objectives of modern taxation which include:-

- (i) The Revenue generation function;
- (ii) The resource allocation functions;
- (iii) The use of taxation as a fiscal tool to stimulate economic growth and development and
- (iv) the use of taxation for the social functions of curbing the consumption of some harmful goods and the making of everybody a responsible citizen in the society.

Type of Tax	Budget 1994	Collection 1994	Variance	Remarks
VAT	6,000,000,000.00	8,195,154,145.00	2,195,154,145.	137%



Summary of VAT collection for the period ended 31st December, 1994.

Table II

Type of Tax	Budget 1995	Collection 1995	Variance	Remarks
VAT	12,000,000,000.00	20,320,580,661.00	8,320580661.00	169%

Summary of VAT collection for the period ended 31st December, 1995

Table III

Type of Tax	Budget 1996	Collection 1996	Variance	Remarks
VAT	22,000000000.00	32,473664241.00	10,473664241.00	148%

Table (IV)

Summary of VAT collection for the period ended 31st December, 1996

Source: FIRS 1996 Annual report.

The above Tables shows a remarkable success in terms of quantum of collection of VAT for the years 1994 - 1996. The performance in percentage shows that the FIRS achieved 137% ie. 37% above the 100 percentage target. 169% was achieved in 1995 or ₦ 8,320,580,661.00 billion above the ₦ 12 billion government estimate, and 1996 148% percent or ₦ 10,473,664,241 billion was collected in excess of the ₦ 22 billion target.

One may also look at the detail analysis of VAT collection sector by sector to see the level of compliance by the individual sectors in the economy. The below Tables explains the sectorial collection and the implication of compliance to the VAT Law.



SECTORIAL ANALYSIS OF VAT COLLECTION FOR 1996

For effective monitoring of the various sectors of the economy, a sectoral analysis of VAT collection by each sector is necessary for the period under review. Because of lack of sufficient data for 1994 and 1995 on the sectorial collection, the analysis of 1996 collection on sectorial bases would be used. Table (iv) below is the collection of VAT for 1996 on sectorial bases.

A personal look at the figures indicate some implications in the individual sectors contribution to the fiscal needs of the economy. For instance, Financial Institutions contributes about ₦ 541,487,201 or 17% of total collection.

The manufacturing sector contributes about ₦ 3 billion or 10%. Building and Construction contribute only 1%. The reason for the low dismal performance from this sector is because it is a difficult to tax sector of the economy as far as VAT scheme is concerned.

The service sectors which constitutes mostly professional did not perform well enough. This is not unconnected to the way the sector have treated the VAT scheme with levity. For instance most of the lawyers and chartered Accountants are not registered for the VAT scheme. Where they are registered they charged and collect the VAT and do not remit. Some lawyers have even

complained on how they would charge the VAT since it is not easy determining the Value of their service to a client until when the case is disposed off.

The hotel and catering service total collection for 1996 was ₦ 294,681,851 or 1% of the total collection.

On a specific note the idea of the introduction of VAT is to check the consumption pattern of certain goods and service in Nigeria. It is also aimed at diversifying revenue generation to the non-oil sector thereby reducing our over dependences on the revenue from oil. But when we look at the table we see that VAT on import contributes about ₦ 19.4 billion Naira or 62% of the total collection. Much needs to be done to curb the over dependents on imports as it is shown in the contribution of this sector. It is also observed that our borders are not properly policed by the custom officials thereby, a lot of revenue is lost through smuggling.

Generally VAT as a replacement of sales tax which was hitherto managed by the State Government is expected to regulate the consumption pattern of certain goods and service by the affluent persons in the society.

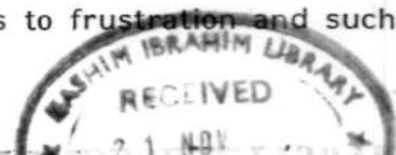
The collection from Government Ministries, Parastatals and Agencies was only ₦ 1.6 billion. When one look and the huge contracts awarded by Government and its Agencies, this figure falls below expectation and explains the problem of lack of voluntary compliance by the Government organs to

promptly remit the VAT they have deducted at source to the Government approved designated Banks. From the foregoing analysis, it is clear that the problems of VAT administration with the situation where the economy is purely agrarians and the industries are producing at half capacity because of poor infrastructures like NEPA, Good roads and poor Communication network, the tax officials are faced with a great task. The tax officials have no control over the collecting Agents as such the non compliance to the VAT Law by the VAT payers is on the increase.

