AN EVALUATION OF THE EFFICIENCY OF CONSUMPTION TAX ADMINISTRATION IN NIGERIA: 1985 - 1994

BY

SILVA ZAINA MARGARET

A DISSERTATION SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA, NIGERIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE (ACCOUNTING & FINANCE)

DECLARATION

I hereby declare that this dissertation was carried out by me under the supervision of Mr. O. T. Odiongenyi. To the best of my knowledge, this dissertation has never been submitted either in Ahmadu Bello University, Zaria, Nigeria, or any other Institution for the award of a degree. The sources of all quotations have been acknowledged.

However any mistake contained in this work is solely my responsibility.

SILVA ZAINA MARGARET

December 1996.

CERTIFICATION

This dissertation entitled "An Evaluation of the Efficiency of Consumption Tax Administration in Nigeria: 1985 - 1994" by Silva Zaina Margaret meets the regulations governing the award of the degree of the Master of Science in Accounting & Finance of Ahmadu Bello University, Zaria, Nigeria and is approved for its contribution to knowledge and literary presentation.

CHAIRMAN, SUPERVISORY COMMITTEE	28-5-97 DATE
MEMBER, SUPERVISORY COMMITTEE	28-5-97 DATE
MEMBER, SUPERVISORY COMMITTEE	DATE
HEAD OF DEPARTMENT	4/11/97 DATE
DEAN, POST GRADUATE SCHOOL	16/12/00 DATE

DEDICATION

This dissertation is dedicated to my beloved family:

my parents, Mr. and Mrs. Silva,

my sisters, Saaji and Shobha

and my brother, Sabu.

ACKNOWLEDGEMENTS

I owe eternal gratitude to Almighty God for His blessings and guidance, and to Blessed Josemaria Escriva whose legacy continues to instil in me the true value of life and work.

I am sincerely grateful to the members of my supervisory committee, and most especially to Mr. O. T. Odiongenyi who supervised me throughout my research work. Benefitting from his wide knowledge and considerable experience especially in the field I had chosen for my research, I was finally able to arrive at a researchable topic after many trials and errors on my part. His painstaking thoroughness in reading each page of my work, his constructive criticism and his patience taught me not to be complacent but to always seek for improvement.

I also wish to express my deep appreciation to my Head of Department, Mr. A. B. D. Wato for his encouragement, advice, and the keen interest with which he followed my progress during the course of my research work. I also acknowledge with respect and gratitude the part played by each of my lecturers in my academic progress.

I wish to express my gratitude to the following people for their kind assistance during my search for data and information for this research: Mr. G. Birat, Mallam A. Jibril, Mr. Makun, Barrister S. C. Bitrus, Mr. J. Adimula, Mr. L. Oyesina, Miss V. Uzoigwe, Mrs. Bella, Mr. Y. C. C. Ashigye and the staff of the President Kennedy Library in the Institute of Administration, A.B.U., Zaria. I thank Mr. Philip James for his patience and care in typing this thesis.

Finally, I wish to acknowledge with profound gratitude the loving support of my family - near and far - throughout the course of my research work, especially my parents who have sacrificed so much to bring me up to this stage.

ABSTRACT

Taxation is one of the tools employed by governments to generate revenue, regulate the economy, and change markets for certain goods and services. Consumption taxes, which are generally levied on producers or distributors, are generally passed on to consumers in higher prices. The general sales taxes, which are consumpt on taxes, are usually classified mto the turnover tax, single-stage sales taxes, and the value added tax (VAT).

In Nigeria, two consumption taxes have been implemented on a nationwide basis, namely, Sales Tax (1986 - 1993) and VAT (as from 1994). The Sales Tax failed to achieve its goal of bringing considerable revenue to the State Governments. It was replaced with VAT in the hope that VAT would redress Nigeria's over-dependence on crude oil sales as the main source of revenue.

The thrust of this study has been to examine and evaluate the implementation, administration and productivity of Sales Tax and VAT with a view to determining if the actual operation of the VAT system in 1994 was an improvement over the operation of the Sales Tax system prior to 1994. The study also attempted to draw a conclusion about the ability of VAT to redress Nigeria's heavy dependence on oil revenue.

This study revealed that VAT is more equitable than Sales Tax in its coverage of the economy; greater attention was paid to developing clear and practicable tax regulations and tax return forms for VAT than for

Sales Tax; tax payer compliance was generally greater with respect to VAT than for Sales Tax; and nation-wids VAT yield in 1994 alone was nearly seven times the total nation wide revenue generated by Sales Tax during its eight-year duration under Decide No. 7 of 1986.

However, the implementation of VAT shares some of the problems associated with Sales Tax, such as inadequacy of facilities and resources to cope with the actual population of VAT-able persons in each state, and inadequate implementation of audit and investigation procedures. It was also observed that penalties for non-compliance or other offences were rarely imposed.

Despite the administrative difficulties encountered in VAT administration, it was observed that VAT was better organised, publicised, and implemented than Sales Tax; and if VAT continues to be administered with the same zeal and efficiency which characterised its first year operation, it will bring in substantial revenue to the Federal Government and the states.

The study concluded by offering some suggestions to the Federal Inland Revenue Service to improve VAT administration and thereby increase VAT yield.

TABLE OF CONTENTS

		Page
Title Page		i
Declaration		ii
Certification		iii
Dedication		iv
Acknowledgements		v
Abstract		vii
Table of Contents		ix
List of Tables		xi
List of Appendices		xii
CHAPTER 1: INTRODUCTION		
1.1	Background to the Study	1
1.2	Research Problem	3
1.3	Research Objectives	6
1.4	Expected Benefits of the Study	7
1.5	Scope Delimitation	8
1.6	Organisation of the Remaining Study	9
CHAPTER 2: LITERATURE REVIEW		
2.1	Introduction	11
2.2	Adam Smith's Canons of Taxation	11
2.3	Types of Sales Taxes	15
2.4	The Basic Aspects of Tax Administration	29
2.5	Maintenance of Records by Taxpayers	40
2.6	Exemption of Small Firms from Tax	41
2.7	Tax Evasion and Tax Avoidance	43
2.8	Brief History of Consumption Taxes in Nigeria	44
2.9	Tax Administrative Bodies in Nigeria	46

2.10	Sales/Purchase Taxes operated under State Laws	51
2.11	Sales Tax operated Decree No. 7 of 1986	57
2.12	Value Added Tax Decree No. 102 of 1993	60
2.13	Summary	65

CHAPTER 3: RESEARCH METHODOLOGY

3.1	Introduction	70
3.2	Research Method and Justification	70
3.3	Research Instruments and their Administration	72
3.4	Expected Data to be collected	75
3.5	Method of Data Analysis	76

CHAPTER 4: DATA PRESENTATION AND ANALYSIS

4.1	Introduction	78
4.2	Presentation and Analysis of Responses to Sales Tax Questionnaires	78
4.3	Presentation and Analysis of Responses to VAT Questionnaires	90
4.4	Presentation and Analysis of Revenue Statistics	100

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1	Summary	106
5.2	Conclusion	109
5.3	Recommendations	114
5.4	Areas for Further Research	118

BIBLIOGRAPHY 120

APPENDICES 124

KASHIM IBRAHIM LIBRARY

LIST OF TABLES

		Page
Table 4.1	Number of registered persons, tax offices and officers during Sales Tax	81
Table 4.2	Number and location of sales tax offices in selected states	82
Table 4.3	Percentage of taxpayers complying with sales/purchase tax returns (1985)	84
Table 4.4	Percentage of taxpayers complying with Sales Tax returns (1986 - 1993)	84
Table 4.5	Compliance of taxable persons with sales/purchase tax returns (1985 - 1993)	87
Table 4.6	Administrative problems as reported by Sales Tax officers (1985 - 1993)	88
Table 4.7	Assessment of facilities and resources at disposal of tax office as reported by Sales Tax officers (1985 - 1993)	90
Table 4.8	Number of registered taxpayers, tax offices and officers during VAT	92
Table 4.9	Number and location of Local VAT Offices (LVOs)	93
Table 4.10	Percentage of VATpayers complying with VAT returns	94
Table 4.11	Compliance of taxable persons with VAT (1994)	96
Table 4.12	Administrative problems as reported by VAT officers	98
Table 4.13	Assessment of facilities and resources at disposal of LVOs as reported by VAT Officers (1994)	99
Table 4.14	Annual revenue generated by State Revenue Boards and Sales Tax collections for selected states (1985 - 1993)	100
Table 4.15	Revenue generated by State Revenue Boards; VAT collections and allocations for selected states (1994)	101
Table 4.16	Federal Government annual revenue (1985 - 1994)	104
Table 4.17	Annual nationwide revenue from Sales Tax operated under the Sales Tax Decree (1986 - 1993)	104

LIST OF APPENDICES

		Page
Appendix 1:	Questionnaire on Sales Tax	124
Appendix 2:	Questionnaire on Value Added Tax	133
Appendix 3:	Sales Tax Decree 1986	140
Appendix 4:	Value Added Tax Decree 1993	148
Appendix 5:	VAT Registration Form 001	157
Appendix 6:	VAT Return Form 002	158

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Taxes are compulsory levies on private units for general governmental purposes. The term 'tax' is used to describe all revenue obtained by government by way of levies on populations and organisations within their territories. The financing of monumental development projects and the associated recurrent expenditure requires a formidable tax system. To this end Bhatia (1988) says that a government can enforce contributions from the public by imposing taxes on individuals, groups of individuals or other legal entities, to defray the costs of common benefits accruing to the people from governmental operations.

Taxes are recognised also as a major instrument of national economic policy. Nations increase taxes to subdue inflation, and in depressions, they grant tax reductions to stimulate private markets and employment. Taxes therefore play a crucial role not only as a source of revenue but also as a balance wheel in the economy. Taxes can be classified generally into two ways by:

(a) What is taxed (i.e. the base of the tax) - the three main bases taxed under this classification are:-

  (i) Income (as in personal income tax, company income tax)

  (ii) Expenditure (as in sales tax, VAT, excise duties, customs duties)

(iii) Capital (as in capital transfer tax, capital gains tax)

(b) Who is paying tax (i.e. traceability of burden) - the two categories are:-

(i) Direct taxes which are levied on the income, wealth, property or capital owned by an individual or other legal entity (personal income tax, company income tax)

(ii) Indirect taxes which are paid indirectly as part payment for a commodity or for a permit to do something (sales tax, VAT, customs duties, excise duties, motor license fees).

Indirect taxes play an important role in the finances of developing countries. Chelliah (1964) suggests that the structure of indirect taxation must be so fashioned as to raise revenue especially from those who cannot be reached through direct taxes,, to curtail the consumption of luxuries and restrain mass consumption of non-necessaries. In order to achieve these objectives he says it would be helpful to include in the indirect tax system of a country consumption taxes levied upon sellers of designated goods and services.

Consumption taxes are generally passed on to consumers in higher prices even though initially levied on producers or distributors. In their more general forms they are levied as turnover, gross income or value added taxes at several stages of production; as sales or purchase taxes at manufacturing, wholesales or retail stages; and as tariffs or customs duties on imports and exports. In their more limited forms, consumption taxes appear as selective taxes on liquor, tobacco, petrol and similar goods.

When the classes of goods and services (on which consumption taxes are levied) are defined in tax legislation, and the tax base is the money value of the goods and services sold, the tax is called a sales tax. The base of the sales tax refers to the amount to which the tax rate is applied.

Sales taxes are usually classified into three major groups, namely, the general turnover tax, the single-stage sales tax and the value added tax (VAT). The oldest and crudest form of the sales tax is the turnover tax which is imposed whenever a product undergoes a market transfer. The single-stage and value-added forms of sales tax have been devised in order to avoid the multiple taxation characteristics of the turnover tax.

Generally speaking, sales tax are taxes due from the ultimate consumers or users of the product even though they are collected by business firms which sell the taxable products. The definition of business firm encompasses, in principle, all those enterprises which turn out the economy's final products. According to Sullivan (1964), sales taxes are intended to apply to the total value of all final products created by the economic system during a given period of time. Therefore, they should encompass not only tangible commodities but also services.

KASHIM IBRAHIM LIBRAR

1.2 RESEARCH PROBLEM

Before the introduction of sales taxation in Nigeria, the bulk of the revenue of state governments came from federal statutory allocations, grants and loans. The revenue from these sources was soon discovered to be inadequate. For these state governments to survive, independent and

internally generated sources of revenue had to be tapped. One direction to which many of them turned was the introduction of tax on sales of certain commodities in their territories. The tax was imposed by a Sales Tax Edict or Law enacted by the state government; some states used the name 'purchase tax' instead of sales tax.

It was the Ogun State Government that took the initiative to implement sales tax in 1982. This was implemented with considerable success so that other states were encouraged to commence the scheme. Between 1982. and 1986, many other state governments (such as Lagos, Oyo, Ondo, Bendel, Rivers, Cross Rivers, Anambra, Kano and Kaduna States) also introduced the sales tax to their states. Each state government decided on the specific goods and services that were to be chargeable, the rates at which these commodities were to be taxed, and the particular stage in the production and distribution chain at which the sales tax was to be imposed.

The Sales Tax Decree No. 7 of 1986 enacted by the Federal Government of Nigeria created nation wide uniformity with respect to chargeable commodities and tax rates. The Sales Tax was charged on nine categories of goods and one type of service, and it targetted only locally manufactured commodities. This gave the Sales Tax limited scope, making it a selective tax on soft drinks, liquor, a few luxury goods, and catering services. The Sales Tax system did not succeed in generating sufficient revenue as time progressed.

The Value Added Tax (VAT) which replaced Sales Tax in December, 1993, is much wider in scope, covering seventeen categories of taxable goods and twenty-four categories of services as specified in VAT Decree No. 102 of 1993. The FIRS Circular No. 9304 (1993) states that a considerable part of VAT revenue is to be realized from imported goods.

The idea of VAT in Nigeria started in 1991 when, according to Giwa (1995), "the Federal Government decided to overhaul the Nigerian tax system and shift from dependence on oil revenue and other traditional sources of revenue to consumption taxation." In this regard, the Federal Government set up two study groups, one on direct taxation and the other on indirect taxation. The objective of these groups was to review the entire Nigerian tax system with a view to enhancing efficiency and increasing revenue yield. The Indirect Tax Study Group proposed VAT in its recommendations to the Federal Government. Iyioke (1994) described the policy behind VAT as a "viable avenue to redress the overdependence on crude oil sales as the main source of revenue for the country, accounting for about ninety-seven percent of Nigeria's income".

From the findings of two Nigerian researchers, Anao and Atomatofa (1991), "the only type of Sales Tax or VAT that can be succesfully operated in Nigeria is one enacted by the Federal Government". They drew this conclusion after evaluating Sales Tax administration in Nigeria under State Government-enacted laws and under the Federal Government-enacted Decree. Nevertheless, Sales Tax did not eventually achieve its goal of boosting state-government revenue, even under the Decree, which is why it

was replaced with VAT.

The VAT Decree is a Federal Government-enacted Decree. VAT proceeds during the first year of its operation (1994) overshot the official projection of ₦6 billion by ₦2.1 billion, to the surprise of government and notable critics including the International Monetary Fund. Nevertheless, Iyioke (1994) has listed the difficulties being encountered in administering VAT in Nigeria as including "lack of finance, inadequate facilities and trained personnel, and a low level of public understanding." Thus it remains to be seen if VAT will redress the nation's overdependence on crude oil sales as the main source of government revenue.

1.3 RESEARCH OBJECTIVES

The broad objective of this study is to examine and evaluate the implementation, administration and productivity of Sales Tax and VAT in Nigeria as operated by the State Revenue Boards and the Federal Inland Revenue Service respectively. This exercise will be carried out in an attempt to determine if VAT will overcome the difficulties encountered in running the Sales Tax system and if it will aid in increasing the non-oil revenue of the government. To this end, his study would specifically attempt to:

(i) compare the actual operation of the basic aspects of implementation and administration of Sales Tax and VAT in Nigeria,

(ii) compare the problems which tax authorities faced during Sales Tax operation, with the problems presently encountered in the VAT

system,

(iii) determine if revenue generation from VAT has significantly increased the funds available to state governments, and if VAT has significantly increased the non-oil source of revenue to the Federal Government, and

(iv) draw a conclusion about the suitability of VAT as a replacement for Sales Tax.

1.4 EXPECTED BENEFITS OF THE STUDY

Sales Taxes ought to serve as a substantial source of revenue for state governments. The revenue generated under the former Sales Tax was taken up by each state government. VAT is collected on behalf of the Federal Government, and the net proceeds are expected to accrue solely to the State Governments after making an allowance to cover the cost of administration incurred by the Federal Government.

(a) It is hoped that the Federal Inland Revenue Service will benefit from this research in the following areas:

(i) a comparison of the tax administration procedures actually used for Sales Tax and VAT,

(ii) the problems listed by respondents on issues of compliance by various categories of taxpayers, and the efficacy of compliance checks and audit procedures,

(iii) respondent's rating of facilities at Local VAT Offices and their ability to cope with the VAT-able population in each

state, and

(iv) the recommendations made by the researcher to the FIRS for improving VAT administration.

(b) It is also hoped that business organisations and members of the public who are VAT-payers will benefit from this research:

(i) by obtaining a better understanding of the operation of Sales Tax and VAT as described in the study, and

(ii) by appreciating the importance of compliance with tax laws.

(c) The results of this study are expected to contribute to the knowledge of students of taxation, and researchers in the field of taxation, especially with regard to the areas recommended for further research. Most of the available literature on Nigerian Taxation are restricted to taxes administered by the Federal Government (therefore excluding Sales Tax). This study corrects this deficiency, and also relates Sales Tax administration to VAT administration in Nigeria.

1.5 SCOPE DELIMITATION

KASHIM IBRAHIM LIBRARY

This research work is aimed at studying the Sales Tax and VAT in selected states in Nigeria. The data for the research will be collected from the tax officers in relevant tax bodies in the selected states and the findings of this study will to that extent be restricted to these states.

The time span covered by this study is a ten year period, 1985-1994, in order to cover the entire period in which Sales Tax was uniformly operated throughout Nigeria (1986-1993), and to cover the time during

which VAT had been in operation (1994) at the time this research was undertaken. To create room for reference to the state sales tax (or purchase taxes) in existence before the Federal Government's imposition of uniform sales taxation, the year 1985 is also studied.

1.6 ORGANISATION OF THE REMAINING STUDY

The remainder of this study is organised into four chapters. Chapter two reviews the existing literature on Sales Taxes and VAT. Adam Smith's canons of taxation and the process of tax administration are described in some detail. The chapter also traces the background of consumption taxation in Nigeria and the provisions of the laws which brought Sales Tax and VAT into operation. The third chapter describes the manner in which the research is to be carried out and the expected data to be collected from tax officers in the selected states of the country. In the fourth chapter, the data collected in the course of the research is presented, analysed and interpreted in accordance with the objectives which the research is expected to achieve. The concluding chapter summarises the entire research work, puts forth some recommendations to tax authorities and other concerned parties, and makes suggestions for further research.

CHAPTER REFERENCES

Bhatia, H. L. (1988). Public Finance. Vikas Publishing House, Jangpura, India. p. 43.

Chelliah, R. J. (1964). Taxation of consumption expenditures with special reference to India, In: Bird, R. and Oldman, O. (Eds.). Readings on Taxation in Developing Countries John Hopkins Press, Baltimore. p. 281.

FIRS (1994). Value Added Tax, Information Circular No.9304, Federal Inland Revenue Service.

Giwa, Y. N. (1995). VAT and other Federal Taxes Administered by the FIRS. Paper presented before the Kaduna State Internal Revenue Board, 28 April.

Iyioke, A. (1994). Smoothing the path for VAT. The Guardian, March 17, p. 15.

Sullivan, C. K. (1964). Concepts of Sales Taxation. In: Bird, R. and Oldman, O. (Eds.) Reading on Taxation in Developing Countries. John Hopkins Press Baltimore. p. 332.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter draws extensively on existing literature to explain the major issues connected with the topic of the research. Adam Smith's Canons of taxation are laid out first to emphasize the basis on which a good tax is built. A description is given of the nature of various forms of sales taxes, namely, the turnover tax, the single-stage sales taxes and the value added tax, pointing out the advantages and problems associated with each tax. The basic aspects of tax administration are considered in detail. The necessity for maintenance of records by taxpayers and the difficulties faced in this regard by small firms is also described. The issues of tax evasion and avoidance are briefly considered.

A brief history of the development of consumption taxation in Nigeria and a description of the Nigerian tax administrative machinery is given. This is followed by a narration of the legislative provisions which established the sales taxes operated under state tax laws or edicts, the Sales Tax operated under the Sales Tax Decree of 1986, and the Value Added Tax (VAT) operated under the VAT Decree of 1993.

2.2 ADAM SMITH'S CANONS OF TAXATION

In his famous book `Wealth of Nations', Adam Smith (1776) laid out four canons or guiding principles of taxation namely, equity certainty,

convenience and economy. Slade (1971) considers that the canons of certainty, convenience and economy emphasize the importance of tax administration, and thus he refers to these three canons as the `canons of administration'. Adam Smith's four guiding principles of taxation are discussed and further elaborated on using the ideas of other authors.

(a) **Equity**: `The subjects of every state ought to contribute towards the support of the government, as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of the state'.

A tax has to be seen to be fair, otherwise the problems associated with non-compliance by taxpayers emerge. Although equity is a very subjective concept, Powell (1988) believes that most people would take the view that a particular tax should be based on the taxpayer's ability to pay. There should be some attempt made to redistribute economic power from the wealthy to the less well off. According to Powell, this is part of the `vertical equity of taxation'. A second aspect of the problem of equity relates to the `horizontal equity of taxation' whereby it is held that people in similar financial circumstances should be treated similarly for tax purposes.

HASHIM IBRAHIM LIBRARY

(b) **Certainty**: `The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment and the quantity to be paid ought all to be clear and plain to the contributor and every other person'.

Smith says that this rule is necessary to prevent extortion on the part of the tax collector. He regards precision in all elements pertaining to the payment of tax to be an essential protection to the taxpayers. Powell (1988) adds that the taxpayer should know what, when, where and how to pay, in such a manner that tax evasion by the taxpayer is difficult.

(c) **Convenience of Payment:** 'Every tax ought to be levied at the time and in the manner in which it is most likely to be convenient for the contributor to pay it'. In the opinion of Odiongenyi (1987), convenience of payment requires, among other things, that the object, and the time of collection, of tax be related to the habit of the people taxed.

(d) **Economy in Collection:** 'Every tax ought to be so contrived as to both take out and keep out of the pockets of the people as little as possible over what it brings to the public treasury of the state'.

Powell (1988) rephrases this principle as follows: "a tax should be easy to administer and cheap to collect so that the yield is maximised relative to the cost of collection." Collection costs are incurred by the tax authorities during their task of tax administration, and these expenses are covered by part of the revenue collected from taxpayers. In the case of certain taxes, costs are also incurred by those persons who collect these taxes on behalf of the government. Examples of such persons are employers who collect Pay-As-You-Earn (PAYE) tax from their employees on behalf of government, and sellers who collect VAT or Sales Tax charged on commodities sold to their customers, remitting the money so collected to the

government.

Canons of taxation are the standards by which the quality of a tax system should be judged (Odiongenyi, 1987). Powell (1988) recommends Adam Smith's canons as a starting point for analysing and evaluating a tax. A `good' tax meets as many of these canons as possible though, as Powell admits, because of `trade-offs' it is usually impossible for a tax to meet all of them. Odiongenyi (1987) observes that analysis of Adam Smith's canons has shown that there is room for possible conflict between these canons, and that several writers since Adam Smith have put forward suggestions in an attempt to resolve some of these conflicts. He recounts the attempt of Hardley (1869) to resolve the possible conflict between the principle of equity and the principle of certainty by suggesting that certainty be given preference over equity. Odiongenyi points out, however, that experience has shown that where tax legislators and administrators strive to provide suitable legislative provisions for every possible situation (for the sake of certainty), this would lead to excessively detailed tax regulations which will only confuse taxpayers.

Some authors have suggested additional canons of taxation to supplement those put forward by Adam Smith. For example, Powell (1988) puts forward two principles:

- the principle of efficiency which states that a tax should achieve its intended aim(s) with minimum distortion or side-effects, and

- the principle of flexibility, which states that the tax structure and the rates at which individual taxes are levied must be capable of easy alteration in order to meet new circumstances.

2.3 TYPES OF SALES TAXES

A distinction is usually made between direct and indirect taxes. With a **direct** tax the person benefiting from the income pays the tax to the authorities, for example, income tax. In contrast, most taxes on expenditure (or consumption) are termed **indirect** because the purchaser who benefits from the consumption is charged, usually in the purchase price, but the actual tax revenue is remitted, for convenience, by the seller to the authorities.

Indirect taxes play an important role in the tax structure of developing countries (Due, 1970), and they constitute a large part of government resources in developing countries which may find it particularly difficult to raise large amounts of revenue through income taxation (UNTAA, 1974). Chelliah (1964) advocates that indirect taxes must be structured so as to raise revenue especially from those who cannot be reached through direct taxes. One means of achieving this goal is the use of taxes on consumption.

The general soles taxes, which are charged on consumption of designated commodities, are a form of indirect taxes. In the order of their appearance historically, Shoup (1969) classifies the general sales taxes as

turnover tax (in 1917), the single-stage taxes (in 1920) and the value added tax (in 1954).

According to Due (1968) the aim of any general sales tax must be "to provide uniform treatment of alternative methods of production and distribution in order to avoid inequity and distortion of choice of method." In this way, the canon of equity will be complied with, to a certain extent. Each of the sales taxes enumerated above discriminates less than its immediate predecessor among types of business and methods of doing business. Thus, "the value added tax exerts a uniform impact (on the production and distribution chain), while the other sales taxes may be considered deviants from this archetype" (Due, 1968).

2.3.1 TURNOVER TAX

KASHIM IBRAHIM LIBRAR

The oldest and crudest form of the general sales tax is the turnover tax. Shoup (1969) documents it as having begun in the last years of World War I (1917-1918) in an attempt to collect large amounts of revenue in countries which were struggling with inflation and whose tax administrative machinery had been crippled by war.

Sullivan (1964) describes the turnover tax as a multiple-stage sales tax imposed whenever a product undergoes a market transfer. In other words, it is imposed at each sales transaction that occurs from the manufacturer to the retailer before the goods finally reach the consumer.

The turnover tax bears a multiple taxation characteristic which is a disadvantage compared with the manner in which the other sales taxes

operate. Since the tax base of the turnover tax at each stage includes previously taxed transfers, the tax burden passed on to the ultimate consumer will vary with the number of previous transfers (Sullivan, 1964). In other words, the tax burden will vary with the number of independent firms involved in adding value to the product, since the selling price of the product increases at each stage with the tax imposed on it.

2.3.2 SINGLE-STAGE SALES TAXES

A single-stage sales tax is a tax on sales transactions but applied at only one stage of business activity. Due (1970) lists the possible stages as the manufacturing stage, the wholesale stage and the retail stage.

According to Sullivan (1964), the single-stage sales tax avoids the multiple taxation characteristic of the turnover tax by allowing business firms to sell intermediate products without paying tax, provided that the purchaser produces an exemption certificate indicating their destination. Thus, the tax is "suspended" until the product reaches the final saleable stage. The various single-stage sales taxes are described below:

(a) MANUFACTURERS' SALES TAX

The tax base for the manufacturer's sales tax is the value of the commodity as it leaves the last manufacturing firm to process it. The tax rate applied to this base may be a single rate or there may be tax differentiation, according to Due (1970), with a heavier tax on luxury goods. Due also explains that the number of taxpayers will depend on the relative

development of manufacturing in the economy, and the policies followed in exemption of small manufacturing firms.

The manufacturers' sales tax introduces an idea not found in the turnover tax, that of a 'tax suspension area' which Shoup (1969) described as:

> "a certain section of the business community, manufacturers in this instance, of which every firm within the group is licensed. Commodities that enter this group of licensed firms are not taxed upon entry and may be transferred tax-free within the group since a buyer within the group quotes his license number to his vendor. Commodities leaving the group are taxed. Commodities leave the group when a manufacturer sells to an unlicensed firm or person such as a wholesaler or retailer."

The most serious problem in the satisfactory operation of the manufacturers' sales tax, in the opinion of Due (1970), is that of valuation, that is, the specification of a taxable price. Due explains that this problem arises "because the stage at which the commodity becomes taxable is commonly defined in terms of business firm rather than in terms of function, that is, in terms of the manufacturing firm rather than the process of manufacturing". As a result, Due points out, "if a manufacturer integrates vertically forward by assuming some wholesaling and retailing functions, but yet remains primarily a manufacturing firm, the tax is imposed on a value of the commodity that includes certain wholesaling and retailing costs." The manufacturers' sales tax therefore, poses certain difficulties under the canon of certainty.

According to Due (1970), the primary advantage of the manufacturers' sales tax is the relative ease of collection because the number of manufacturers is small compared with the number of wholesalers and

retailers. In many developing countries there are only a few manufacturers, Due (1970) claims, and these are usually large firms and are often foreign-owned. Manufacturing firms are easily subject to effective control because their records are well-kept and they are typically subject to audit by chartered accountants who will detect most attempts at outright evasion of tax. These factors serve to increase efficiency in tax collection and cut collection costs, under the canon of economy in collection.

(b) WHOLESALERS' SALES TAX

A wholesalers' sales tax is a modified manufacturers' sales tax. It applies to the last wholesale transaction through which a commodity passes. Registration of vendors selling at wholesale, but not those selling at retail, serves as the primary basis for delineation of taxable sales (Due, 1970). Slade (1971) points out that, in principle, "liability for a wholesalers' sales tax attaches not only to all wholesalers, but also to those manufacturers who sell directly to retailers or consumers." Thus, all such persons are required to register for the tax.

Due (1970) indicates that developing countries are reluctant to use this form of sales tax, and that usually this tax is limited to the industrialised economies of developed countries. A substantial part of the revenue from such a tax in developed countries will normally be collected from manufacturers for the following reasons:

(i) large retailers stock private brands made to their order by manufacturers, and buy these goods wholesale from the latter,

and

(ii) large manufacturers often undertake wholesaling functions and sometimes even own retail outlets for their products.

(c) RETAIL SALES TAX

The retail sales tax is described by Due (1970) as "a tax designed to apply to the retail transaction, that is, the sale to the final purchaser (who may be an individual consumer or a business firm purchasing for its own use rather than for resale) or to a small retailer not required to register." The tax applies technically, not to sales made by retailers only, but to sales at retail whether made by a retailer, a wholesaler or a manufacturer. Thus, a taxable transaction is determined by the purpose of the purchase, not the nature of the vendor. All firms, including manufacturing and wholesaling establishments, making sales at retail are required to register.

Sullivan (1964) notes that while the retail sales tax, like the manufacturers' and wholesalers' sales tax, is primarily applied to sales of tangible personal property, it can easily be extended to various consumer services if desired.

All single-stage sales taxes suffer from two limitations enumerated by Due (1970) as follows:

(i) Their character requires a demarcation of the taxable stage from non-taxable stage and the identification of taxpaying firms. In Due's view, this is not an insurmountable task, but

it may appear difficult to a government in a developing economy, particularly since many enterprises carry on activity at more than one stage,

(ii) The rate required to obtain a given revenue may be high, and the related concentration of impact is directed to a particular set of firms.

Due (1970) is of the opinion that the above considerations provide strong incentives to developing countries to extend sales taxation beyond the single-stage form.

2.3.3 VALUE ADDED TAX

The value added tax (VAT) is "the latest and probably the final stage in the historical development of general sales taxation." (Due, 1970). Due traces the origin of VAT back to 1918 when the tax was recommended by Dr. Wilhelm von Siemens as a substitute for the turnover tax in operation at that time. Dr. von Siemens called his new tax the "improved turnover tax" or "refined turnover tax" since it was also a multiple-stage tax, but was refined to eliminate multiple taxation. Another recommendation for the use of VAT was put forward by the Shoup Mission to the United States occupation authorities in Japan (Sullivan. 1965). The first country to officially implement VAT was France in 1954, and Sullivan claims that it was the French experience that aroused worldwide interest in the considerable revenue potential of VAT.

The value added form of sales tax is one that applies to each firm at each level of production and distribution, but taxes the value added by each firm rather than total receipts (Davies, 1969). A firm adds value to items purchased from the other firms by processing or handling these items with its own labour force and its own machinery, buildings and other capital goods. It then sells the resulting product to consumers or to other firms. The difference between the sales proceeds and the cost of the materials and other items purchased from other firms is its value added, which is the tax base of VAT. By limiting VAT liability of each firm to the value it adds to the final product, VAT avoids multiple taxation. Thus, the canon of equity is applied not only by taxing all economic stages, but also by taxing only the value added at each stage.

The value added procedures can be applied in one of the three ways on the basis of the method used to calculate VAT. Either an addition or subtraction procedure can be used to calculate VAT. The subtraction procedure, in turn, may be effected either through the cost-subtraction procedure or the tax-credit procedure. These procedures are briefly described below:-

(i) Addition Procedure

Under the addition method, as described by Sullivan (1965), value added is computed by adding together the various factors of production in the form of wages, rent, royalty, interest, and so on. It is to this sum that the VAT rate is applied.

(ii) Cost-Subtraction Procedure

Due (1970) explains the cost-subtraction method as one in which the firm applies the VAT rate to a calculated figure of value added, obtained by subtracting from total sales the amounts paid for purchases during the period under consideration.

(iii) Tax-Credit Procedure

Due (1970) considers the tax-credit method as the most common and claims that it is widely regarded as the best procedure since it is simple for the firm to operate and for the government to audit. Under this procedure, as Sullivan (1965) explains, a firm calculates its tax liability by applying the tax rate to total sales and subtracting from this figure the tax paid on purchases during the period.

2.3.3.1 THE ARITHMETIC OF VAT (ADDITION AND COST-SUBTRACTION PROCEDURES

The addition and cost-subtraction procedures require that the trader calculate the value added to the product he deals with, and then apply the VAT rate to this figure in order to arrive at the amount of tax. Figure 2.1 illustrates these procedures for the individual firm at each stage of the production and distribution process. For the purpose of simplicity only three stages (manufacturing, wholesaling and retailing) are shown, and the value of the product at each stage are ₦100, ₦125 and ₦200 respectively. The total value of the product at each stage consists of the payments made to the

various factors of production which, for simplicity, are assumed to consist of only wages and profit. Thus, value added at stage I may be computed by adding the ₦60 of wages and ₦40 of profit (this is the addition procedure) or, alternatively, may be computed by subtracting purchases of intermediate products (zero at stage I) from sales of ₦100 (this is the cost-subtraction method).

At each stage, once value added has been computed, the trader calculates VAT by applying the VAT rate to this figure. This VAT is collected from the purchaser of his product along with the sales value of the product, and the VAT is paid over to the tax authority when due. In figure 2.1, VAT has been calculated given a tax rate of five percent.

Value of Product at each economic stage	Value of Product (Excluding tax)		Computation of Value added using Addition Procedure	Cost-subtraction procedure	VAT at 5% of Value added
	₦	₦	₦	₦	₦
Manufacturing					
Value of Product	100			100	
Intermediate product		0		- 0	
Wages		60	60		
Profit		40	40		
Value added by) manufacturing)			100	100	5.00
Wholesaling					
Value of Product	125			125	
Intermediate product		100		- 100	
Wages		15	15		
Profit		10	10		
Value added by) wholesaling)			25	25	1.25
Retailing					
Value of Product	200			200	
Intermediate product		125		- 125	
Wages		50	50		
Profit		25	25		
Value added by) retailing)			75	75	3.75
Final value of product) or total value added)	₦200		₦200	₦200	
Total VAT borne by customer					₦10.00

Figure 2.1: Computation of VAT at 5% of value added at each stage of production and distribution of a commodity, using addition and cost-subtraction procedures.

2.3.3.2 THE ARITHMETIC OF VAT (TAX-CREDIT PROCEDURE)

Figure 2.2 shows how the VAT charge, given a tax rate of five percent, builds up as product goes through its stages from the manufacturer to the consumer. Each trader calculates five percent of all his sales and keeps an account of this as his 'output VAT'. He also keeps an account of the VAT element in the purchase price of all goods and services invoiced to him. This is his 'output VAT'. At the appointed time for tax remittance, he deducts the total input VAT from the total output VAT and pays the difference over to the tax authorities. If the input tax exceeds the output tax, he claims a refund from the tax authorities.

	₦	₦
Manufacturer makes components and sells to wholesaler for (Value added ₦100)		100*
Wholesaler sells to retailer for (Value added ₦25)		125*
Retailers sells to customer for (Value added ₦75)		200*

*All the above figures are net of VAT

	₦	₦
The manufacturer pays VAT of		5.00
The wholesaler accounts for VAT output tax of	6.25	
but deducts input tax of	5.00	
paying a net sum of		1.25
The retailer accounts for VAT output tax of	10.00	
but deducts input tax of	6.25	
paying a net sum of		3.75

Figure 2.2: Illustration of VAT computation of each stage of production and distribution using the tax-credit procedure.

2.3.3.3 INVOICING THE CUSTOMER FOR VAT

Based on the basic data given in Figure 2.1, the following form of invoicing would be adopted by the business firm at each stage of the production and distribution chain regardless of the method used to calculate VAT.

The manufacturer would invoice the wholesaler thus:

	₦
Goods purchased	100.00
Plus VAT	5.00
Total payable	105.00

The wholesaler would then invoice the retailer as follows:

	₦
Goods purchased	125.00
Plus VAT	1.25
Total payable	126.25

The retailer would then invoice his customer:

	₦
Goods purchased	200.00
Plus VAT	3.75
Total payable	203.75

2.3.4 A COMPARISON OF THE VARIOUS FORMS OF SALES TAX

The operation of the turnover tax, single-stage taxes and VAT is illustrated in Figure 2.3. For simplicity, it is again assumed that there are three business firms (manufacturing, wholesaling and retailing). It is also assumed that the manufacturer sells his product for ₦100 to the wholesaler who in turn sells it for ₦125 to the retailer who finally sells it to the ultimate consumer or user for ₦200. The tax rate for each type of sales tax is given as five percent.

Economic Stages	Value of Product (excluding tax)	TURNOVER TAX	SINGLE - STAGE TAXES M.T. [1]	W.T. [2]	R.T. [3]	Value added (excluding tax)	VAT
	₦	₦	₦	₦	₦	₦	₦
Manufacturing	100	5.00	5.00	-	-	100	5.00
Wholesaling	125	6.25	-	7.25	-	25	1.25
Retailing	200	10.00	-	-	10.00	75	3.75
Final Value of product	200					200	
Tax at 5% on value of product at final taxable stage		21.25	5.00	7.25	10.00		10.00

[1]Manufacturers' sales tax
[2]Wholesalers' sales tax
[3]Retail sales tax

FIGURE 2.3: Comparative Operation of General Sales Taxes

The great advantage that VAT has over turnover tax is that of avoiding multiple taxation. Figure 2.3 shows that, for the same product taxed at 5%, turnover tax amounts to ₦21.25 while VAT comes up to ₦10.00. This is because the turnover tax at each stage is applied to gross receipts while VAT is applied only to the value added by each firm.

VAT has a built-in cross-check feature which is explained by Sullivan (1965) as follows: "The tax collected by Firm A (and subsequently paid to the tax authority) is reported by Firm B purchasing from Firm A as a credit against Firm B's own tax liability. This encourages more correct reporting." This cross-

check however does not function on the final sales by the retailer to the consumer since the latter does not have to account for VAT to the tax authority. Due (1970) says that this cross-check can be introduced in other types of sales tax but is more obvious in VAT.

In comparison to VAT, the turnover and single-stage taxes are less complex and their concepts more easily understood by taxpayers (Due, 1970). The single-stage taxes involve fewer active taxpayers than do the turnover tax and VAT, and thus provide the tax authorities with a narrower area within which to concentrate their efforts. In terms of record-keeping by taxpayers, those under the VAT system have a greater task according to Chown (1973) since VAT on both purchases and sales must be compiled and cumulated. He suggests that the simplest way of recording these data is to have an extra column in both the sales ledger and the purchases ledger, even though it is a task that requires additional time and effort.

KASHIM IBRAHIM LIBRARY

2.4 THE BASIC ASPECTS OF TAX ADMINISTRATION

The diligent execution of tax policies through proper and efficient tax administration will help to obtain increased revenue to enable government to carry out its operations (Surrey, 1964). The work of tax administration is entrusted to specialized agencies of the Federal and State Governments. There are a number of basic steps which occur during the actual process of tax administration and these are described below:

2.4.1 DRAFTING AND CODIFICATION OF TAX REGULATIONS

The law which authorises a tax does so in general terms only, and does not give an exact and detailed expression of what is taxed and precisely how the collection is made. Slade (1971) stresses that precision is needed so that the taxpayers knows what he is to pay, and the tax officials know what they are to collect.

The policy, once it is formulated, has to be expressed in the torm of administrative regulations which satisfy the canon of certainty. The drafting of tax regulations, Surrey (1964) notes, is often viewed as a simple and almost automatic process. He alleges that in many developing countries "economists not experienced in drafting regulations, or lawyers not versed in the technical ways of taxation, often draft tax regulations". A technique often adopted by such persons, Surrey claims, is simply to copy from other tax laws of the same country or of another country. The final result, according to Surrey, if often a mixture of provisions poorly adopted to carrying out the policy decisions made for the tax.

The first step in administering a tax, therefore, is the drafting of tax regulations which will enable the government to obtain a clear picture of the scope of the tax. These tax regulations, Surrey (1964) advises should:

(i) be precise, their boundaries well defined, their exceptions made clear, and the possibilities of their abuse anticipated and blocked;

(ii) describe the articles or persons to be taxed, and fix the rate and base of the tax; and

(iii) divide the administrative provisions functionally into aspects such as the returns to be filed, the time for payment, the other duties of the taxpayer, the powers of the administrator, and the penalties imposed.

The next task is the codification of the tax regulations "by which tax provisions are arranged in an orderly statutory and regulatory structure" (Slade, 1971). After this has been done, Slade warns:

> "it cannot be assumed that this stage of the administration process has been fully ended. The regulations which are guides to tax administration must be altered to take account of administrative problems as they appear. It is never possible to forsee in advance all the difficulties that will emerge once the actual collection of a tax is undertaken. Consequently from time to time the regulations need to be supplemented or even completely revised".

2.4.2 DEVELOPMENT OF FORMS

The next stage is the development of tax forms so that the taxpayer can prepare his tax returns. Slade (1971) considers the development of forms to be a highly technical and most difficult task in which two contrary elements contend for mastery:

(i) a good tax form, in order to be accurate, must contain all the blank lines for inclusion of the basic data necessary for assessment of the tax, and

(ii) the form should be simple, particularly where it is to be filled out by untrained taxpayers.

Slade says that simplicity should be attained, as far as possible, in the arrangement of the data on the form and in the style in which the steps and instructions have been written. "Accuracy in all details, however, is likely to be attained only at the cost of simplicity. Conversely, a return that is simple may sacrifice something in exactitude". (Slade, 1971).

2.4.3 PUBLICITY

The work of administration thus far described has all been within the offices of the government. Taxpayers must now be notified through public announcements in newspapers, or on radio and television. In addition, Due (1970) says that the tax regulations are sometimes printed (or at least portions of them) in the form of information circulars for the prospective taxpayers. These serve to increase the taxpayers' knowledge of their duties and thereby promote greater compliance.