In spite of the success in the VAT collection, the following problems have been identified as impediment towards greater yields from VAT. These problems could be divided into two:- Internal and External problems.

4.1.1 Internal Problems:- These are problems that can be identified within FIRS. This include the following:-

4.1.2 Inadequacy of office space:- In the early phase of VAT and up to the present, the staff lacked adequate working materials, vehicles and office and residential accommodation for the effective administration of VAT. Incentives to staff are not paid as and when due and promotion is not promptly done as staff stay on one grade level for upto six to nine years on the same grade level. This leads to frustration and such staff are at times tempted to commit fraud.



4.1.3 Shortage of Manpower:- The present staff strength of 691 is grossly inadequate if the FIRS is to function effectively. According to KEITH & GUBILLINI (1975) management is "the process of getting things done through people". It is the human resources that move other resources in an organisation to achieve the organisational goal and objectives. The FIRS lack sufficient qualified personnel to do the work. In spite of the good management teams, the operational manpower to turn the resources into higher results are in short supply, consequently, the few officers in the service are over-stretched.

4.1.4 Poor information system and/computerisation:-

For any organisation to survive and function effectively, it must have good information network. The present information system of the FIRS should be sustained and all the Local VAT Offices of the FIRS should be computerised. This is the only way to checkmate some sharp practices. With the non existence of computer at the Local VAT offices most of the information on VATable persons are not collected and in the case where they are collected proper use is not made of them. This leads to under assessment and collection of VATable persons.

4.1.5 Lack of Motivation: The FIRS is expected to perform without the ministries incumbrances. The staff members are not promoted on time.

As a result, the staffs attitude to work is poor and is reflected in their non- challant behaviour towards their duty. The staff condition should be regarded as this would make for improvement in the service.

4.1.6 Lack of Consciousness:- There is lack of consciousness by the staff members in achieving the organisational goal of the FIRS. Instead the individual goal is put first. The idea of what benefit one would derive is paramount in the mind of the staff and this has affected the FIRS in achieving optimum collection of VAT.

4.2 EXTERNAL PROBLEMS:- These are problems that emanated from outside and the solution of which are beyond the power of the FIRS.

Bad Attitudes of Collecting Agents: - The Local Governments and Government Ministries and Departments which are appointed VAT collection Agents under the provisions of section 8A (i) of the VAT Decree 102 of 1993 as amended have failed to co-operate with the Local VAT Officers as it is evidence in their deliberate refusal to remit VAT they have deducted from various contracts awarded by them. For instance Bauchi Local VAT Office only has arrears of VAT not paid by LGA to the tune of ₦ 24 million for the years between 1996 - 1998.

4.2.1 Lack of Voluntary Compliance: VATable persons are expected 30 days following the month of collection of VAT are to remit VAT payable after

self crediting the input VAT incurred for the month to the nearest VAT office. This is not the case as Local VAT Officers have to make personal calls several times with persuasion before the VAT deducted are paid. At times part of the VAT deducted is remitted only.

- 4.2.2 Non - Registration for VAT: There are still large numbers of potential VAT payers who are not yet in the VAT net because they are either not registered as they should or have been late to register. The law dealing with such non registration has not been effectively enforced because of the non-existence of VAT Tribunals and the reluctance of the FIRS to prosecute than use moral suasion.
- 4.2.3 Delayed payment of VAT collections:- Some designated banks, including some CBN Branches, have held on for too long the VAT collections paid through them for onward transmission to the FIRS VAT account.
- 4.2.4 Difficulties in Enforcement of the VAT Law:- Section 16 of the VAT Decree provide a VAT defaulter to be sued and the liability against the VATable person recovered by a judge in the Federal High Court. This provision of the Law has not been implemented and the amendment for cases redress and VAT defaulters to be handled by VAT Tribunals are yet to commence as Nigeria is in a new dispensation of Democratic Government, this researcher believes it will be against democratic



principle of fair hearing to VATable persons.

4.2.5 Lack of good Record Keeping:- It is a fact that an average Nigerian company has no proper records of Books of its accounts. This has made it difficult to ascertain the actual VATable supplies of some of the companies in a month.

#### 4.3 IMPLICATION FOR EFFICIENCY AND PRODUCTIVITY:

Taxation is a civic responsibility citizenry of a country is expected to contribute his quota no matter how small towards the running and development of the society he/she belongs.