2.4.4 LOCATING THE TAXPAYER

Part of the foundations of successful tax administration rests on ensuring that the taxpayers are in fact on the tax registers. Surrey (1964) stresses that "unless the tax authorities know who are the individuals or units subject to the tax, the whole machinery of administration will function with incomplete coverage of the taxable area". This is one of the requirements for the canons of certainty and equity: certainty in knowing who the taxpayers are, and equity in ensuring that all

taxpayers are identified. Consequently, it is important to prepare lists of taxpayers.

The registers must be kept current, and maintained in an order (alphabetical, geographical, etc.) which proves most convenient for effective use. Every possible source of names for these registers must be investigated thoroughly, such as records of other government departments, membership lists of trade associations, and so on. Surrey (1964) enumerates the important tasks of the tax officials as being:

(i) to select among the various sources only those which promise to be productive of names likely to be taxpayers,

(ii) to gather only so much information as can be efficiently processed, and

(iii) to devise an efficient system for converting the selected information into a continuously current form which can be used for enforcement purposes.

- 473714 [illegible]

2.4.5 OBTAINING INITIAL TAXPAYER COMPLIANCE

Once the taxpayer is ascertained, the next step is that of obtaining initial compliance from him. His compliance to the tax usually consists of a tax return which provides the basic data for the assessment of the tax and, in some cases, the taxpayers' computation and payment of his tax.

Surrey (1964) enumerates the factors that must be concentrated on by administrators in order to achieve a high degree of compliance.

(i) The taxpayer must be furnished with the return (i.e. tax form) by the tax authorities or provided with ready access to it through post offices, local agencies, and other centres of mass distribution. The geographical distribution of returns should take account of the distribution of taxpayers in the country, so that all areas receive sufficient returns. The returns should be distributed free, not sold by the government or a private party having the concession for the distribution of the form.

(ii) The form should be arranged in as simple as manner as possible and the instructions written in as simple a style as possible.

(iii) The tax offices should be organised at return filing time to assist the taxpayer in everyway possible. Patient assistance on the part of tax officials will reveal those portions of the returns which cause trouble to the taxpayers and thus enable corrections to be made in subsequent forms.

(iv) Newspapers and other media of public information should be utilised to explain the mechanics of the tax return and the requirements for filing.

All the above factors contribute to inculcate the canons of certainly and convenience of payment into the tax system.

2.4.6 CHECK ON TAXPAYER COMPLIANCE: AUDIT AND EXAMINATION

After initial compliance has been obtained from taxpayers, the authorities must identify, as far as possible, those who have failed to file returns or who have made mistakes through ignorance or neglect, or who have deliberately cheated the authorities. Surrey (1964) emphasizes that 'no tax will work effectively unless its administrators maintain an aggressive attitude with respect to the correctness of taxpayers' actions. A passive attitude by the authorities towards the errors and falsifications committed by taxpayers will rapidly undermine the entire tax structure, since the diligent and honest taxpayers will almost in self-defense be forced to the level to the level of the careless and dishonest". Under the canon of equity, therefore compliance checks on taxpayers are necessary.

Slade (1971) advises that there must be machinery for receiving and auditing the returns, determining their accuracy, and also there must be a system of field examination and investigations by which the tax authorities can systematically arrange to check the compliance of taxpayers. As a first step, Slade suggests that the taxpayer registers, if carefully prepared and matched against incoming returns, will reveal the failures to file. After this step, Slade considers that compliance checks involve more difficulty. In his words:

> "Generally, limitations of personnel will make it impossible for each return to be given intensive scrutiny. A program of investigation and

examination of returns must be planned. Its objective should be an effective examination which both safeguards the government from major loss and instills in taxpayers a respect for the vigilance of the authorities. Moreover, the program must be capable of completion within a year, as the next year will doubtless bring in a new set of returns to be examined.

"There are no simple criteria to govern the selection of those returns to be investigated. Experience will suggest certain classifications and the critical factors within those classifications. Certain professions and business will warrant more scrutiny than others. It may feasible to plan both for an annual examination of the most important returns and for reaching as much of the other returns on a scheduled check once in a perioc of a few years, with all the returns in the period examined when a check is made.

"Sources of information carefully collected in the tax offices will point to the selection of particular returns for the purpose of investigation. The use of a system of estimated incomes will suggest other returns to be investigated. Finally, a number of returns should be simply selected at random and examined, both to gauge the effectiveness of the planned programmes and to make escape from detection of non-compliance more hazardous and less predictable (for the taxpayer)".

When a return is selected for examination, the investigation may take several forms, listed by Surrey (1964) as follows:

(i) Suspicious and incorrect matters on the tax form could be handled by correspondence, especially for the smaller returns.

(ii) Alternatively the matters described in (i) above could be handled on an 'office audit' in which the taxpayer is requested to bring to the tax office the data necessary to verify certain items.

(iii) The most effective audit, and hus the method to be used for the returns requiring a careful check, is the 'field audit' at the taxpayer's place of business. This type of investigation presupposes effective record-keeping by the taxpayer. Consequently, its utility will vary directly with the ability of the tax office to impose upon

taxpayers the need for keeping adequate records.

Where adequate taxpayer records are lacking, the ingenuity and resourcefulness of the administration are challenged, but Goode (1962) indicates there are still other means by which such taxpayers can be examined by the administration. The tax office may attempt to reconstruct an average week for the taxpayer's business and apply the resulting profit (or any other measure used) reasonably to the entire year. It can also resort to the use of estimates or informed guesses about the taxpayer's annual profit or turnover by comparing the characteristics of his business with those of similar business whose profits or turnover are known.

Goode (1962) advises that the tax office should pass beyond this stage of working out estimates to the compilation of its own standards based on the workable data it has amassed over a period of time, including the results of investigations of taxpayers having proper records. The use of these standards, however, should be limited as far as possible to the selection of returns for individual audit rather than for the basis of tax determination itself. Thus, "the returns should initially be compared with the standards, and those returns showing considerable variation should be the subject of an office audit or field audit in which the taxpayer's actual situation would be decisive in the actual determination of his tax." (Goode, 1962).

2.4.7 RESOLUTION OF CONTROVERSIES BETWEEN TAXPAYERS AND TAX OFFICES

The process of audit and investigation described above will result in the determination of the taxpayers' tax liability as the tax office views it. The taxpayer will then be called upon for payment of this amount, either as the entire tax or as an additional liability if he has originally underpaid his tax due. In response, some of the taxpayers may agree that the amounts requested are properly due; but others will disagree and thus controversies will arise between the tax office and the taxpayer. Accordingly, a procedure for handling and resolving these controversies becomes the next stage of tax administration.

Surrey (1964) states that:

> "the procedure adopted will necessary depend on the concept of administrative law and judicial review of the particular country. Essentially the procedure should provide internal methods of judicial consideration when a settlement at the administrative level is not reached. Whatever may be the precise methods adopted, however, the taxpayer must have complete confidence in the fairness and impartiality of the procedure as a whole. Such confidence increases voluntary taxpayer compliance".

2.4.8 CONTROL OF DELINQUENCY: PENALTIES

The goal of tax procedure is the collection of the tax. "The sure sign of ineffective tax administration is the presence of a very large delinquency in tax payments, for it indicates the lack of taxpayer respect for the tax system" (Surrey, 1964). Surrey is emphatic that delinquency in payment must be recognized by maintaining taxpayer registers so that a taxpayer's non-payment may be immediately noted. As soon as the payment date has passed, a formal demand should be made to the taxpayer. If this step is not effective, prompt and firm

procedures to follow the first formal demand must be devised "by which the taxpayer is made to see that his delinquency is known, that it is serious, and that it will not be tolerated. If the administration is casual and unconcerned about collection, the taxpayer will develop a dilatory attitude towards payment. If the administration is alert and firm, taxpayers will react to that pressure and bring order into payments." (Surrey, 1964).

Firmness requires the presence of penalties and a resort to those penalties when necessary. The penalties provided by tax law must make non-payment expensive, Goode (1962) recommends that interest at a rate effectively higher than the commercial rates should be charged automatically for late payment. However, Surrey (1964) advises that the tax administrator "must be intelligent in his firmness. An honest but hard pressed taxpayer should be able to work out a schedule of installmental payments in the light of his financial condition".

Abdulrazaq (1993) advises that the tax regulations should catalogue the various violations of tax law, such as failure to file a return, failure to pay the tax on time, failure to collect taxes or to pay over a tax collected, deliberate action to avoid the tax through intentional falsification of returns, fraudulent record keeping, and so on.

This is necessary, under the canon of certainty, so that every tax offence is identifiable and spelt out by tax law. For each of these violations, Abdulrazaq suggests that an appropriate penalty must be provided, which takes account of the severity of the offence and can be administratively imposed. Surrey (1964)

recommends that the most desirable penalties are a combination of lump sum penalties and percentage penalties varying with the amount of tax due.

Surrey (1964) claims that for some taxpayers, however civil monetary policies are not sufficient. "Consequently, in most countries with effective tax administrations, willful evasion and fraudulent conduct are criminal offences punishable by fine and imprisonment. The failure to apply the criminal penalties in the books can have a demoralizing effect. In contrast, it is generally found that a few successful prosecutions and the attendant publicity can have a most exemplary effect. (Surrey, 1964).

2.5 MAINTENANCE OF RECORDS BY TAXPAYERS

Every responsible taxpayer is required by law to pay the correct amount of tax, to file their tax returns correctly and promptly, and to maintain accounting records in sufficient detail to enable them make proper tax returns, (FBIR, 1992). The tax authority is authorized to examine such records or any other relevant data for the purpose of ascertaining the correctness of the return, or of making a return where none has been made. Taxpayer records can be classified, according to Ola (1985), into primary and secondary records, which are described below:

(a) PRIMARY RECORDS

The primary informal records common to all types of business, accounting systems and reporting methods are those documents such as invoices, bills and

receipts upon which are recorded the individual transactions of buying and selling merchandise, supplies, services, assets used in the business and capital assets. Also to be included are such evidence of financial transactions as cancelled cheques, duplicate deposit slips and bank statements.

(b) SECONDARY RECORDS

The secondary or formal records, regardless of the accounting method employed by the taxpayer, are the permanent books, worksheets and other such records which list or summarize individual primary records in proper classification designed to aid the taxpayer in determining at the end of any given period, his financial status and profit or loss for the period. These secondary records may consist of a single book or records, a simple set of books, or a complicated set of records in which numerous analyses, consolidations or summarizations are made before the final result is obtained.

2.6 EXEMPTION OF SMALL FIRMS FROM TAX

Any tax that applies to large numbers of small business firms will be marked, Shoup (1969) claims, by mispayment of tax, most of which will be deliberate underpayment. Effective control of the small firm is very difficult and expensive. The reason Due (1970) gives for this is that records may be poorly kept or, even where records are kept, the correct data is easily concealed because they are not subject to outside audit and only one or a few a persons are involved

in falsification. Thus, Due (1970) believes, the small firm will typically evade a large percentage of its tax bill than the large firm. Sullivan (1964) is of the opinion that the cost of compliance is high to the small firm because tax requires a marked change from virtually no book-keeping to at least a rudimentary sort of book-keeping. This is not easy for the often semi-literate owner of the small firm. Thus, the canon of convenience (for the benefit of the small taxpayer) and the canon of economy (for both tax authority and small taxpayer) are put at risk.

Sullivan (1964) claims that there is no ideal solution to these two administrative inequities, namely, tax evasion and high cost of compliance. She, however suggests that "a fairly systematic solution to the control problem can be accomplished by exempting a certain amount of sales volume per firm per year (or month). Such an exemption can be granted to all firms, large or small, or made to vanish gradually above a certain level of sales ('dwindling exemption') or made to disappear suddenly once a certain level of sales is reached ('disappearing exemption') [Sullivan (1964)].

Due (1970) warns, however, that any exemption tends to induce a small firm to cease growing before it reaches the taxable level, and induces a large firm to spin off small wholely-owned subsidiaries, if smallness is defined in terms of direct, not indirect, ownership. The latter, Due says, is a simple practice with the extended family business system common in many developing countries. This practice will endanger the canon of equity since such people are evading a tax which, in all fairness, they ought to pay.

Shoup (1969) proffers another solution by which exemption is granted to all firms belonging to a sector in which tiny enterprises are numerous. He gives the example of retail sales taxes which commonly exempt sales of most consumer services since the major suppliers of such services are small firms or professional individuals. These are exempted on administrative grounds because the cost to the tax administration of effecting compliance from them, in relation to the tax revenue they yield, is quite high.

KASHIM IBRAHIM LIB

2.7 TAX EVASION AND TAX AVOIDANCE

Tax evasion is defined by Abdulrazaq (1995) as a "contravention of the tax laws where a taxable individual or company neglects to pay the tax due, or understates his tax liability by making fraudulent or untrue claims about the amount of tax due or about the quantity or value of the taxable object."

Where evasion occurs with the connivance or assistance of a government official, it is then bilateral evasion. (Shoup, 1969). The conniving or assisting party may be the tax assessor, tax auditor, or tax collector. In many countries, Shoup (1969) notes, the functions of assessment and collection are performed by two quite distinct governmental agencies, apparently on the theory that a taxpayer will find it more difficult to corrupt two men than one. Shoup disagrees, saying that experience indicates that corruption of either is often sufficient.

Tax avoidance, in Abdulrazaq's words, "denotes the various devices which have been adopted by the taxpayer with the aim of saving tax and thus sheltering

him from greater tax liability which would have been incurred but for the tax avoidance device." Avoidance of tax.. "is a legal reduction in the amount of tax that would otherwise have been due, by a change in taxpayer's behaviour that is motivated almost entirely by the prospective tax saving" (Abdulrazaq, 1993). It involves the arrangement of personal or business affairs within the law to minimise tax liability.

2.8 BRIEF HISTORY OF CONSUMPTION TAXES IN NIGERIA

Nigeria became a Federation effectively by the provisions of the 1954 Constitution. On independence in 1960, the Federal Government had the power to impose import duty, export duty and excise duty. Accordingly, the Customs and Excise Management Act was enacted in 1958. Both the 1960 and 1963 Republican Constitutions conferred on the States (then known as the Regions) the power to impose indirect taxes outside those listed under customs and excise.

The 1979 Constitution which introduced the second Republic gave State Governments residual powers to make laws with respect to matters such as sales tax and purchase tax. Several state governments enacted Sales Tax Edicts or Laws for the purpose of charging tax on the consumption of some goods and services in a bid to boost internal revenue generation.

The Military Government that came into power in December 1983 promulgated the Sales Tax Decree No. 7 of 1986 which governed the imposition and collection of a nationally levied sales tax, whose revenue was collected and

retained by the state governments.

The International Monetary Fund (IMF) and the World Bank, which were closely identified with the establishment, operation and monitoring of the Structural Adjustment Programme (SAP), advised that the Nigerian tax system was in dire need of reform so as to reduce government dependence on petroleum-derived revenue (Ijewere, 1993). The Federal Government set up two study group in 1991 to make recommendations on the reforms needed in the direct and indirect tax system in Nigeria.

The twenty-man study panel on Indirect Taxes, was set up by the Federal Ministry of Budget and Planning, and its objectives (listed by Ijewere, 1993) were to:

(i) shift taxation towards consumption (indirect taxation) rather than savings (direct taxation),

(ii) reduce dependence on (petroleum) oil revenue,

(iii) provide incentives for export production,

(iv) improve the administration of indirect taxes, and

(v) maintain a fairly even tax incidence across various lines of production.

This study group on Indirect Taxation recommended to the Federal Government that a modified VAT (MVAT) be collected from manufacturers, wholesalers and importers of goods and that, unlike the Sales Tax then in operation, services be made subject to MVAT. It was also recommended that

only a single rate of MVAT should be levied. Ijewere (1993) gives the reason for the recommendation of MVAT rather than a full-scale VAT (which extends to retailers) as being the impracticability of full-scale VAT in Nigeria as at that time. It was thought that evasion and avoidance of VAT would be brought on by poor record-keeping, the large number of illiterate small retailers and small business owners, the preponderance of the informal sector in the distribution chain and the likely high cost of collecting VAT from a large number of VATable retailers (Ijewere, 1993).

In his January 1992 Budget speech, the Head of State and President of the Federal Republic of Nigeria announced that Government would set up the necessary machinery for the introduction of MVAT to replace Sales Tax. Consequently, a twenty - member MVAT Committee was appointed in May 1992 to make adequate preparation involving administrative and legislative changes in the then existing tax procedure, to review the base and rate of Sales Tax to be used for MVAT, to recruit and train administrators, to prepare invoices and forms, and to conduct public enlightenment campaigns, workshops, and so on.

The Sales Taxes Decree was repealed in August 1993 with the introduction of the Value Added Tax Decree No. 102 of 1993.

KASHIM IBRAHIM

2.9 TAX ADMINISTRATIVE BODIES IN NIGERIA

Tax administration in Nigeria is divided between the Federal and State Governments, each possessing its administrative machinery to assess and collect

the taxes under its jurisdiction (Adedeji, 1969). The functional bodies under the care of the Federal Government for taxation purposes are the Federal Board of Inland Revenue, the Body of Appeal Commissioners and the Joint Tax Board. Each State Government has a Board of Internal Revenue.

2.9.1 FEDERAL BOARD OF INLAND REVENUE

The Federal Board of Inland Revenue (FBIR) was set up by Section 1 of the Companies Income Tax Act (CITA) of 1979. The operational arm of the FBIR is the Federal Inland Revenue Service (FIRS) and its composition is specified in the Finance (Miscellaneous Taxation Provisions) (Amendment) Decree No. 3 of 1993 as follows:

(a) an Executive Chairman who is a tax expert within the FIRS appointed by the President,

(b) the Director and Heads of Department of the FIRS,

(c) the officer from time to time holding or acting in the post of Director with responsibility for Planning, Research and Statistics matters in the Federal Ministry of Finance,

(d) a member of the Board of the National Revenue Mobilization, Allocation and Fiscal Commission,

(e) a member from the Nigeria National Petroleum Coorporation (NNPC),

(f) a Director from the National Planning Commission,

(g) a Director from the Department of Customs and Excise,

(h) the Registrar -General of the Corporate Affairs Commission, and

(i) the Legal Adviser to the FIRS.

The FIRS is responsible for the administration of the following matters listed by Abdulrazaq (1993) as follows:

(i) **Companies Income Tax Act 1979** which imposes tax on the income of all companies operating in the country except those specifically exempted under the Act;

(ii) **Capital Gains Tax Act 1967** which taxes gains resulting from the transfer of chargeable assets for valuable consideration. The FBIR is responsible for administering this tax on companies, non-residents and members of the Armed Forces and Police.

(iii) **Petroleum Profits Tax Act 1959** which taxes the profits of companies engaged in petroleum operations, that is, petroleum exploration, development, production and sale of crude oil.

(iv) **Armed Forces and Other Persons (Special Provision) Act 1971** under which come taxes on Armed Forces personnel and Police, Foreign Affairs Officers and residents of the Federal Capital Territory.

(v) **Industrial Development (Income Tax Relief) Act 1971** which

provides investment incentive to industries in Nigeria by granting tax holidays to companies in designated pioneer industries.

(vi) **Value Added Tax Decree 1993** which imposes a consumption tax on certain goods and services, and

(vii) **Education Tax Decree 1993** which imposes education tax on companies registered in Nigeria and establishes an Education Fund into which the tax collected shall be paid.

2.9.2 JOINT TAX BOARD

The Joint Tax Board (JTB) was established by Section 27 of the Income Tax Management Act of 1961. It is made up of Commissioners or Directors of Internal Revenue from all the States, with the Chairman of the FBIR as Chairman of the JTB.

Its principal functions include advising the Federal Government on uniform taxation principles of income taxation, double taxation and relief agreement.

2.9.3 STATE BOARD OF INTERNAL REVENUE

This is the tax authority for each state that is charged with the administration of the income tax laws of the state. Its operational arm is known as the State Internal Revenue Service (SIRS). The composition of the State Board is specified in the Finance (Miscellaneous Taxation Provisions) Amendment

Decree of 1993 as follows:

(a) the Executive Head of the SIRS as Chairman who is a tax expert within the state service appointed by the State Governor,

(b) three other persons nominated by the Commissioner for Finance in the State,

(c) the Directors and Heads of Department within the SIRS, and

(d) a Director from the State Ministry of Finance.

The administrative organisation of the State Revenue Departments are basically the same throughout the country according to Abdulrazaq (1993) except for slight variations in designation and devolution of responsibility.

The Finance Decree No. 3 of 1993 states that the State Board of Internal Revenue is responsible for:

(a) ensuring the effectiveness and optimum collection of all taxes and penalties due to the Government under the relevant laws,

(b) assessment and collection of tax and accounting for all amounts so collected in a manner prescribed by the Commissioner,

(c) making recommendations, where appropriate, to the JTB on tax policy, tax reform, tax legislation, tax treaties and exemptions as may be required from time to time,

(d) generally controlling the management of the SIRS on matters of policy, and

(e) appointment, promotion, transferring and imposition of discipline on employees of the SIRS.

2.10 SALES/PURCHASE TAXES OPERATED UNDER STATE LAWS

The sales tax (or purchase tax) laws promulgated by the defunct Anambra State, Kaduna State and Oyo State are summarized in the following pages. These taxes in Anambra and Oyo States were called purchase taxes which are synonymous with sales taxes. In both cases, the seller of taxable commodities is the agent that collects taxes from the buyer on behalf of the government.

2.10.1 ANAMBRA STATE PURCHASE TAX LAW (NO. 1 OF 1983)

The Anambra State Finance Law (Amendment) No. 1 of 1983, which was published in the State Gazette, provided that purchase tax be collected in respect of the following:

(a) every service rendered for monetary gain by a hotel, guest house, inn, motel, and other similar institution which provides boarding, lodging, catering, laundry or other ancillary services;

(b) every sale of cigar or cigarette, beer or any alcoholic drink;

(c) every laundry service; and

(d) every charge or fee for advertisement, whether in the press, radio, television or other media of public information.

The rate of tax was:

(i) five percent of the turnover on sales or services,

(ii) ten percent on advertisement in media or public information.

The tax was due from a purchaser or consumer at the time of purchase of the taxable commodity and was collected at source, accounted for and paid over by the supplier to the State Board of Internal Revenue.

Every supplier of taxable commodities was required to keep and maintain books, accounts and other documents in relation to the business carried on, the services rendered, and the tax collected on such business or services by the supplier.

For every sale made or service rendered to a customer, the supplier was required to issue to the customer a bill showing the nature and amount of each sale made or service rendered, the total amount of such sales or services, the purchase tax deducted at source of the turnover of all such sales or services, and the gross amount of such sales or services.

Every supplier was required to keep and maintain a daily record as well as a monthly summary showing all the sales made and services rendered by him to consumers. Not later than the 30th day of each month, the supplier was required to render to the Revenue Board, the return of all tax collected for the preceding month in the form of a monthly summary as referred to earlier on.

Where a supplier failed to collected tax or to pay over to the Board any tax collected by him, or failed to render returns or to keep a daily record or monthly summary of sales and services, or if he renders false or inconsistent returns or statements, the Board after inquiry, had the power to determine the amount of tax due. Thereafter, by a notice in writing, the Board would inform the defaulter of the amount so determined, requiring him to remit the amount or otherwise account for it within 21 days.

A supplier who failed to comply with or who acted in contravention of any provision of the tax law was guilty of an offence and liable on conviction to a fine and/or an imprisonment term.

KASHIM IBRAHIM LIBRARY

2.10.2 KADUNA STATE SALES TAX EDICT NO. 8 OF 1984

The Kaduna State Sales Tax Edict made provisions for charging sales tax on the chargeable commodities listed in the schedule to the Edict at the rates specified in the schedule. The Edict was published in the State Gazette and its details are given below.

Hotel and catering services, soft drinks, electronics, perfume and cosmetics were taxed at ten percent while cigarettes, tobacco, beer, liquor and spirits were taxed at five percent.

Purchasers or consumers of chargeable goods or services were liable to pay sales tax at the time of purchase or at the time of consumption of the goods or services respectively. The seller or supplier of the chargeable commodity was

expected to collect, account for and remit the sales tax to the Revenue Department of the Ministry of Finance and Economic Planning, Kaduna State.

Every seller or supplier of chargeable commodities was expected to keep, maintain and preserve such records, books and accounts in respect of all transactions by him on any chargeable commodity and enter therein regular accounts of the sales tax collected day to day. Such records include the duplicates of the receipts issued by the seller or supplier to the purchaser or consumer of the chargeable commodities. Daily records of the sales tax collected were to be remitted monthly to the Department by the seller or supplier on or before the tenth day of the month following the month for which the sales tax is due.

Where a seller or supplier failed to make a return or remittance as required by the Edict or if his returns were not substantiated by records, the Revenue Department had the power to make an estimate of the total amount of sales tax due. Subsequently, the Department could order the seller or supplier in writing to pay the estimated amount to the Department within 21 days of the date of the date of the service of the order. The Edict also specified that if the seller or supplier had any objections to such an order by the Department, he could serve a notice of objection in writing to the Department within fifteen days. Once the Department had considered the objection and subsequently affirmed or amended the said estimate, the seller or supplier would be notified and required to pay the required amount within ten days of notification.

Any contravention or failure to comply with the provisions of the Edict constituted an offence for which first offenders were liable to pay a fine of ₦1,000 and subsequent offences attracted a fine of ₦2,000.

The Kaduna State Sales Tax (Amendment) Edict No. 12 of 1985 made some changes to the sales tax rates. Hotel and catering services, cigarettes, tobacco, electronics, perfume and cosmetics, carpets and rugs attracted a tax rate of five percent, soft drinks were charged at ten percent, and beer, liquor and spirits were taxed at fifteen percent.

2.10.3 OYO STATE PURCHASE TAX EDICT NO. 6 OF 1984

This Edict was an amendment of the Purchase Tax (Catering and Hotel Services) Law No. 10 of 1980, and it covered three categories of commodities, with the tax rate varying from two to five percent.

The first category consisted of sales and services in inns (hotels and motels, etc) to customers, with exemption of beer and soft drinks. The rate chargeable was five percent of the gross charges of the inn.

The second category was made up of beer, soft drinks, liquor, wine, spirits, tobacco and cigarettes, and the rate of tax for commodities was five percent of retail price.

The third category comprised electronic equipment such as air conditioners, televisions, video recorders, radio sets, tape recorders, cameras, fans, refrigerators and deep freezers. The chargeable rate for these goods was five percent of retail

price.

Every purchase or consumer of the chargeable commodity was liable to pay purchase tax at the time of purchase or consumption. The tax was to be collected, accounted for and remitted to the State Tax Board by the seller of such commodities. Tax was to be remitted monthly to the Board by the tenth day of the month next following that for which the tax was due. All sellers in the state were expected to register with the Board for the tax.

Daily records were to be kept and maintained by sellers in relation to sales of taxable commodities and in relation to the tax collected on such. Monthly summaries of all goods and services transacted within the month were to be made and submitted to the Board.

Failure to make monthly returns would lead to the Board making an estimate of tax which the registrable person failed to collect or which he collected but did not account for, and such estimated amount would thereupon become due from such person to the Board. The Board would give notice in writing, either by personal delivery or by mail, to the defaulter requiring that such estimated amount be paid over to the Board within thirty days from the date the notice is served or mailed.

Failure to comply with tax remittance requirements, or failure to collect tax on taxable sales, among other offences, could lead to the person being charged to High Court, and on conviction such person could be liable to a fine ranging from ₦500 to ₦5000 (depending on the severity of the offence) and/or an imprisonment

term.

2.11 SALES TAX OPERATED UNDER DECREE NO. 7 OF 1986

The Sales Tax Decree No. 7 of 1986 imposed, with effect from 30 June 1986, a sales tax to be charged on certain goods and services at rates set out in Schedule 1 to the Decree. The Decree also specified the mode of collection and remission of tax, and the penalties for failure to comply with the provisions of the Decree. The retails of the Decree are summarized below, with references to the relevant portions of the Sales Tax Decree (STD) indicated in parentheses.

(a) TAXABLE GOODS AND SERVICES (Schedule 1 to STD 1986)

Taxable Commodities	Tax Rate
Beer	36 Kobo/Carton*
Liquor , Wine and Spirits	10%
Soft drinks (including mineral water)	24 kobo/Crate*
Cigarettes and Tobacco; Jewellery; Perfume and Cosmetics; Electrical goods; Carpets and Rugs; Bottled natural water.	5%
Sales and Services (excluding drinks) in Hotels, Motels, Catering establishments etc	5%

* Changed to 5% in December 1989.

(b) THE SALES TAX COMMITTEE (Section 3 - 5 of STD 1986)

The Sales Tax Committee was established by the Decree and was subject

to the control of the Minister of Finance. Its members were the Chairman of the JTB as Chairman and a representative each from the Productivity, Prices and Incomes Board, the Board of Customs and Excise and the Ministry of Commerce. The functions of the Committee, set out in Section 5(1) of the Sales Tax Decree, were to:

(i) conduct commodity by commodity survey on taxable goods for the purposes of getting the pattern of distribution of those goods in all States of the Federation, and recommend from time to time the tax rates to be charged thereon;

(ii) from time to time, fix prices of taxable goods, with the approval of the Productivity, Prices and Incomes Board;

(iii) from time to time, amend or vary the list of taxable goods and services; and

(v) do such other things as were necessary to ensure the smooth administration of the tax.

KASHIM IBRAHIM LIBRARY

(c) ADMINISTRATION OF THE TAX (Section 7 of STD 1986)

The Internal Revenue Department in each State was responsible for administering the Sales Tax subject to any directions given by the JTB. The JTB was responsible for coordinating the tax and ensuring its administrative tidiness within the tax machinery then in existence. It was also responsible for resolving any conflict that arose in the disbursement of revenue from the tax.

(d) COLLECTION AND PAYMENT OF THE TAX (Section 8-9 of STD 1986)

Sales tax was chargeable and payable on the goods listed in Schedule 1 where a manufacturer or importer supplied such goods to accredited distributors or agents, while tax was chargeable on services listed in Schedule 1 where a supplier sold such services to customers. Tax from these purchasers was to be collected not less than thirty days after the supply of goods to them. The reference price of any taxable commodity was, for the purpose of calculating the tax, that fixed by the Sales Tax Committee.

Any tax collected was to be remitted to the State Internal Revenue Board on or before the 30th day of the month next following that in which the tax was due. Together with such remittance, a return was expected to be submitted in the forms prescribed in Schedule 2 to the Decree (see Appendix 3 on pg. 143-146).

1 LIBRARY

(e) OFFENCES AND PENALTIES (Sections 11-12 of STD 1986)

Failure to comply with any provision of the Decree was an offence under the Decree. Where tax collected was not remitted within the specified time period, the state authority was to serve on the taxpayer a demand note for the unpaid tax plus a sum equal to five percent of the tax, to be paid within two months of the demand.

A person guilty of an offence under the Decree was to be tried in the High Court of the State whose jurisdiction he came under. On conviction, he would be liable:

(i) for a first offence, to a fine of ₦2000 or imprisonment for 6 months, and

(ii) for a second and subsequent offence, to a fine of ₦3000 or imprisonment for one year, or both.

2.12 VALUE ADDED TAX OPERATED UNDER VAT DECREE NO. 102 OF 1993

The implementation of VAT officially commenced on 1st January 1994. The VAT system in Nigeria is administered by the Federal Inland Revenue Service (FIRS). The VAT Directorate within the FIRS is centrally located at the Head Office in Abuja with a network of Zonal and Local VAT Offices throughout the Federation.

The various provisions of the VAT Decree (VATD) are briefly outlined below, with references to the relevant sections of the Decree given in parentheses.

(a) TAXABLE GOODS AND SERVICES

VAT is levied on goods specified in Schedule 1 to the Decree and services specified in Schedule 2 at a single rate of five percent. Schedule 3 contains a list of goods and services exempt from VAT. Schedules 1, 2 and 3 are displayed in Appendix 4 on pages 155 - 156. VAT is charged on non-exempt imports into Nigeria. All exported goods are zero-rated, that is, such goods are VAT-able at zero percent.

(b) VAT-ABLE PERSON

A VAT-able person is specified by FIRS Circular No. 9304 (1993) as one who trades in VATable goods and services for a consideration. Every VATable person has an obligation to register for VAT payment. The registration covers all the business activities of the VATable person who can be a sole proprietor, a professional, a partnership, a limited liability company, a club, association or charity (Section 42 of VATD).

KASHIM IBRAHIM LIB

(c) VAT REGISTRATION (Section 8, 10 and 11 of VATD)

All manufacturers, importers and suppliers are expected to register for VAT payment within six months of commencement of business (or within six months of commencement of VAT in Nigeria, for businesses in existence before then). The prospective taxpayer is expected to obtain and complete VAT Form 001 (See Appendix 5 on page 157) and return it to the nearest Local VAT Office.

A taxable person will both suffer VAT (input VAT) when purchasing goods or services for business purposes, and charge VAT (output VAT) when supplying goods and services to customers. Except his business is registered for VAT, he cannot charge VAT, and the input VAT he suffers cannot be reclaimed.

(d) VAT RETURNS (Section 13 of VATD)

Returns are to be rendered to the VAT Directorate through the Local VAT Office on or before the fourteenth day of the month following that in which sales

were made. Every VATable person must keep records of all supplies made and received. The documents required for VAT returns are the cheque(s) written for remittance of VAT and VAT Return Form 002 (see Appendix 6 on page 158). Form 002 must contain details of supplies made and received during the month being accounted for.

Liability to VAT arises when the output VAT exceeds the input VAT. The net VAT due is paid to the Local VAT Office or, if tax is owned to the VATable person, a refund is claimed.

To ensure proper recording of VAT collections and to support monthly VAT returns, certain statements should be prepared and made available to tax inspectors during their audit and inspection of VAT compliance (Ijewere, 1995). These statements are:

(i) copies of cheques for monthly remittance of VAT,

(ii) copies of VAT Return Forms 002,

(iii) a statement of input VAT,

(iv) a statement of output VAT, and

(v) copies of source documents (if practicable)

(e) VAT RECORDS AND ACCOUNTS (Section 9 of VATD)

Every VATable person is required to keep proper records and books of all transactions sufficient enough to calculate the correct amount of VAT payable. These include cash book, sales and purchases day books, ledger accounts and

balance sheet, among others. Specifically for VAT purposes, tax invoices are to be issued for all supplies and VAT accounts are also to be kept (FIRS, 1994a).

The tax invoice is to contain the following information, specified by FIRS Circular No. 3 (1994a):

(i) Taxpayer's Identification Number

(ii) Name, address and VAT Registration Number,

(iii) Customer's Name and Address,

(iv) A description of the goods/services supplied, and their quantity, rate of VAT, and rate of any cash discount offered, and

(v) the total VAT payable by customer.

KASHIM IBRAHIM LIB

The VAT account is a summary of the output and input VAT in a normal ledger account form, usually kept in the creditors ledger. VAT on purchases, bad debt relief and so on, are debited to the account. VAT charged on sales for the month are credited. Where there is a credit balance, a bank draft is prepared and paid over to the local VAT Office. Conversely, a debit balance calls for a refund and this would be made by the FIRS after necessary verification.

(f) VAT INSPECTION

VAT Officers and Inspectors are empowered by Section 35 of the VATD to make periodic visits to VATable persons to carry out audit and investigation procedures. According to FIRS Circular No. 3 (1993) such visits are:

(i) to ensure compliance with VAT registration and regulations,

(ii) to ensure that the full amount of VAT collected is promptly accounted for,

(iii) to examine the method of recording transactions and offer suggestions where necessary,

(iv) to afford the VAT payer the opportunity to ask any questions and seek clarifications from the VAT Officers and Inspectors, and

(v) to educate VAT payers on new developments in the system.

VAT drives are to take place periodically at the instance of Zonal Coordinators. Such tax drives are to stimulate the collection of VAT from defaulters and enforce prompt remittance of VAT payable.

(g) ACCOUNTING FOR VAT PROCEEDS

FIRS Circular No. 3 (1993) explains that VAT proceeds are accounted for by the process of returns and reconciliation, using the VAT Return Form 003, 004 and 005. Form 003 is completed by the Local VAT Office (LVO) and sent to the Zonal VAT Office monthly. It is a summary of all VAT Returns Forms 002 received every month by each LVO. Form 004 is the Zonal Office return of VAT collections to Headquarters. It is a summation of the various returns from the LVOs in the Zone. Form 005 is used to render returns of VAT collections made to the Federation Account in a given period.

(l) OFFENCES AND PENALTIES (Section 21-33 of VATD)

There are various offences with very stiff penalties under the VAT Decree. Some of the offences include failure to register, failure to furnish required information, making false claims, obstructing VAT inspectors, and failure to submit returns. These offences carry penalties ranging from fines of up to ₦10,000 to various terms of imprisonment.

The Decree is even more strict in dealing with officers of the Board. Any officer who aids or abets the commission of an offence under VAT law will be liable to a fine of ₦50,000 and/or imprisonment for five years.

KAS[illegible]M ID[illegible]

2.13 SUMMARY

In the first half this chapter relevant literature has been reviewed on the subjects of consumption taxes and tax administration with particular reference to the general sales taxes. In describing the nature of the general sales taxes (turnover tax, single-stage sales taxes and value added tax), reference was made to the strong and weak points of each tax and to its agreement with, or violation of, Adam Smith's canons of taxation. The basic duties carried out by tax administrators during preparation for, and actual implementation of, any tax were also described. A brief mentioned was made of the primary and secondary records that every taxpayers should ideally maintain, and of the difficulties which small firms face in this regard.

The second half of the chapter consisted of a brief history of consumption taxation in Nigeria, a description of the composition and functions of tax administrative bodies in Nigeria, and a summary of the laws which govern the implementation and administration of the taxes under consideration in this study, namely sales taxes and value added tax.

Based on this theoretical framework we will proceed to obtain and analyse relevant data from tax officers in selected states in order to evaluate the administration and productivity of Sales Tax and Value Added Tax in Nigeria over the period from 1985 to 1994.

CHAPTER REFERENCES

Abdulrazaq, M. T. (1993), Nigerian Tax Offences and Penalties. Batay Law Publications Ltd,. Ilorin pp. 134-135

Adedeji, A. (1969), Nigeria Federal Finance: Its Development Problems and Prospects Hutchinson Educational Ltd., London. p. 157.

Adesola, S.M.(1993).The Development of Indirect Taxation in Nigeria Since 1960. A Paper presented at "Train the Trainers Course" held at Obafemi Awolowo University, Ile-Ife, 10 May.

Anambra State Finance Law (Amendment) No. 1 of 1983. Anambra State of Nigeria Gazette, January 1983.

Awa, A. (1993). Imposition of Value Added Tax; Taxable Goods and Services and the Rate of Tax. Paper presented at seminar organized by VAT Directorate of Federal Inland Revenue Service, 20 September.

Chelliah, R. J. (1964). Taxation of consumption expenditures with special reference to India. In: Bird, R. and Oldman, O. (eds). Readings on Taxation in Developing Countries. John Hopkins Press, Baltimore. p. 286

Chown, J. (1973). VAT Explained: The Businessman's and Manager's Guide to VAT. Kogan Page (Associate), London. pp. 13-14, 30.

Davies, A. G. (1969). Main features of the VAT system. In: Cadmar, M. H. (ed). Taxation Economics. Macmillan and Co. Ltd., London. p. 60

Due, J. F. (1968). Government Finance: Economics of the Public Sector. Richard D. Irwin, Inc., Illinois. p. 417

Due, J. F. (1970). Indirect Taxation in Developing Economies. John Hopkins Press, Baltimore. pp. 1, 80 - 86, 90 - 91, 101, 105, 117, 124 - 126

Finance (Miscellaneous Taxation Provisions) (Amendment) Decree No. 3 (1993) Federal Government of Nigeria. pp. A16 - A22

FIRS (1993). Value Added Tax. Information Circular No. 9304, Federal Inland Revenue Service, Lagos. pp. 4 - 9

Giwa, Y. N. (1995). VAT and Other Federal Taxes Administered by the FIRS. Paper presented before the Kaduna State Internal Revenue Board, 28 April.

Goode, R. (1962). Taxation of Savings and Consumption in Underdeveloped Countries. The Brookings Institution, Washington D. C., pp. 188, 125

Ijewere, E. (1993). "Modified Value-Added Tax." The Nigerian Accountant, Vol. 26 No. 2, pp. 4 - 6

Income Tax Management Act (1961). Federal Government of Nigeria. pp. 34-35

Kaduna State Sales Tax Edict No. 8 of 1984. Kaduna State Gazette, 30 August. pp. A29 - A32.

Kaduna State Sales Tax (Amendment) Edict No. 13 of 1984. Kaduna State Gazette, 24 October, p. A51

Musgrave and Musgrave (1989). Public Finance in Theory and Practice. Mc-Graw Hill, New York. p. 322

Odiongenyi, O. T. (1987). Personal Income Tax Nigeria. Bob Printing Press, Zaria. pp. 5 - 7

Ola, C. S. (1985). Tax Planning and Auditing in Nigeria. University Press Limited,Ibadan. pp.56

Oyo State Purchase Tax Edict No. 6 of 1984. Oyo State Gazette, June 1984.

Powell, R. (1988). Economics (Study and Revision Manual) D. P. Publication Ltd, London. pp. 219 - 220

PPIB (1990). Productivity, Prices and Incomes Board Policy Guidelines, 1990. The Nigerian Accountant, Vol. 23 No. 2, pp. 6 - 7

Sales Tax Decree No. 7 of 1986. Federal Government of Nigeria. pp. A37 - A45

Shoup, C. S. (1969) Public Finance. Weidenfeld and Nicolson, London. pp. 207, 219-220, 234 - 235

Slade, M. (1971). Public Finance: Principles and Problems. Houghton Mifflin Company, Boston. pp. 435, 550 - 552

Sullivan, C. K. (1964). Concepts of Sales Taxation. In: Bird, R. and Oldman, O. (eds). Readings on Taxation in Developing Countries John Hopkins Press, Baltimore. pp. 331 - 335

Sullivan, C. K. (1965). The Tax on Value Added. Columbia University Press, New York. pp. 7 - 8

Surrey, S. S. (1964). Tax Administration in Developing Countries. In: Bird, R. and Oldman, O. (eds). Readings on Taxation in Developing Countries. John Hopkins Press, Baltimore. pp. 5, 509 - 521.

UNTAA (1974). Taxes and Fiscal Policy in Underdeveloped Countries. United Nations Technical Assistance Administration, New York. p. 38.

Value Added Tax Decree No. 102 1993. Federal Government of Nigeria.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

This research undertakes to examine and evaluate the Sales Tax and Value Added Tax (VAT) systems in Nigeria with the aim of identifying the problems encountered in the administration of these taxes, to proffer solutions to these problems, and to attempt to determine if VAT will redress the over dependence on crude oil sales as the main source of government revenue.

Information for the research was obtained from tax officers in the State Revenue Boards and the Federal Inland Revenue Service, through the administration of questionnaires. Another source of information consisted of secondary data obtained from the above mentioned officers as well as newspapers, journals, seminar proceedings and relevant published literature.

KASHIM IBRAHI

3.2 RESEARCH METHOD AND JUSTIFICATION

The method chosen for this research is the survey method which has been defined by Selltiz et al (1976) as "the specification of procedures for gathering information about a large number of people by collecting information from a few of them."