Consequently, VAT collection is a difficult task. The problems identified in this research work hinders higher collections, hence, the FIRS ought to have achieved the goals and objective higher generation of Revenue.

In the circumstance, the role of the three tiers of government in the provision of social facilities is not achieved because of low VAT collection. The VATable persons tend to be confrontational in their response to payment and/or remittance of VAT because of the way which public money is being put to use. They expected to see in concrete terms that their hard earned money which part is paid as tax to Government should be judiciously utilised. And because of the inability of the Government to provide free service like Health, and Education, VAT payers become reluctant in paying VAT. This, no doubt

has affected the VAT intake of the three tiers of Government.

The staff of the Inland Revenue Service is also affected because of low collection, the Financial position of the three tiers of Government cannot provide the necessary inputs for efficiency.

The state of the Economy also affects the Revenue collection of the FIRS. With the down turn in the economy with the resultant low capacity utilisation of manufacturing Industries it has not been easy for the tax officials to achieve efficiency.

#### 4.4 IMPLEMENTATION STRATEGY:

Effectiveness and efficiency of Federal Inland Revenue Service (FIRS) is measured by how much revenue it collects within the Financial year. Having discussed the possible strategic and/or recommendation, the following implementation strategy should be adopted if effective and efficient VAT generation is to be achieved in Nigeria.

4.4.1 The immediate take off of the VAT Tribunal:- This is the only avenue where VAT payers can seek redress and VAT defaulters can be prosecuted.

4.4.2 VAT tax clearance Certificate:- The introduction of this instrument would put the VAT payers on the alert as he or she would not be awarded contract or paid if he or she does not present the VAT

## CHAPTER FIVE

### 5.1 SUMMARY:

To achieve an effective Revenue generation in Nigeria is not an easy task. The problems enumerated are not peculiar to Nigeria. It is a problem that every developing countries faces. The machinery for VAT administration have been receiving improvement but the creation of wealth and consequent income to be taxed becomes more difficult.

Since the introduction of VAT into the Nigerian tax system, a remarkable achievement has been made and more needs to be done since Government is paying attention to the non-oil sector and VAT is the only viable alternative for Government to attend the goal of adequate provision of amenities. The need for possible solutions to the identified problems is therefore imperative.

### 5.2 CONCLUSION:

Having identified, discussed and highlight the strategies for effective VAT generation, problems of achieving higher revenue and some recommendations proffered; it is therefore clear that the task of achieving effective and efficient revenue generation in Nigeria is a difficult one.

The Federal Inland Revenue Service therefore needs the cooperation of the VATpayers and the collection Agents. More important the support

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of the Federal Government by way of provision of enabling tools for effective VAT collection.

### 5.3 R E C O M M E N D A T I O N :

The following recommendations would surface if considered for efficient and effective VAT collection.

5.3.1 The staff of the FIRS need to be further and more regularly trained at home and abroad. They need to be more adequately remunerated and motivated as is the situation with the Internal Revenue Service (IRS) in Ghana, where a specific percentage of whatever revenues are collected is paid to the staff of the IRS of Ghana and their support-Staff and consultant. The cooperation of all levels, units and agencies of the Federal, State and Local Governments needs to be assured in the collection and prompt rendition of VAT Revenues. More VAT offices need to be opened so that VAT coverage will be nation wide and VAT will capture more and more purchase and sales transactions.

The VAT Tribunals need to be set up and VAT monitoring, needs to be more intensive and extensive. VAT is money spinning and with the necessary machinery put in place, it can generate revenue for Government more than any other revenue source, including oil. The VAT rate need to be gradually increased at such steps that they will be hardly

noticeable by the VAT payers.

5.4.2 The experience of other countries that have imposed VAT teaches us that because of the large numbers of the transactions on which VAT is levied, the necessary machinery must be put in place. These include computerisation, auditing, close interrelationship among the collecting Units, prompt and reliable banking transaction, review of exempted goods and services from time to time and the expenditure of VAT revenue in order to increase the capacity of the payers to pay future VAT.

5.5.3 Sharing formular:- The sharing formular of VAT always poses a lot of problems, particularly in a Federal country. Now that we are in democratic government careful study of the present formular of 15% to the Federal Government, 50% to the State and 35% to the Councils needs to be reviewed by the National Assembly as it is the practice in such countries as Brazil, Argentina, Germany etc.

There is also need not to only look into the sharing formular but also into the entire system of VAT operation for better efficient generation of revenue.

Footnotes:

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