The quality of a survey, according to Selltiz et al. depends on:

(i) the number of people/units studied in the survey,

(ii) the sample chosen being a fair representation of the population from which

it is selected, and

(iii) the reliability of the data collected from the sample.

The first two criteria mentioned above are directly related to the sampling technique used in the research. The third criterion - the reliability of data - is dependent on the extent to which the researcher obtains the cooperation of the persons he studies. Thus, the information obtained through the use of the survey method in this research has been accepted by the researcher subject to all the potential limitations on it.

The population for this research is the entire body of Sales Tax and VAT officers in Nigeria and the researcher has selected a sample of tax officers in four States on which to administer the questionnaires. The selected states are from different geographical regions in the country in order to some extent be able to make more legitimate generalizations about the country. The questionnaires administered require written responses, enabling the researcher to discover certain facts and problem relating to the implementation and administration of Sales Tax and VAT in the selected states, and to proffer solutions to these problems. The facts and problems discovered in the course of this research may not be directly applied to all other states in Nigeria. Nevertheless, they will serve as a guide to what is obtainable in other states, and they will aid in formulating solutions to similar problems discovered in other states.

3.3 RESEARCH INSTRUMENTS AND THEIR ADMINISTRATION

The data collection device used for this research was the questionnaire. Two types of questionnaires, one for Sales Tax and the other for VAT, containing both closed and open-ended questions were administered on Sales Tax and VAT officers in the selected states (see Appendices 1 and 2 on page 124 to 139).

The closed or fixed-response questions had a fixed number of choices. The respondent was asked to tick the response that best fitted him/her. However, most of the fixed questions included the "any other answer?" category, in order to allow the respondent freedom to list alternative answers that had not been anticipated.

The open-ended questions, which were few in number, consisted of items that required expression of opinion by respondents on certain issues. Thus, rather than anticipate particular responses on these issues, the researcher requested the respondents to express their opinions about these issues. Such questions appeared in the Sales Tax questionnaire where respondents were asked to comment on the problems of inter-state trade during the operation of Sales Tax under State Government law, whether or not these problems were solved by the Sales Tax Decree of 1986, and the manner in which the solution was arrived at.

Fixed-response items are easy to score and code on the part of the researcher; while on the part of the respondent, rapid completion of the questionnaire is facilitated because he is only required to tick the responses which apply to him. The major disadvantage of all fixed-response questions is the

potential inability of the researcher to provide the respondent with all relevant response alternatives. If a respondent is forced to make a choice among several alternatives that do not fit it, the researcher may end up with misleading information. However, we have sought to overcome this shortcoming by providing the "any other answer?" alternative. Also with the exception of respondents in Anambra/Enugu State, respondents filled the questionnaires in the presence of the researcher. Thus, it was possible for the researcher to explain some questions to the respondents and put down, in writing, their detailed responses.

Open-ended questions offer less restriction to the respondent in terms of possible choices since he is free to elaborate his opinions in the spaces provided. The flexibility of open-ended items often elicits unanticipated and insightful replies from respondents which, according to Ologbonsaiye and Abifarin (1986), enhances the researcher's understanding of certain issues. However, open-ended questions also pose the difficulty of classifying and/or coding responses. Different respondents may appear to provide similar responses to the same question on a questionnaire, but the importance and meaning each respondent attaches to his reply may be considerably different. Open-ended questionnaires are also time consuming to complete, and the response rate may be lower than when fixed response questionnaires are used. However, the questionnaires used in this research had a small number of open-ended questions in comparison to fixed response questions.

Since both open-ended and fixed-response questions have been used, this has greatly enhanced the flexibility of the questionnaires used in this research as tools for description of the target sample and the measurement of salient variables.

The Sales Tax and VAT questionnaires consisted of 16 questions each; both were similarly designed so as to facilitate comparison of responses. The major difference was in the design of the question on the compliance level of various categories of taxpayers. Since Sales Tax was chargeable on only a few goods and services, categorization of taxpayers was done according to the groups of goods and services transacted in. VAT, on the other hand, is chargeable on a much wider range of goods and services, and therefore categorization of taxpayers on the basis of commodities dealt in would be too unwieldy. Instead, taxpayers were categorized according to the nature of their business (manufacturers, wholesalers, etc.)

The selection of the four states in which the sample of tax officers reside was made using a judgmental (or purposive) sampling technique. That is, the sample was handpicked by the researcher, exercising her judgement of state tax authorities throughout Nigeria. Such characteristics as geographical location and industrial/commercial development of the state had an influence on the choice of sample. The states selected were Anambra, Enugu, Kaduna and Oyo States. However, within the period covered by this research, Anambra and Enugu States existed as one state, namely, the defunct Anambra State. Therefore, Anambra and Enugu States are grouped as one state, and will be referred to as Anambra/Enugu

State.

The respondent for the Sales Tax questionnaire in each State was a Director of Taxes or a person under his authority to whom the task of answering the questionnaire was delegated. The VAT questionnaire was answered by the Local VAT Officer in charge of the VAT Office in the state capital, or the person delegated by him to answer the questionnaire.

3.4 EXPECTED DATA TO BE COLLECTED

The thrust of this study is to examine and evaluate the Sales Tax and VAT systems in Nigeria. The key variables in this study centre around the basic aspects of tax administration and the revenue statistics for the taxes being considered. These variables are listed below.

Variable	Measurement of Variable
The efficiency with which preparations were made for the administration of Sales Tax and VAT	i. Tax return forms (number and content) ii. Methods of identifying tax payers iii. Methods of publicity
The efficiency of actual administration of Sales Tax and VAT	iv. Methods of obtaining tax payer compliance and assessment of taxpayer compliance. v. Penalties imposed on tax delinquents vi. Difficulties in collection of taxes vii. Difficulties in accounting/recording procedure of taxpayers

	viii. Assessment of resources/facilities at the disposal of tax authorities.
The productivity of the Sales Tax and VAT in relation to each other, in relation to the State Revenue Boards' annual revenue and, in relation to Federal Government revenue	ix. Annual revenue from Sales Tax and VAT in the selected States. x. Annual revenue of State Revenue Boards of the selected States, and xi. Annual revenue of the Federal Government of Nigeria.

473714

3.5 METHOD OF DATA ANALYSIS

The responses given to questionnaires on the efficacy of various aspects of tax administration with respect to Sales Tax and VAT will be tabulated and compared, and conclusions drawn on whether the VAT system shows any significant improvement on the Sales Tax system.

The annual revenue from Sales Tax and VAT in each of the selected states will be compared with the annual revenue generated by the State Revenue Boards to determine if, and by what margins, state government revenue has improved.

The annual VAT revenue for 1994 as a percentage of total Federal Government revenue for that year will be examined to determine the extent to which VAT has contributed to national revenue in its first year of implementation.

CHAPTER REFERENCES

Ologbonsaiye, R. I. and Abifarin, F. P. (1986). A Guide to Research Work for Students. Gbabeks Publishers Ltd., Kaduna, Nigeria. pp. 14-15.

Selltiz, C. and Wrightsman, L.S. and Cook, S.W. (1976). Research Methods in Social Relations. Holt, Rinehart and Winston, New York. pp. 254, 312-317.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

In this chapter, we will analyse and interpret the results obtained through the questionnaire administered on tax officers in the four selected states in Nigeria.

The responses given to the Sales Tax questionnaires administered in Anambra/Enugu, Kaduna and Oyo States are presented and analysed first, followed by the responses given to the VAT questionnaires. Where the researcher was present at the time the questionnaires were being answered, further questions were asked and clarifications sought from the respondents and these results are also included in this presentation.

The responses to each class of questionnaire are presented in groups, each group consisting of analysis of responses to questions on a specific aspect of the tax system and its administration.

4.2 PRESENTATION AND ANALYSIS OF RESPONSES TO SALES TAX QUESTIONNAIRES

(a) Tax Laws and Regulations; Publicity

State sales taxes and purchase taxes came into force by the promulgation of state laws or edicts which were published in the State Gazettes. The purchase tax in the old Anambra State was governed by the Anambra State Finance Law (Amendment) No. 1 of 1983, sales tax in Kaduna State was operated under Edict

No. 8 of 1984, and purchase tax in Oyo state was governed by Edict No. 6 of 1984. Public announcements in the state-run newspapers, and on local radio and television broadcasts served to inform the public about these taxes, and the need for registration by taxable persons or units.

The Sales Tax Decree No. 7 of 1986 imposed by the Federal Government throughout the country was similarly publicized on national television and radio broadcasts and in the major national newspapers.

Information circulars on the above taxes were not printed for the benefit of taxable persons. However, some guidelines on Sales Tax Decree implementation were issued in response to some objections and questions raised by taxable persons and tax experts during meetings of trade associations or professional bodies. Three of such issues were that the Decree did not repeal any of the states' sales or purchase tax laws or edict, that there was no indication of a reliable reference price for taxable commodities to which sales tax rates were to be applied, and that there were no penalties indicated for non-collection of the tax. The Sales Tax Committee sought to resolve some of these issues by issuing a set of guidelines for Sales Tax implementation, in October 1986. The guidelines indicated that reliable reference prices fox taxable commodities would be that at which the chargeable goods or services were invoiced out by a company to a buyer who was a distributor or final consumer.

The Sales Tax guidelines also sought to resolve the problem of interstate trade with respect to commodities chargeable to Sales Tax. Interstate trade

problems existed also during the time of state government laws/edicts on sales or purchase taxes. Collecting sales tax in a particular state from out-of-state manufacturers/importers on products transported into the state for sale was a difficult task, but it was necessary in order to fill in the interstate gaps in Sales Tax coverage. The Sales Tax guidelines directed manufacturers/importers to indicate the destination of their goods on the invoices made out to their agents/distributors so that sales tax could then be computed and remitted to the relevant state tax authority where the goods were destined for. Thus, sales tax would be collected at source (i.e. collected by manufacturer or importer from distributor or agent) and remitted by means of issuing bank-certified drafts to the state government of the state in which the distributor resides. In a situation where a manufacturer/importer could not immediately determine the various destinations of his goods, he was obliged to collect the sales tax due on them from the initial purchaser or major distributor of the consignment, and impress it upon such a person to furnish him with accurate data on sales volume and final destination of the goods within one month, so that sales tax could be remitted accordingly.

KASHIM IBRAHIM LIBRARY

(b) Taxpayer Identification

Prior to the introduction of the State sales (or purchase) tax laws in all the states studied, lists of prospective taxpayers were compiled by the State Revenue Boards largely on the basis of the states' records of registered business, in order to provide the tax authorities with an estimate of the taxpayer population. These

lists were updated as persons came to register for the sales or purchase tax at the offices, and were used also for the national wide Sales Tax introduced in 1986.

(c) Treatment of 'Small Taxpayers'

Exemption from registration for sales (or purchase) tax was not granted under any of the state laws with the exception of the Anambra State purchase tax law which granted exemption to small-scale retailers without a registered trade name whose estimated operational capital was below ₦5,000.

The Sales Tax Decree did not specify any exemption to small businesses registering for the sales tax. It stated that those chargeable for sales tax were manufacturers, importers and suppliers.

(d) Number of Registered Persons, Tax Offices, Staff and Auditors

The statistics provided by respondents for the items listed above with respect to Sales Tax are presented below:

TABLE 4.1 NUMBER OF REGISTERED PERSONS, TAX OFFICES AND OFFICERS DURING SALES TAX

Categories	Anambra/Enugu	Kaduna	Oyo
Registered Persons	2,700	5,000	3,200
Tax Offices	10	6	5
Tax Offices and Other staff	36	20	20
Tax Auditors and Investigators	7	5	5

The ratio of staff to taxable persons, and that of auditors and investigators to taxable persons in each state is presented below, using the figures given above.

	Anambra/ Enugu	Kaduna	Oyo
Ratio of Staff to taxable persons	1:75	1:250	1:160
Ratio of Auditors & Investigators to taxable persons	1:385	1:1000	1:640

The location of tax offices in each state and the number of offices in each town is indicated below:

TABLE 4.2 NUMBER AND LOCATION OF SALES TAX OFFICES IN SELECTED STATES

State	Town	Number of Offices
Anambra/Enugu	Enugu	3
	Onitsha	3
	Abakaliki	1
	Nsukka	1
	Awka	1
	Udi	1
Kaduna	Kaduna	2
	Zaria	1
	Kafanchan	1
	Saminaka	1
	Birnin-Gwari	1
Oyo	Ibadan	1
	Oluyole	1
	Oyo	1
	Egbeda	1
	Ogbomosho	1

(e) Registration of Taxable Persons

In all states studied, the law provided that taxable persons should register voluntarily at the tax office, and that each person should be issued with a

registration certificate which bears his tax clearance certificate number (in some cases) and the registration certificate number of his business premises. In practice, voluntary registration was lacking, hence field registration drives were undertaken by tax office staff in order to get more taxable persons registered. However, these effort were limited by the inadequacy of transport facilities available for official use. The lists of prospective taxpayers drawn up by the Revenue Board at an earlier stage were used to identify taxable persons who had not yet registered for the tax. In addition, in Anambra/Enugu State, vehicles transporting taxable commodities were stopped and the distributors of such commodities were traced in order to check if they were registered for the tax. In Kaduna State, tax officers visited business premises asking to see evidence of registration. Master lists/charts/registers of registered persons were maintained by each state.

(f) Format of Tax Returns; Taxpayer compliance with filling returns

Neither Kaduna State Sales Tax Edict nor the Oyo State Purchase Tax Law gave a specific tax return format but each indicated that sellers were to maintain records of daily transactions and of charged on these transactions, and submit to the Revenue Board a monthly summary of sales/purchase tax collected. The law governing the purchase tax in Anambra/Enugu State included illustrations of the format of return forms for daily records and monthly summaries of taxable transactions. The compliance of taxpayers with such return-filing requirements as reported by respondents to the questionnaire are given overleaf:

TABLE 4.3 PERCENTAGE OF TAXPAYERS COMPLYING WITH SALES/PURCHASE TAX RETURNS (1985)

State	Returns required	Monthly	Quarterly	Rarely
Anambra/Enugu	Daily records; monthly summary	25%	20%	55%
Kaduna	Monthly summary	50%	-	50%
Oyo	Monthly summary	20%	30%	50%

The Sales Tax Decree provided the formats of four return forms to be submitted monthly by taxpayers. These were:

Form A: Sales tax bills for every transaction

Form B: Monthly returns of payment of sales tax collected

Form C: Monthly summary of commodities taxed (giving distributors' names, quantity of goods sold and tax collected)

Form D: Monthly list of distributors/agents and their addresses and the quantity and value of goods supplied to them.

The compliance of taxpayers with the requirement to file each of the above returns as reported by respondents to the questionnaire is summarized below:

TABLE 4.4 PERCENTAGE OF TAXPAYERS, COMPLYING WITH SALES TAX RETURNS (1986 - 1993)

State	Monthly	Quarterly	Yearly	Rarely
Anambra State	B,C & D (30%)	B,C & D (20%)	-	A (100%) B, C & D (50%)
Kaduna	B & C (50%)	-	D (50%)	A (100%) B, C & D (50%)
Oyo	B & C (20%)	B & C (30%)	-	A & D (100%) B & C (50%)

It appears that, in general, only about half the taxpayer population for both the state and national sales taxes made monthly or, at least, quarterly returns while the other taxpayers were persistently delinquent.

For the state-government sales (or purchase taxes), computation of tax involved applying the given tax rate to the total sales value of each corresponding category of taxable commodity. Usually there was also a requirement for a monthly summary of taxable transactions and sales tax collected for the month.

The computation required for the national Sales Tax was similarly simple, and the amendment made in December 1989 to the tax rates on beer (changed from 36 kobo per carton to 5% on sales) and soft drinks (changed from 24 kobo per crate to 5% on sales) further simplified matters. However, the requirement for the submission of four different forms on a monthly basis could not be met by a majority of taxpayers. In general, Forms B and C were submitted by half the taxpayer population with a regularity that ranged from one to three months. Form A was rarely returned. It obviously entailed more time and paper work, and as Form C already provided a summary of sales for the month, it appears the suppliers of taxable commodities were not willing to engage in the additional cost of making copies of bills or invoices and revealing details of individual transactions. Form D which listed names and addresses of distributors and agents, and the type and quantity of commodities sold to them, was usually submitted only once a year (except in Anambra/Enugu, where half the taxpayers submitted Form D monthly or quarterly).

(g) Tax Lag

Tax lag is the maximum time allowed for making remittance of tax due to the tax authority beginning from the end of the month in which the tax liability is incurred.

The tax lag for state sales and purchase tax in Kaduna and Oyo States respectively was 10 days but this was not found to be practical since regular taxpayers could usually file returns only after a tax lag of at least 30 days. Anambra/Enugu state had a tax lag of 30 days stipulated in its purchase tax law. It is likely that the experience of these state-run taxes accounted for the 30-day tax lag stipulated by the Sales Tax Decree for the national Sales Tax in 1986.

(h) Procedure for checking taxpayers' compliance with respect to filing of returns

As returns arrived at each tax office, the master lists or charts were ticked off for those persons who had filed returns. Large businesses that had not filed returns by the official deadline were usually visited by a tax officer, while other defaulters were mailed notices of delinquency or demand notes. In general between a quarter and a third of delinquents filed returns after the first reminder. Those who persisted in delinquency despite this first reminder were served a best-of-judgement assessment of tax due and, in some cases, threatened with a seal-up of business premises and, in some other cases, with monetary penalties. It was fairly difficult to obtain compliance from many of these delinquents since legal

action was rarely taken against hard-core delinquents (which, if taken, could have acted as a deterrent to other delinquents).

The compliance of persons reported in each category of taxable commodity is presented below, in terms of percentages of total taxpayers in each category.

TABLE 4.5 COMPLIANCE OF TAXABLE PERSONS WITH SALES (OR PURCHASE) TAX: 1985 - 1993

CATEGORY	Anambra/ Enugu	Kaduna	Oyo
Services in hotel and catering establishments	41 - 50%	41 - 50%	51 - 60%
Cigarettes and tobacco	Below 20%	Above 60%	Above 60%
Electronics	Below 20%	51 - 60%	Below 20%
Perfumes and Cosmetics	Below 20%	Below 20%	Below 20%
Soft drinks	Above 60%	Above 60%	Above 60%
Beer, Liquor and Spirits	Above 60%	Above 60%	Above 60%
Carpets and Rugs	Below 20%	Below 20%	Below 20%

(i) Audit procedure

As returns were received, they were routinely checked for arithmetical accuracy. Careful examination of returns of every business was generally carried out once every few months, more emphasis being placed on larger businesses. Some suspicious or incorrect matters on return forms were dealt with by asking the taxpayers concerned to appear at the tax office to defend the entries made on their return forms. A few businesses were visited each year by a tax audit team from the Revenue Board to inspect business records and books of account. In Kaduna State, in 1993, firms of chartered accountants were employed to conduct back-duty audits on some sales taxpayers for the preceding five years in order to ascertain their tax debts and charge them to the Revenue Court that was set up in 1992.

(j) Problems posed by taxpayers

The major problems posed by taxpayers to the tax authorities, in general, were deliberate understatement of sales volume in order to reduce the amount of sales (or purchase) tax to be remitted to the authorities, as well as failure to furnish the Revenue Board with names and addresses of accredited distributors/agents. Though the problem of poor and insufficient record-keeping was rated as minor by two out of the three states studied, it is possible that this may not be a true assessment. This is due to the fact that the taxpayer population was quite large in relation to the very few businesses that were inspected by tax audit teams every year, and it was on the basis of these audited businesses that the assessment of record-keeping was made.

The answers given by respondents to the question on problems posed by taxpayers are summarized in Table 4.6

TABLE 4.6 ADMINISTRATIVE PROBLEMS AS REPORTED BY SALES TAX OFFICERS

PROBLEMS POSED BY TAXPAYERS	SERIOUSNESS OF PROBLEM		
	Anambra/ Enugu	Kaduna	Oyo
Poor or insufficient records/accounts	Minor	Major	Minor
Deliberate understatement of sales volume in order to reduce tax payable on sales	Major	Major	Major
Failure to furnish tax authority with names of accredited distributors	Major	Major	Major
Exaggerated claims of sales of exempted commodities	n.a	n.a	n.a

n.a - not applicable

(k) Facilities/Resources at disposal of tax offices

Officially, ten percent of Sales Tax revenue was set aside by each state to cover administrative costs. In general, the adequacy of staff numbers and office equipment to cope efficiently with daily operations were rated as fair, while the number of audit and investigation staff and availability of transport facilities for daily operations and field investigations were rated as poor. Individual responses given on these issues are summarized in Table 4.7.

TABLE 4.7 ASSESSMENT OF FACILITIES AND RESOURCES AT DISPOSAL OF TAX OFFICES & REPORTED BY SALES TAX OFFICERS (1985-1993)

FACILITIES/RESOURCES	Anambra/ Enugu	Kaduna	Oyo
Adequacy of staff for daily operations	Fair	Good	Fair
Adequacy of efficient office equipment and modern devices for daily operations	Fair	Fair	Fair
Adequacy of trained staff for field work, and for audit and investigation purposes	Poor	Poor	Poor
Adequacy of transport facilities for daily operations and for field investigations	Fair	Poor	Poor

Key: Facilities/Resources Available
(In Percentage of actual requirement)

Excellent	Above 75%
Good	60 - 74%
Fair	50 - 59%
Below Average	40 - 49%
Poor	Below 40%

4.3 PRESENTATION AND ANALYSIS OF RESPONSES TO VAT QUESTIONNAIRES

(a) Tax Laws and Regulations; Publicity

VAT is operated under the VAT Decree No. 102 of 1993. At the inception of its operation in January 1994, several public announcements and advertisements were made about VAT on national television and in the major national newspapers, giving a brief description of VAT. A total of fifty-five workshops and seminars on VAT were organised and conducted by the Federal Inland

Revenue Service (FIRS) in 1993 and 1994 mainly for the benefit of VAT officers who were to be deployed throughout the country, and also for the benefit of VAT-able persons (particularly major trade associations and professional bodies).

In the first few months of VAT implementation, considerable public criticism and protest was raised through newspaper articles written by tax experts, and news reports were published about arguments raised against VAT in trade association meetings. The VAT Directorate of the FIRS responded to many of these issues by means of rejoinders in the same newspapers. The FIRS also printed and made freely available at Local VAT Offices (LVOs) in all state capitals, information circulars explaining in simple terms various aspects of VAT. Four such publications were issued in 1994, namely Information Circular on VAT, Information Circular on Imports, Detailed Lists of Items Exempted from VAT, and Information Circular on VAT Audit and Inspection.

(b) Taxpayer Identification

Before VAT Decree was implemented, the State Internal Revenue Services sought to obtain an idea of the VAT-able population by drawing up lists of prospective VATpayers from sources such as records of company income taxpayers with the FIRS, records of registered businesses in each state and, to a lesser extent, past records of sales taxpayers.

(c) Exemption of 'small' taxpayers from VAT

The VAT Decree does not exempt small businesses from paying VAT, but FIRS policy for the first three years of VAT (1994 - 1997) is to waive registration of small businesses (or the informal business sector) and to concentrate tax effort instead on the organised sector.

(d) Number of Registered Taxpayers, Tax Offices, Staff and Auditors

The statistics made available by respondents on the above matters are presented below.

TABLE 4.8 NUMBER OF REGISTERED TAXPAYERS, TAX OFFICES AND OFFICERS

CATEGORIES	Anambra/ Enugu	Kaduna	Oyo
Registered persons	1,229	1,219	2,009
Tax offices (Local VAT Offices)	3	1	1
Tax officers and other staff	30	15	22
Tax auditors and investigators	6	2	2

The ratio of staff to taxable persons, and the ratio of auditors and investigators to taxable persons in each state is presented in tabular form below.

	Anambra/ Enugu	Kaduna	Oyo
Ratio of Staff to taxable persons	1:1040	1:81	1:91
Ratio of Auditors and Investigators to taxable persons	1:5204	1:609	1:1004

The location of Local VAT Offices (LVOs) in each state and the number of LVOs in each town is given below:

TABLE 4.9 NUMBER AND LOCATION OF LVOs IN SELECTED STATES

State	Town	Number of LVOs
Anambra/Enugu	Enugu Awka Onitsha	1 1 1
Kaduna	Kaduna	1
Oyo	Ibadan	1

(e) Registration of Taxable Persons

Taxable persons were encouraged to register voluntarily at the LVOs in the initial two or three months of VAT, before registration drives were conducted in which LVO Staff visited some businesses in the state capital to brief proprietors or managers about VAT and get them registered. These field drives were limited to one or two outings per LVO due to the shortage of means of transportation at the disposal of the LVOs, and were limited, with the exception of Anambra/Enugu State, to the state capital itself. Other registrable persons whose addresses were noted from the list of prospective VATpayers were notified by mail about VAT and the registration procedure.

Taxpayer lists (or charts or registers) were maintained by each LVO.

(f) Format of tax returns; Compliance with filing of returns

The VAT Decree specified the format of a single return form (Form 002) which showed additions and subtractions of various sub-components of VAT computation such as input VAT, output VAT, deductions, zero-rated supplies and total sales. These components were to be compiled by the seller from his daily records and accountants of all his transactions, and entered into the VAT return form. The seller was expected to submit this return form every month along with a monthly summary of VAT collections and payments and the names of the purchasers and suppliers, Booklets of explanatory notes were available at LVOs to acquaint taxpayers with the meaning of the various VAT components and the procedure for VAT computation.

The compliance of taxpayers (in percentage of total registered persons) with the filing of tax returns and the regularity with which returns were filed in 1994 are summarized below.

TABLE 4.10 PERCENTAGE OF VAT-PAYERS COMPLYING WITH VAT RETURNS (1994)

State	Monthly	Quarterly	Half-yearly	Rarely
Anambra/Enugu	60%	15%	-	25%
Kaduna	70%	10%	10%	10%
Oyo	60%	10%	5%	25%

Since VAT registration and filing of returns is not required of businesses in the informal sector till 1997, several VATpayers in 1994 were large businesses

in the organized sector which usually employ trained staff for accounting purposes. This partly accounts for the relatively high compliance of taxpayers with the monthly requirement of filing returns.

(g) Tax Lag

The tax lag for remittance of VAT due was specified in the VAT Decree as 14 days but it was discovered that most registered taxpayers found it easier to make returns after a tax lag of three to four weeks. Thus, an effective tax lag of 30 days was granted for non-import VAT, and VAT return forms were amended to show this new deadline. VAT on imports is operated on a zero-lag system because VAT collection is made on the spot for imports.

(h) Checking on taxpayer compliance with respect to filing of returns

The taxpayer list/chart/register is ticked for each return received. In Anambra/Enugu and Oyo States, these lists have monthly columns so that the regularity of taxpayer compliance can be kept track of. In Kaduna State, as VAT returns arrive in the LVO, they are endorsed, filed in the VATpayers' files and the front of each file is minuted, so that the regularity of filing returns can be seen at a glance whenever a VATpayer's file is picked up.

After the expiration of the official deadline for filing returns, defaulters are served a letter of delinquency by mail and, in the case of very large VATpayers, an LVO staff member makes a visit to these organisations to remind delinquents

to respond positively to these first reminders. In some cases, instalmental payment of VAT owed is permitted.

Persistent delinquents are reminded again by mail (or a visit) of the need to remit VAT owned. In line with FIRS policy, persuasive tactics rather than punitive measures have been employed on defaulters during the first year of VAT operation.

The compliance of various categories of VATpayers were given by respondents in the form of percentages of registered persons in each category, and the results are summarized below.

TABLE 4.11 COMPLIANCE OF TAXABLE PERSONS WITH VAT

CATEGORIES	COMPLIANCE LEVEL		
	Anambra/ Enugu	Kaduna	Oyo
Importers	Below 20%	Above 60%	31 - 40%
Manufacturer and Assemblers	Above 60%	Above 60%	Above 60%
Wholesalers and Distributors	51 - 60%	51 - 60%	21 - 30%
Retailers	Below 20%	41 - 50%	21 - 30%
Financial Institutions	41 - 50%	51 - 60%	51 - 60%
Professional/Consultancy firms	21 - 30%	41 - 50%	Below 20%
Hotels and Restaurants	Below 20%	Above 60%	31 - 40%

(i) Audit Procedures

Each return is routinely examined as it arrives in the LVO to ensure these are no arithmetical errors. A more detailed examination of returns is conducted in batches, comparing the monthly summary of VAT receipts and payments of a particular VATpayer with the monthly summaries submitted by other organisations

that engage in trade with this VATpayer. This is so as to check if VAT payment and receipt claims among these organisations tally or if they differ substantially. The LVO would seek to clarify serious differences by asking the organisations concerned to send their representatives to the LVO with the records necessary to verify these claims. Due to the shortage of staff generally experienced by the states studied and the pressure on the LVOs to meet monthly VAT collection targets set by FIRS headquarters, the above method of investigation (office audit) was generally directed to large VATpayers. Field audits at taxpayers' business premises (in which the business and its records are inspected by qualified tax auditors) were conducted for an average of five organisations in each of the states studied in 1994. Such an audit team was usually made up of a few qualified persons from the FIRS headquarters in Lagos.

KASHIM IBRAHIM LIBRARY

(j) Problems posed by taxpayers

The major problem posed by taxpayers was the deliberate understatement of sales volume in order to decrease the amount of VAT collected on sales to be remitted to the tax authorities. With regard to the problem of exaggerated claims of sales of commodities exempt from VAT, this was classified as minor by two out of three states studied, and it was a problem often associated with large pharmaceutical dispensing outlets who sold VAT-able items but who tried to claim that all their sales were VAT-exempted, so as to avoid remitting VAT to the LVOs.

Poor or insufficient record-keeping was described as a minor problem in two of the three states studied, but this could also be as a result of the fact that majority of presently-registered VATpayers are large businesses and businesses in the organized sector that generally keep sufficient records in comparison to smaller businesses that often have problems in record-keeping. Also, the infrequency of audit exercises and the poor coverage of the taxpayer population during these exercises could have limited the ability of the respondents to reasonably judge the record-keeping habits of taxpayers.

The respondents ranking of the various problems listed in the questionnaire for each state are presented in Table 4.12.

TABLE 4.12 ADMINISTRATIVE PROBLEMS AS REPORTED BY VAT OFFICERS (1994)

PROBLEM POSED BY TAXPAYERS	SERIOUSNESS OF PROBLEM		
	Anambra/ Enugu	Kaduna	Oyo
Poor or insufficient records/accounts	Minor	Minor	Major
Deliberate understatement of sales volume in order to reduce tax payable on sales	Major	Major	Major
Failure to furnish tax authority with names of accredited distributors	n.a.	n.a.	n.a.
Exaggerated claims of exempted commodities	Minor	Minor	Major

n.a - not applicable

(k) Facilities/resources at the disposal of tax authority

The adequacy of staff numbers and of office equipment to cope with daily operations in an efficient manner was ranked as good by Anambra/Enugu state and fair by the other two states. Anambra/Enugu ranked availability of auditing and investigation staff and transportation facilities as fair, while the other two states described their situation as poor. Individual responses are summarized in Table 4.13.

TABLE 4.13 ASSESSMENT OF FACILITIES AND RESOURCES AT DISPOSAL OF LOCAL VAT OFFICES AS REPORTED BY VAT OFFICERS (1994)

FACILITIES/RESOURCES	Anambra/ Enugu	Kaduna	Oyo
Adequacy of Staff for daily operations	Good	Fair	Fair
Adequacy of efficient office equipment and modern devices for daily operations	Good	Fair	Poor
Adequacy of trained staff for field work, and for audit and investigation purposes	Fair	Poor	Poor
Adequacy of transport facilities for daily operations and for field investigations	Fair	Poor	Poor

Key: FACILITIES/RESOURCES AVAILABLE
(In Percentage of actual requirement)

Excellent	Above 75%
Good	60 - 74%
Fair	50 - 59%
Below Average	40 - 49%
Poor	Below 40%

4.4 PRESENTATION AND ANALYSIS OF REVENUE STATISTICS

(a) Annual Revenue Generated by Sales Tax, VAT and the State Revenue Boards of selected states (1985 - 1994)

Revenue figures were supplied by respondents in each state in response to questions on the following matters:

i. annual Sales Tax revenue during the period of 1985 - 1993,

ii. annual VAT collection (remitted to FIRS headquarters) for 1994,

iii. annual allocation of VAT proceeds by FIRS to the state for 1994, and

iv. annual revenue generated by the State Revenue Board (1985 - 1994).

These figures are presented below in Table 4.14 and 4.15.

TABLE 4.14 ANNUAL REVENUE GENERATED BY STATE REVENUE BOARDS AND SALES TAX COLLECTIONS FOR SELECTED STATES 1985-1993)

YEAR	ANAMBRA/ENUGU		KADUNA		OYO	
	TOTAL STATE BOARD REVENUE	PURCHASE TAX (1985); SALES TAX (1986-1993)	TOTAL STATE BOARD REVENUE	SALES TAX (1985-1993)	TOTAL STATE BOARD REVENUE	PURCHASE TAX (1985) SALES TAX (1986-1993)
	₦	₦	₦	₦	₦	₦
1985	48,299,450	4,882,113	35,147,023	5,108,132	45,197,105	7,241,607
1986	46,073,201	5,146,808	35,208,177	7,070,312	46,422,836	8,902,431
1987	47,255,710	7,385,897	38,730,806	8,197,541	48,701,632	9,571,640
1988	50,450,963	9,287,648	42,263,373	9,235,236	54,546,320	11,347,609
1989	62,619,755	12,919,703	43,943,673	10,344,503	65,975,541	13,241,176
1990	75,935,552	15,883,701	55,699,407	12,760,142	73,648,466	14,506,459
1991	47,357,582	8,249,223	62,,915,558	12,207,651	70,563,702	15,612,010
1992	57,854,480	13,828,735	70,105,233	12,938,292	79,782,102	16,113,854
1993	90,337,265	18,134,738	100,077,332	15,165,542	98,519,415	18,029,646
TOTAL	526,184,048	95,718,566	484,090,582	93,027,351	583,357,119	114,566,432

TABLE 4.15 REVENUE GENERATED BY STATE REVENUE BOARDS AND VAT COLLECTIONS & VAT ALLOCATIONS FOR SELECTED STATES (1994)

STATE	TOTAL STATE BOARD REVENUE	VAT COLLECTION	VAT ALLOCATION
	₦	₦	₦
ANAMBRA/ENUGU	97,720,038	133,975,080	322,160,758
KADUNA	180,495,642	345,022,665	249,916,920
OYO	125,105,292	227,597,019	228,475,815

The annual revenue from state sales (or purchase) tax and the nationally operated Sales Tax collected by individual State Revenue Boards of the selected states ranged from 8% to 20% of annual total revenue generated by these Boards over the period 1985 - 1993.

In 1994, the first year of VAT's operation, the VAT collected by the FIRS through its Local VAT Offices in each state studied was, on the average, one-and-a-half times the total revenue generated by the State Revenue Boards. Since VAT is a federally-administered tax, the monthly VAT collections of each state are remitted onwards to the FIRS headquarters. The total VAT pool is subsequently shared out at the statutory ratio of 80% among all the states and the Federal Capital Territory, and 20% to the Federal Government to cover its cost of VAT administration. The VAT allocations received in 1994 by each of the states studied still exceeded the revenue generated by each State's Revenue Board. Kaduna State's VAT allocation was thrice its internal revenue, while

Anambra/Enugu and Oyo States received VAT allocation amounting to about one-and-a-half times the revenue generated by their respective State Revenue Boards.

(b) Annual Nation-Wide Revenue from Sales Tax and VAT; Annual Federal Government Revenue (1985 - 1994)

The annual Federal Government Revenue, and its major components, are summarized in Table 4.16 below. The main taxes collected by the FIRS which form part of the Federal Government revenue are Petroleum Profits Tax (PPT), Companies Income Tax (CIT) and, as from 1994, Value Added Tax (VAT). The other main components of Federal Government Revenue are Rent, Royalties and NNPC Earnings, Customs and Excise Duties, and Federal Government Independent Revenue.

KASHIM IBRAHIM LIBRARY

Table 4.16 also reveals the percentage contribution to annual Federal Government revenue of each of the sources mentioned above. Table 4.17 displays the annual revenue from Sales Tax operated under the Sales Tax Decree which was in existence from June 1986 to December, 1993. We were unable to obtain information on the corresponding figure for 1985, that is the sum of the sales tax (or purchase tax) revenue made by those states that were imposing these taxes on their own, during the year 1985. However, following the pattern of annual revenue from Sales Tax for the period of 1986 - 1993, we can safely conclude that nationwide revenue from sales taxes for the period 1985 - 1993 amounted to about ₦1.2 billion. Thus, over a ten-year period, sales tax revenue amounted to about

₦1.2 billion which, on the average, amounts to ₦0.12 billion per annum.

Sales Tax proceeds were utilized solely by the State Governments. As at December 1994, the position of the Federal Government on the distribution of VAT proceeds was that 80% of these proceeds were to be distributed among the 30 states and the Federal Capital Territory (FCT). In turn, each state and the FCT was expected to give 10% of its share of VAT to the Local Councils within its jurisdiction.

TABLE 4.16 FEDERAL GOVERNMENT ANNUAL REVENUE (1985 - 1994)

REVENUE	1985		1986		1987		1988		1989		1990		1991		1992		1993		1994	
	₦ million	%	₦ million	%	₦ million	%	₦ million	%	₦ million	%	₦ million	%	₦ million	%	₦ million	%	₦ million	%	₦ million	%
PPT	6,711	46.0	4,811	39.1	12,504	50.0	6,815	24.7	10,598	22.2	13,137	19.1	10,054	12.8	17,793	14.0	59,207	42.6	48,953	34.2
R,R & NNPC	4,204	28.8	3,296	26.8	6,323	25.8	13,017	47.2	28,532	59.7	42,079	61.3	50,261	64.0	85,991	67.7	46,948	33.8	47,153	32.9
CIT	1,050	7.2	1,103	9.0	1,235	5.0	1,551	5.6	1,914	4.0	2,997	4.2	3,828	4.8	5,417	4.3	9,554	6.9	18,409	12.9
VAT	-	-	-	-	-	-	-	-	-		-	-	-	-	-	-	-	-	8,195	5.7
C & E, FGIR, etc	2,641	18.0	3,092	25.1	4,838	19.2	6,212	22.5	6,753	14.1	10,365	15.1	14,497	18.4	17,798	14.0	23,164	16.7	20,450	14.3
TOTAL	14,606	100.0	12,302	100.0	25,100	100.0	27,595	100.0	47,797	100.0	68,578	100.0	78,640	100.0	126,999	100.0	138,873	100.0	143,160	100.0

Source: Central Bank of Nigeria Annual Reports and Accounts (1985 - 1994)

KEY: PPT - Petroleum Profits Tax
R, R & NNPC - Rent, Royalties and NNPC Earnings
CIT- Company Income Tax
VAT - Value Added Tax
C & E, FGIR, etc - Customs and Excise Duties, F.G. Independent Revenue, etc

TABLE 4.17 ANNUAL NATIONWIDE REVENUE FROM SALES TAX OPERATED UNDER THE 1986 DECREE (1986-1993)

1985	1986	1987	1988	1989	1990	1991	1992	1993	TOTAL
n.a	₦ million 21.12	₦ million 44.91	₦ million 59.38	₦ million 97.78	₦ million 133.48	₦ million 194.88	₦ million 279.00*	₦ million 330.00*	₦ million 1,160.55

Source: Feasibility Report on VAT made in 1992 by UNIFECS, the Consultancy Services of Obafemi Awolowo University, Ife.

* Approximate figures obtained during research process from a Director of Tax Collection (Kaduna State Board of Internal Revenue).

n.a - not applicable, the researcher was unable to obtain information on the total revenue from sales/purchase taxes for 1985.

In the first year of its existence, 1994, the Federal Government realized ₦8.195 billion from VAT, almost ₦2.2 billion above the official estimate of ₦6.0 billion made by the Federal Board of Inland Revenue at the onset of 1994. Thus, VAT accounted for 5.7% of total Federal Government revenue in 1994.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

In the order of their historical appearance, the general sales taxes can be classified as the turnover tax, the manufacturers' sales tax, the wholesalers' tax, the retail sales tax and the value added tax (VAT). The turnover tax is a multiple-stage sales tax imposed at each sales transaction that occurs from the manufacturer to the retailer before the product finally reaches the consumer. The manufacturers', wholesalers' and retail sales taxes are single-stage sales taxes applied at only one stage of business activity as indicated by the names of the taxes. VAT is a form of sales tax that applies to each firm at each level of production and distribution but taxes the value that the firm adds to its products rather than the total sales value of these products, (the latter value is used in calculating tax liability for all the other forms of sales taxes).

The administration of sales and taxes and indeed any other type of tax involves certain basic steps to be undertaken by the specialized tax agencies of the Federal and State Governments that administer these taxes. Under the canon of certainty once tax policy has been formulated, well-defined and precise tax regulations must be drawn up which enable the government to have a clear picture of the scope of the tax and enable the taxpayer to have a clear understanding of the tax. Tax return forms must be designed to be, as far as possible, both accurate and simple. Taxpayers should be well informed about the tax through the media.

Up-to-date tax registers must be maintained by the tax authorities and return forms should be made easily accessible to taxpayers. Vigorous efforts on the part of the tax authorities should be made to ensure that taxpayer compliance is obtained and that returns are accurate. This will help to satisfy the canon of equity by ensuring that all taxable persons do in fact meet up their true tax liabilities. To some extent it will also satisfy the canon of economy in collection (on the part of the tax authority) since a firm stand taken by the tax officers on issues of tax evasion and understatement of the liability, in the initial years of tax implementation, will deter would-be delinquents. Thus, collection costs incurred in pursuing delinquents in the initial years of the tax could be expected to come down to a reasonably low figure thereafter.

Thus tax offices must be organised to receive and audit returns, determine their accuracy, and conduct a program of field examination and investigation. Delinquency in payment must be treated with firmness through the use of penalties and, where necessary, by resorting to prosecution in a court of law.

Sales tax was introduced into the Nigerian tax system in order to serve as a means of substantial revenue generation for state governments, first through the implementation of sales tax laws or edicts promulgated by individual state governments, and then under the Sales Tax Decree promulgated by the Federal Government in 1986. Sales Tax was replaced by VAT in January 1994.

This study has attempted to examine and evaluate Sales Tax and VAT in Nigeria over a ten-year period, 1985 - 1994, to identify the problems encountered

in the administration of these of these taxes with a view to drawing conclusions about the possibility of VAT succeeding in Nigeria as a replacement to Sales Tax in generating substantial revenue for state governments, and in redressing the over dependence of the Federal Government on oil revenue.

A Sales Tax questionnaire and a VAT questionnaire were designed for the study, each being administered to four states in Nigeria, namely, Anambra, Enugu, Kaduna and Oyo. Anambra and Enugu States were grouped as one, since they existed as a single state (old Anambra State) for the first six years of the research period before they were divided in August 1991. The respondents to the questionnaires in each state were a senior tax officer in the State Board of Internal Revenue (for Sales Tax) and the VAT officer in charge of the Local VAT Office in each state (for VAT). Where it was possible, some of these persons were interviewed to seek further details and clarification on certain issues treated in the questionnaires.

They key variables for which information was sought using the questionnaires pertained mainly to the administration of Sales Tax and VAT in Nigeria. These included development of tax forms, method of locating taxpayers and of obtaining taxpayer compliance, the audit, inspection and examination techniques used to check taxpayer compliance, the treatment of tax delinquents, the problems encountered in tax collection, and the state of facilities and resources at the disposal of the tax authorities. Respondents were also requested to provide revenue statistics on annual revenue from Sales Tax and VAT, as well as annual

revenue internally generated by the Revenue Boards in each of the states studied.

5.2 CONCLUSION

The publicity drive for Sales Tax was not as elaborately organised as VAT. The approach used by the FIRS to publicise VAT could be likened to the marketing strategy used by businesses in the private sector to advertise a new product into the market. The vigorous approach to publicity ensured that VAT was made known to a large section of the nation's population. This was particularly necessary as VAT was to affect most of the population directly or indirectly, since VAT was chargeable on a wider range of commodities than was the case with Sales Tax.

The FIRS also undertook to educate taxpayers about the intricacies of VAT through its Information Circulars made freely available at Local VAT Offices, and the workshops and seminars organized for selected groups. Newspaper articles were also written by competent VAT Officers as rejoinders to complaints or queries earlier raised by taxpayers or tax experts in these same newspapers. These were mostly minor issues in comparison to the uncertainty and ambiguity which beset a few major aspects of the Sales Tax system, some of which remained a major problem for the duration of Sales Tax. Thus, under the canon of certainty, more efforts were made in arriving at clear and practicable tax regulations on the part of the FIRS (for VAT) than on the part of the Joint Tax Board (for Sales Tax).

Chelliah suggested that indirect taxes be used to raise revenue especially from those persons who could not be reached through direct taxes. In addition, Sullivan (1964) states that the scope of sales taxes (which are indirect taxes) should ideally be the total value of all final products created by the economic system, namely, tangible commodities and services. This, in our opinion, is part of the application of the canon of equity, since by reaching as many commodities as possible, a sales tax can be considered to be more equitable in taxing the population's consumption.

The sale of services is an important part of any country's economy, yet they were largely left outside the scope of Sales Tax. The only services chargeable under Sales Tax were hotel and catering services. VAT, on the other hand, taxes several services such as those rendered by financial institutions, professional firms, consultancy firms, telecommunications and courier organisations, to name a few. In total, Sales Tax was charged on nine categories of goods and types of service, while VAT is charged on seventeen categories of goods and twenty-four categories of services. Thus it is our opinion that VAT is more equitable than Sales Tax in its coverage of the economy. However, as can be seen from the reported compliance levels in various categories of taxpayers (cf. Table 4.11 on page 96), the FIRS has to work at improving compliance level in the services sector.

During the Sales Tax era, there were tax offices spread over a wider area in each of the states studied, whereas presently most states have a single VAT

office in the state capital. Thus, the efforts of staff at VAT offices are generally concentrated within the state capital. However, many "large" VATpayers are based in the state capitals, or at least have head offices located there, so the Local Vat Office (LVO) in the state capital can follow up these units fairly closely. Even so, the LVOs are unable to cope effectively with all the taxable organisations within the state capitals, because of limitations of staff numbers and transportation facilities (cf. Table 4.15 on page 101).

VAT is centrally administered by the FIRS through its VAT Directorate, and VAT collected in each state in remitted onwards to VAT headquarters in Abuja, and subsequently the accumulated VAT returns are shared out among the states in stipulated ratios. Thus there is some administrative difficulty involved in the operational distance between LVOs, Zonal VAT Offices and FIRS national headquarters. This problem is compounded by the generally inadequate state of the nation's telecommunication facilities, postal services and road networks, which adds to the administrative costs incurred by FIRS. Twenty percent of VAT revenue is used to cover administrative costs. In the Sales Tax system, however, the administration, collection and utilisation of revenue from Sales Tax was solely carried out by individual State Boards of Revenue, and ten percent of the revenue was used to cover administrative costs. Thus, the canon of economy in collection of taxes can be seen to be more easily obtained in Sales Tax than in VAT.

Taxpayers were required to submit four return forms every month for Sales Tax, whereas VATpayers need only submit one form every month. It may be

argued that Sales Tax returns demanded more details from taxpayers; however, it has been pointed out that in practice only two out of the four forms were regularly filed by taxpayers (cf. Table 4.4 on page 84). The return forms that required lengthy details were less forthcoming from sales taxpayers. Thus, in terms of the system of tax returns, the VAT system is more convenient than the Sales Tax system.

In general, only about 50% of Sales Tax-payers, in the states studied, filed returns on a monthly or, at least a quarterly basis, whereas about 75% of registered VATpayers did so on a monthly or quarterly basis (cf. Table 4.4 and 4.10 on page 84 and 94 respectively).

Unlike the Sales Tax system, the VAT system has the advantage of cross-checks being made of the invoices or organisations that trade with each other in VAT-able commodities, since VAT cuts through all stages of production and distribution. This possibility was not present in the Sales Tax system since tax was charged only at one point (sales of commodities by manufacturers and assemblers to major distributors). Only the collectors of the tax were required to file Sales Tax returns, not the distributors, therefore there was no possibility for cross-checks. Admittedly, however, the VAT audit and inspection programme during which such invoices could be examined is yet to take-off on a regular, wide-ranging basis. At present, cross-checks are limited largely to the monthly summaries of VAT collections and payments submitted by VAT-payers to the LVOs. As efforts are made in subsequent years to improve and increase VAT

audit and inspection exercises, it is expected that the cross-checking procedure will reduce taxpayers' tendency to understate VAT owed to the FIRS.

Under the Sales Tax era, consumption yielded 8% to 20% of the revenue generated annually by the State Boards of Internal Revenue. With the advent of VAT, consumption taxation has become a high-yield tax bringing in additional revenue to each State. The annual share of VAT proceeds received by each state studied amounted to one-and-a-half times the revenue brought in by each State Revenue Board in 1994.

VAT revenue figures were readily supplied by respondents to questionnaires, with permission from the Local VAT Officer in charge of the Local VAT Office. VAT revenue figures have been regularly publicized in the media. A detailed picture of VAT proceeds from individual States in the Federation have been published in a personal book written by FIRS Chairman (Naiyeju, 1996). In contrast, this researcher experienced considerable difficulty in obtaining revenue statistics on Sales Tax. In all the states studied, written permission had to be sought first from the Chairman of the State Board of Internal Revenue, which involved considerable bureaucratic delay. In one state, permission had to be sought from an authority higher than the Chairman. In another state, after the Chairman had authorized a Director of Taxes to answer the Sales Tax questionnaire, the latter was unable to answer certain sections of the questionnaire. This was because all documentation on Sales Tax was in the possession of the Legal Adviser to the Chairman in connection with an investigation into financial

irregularities connected with Sales Tax. Thus, the Legal Adviser had to be contacted for answers to some of the questions.

Despite administrative difficulties pointed out earlier with respect to VAT, it must be pointed out that only the first year of VAT's operation has been studied, and there are bound to be improvements in subsequent years. The nationwide yield from VAT in 1994 exceeded the official estimate of ₦6 billion by a little over ₦2 billion whereas the Sales Taxes yielded about ₦1.2 billion during the period 1985 - 1993, (see table 4.17 on page 104).

VAT is definitely an improvement on its predecessor, Sales Tax, since it was better organised and implemented than Sales Tax. If VAT continues to be administered with the zeal and efficiency which characterized its first year of operation, and the FIRS puts into practice the recommendations made in this research, VAT is very likely to succeed as a high-yield tax in the nation's tax system.

5.3 RECOMMENDATIONS

The following suggestions are put forward as a result of this research work.

(a) The tax refund mechanism which provides for a refund from the FIRS to taxpayers where input VAT exceeds output VAT, must not turn out to be an empty promise from the FIRS. The irregularity of tax audit exercises in the first year of VAT operation is a major reason why the tax refund process has not yet commenced. The efforts made by the FIRS to increase

regularity and scope of VAT audit and investigation exercises should extend to the tax refund issue. In this way, prompt attention to legitimate claims for tax refunds will serve to increase taxpayers' confidence in the VAT system and thereby improve their compliance.

(b) According to the VAT implementation schedule of the FIRS retailers and other small businesses are to be registered for VAT as from 1997. Many of such persons were previously untouched by the former Sales Tax. Examples are service organisations, partnership firms of professionals and consultants, and retailers. In order to get maximum compliance from such persons, there must be a considerable number of trained VAT Officers, in advance of 1997, ready to explain every problem that may arise on any aspects of the tax. Specific enlightenment programmes can also be prepared to meet the specific needs, peculiarities and background of each category of persons.

473714

(c) Sufficient funds should be set aside for meeting the expenses of a well-planned all-year programme of VAT audit, investigation and inspection in order to ascertain the accuracy and truthfulness of VAT returns. The VAT Information Circular on VAT Audit and Investigation puts forth a commendable plan, namely:

(i) VAT visits to VATable persons by authorized VAT inspectors to ensure compliance with regulations, to ascertain correctness of VAT charged and remitted, to examine accounting procedures and

offer suggestions where necessary, and to answer queries on VAT and educate taxpayers on new developments.

(ii) VAT tax drives organized periodically at the instance of the Zonal VAT Coordinators to stimulate collection of VAT from defaulters and enforce prompt remittance of VAT payable, and

(iii) VAT audit and investigation to be instituted on a regular basis by VAT Headquarters to check both VAT Officers' and VATpayers' records to ensure accountability of VAT collected.

Qualified tax officers with proven track records of integrity and honesty should be selected (and trained, where necessary) for the above programmes. In order to cover the audit needs of all states on a regular basis, there must be at least one VAT officer to inspect every 100 taxpayers in each state.

d) Part of the VAT proceeds should be ploughed back each year to set up additional VAT offices in, at least, the most VAT-productive states of the Federation in order to increase efficiency and extent of VAT coverage throughout each state. Accordingly, more vehicles should be made available to each LVO for official use to facilitate field work in connection with registration drives, compliance checks on delinquents, and audit exercise.

(e) The tax authorities should be firm in dealing with hard-core delinquents in order to provide on effective different to other delinquents. Legal action taken against these persons, and the attendant publicity accorded to the proceedings and results of these prosecutions will have a positive effect in reducing the rate of delinquents.

(f) Tax evasion and other tax offences should be made criminal offences, and VAT Courts should be set up in various zones of the country to try VAT offenders promptly, instead of relying on prosecutions in civil courts law where cases can drag on for months or years.

(g) All the inception of VAT, a report in a national newspaper (The Guardian, March 17, 1994) disclosed that the Federal Government was being assisted by the World Bank to build a reliable VAT data-base in the FIRS through the provision of funds for the supply and installation of computers and communication equipment in Lagos and Abuja. As at December 1994, computers and communication equipment had been installed at the Abuja headquarters of the FIRS, in all Local VAT Offices in Lagos Zone (which, incidentally, contributed nearly 50% of nationwide VAT collection in 1994), and in the other four Zonal VAT Offices across the country, namely, Ibadan, Enugu, Jos and Kaduna.

The Zonal VAT Offices and all the Local VAT Offices would also benefit tremendously by the computerization of both administrative and accounting procedures, in order to cope efficiently with the enormous

paperwork with respect to taxpayer records. Also if all these offices are linked in a computerized network with the Headquarters, speed and efficiency can be improved upon in the monthly process of remittances and reconciliations between these offices.

(h) Public confidence in the capacity of the Federal, State and Local Governments to judiciously allocate and utilize their share of VAT proceeds must be gained by allowing the media access to such data.

Prudent management and careful monitoring of these funds will ensure that tax efforts become financially productive. This will serve to increase taxpayers' confidence and compliance, instead of creating disillusionment among taxpayers.

5.4 AREAS FOR FURTHER RESEARCH

(a) The 1991 Study Panel on Indirect Taxation recommended a modified VAT which would exclude retailers for reasons of impracticability of full-scale VAT in Nigeria. However, the FIRS intends to operate a full-scale VAT as from 1997. An in-depth study of the problems associated with full-scale VAT in other developing countries could be carried out to determine the possibility of the FIRS coping with implementation of VAT in the small-business sector as from 1997.

(b) The success of VAT depends, to a large extent, on thorough compliance checks through desk audits, office audits and field investigation, all of

which involve considerable financial expenditure. A study of the costs of collecting VAT as against the revenue yielded by these efforts would reveal the true picture of proceeds from VAT in Nigeria.

(c) It is very likely that a significant amount of revenue is not collected at all due to non-compliance by taxable persons and inability of the FIRS to cope with its enormous task of administration and compliance checking. A study could be carried out to estimate the VAT yield expected from individual sectors of the economy.

BIBLIOGRAPHY

Abdulrazaq, M. T. (1993) Nigerian Tax Offences and Penalties. Batay Law Publications Ltd., Ilorin.

Adedeji, A. (1969) Nigerian Federal Finance: Its Development, Problems and Prospects. Hutchinson Educational Ltd., London.

Adekanmi, O. A. (1981) 'The Inspector of Taxes: Assessment and Collection' In: Eleventh Annual Senior Officers' Conference Report on the Federal Inland Revenue Department, Federal Government Press, Lagos.

Adiele, O. and Ayoola, A. (1986). An Overview of the Nigerian Tax System. Being a Summary of Seminar Papers Presented at the Professional Education Programme series held at Country Homes Motels, Benin City. Business Concord, April 11. p. 8.

Anao, A. R. and Atomatofa, A. (1991). The Problems and Prospects of Sales Tax Administration in Nigeria. Quarterly Journal of Accounting. April/July. p. 239.

Anonymous (1986). New Guidelines on Sales Tax to boost interstate trading. Business Concord, October 21, pp. 1, 16.

Anonymous (1994). The 1994 Budget and National Rolling Plan (1994 - 1996) The Financial Guardian on Sunday, April 10, p. 14.

Awa, A. (1993). Imposition of Value Added Tax; Taxable Goods and Services and the Rate of Tax. Paper presented at seminar organised by VAT Directorate of Federal Inland Revenue Service, 20 September.

Ayoola, A. (1986a). Taxation Experts Flay Sales Tax Decree Business Concord, April 29, p. 20.

Ayoola, A. (1986b). Towards a Better Tax System in Nigeria, Business Concord, June 2, p. 10.

Bashorun, O, (1993). Intricacy of MVAT. Financial Guardian, June 14, p. 15.

Bhatia, H. L. (1988). Public Finance. Vikas Publishing House, Jangpura, India.

Black, G. (1987). Accounting Standards. Longman Group U.K. Ltd, London.

Black, J. (1987). Company Reports and Accounts: Their Significance and Use. Pitman Publishing, London.

Buckett, A and Elliott, G. (1995a). Simplifying VAT accounting. Accountancy, 116 (1227): 128

Buckett, A and Elliott, G. (1995b). Small Company VAT. Accountancy, 116 (1227): 128

Buti, B. (1995). Agenda for tax renaissance. The Guardian, October 21, p. 15.

Chelliah, R. J. (1964). Taxation of consumption expenditures with special reference to India. In: Bird, R, and Oldman, O, (eds.) Readings on Taxation in Developing Countries. John Hopkins Press, Baltimore.

Clown, J. (1973). VAT Explained: The Businessman's and Manager's Guide to VAT. Kogan Page (Associate), London.

Davies, A. G. (1969). Main features of the VAT system. In: Cadmar, M.H. (ed.) Taxation Economics. Macmillan and Co. Ltd., London.

Due, J. F. (1986). Government Finance: Economics of the Public Sector. Richard D. Irwin, Inc., Illinois.

Due, J. F. (1970). Indirect Taxation in Developing Economies. John Hopkins Press, Baltimore.

Falegan, S. B. (1995). Our unviable states. The Guardian, November 8, p. 19.

FBIR (1992). General Tax Guide for Taxpayers. Federal Inland Revenue, Lagos.

Finance (Miscellaneous Taxation Provisions) (Amendment) Decree No. 3 (1993). Federal Government of Nigeria.

FIRS (1994a). Value Added Tax. Information Circular No. 9304 Federal Inland Revenue Service, Lagos.

FIRS (1994b). VAT on Imports. Information Circular No. 9305. Federal Inland Revenue Service, Lagos.

Giwa, Y. N. (1995). VAT and Other Federal Taxes Administered by the FIRS. Paper Presented before the Kaduna State Internal Revenue Board, 28 April.

Goode, R. (1962). Taxation of Saving and Consumption in Underdeveloped Countries. The Brookings Institution, Washington D. C.

Ikpo, N. (1995). On Democracy and Economy. The Guardian on Sunday, October 22, p. A9.

Ijewere, E. (1993). "Modified Value-Added Tax" The Nigerian Accountant, 26(2): 4 - 6.

Isreal, D. (1994). Accountants pick holes in VAT. The Guardian on Sunday, April 10, p. A23.

Income Tax Management Act (1961). Federal Government of Nigeria.

Iyioke, A. (1994). Smoothing the path for VAT. The Guardian, March 17, p. 13.

Kell, W.G. and Ziegler, R. E. (1983). Modern Auditing. 2nd ed. John Wiley and Sons, Inc., New York.

Longe, S. A. (1987). An Evaluation of Sales Taxation in Bendel State. Unpublished M.P.A. Thesis. Ahmadu Bello University, Zaria, Nigeria.

Muhammed, A. J. (1985). A Study of Tax Evasion and Tax Avoidance in Nigeria. Unpublished P.G.D.P.A Project. Ahmadu Bello University, Zaria, Nigeria.

Musgrave and Musgrave (1989). Public Finance in Theory and Practice. McGraw-Hill, New York.

Naiyeju, J. K. (1996). Value Added Tax: The Facts of a Positive Tax in Nigeria. KUPAG Public Affairs, Lagos, Nigeria.

Odiongenyi, O. T. (1987). Personal Income Tax in Nigeria. Bob Printing Press, Zaria. pp. 5-7.

Offoaro, C. (1995). Board opposes appointment of agents for revenue collection. The Guardian, November 28, p. 18.

Ogundele, E. A. (1994). The truth about VAT. The Guardian, March 16, p. 17.

Ola, C. S. (1985). Tax Planning and Auditing in Nigeria. University Press Limited, Ibadan, Nigeria.

Orogun, W. (1995). Rough edges of VAT. The Guardian, December 7, p. 27.

Powell, R. (1988). Economics (Study and Revision manual). D.P. Publications Ltd, London.

PPIB (1990). Productivity, Prices and Incomes Board Policy Guidelines, 1990. The Nigerian Accountant, 23(2): 6 - 7.

Randle, J. K. (1994). VAT is simple and comprehensible. Being a summary of a paper presented at a seminar organised by KPMG Peat Marwick Ani Ogunde & Co. at Gateway Hotel, Ota. The Guardian, April 13, pp. 20, 22.

Shoup, C. S. (1969). Public Finance. Weidenfeld and Nicolson, London.

Slade, K. M. (1971). Public Finance: Principles and Problems. Houghton Mifflin Company, Boston.

Sotinwa, G. A. (ed.) (1994). Sotinwa's Nigerian Tax Handbook 1994. Mabadeje Publishing Co, Ltd, Lagos, Nigeria.

Sullivan, C. K. (1964). Concepts of sales taxation. In: Bird, R. and Oldman. O. (eds.) Readings on Taxation in Developing Countries. John Hopkins Press, Baltimore.

Sullivan, C. K. (1965). The Tax on Value Added. Columbia University Press, New York.

Surrey, S.S.(1964).Tax administration in developing countries. In: Bird, R. and Oldman, O. (eds.) Readings on Taxation in Developing Countries. John Hopkins Press, Baltimore.

UNIFECS (1992) Feasibility Report on VAT carried out by the University of Ife Consultancy Services, Obafemi Awolowo University, Ife. In: Adesola, S. M. (1992). 'The Development of Indirect Taxation in Nigeria Since 1960'. A paper presented at the twenty-second Annual Senior Officer's Conference of the Federal Inland Revenue Service, Lagos.

UNTAA (1974). Taxes and Fiscal Policy in Underdeveloped Countries. United Nations Technical Assistance Administration, New York.

Waldron, R. S. (1978). Spicer and Peglers' Practical Auditing. 16th ed. H.F.L. (Publishers) Ltd., London.

APPENDIX I

QUESTIONNAIRE ON SALES TAX

Please tick the appropriate answers in the boxes provided, and write freely in the spaces provided.

1. During the implementation, first of the State Sales Tax Edict/Law, and then of the Sales Tax Decree, were taxable individuals identified and located through the use of:

	Mostly used	Partly used	Not used
(a) records of registered businesses?	☐	☐	☐
(b) records of company income taxpayers?	☐	☐	☐
(c) other sources (please specify):			
i) _____	☐	☐	☐
ii) _____	☐	☐	☐

2. The persons chargeable for sales tax under the State Edict/Law were manufacturers, wholesalers, distributors, and owners of hotels and restaurants; while those chargeable under the Sales Tax Decree were manufacturers, importers and suppliers.

(a) Were any businesses granted exemption? Yes ☐ No ☐

(b) If 'Yes', what criteria were used in granting exemption?

_____

_____

3. Was a master list of persons eligible for sales tax maintained in this State for:

	Yes	No
i) the sales tax operated under the Edict/Law?	☐	☐
ii) the sales tax operated under the Decree?	☐	☐

4(a) During the period when sales tax was in operation in this State, what was the approximate number of:

i) registered sales taxpayers? .....

ii) sales tax Officers? .....

iii) sales tax Auditors and Investigators? .....

4(b) How many sales tax offices were there in this State, and in which towns or local governments were they located?

Town/Local Government	No. of offices	Town/Local Government	No. of offices
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

		Yes	No
5(a)	When a sales taxpayer was registered, was he issued with a registration certificate?	☐	☐
(b)	What methods were used to detect failure to register?		
	i) Identifying on the master list those persons who had failed to register, and notifying them by mail through their business addresses	☐	☐
	ii) Street-by-street visitation of business premises by tax officials asking to see evidence of registration	☐	☐

iii) Other methods (please specify):

_____

_____

_____

6(a) Under the State Sales Tax Edict/Law, did the tax authorities design any forms which taxable persons were to fill up and submit when making their tax returns? Yes ☐ No ☐

(b) If 'Yes', how many forms were designed and what were they called?

_____

_____

_____

Also, at which offices were these forms made available?

State Revenue office ☐ Local Government offices ☐

Other offices (please specify): .....

.....

(c) If no forms were designed during the operation of the State Edict/Law, then in what manner did taxpayers make their returns and what information or details were they expected to provide?

_____

_____

7. Under the Sales Tax Decree of 1986, taxable persons were expected to submit returns using four forms as prescribed in Schedule 2 to the Decree, namely:

Form A (Supply of Taxable Goods and Services) - to be filled for every transaction with a distributor, agent or consumer.

Form B (Monthly Return of Payment of Sales Tax)

Form C (Taxable Goods/Services for the month)

Form D (List of Distributors/Agents for the month)

473714

(a) In general, how often did taxpayers submit these forms to the tax office?

	Monthly	Quarterly	Half-yearly	Yearly	Rarely
Form A	☐	☐	☐	☐	☐
Form B	☐	☐	☐	☐	☐
Form C	☐	☐	☐	☐	☐
Form D	☐	☐	☐	☐	☐

(b) Did the tax authorities subsequently discontinue the use of any of these four forms (for practical reasons, or simplicity)? Yes ☐ No ☐

(c) If 'Yes', which forms were eventually discontinued?

Form A ☐ Form B ☐ Form C ☐ Form D ☐

(d) Did the tax authorities design new forms to take the place of any of the discontinued forms? Yes ☐ No ☐

(e) Was the sales tax administered by the State Tax Board together with the Local Governments in this State? Yes ☐ No ☐

8. How would you rate the seriousness of the problems which sales taxpayers posed to the State tax authorities?

		Ranking of problem		
		Major	Minor	Negligible
(a)	Poor or insufficient records/accounts which hindered correct ascertainment of tax and filing of returns	☐	☐	☐
(b)	Deliberate under-statement of sales volume in order to reduce sales tax payable	☐	☐	☐
(c)	Failure of large businesses to furnish the Tax Board with names of their accredited distributors throughout the country	☐	☐	☐
(d)	Failure to issue tax invoices for taxable commodities sold to another trader	☐	☐	☐
(e)	Any other problems (please specify below):			
	i) _____	☐	☐	☐
	ii) _____	☐	☐	☐

9. What type of checks were made, with the facilities and resources available during the operation of sales tax in this State, to determine the accuracy of returns filed by taxpayers?

		Yes	No
(a)	Routine check of all returns, adding up all figures on each form to ascertain arithmetical accuracy	☐	☐
(b)	Planned programme of investigation and examination all year round, such that the returns of each taxpayer were carefully scrutinized once a year	☐	☐
(c)	More careful and frequent scrutiny of returns of frequent delinquents, and less frequent examination of returns of fairly regular sales taxpayers	☐	☐
(d)	More time devoted to a thorough check of returns of businesses with considerably larger sales volume, than to smaller businesses	☐	☐
(e)	Any other type of checks(please specify below):		

_____

_____

_____

10. **The Sales Tax State Edict/Law** and the Sales Tax Decree specified a deadline or tax lag within which monthly tax returns were to be filed with the tax authorities by every taxpayer.

(a) What was the compliance rate with this deadline (as a percentage of total taxpayers) ?

Percentage of taxpayers	Under Edict/Law	Under Decree
0 - 20%	☐	☐
21 - 40 %	☐	☐
41 - 60 %	☐	☐
61 - 80 %	☐	☐
Above 80%	☐	☐

(b) Was this deadline relaxed or lengthened eventually for practical purposes?

	Under Edict/Law	Under Decree
Yes	☐	☐
No	☐	☐

(c) If 'Yes', what was the new deadline set for filing tax returns?

Under Edict/Law .....

Under Decree .....

(d) What was the compliance rate with the new deadline (in percentage of total taxpayers) ?

Percentage	Under Edict/Law	Under Decree
0 - 20 %	☐	☐
21 - 40 %	☐	☐
41 - 60 %	☐	☐
60 - 80 %	☐	☐
Above 80 %	☐	☐

11. What was the procedure for obtaining returns from delinquents after the expiration of the deadline for filing returns?
(Please tick whichever methods were in use in this State):

	Yes	No
(a) As returns were received from taxpayers, their names were ticked on the master list	☐	☐
(b) Following a brief period of grace, those who had not filed returns by the deadline were:		
- served a first notice of delinquency by mail	☐	☐
- visited by tax officials	☐	☐
- dealt with otherwise (please specify):		

_____

_____

(c) After the first notice/visit, persistent delinquents were:		
- served a notice of delinquency in the mail	☐	☐
- visited by tax officials	☐	☐
- dealt with otherwise (please specify):		

_____

_____

(d) Those who still persisted in delinquency after this received:		
- a best-of-judgment assessment of tax due	☐	☐
- a summons to appear before the tax authorities	☐	☐
- some other treatment (please specify):		

_____

_____

In general, what fraction of delinquent taxpayers responded positively after the first notice/visit to remind them to make returns?

Quarter ☐ Half ☐ Three-quarters ☐

12. With the means at the disposal of the tax authorities in this State, how often were the following methods of Sales Tax audit and investigation carried out for <u>each</u> business in this State?

	Quarterly	Half-yearly	Yearly	Once in two years
(a) "Office audit" which dealt with suspicious or incorrect matters on return forms for which the taxpayer was required to bring to the tax office the data necessary to verify certain items	☐	☐	☐	☐
(b) "Field audit" at taxpayer's place of business during which a trained accountant conducted an intensive inspection of the business and its records with the aid of other trained tax officials	☐	☐	☐	☐
(c) Other forms of audit and investigation used (please specify):				
i) _____				
_____				
_____	☐	☐	☐	☐
ii) _____				
_____				
_____	☐	☐	☐	☐

KASHIM IBRAHIM LIBRARY

13. Please rank the adequacy of the following facilities/resources during the duration of sales tax in this State:

	Below 40%	40-49%	50-59%	60-74%	Above 75%
(a) Adequacy of number of staff to handle, sort and file documents in order to facilitate quick storage and location of these documents/records	☐	☐	☐	☐	☐
(b) Adequacy of efficient office equipment and modern devices required to cope with volume of operations	☐	☐	☐	☐	☐
(c) Adequacy of number of trained staff for auditing and investigation purposes	☐	☐	☐	☐	☐
(d) Adequacy of travel/transport facilities for those officials who had to make field investigations of returns or check on delinquents	☐	☐	☐	☐	☐

14. How would you rate the compliance that sales taxpayers showed in this State? (Tick one percentage for each category of persons indicated below, which best describes the compliance or readiness to abide with the sales tax)

Category	Compliance Level					
	Below 20%	21-30%	31-40%	41-50%	51-60%	Above 60%
(a) Hotel and Catering services	☐	☐	☐	☐	☐	☐
(b) Cigarettes and Tobacco	☐	☐	☐	☐	☐	☐
(c) Electronics	☐	☐	☐	☐	☐	☐
(d) Perfumes and Cosmetics	☐	☐	☐	☐	☐	☐
(e) Soft drinks	☐	☐	☐	☐	☐	☐
(f) Beer, Liquor and Spirits	☐	☐	☐	☐	☐	☐
(g) Carpets and Rugs	☐	☐	☐	☐	☐	☐

15. The Sales Tax Edicts/Laws implemented by state governments were described in a seminar paper delivered by Chief S.M.Adesola, as being "hampered by certain problems of interstate trade and jurisdiction over state borders".

(a) Please explain these problems as encountered in this State:

_____

_____

_____

(b)Also, please explain how these problems were overcome with the implementation of the Sales Tax Decree(if at all they were overcome):

_____

_____

_____

_____

_____

_____

16. What were the annual revenue figures for this State during the period 1985 - 1994 with respect to:

(a) annual total internally generated revenue (I.G.R.) from Revenue Board?

(b) annual sales tax revenue?

Year	I.G.R.	Sales Tax
	₦	₦
1985	.....	.....
1986	.....	.....
1987	.....	.....
1988	.....	.....
1989	.....	.....
1990	.....	.....
1991	.....	.....
1992	.....	.....
1993	.....	.....
1994	.....	

APPENDIX II

QUESTIONNAIRE ON VALUE ADDED TAX (VAT)

Please tick the appropriate answers in the boxes provided, and write freely in the spaces provided.

1. At the inception of VAT in this State, were taxable persons/units identified and located through the use of:

	Mostly used	Partly used	Not used
(a) past records of sales taxpayers?	☐	☐	☐
(b) records of registered businesses?	☐	☐	☐
(c) records of company income taxpayers?	☐	☐	☐
(d) other sources (please specify below):			
i) _____			
_____	☐	☐	☐
ii) _____			
_____	☐	☐	☐

2. According to the VAT Decree, a taxable person is a manufacturer, wholesaler or importer of taxable goods (listed in Schedule 1) or a supplier of taxable services (listed in Schedule 2). Therefore, it would seem that Nigeria operates a modified VAT rather than a full-scale VAT that extends to the retail stage.

(a) Are retailers exempted altogether from VAT? Yes ☐ No ☐

(b) If 'No', what size of retailing businesses are, in fact, subject to VAT?

i) those whose annual sales exceed ₦..... (specify value, if applicable)

ii) other criteria used (please specify below):

_____

_____

KASHIM IBRAHIM LIBRARY

3. In order to be practical and cost-effective, tax administrators in some countries grant exemption from VAT to 'small' businesses, defining 'smallness' as an annual turnover of less than ₦50,000, or using some other similar criterion.

(a) Are small businesses granted exemption from VAT in Nigeria? Yes ☐ No ☐

(b) If 'Yes', what is the value of annual sales below which exemption from VAT is granted? ₦ .....

Please specify any other criterion/criteria used:

_____

_____

4(a) Is a master list of VAT-able persons maintained for this State?
Yes ☐ No ☐

(b) If 'Yes', in what form is this list maintained? (tick one box)

Typewritten lists ☐ Lists stored in computer memory ☐ (and printed out when needed)

5(a) As at December 1994, what was the number, in this State, of:

i) registered VAT-payers? .....

ii) local VAT officers? .....

iii) VAT auditors and investigators? .....

(b) How many VAT offices are there in this State, and in which towns are they located?

Name of town	No. of offices	Name of town	No. of offices
.....	.....	.....	.....
.....	.....	.....	.....

6(a) Is the VAT registration form (Form VAT 001) printed and made freely available to the public?
Yes ☐ No ☐

(b) Where do taxpayers obtain Form VAT 001? (tick and fill in wherever applicable)

All local VAT offices throughout the State ☐
The local VAT office(s) in the State capital only ☐
Other locations (please specify):

_____

_____

(c) When a VAT-able person is registered, is he issued with a registration certificate?
Yes ☐ No ☐

(d) Is the VAT return form (Form VAT 002) printed and made freely available to the public?
Yes ☐ No ☐

(e) Where do taxpayers obtain Form VAT 002 ? (tick and fill in wherever applicable)

All local VAT offices throughout the State? ☐
The local VAT office(s) in the State capital only ☐
Other locations (please specify):

_____

_____

7. What methods were employed to detect failure to register for VAT?

	Yes	No
(a) Identifying on the master list those persons who have failed to register, and notifying them by mail	☐	☐
(b) Street-by-street visitation of business premises by tax officers seeking for evidence of registration	☐	☐

(c) Other methods (please specify): 473714

_____

_____

_____

8. In practice, how regular are VAT-payers in filing returns and paying VAT? (please give answers in percentages of total VAT-payers)

Regularity	Percentage
Monthly	..... %
Quarterly	..... %
Half-yearly	..... %
Yearly	..... %
Only when threatened with penalties	..... %

9. How would you rate the seriousness of the problems enumerated below, which are posed to the tax authorities by VAT-able persons in this State?

	Major problem	Minor problem	Negligible
(a) Poor or insufficient records and accounts which prevent correct ascertainment of tax and prompt/proper filing of returns	☐	☐	☐
(b) Deliberate understatement of sales in order to reduce "output VAT"	☐	☐	☐
(c) False or exaggerated claims of sales of exempt goods and services	☐	☐	☐
(d) Failure to issue tax invoices for taxable commodities sold to another trader	☐	☐	☐
(e) Other problems (please specify):			
i) _____			
_____	☐	☐	☐
ii) _____			
_____	☐	☐	☐
iii) _____			
_____	☐	☐	☐

10. What types of checks are made, with the available facilities and resources to determine the accuracy of VAT returns filed by taxpayers?

	Yes	No
(a) Routine check of all returns, adding up all figures on each form to ascertain arithmetical accuracy	☐	☐
(b) Planned programme of investigation and examination all year round, such that the returns of each taxpayer are carefully scrutinized once a year	☐	☐
(c) More frequent and careful scrutiny of returns of frequent delinquents, and less frequent examination of returns of fairly regular VAT-paying businesses	☐	☐
(d) More time devoted to a thorough check of returns of businesses with considerably larger sales volume than to "smaller" businesses	☐	☐

(e) Other checks made (please specify):

i) _____

_____

ii) _____

_____

11. The VAT Decree specified the deadline for filing returns and remitting tax as "on or before the 14th day of the month next following that in which the supply was made".

(a) What was the compliance rate with this deadline? (please tick one box)

0 - 20% ☐ 21 - 40% ☐ 41 - 60% ☐ 61 - 80% ☐

(b) Was this deadline relaxed (or lengthened) eventually for practical purposes? Yes ☐ No ☐

(c) If 'Yes', what was the new deadline set for payment of tax and filing returns?

_____

_____

(d) What is the compliance rate with this new deadline?

0 - 20% ☐ 21 - 40% ☐ 41 - 60% ☐ 61 - 80% ☐

12. What is the procedure for obtaining returns from delinquents after the expiration of the deadline for filing returns?
(Please tick whichever methods apply to current practice in this State)

	Yes	No
(a) As returns are received from taxpayers, their names are:		
- ticked manually on the master list	☐	☐
- "ticked" on the computer	☐	☐
(b) Following a brief period of grace, those who have not filed returns by the deadline are:		
- served a first notice of delinquency by mail	☐	☐
- visited by tax officials	☐	☐
- dealt with otherwise (please specify):		

_____

_____

(c) After the first notice/visit, persistent delinquents are:		
- served a notice of delinquency by mail	☐	☐
- visited by tax officials	☐	☐
- dealt with otherwise (please specify):		

_____

_____

(d) Those who still persist in delinquency after this, receive:		
- a best-of-judgment assessment of tax due	☐	☐
- a summons to appear before the tax authorities	☐	☐
- some other treatment (please specify):		

_____

_____

In general, what fraction of delinquents respond positively after the first notice/visit to remind them to make returns and pay tax?

Quarter ☐ Half ☐ Three-quarters ☐

13. With the means at the disposal of the tax authorities in this State, how often are the following methods of VAT audit and investigation carried out for each and every business in this State?

	Quarterly	Half-yearly	Yearly	Once in two years
(a) "Office audit" which deals with suspicious or incorrect matters on return forms by asking taxpayer to bring to Tax Office the data necessary to verify certain items	☐	☐	☐	☐

	Quarterly	Half-yearly	Yearly	Once in two years
(b) "Field audit" at the taxpayer's business premises during which a trained accountant conducts an intensive inspection of the business and its records with the aid of other trained tax officers	☐	☐	☐	☐
(c) Other forms of audit and investigation used (please specify below):				
i) _____	☐	☐	☐	☐
ii) _____	☐	☐	☐	☐

14. How would you rate the compliance of VAT-able persons in this State?

(Tick one percentage for each category of persons indicated below, which best describes their compliance or readiness to abide with VAT)

Category	Compliance Level					
	Below 20%	21-30%	31-40%	41-50%	51-60%	Above 60%
(a) Importers	☐	☐	☐	☐	☐	☐
(b) Manufacturers/Assemblers	☐	☐	☐	☐	☐	☐
(c) Wholesalers/Distributors	☐	☐	☐	☐	☐	☐
(d) Retailers (if applicable)	☐	☐	☐	☐	☐	☐
(e) Financial Institutions	☐	☐	☐	☐	☐	☐
(f) Accounting/Legal/Computer/ Architectural(etc.)firms	☐	☐	☐	☐	☐	☐
(g) Hotel & Restaurant owners	☐	☐	☐	☐	☐	☐

15. Please rank the adequacy of the current state of facilities/resources at the disposal of the VAT offices in this State:

	Below 40%	40-49%	50-59%	60-75%	Above 75%
(a) Adequacy of number of staff to handle, sort and file documents in order to facilitate quick storage and retrieval of these items	☐	☐	☐	☐	☐
(b) Adequacy of efficient office equipment and modern devices required to cope with current volume of operations	☐	☐	☐	☐	☐
(c) Adequacy of number of trained staff for auditing and investigation purposes	☐	☐	☐	☐	☐
(d) Adequacy of travel/transport facilities available for those officials who must make field investigation of returns or who must check on delinquent taxpayers	☐	☐	☐	☐	☐
(e) Other facilities/resources not mentioned above (please specify below):					
i) _____	☐	☐	☐	☐	☐
ii) _____	☐	☐	☐	☐	☐

16. What were the annual revenue figures for this State during the first two years of VAT's existence, with respect to:

(a) annual VAT collected by this State and remitted to FIRS headquarters?

(b) annual share of national "VAT pool" sent back by FIRS headquarters as allocation for this State?

	1994	1995
VAT collected	₦	₦ .....
VAT allocated	₦	₦ .....

APPENDIX 3

LIBRARY OF NIGERIA
STATE BRANCH
LAGUNA

SALES TAX DECREE 1986

ARRANGEMENT OF SECTIONS

Section

Imposition, Administration, etc. of Sales Tax

1. Imposition of sales tax.
2. Taxable goods and services.
3. Establishment of the Sales Tax Committee.
4. Composition of the Committee.
5. Functions of the Committee.
6. Quorum and procedure of the Committee.
7. Administration of tax.

Collection and payment of tax

8. Collection of tax.
9. Payment of tax.

Miscellaneous

10. Power of inspection.
11. Offences.
12. Penalties.
13. Regulations.
14. Interpretation.
15. Citation and commencement.

SCHEDULES

SCHEDULE 1—TAXABLE GOODS AND SERVICES AND RATES OF TAX THEREON

SCHEDULE 2—FORMS

Decree No. 7

[*30th June* 1986]

Commencement.

THE FEDERAL MILITARY GOVERNMENT hereby decrees as follows :—

Imposition, Administration, etc. of Sales Tax

Imposition of sales tax.

1. As from the commencement of this Decree, there shall be charged and payable a tax to be known as sales tax which shall be administered in accordance with the following provisions of this Decree.

Taxable goods and services.

2. The tax shall be chargeable and payable on the goods and services listed in column A of Schedule 1 to this Decree at the rates specified in column B thereto where—

(*a*) a manufacturer or importer supplies such goods to its accredited distributors or agents ; or

(*b*) a supplier supplies such services to consumers in the course of its business.

Establishment of the Sales Tax Committee.

3. There shall be established a committee to be known as the Sales Tax Committee (hereinafter in this Decree referred to as "the Committee") which shall be subject to the control of the Minister in the performance of its functions under this Decree.

Composition of the Committee.

4. The Committee shall comprise the following members, that is to say—

(*a*) the chairman of the Joint Tax Board as Chairman ;

(*b*) all members of the Joint Tax Board ;

(*c*) one representative of the Productivity, Prices and Incomes Board ;

(*d*) one representative of the Board of Customs and Excise ;

(*e*) one representative of the Ministry charged with responsibility for matters relating to commerce ; and

(*f*) the Legal Adviser to the Federal Board of Inland Revenue.

Functions of the Committee.

5.—(1) The Committee—

(*a*) shall conduct commodity by commodity survey on taxable goods for the purposes of getting the pattern of distribution of those goods in all the States of the Federation and recommend from time to time the rates of tax to be charged thereon ;

(*b*) shall, from time to time, fix with the approval of the Productivity, Prices and Incomes Board, the price of taxable goods ;

(*c*) may, from time to time, amend or vary the list of taxable goods and services set out in Schedule 1 to this Decree and the rates of tax specified thereon ; and

(*d*) shall do such other things as are necessary and expedient to ensure the smooth administration of the tax.

(2) Any proposed amendment or variation to the list of taxable goods and services and the rates of tax thereon, set out in Schedule 1 to this Decree, shall not have effect until approved by the National Council of State, and, when so approved, shall be published in the *Gazette*.

(3) The Committee shall hold regular meetings with representatives of manufacturers, importers and suppliers of taxable goods or services in order to arrive at the pattern of consumption and distribution of those goods and services and the mode of payment of revenue accruing from the tax.

Quorum and procedure of the Committee.

6. Subject to any direction that may be given by the Minister, the Committee shall fix its own quorum and otherwise regulate its procedure.

Administration of tax.

7.—(1) The Internal Revenue Department of each State of the Federation shall administer the tax subject to any directions that may be given by the Joint Tax Board.

(2) The Joint Tax Board shall be responsible—

(*a*) for co-ordinating the tax and ensuring its administrative tidiness within existing tax machinery ; and

(*b*) for resolving any conflict that may arise in the disbursement of revenue from the tax.

Collection and Payment of Tax

Collection of tax.

8.—(1) A manufacturer, importer or supplier shall, not later than 30 days after the supply of any taxable goods or services to its accredited distributor, agent, or consumer in the case of taxable services, collect from the distributor, agent or consumer, as the case may be, tax on those goods or services at the rate specified in Schedule 1 to this Decree.

(2) The reference price of any taxable goods shall, for the purposes of calculating the tax, be the price fixed from time to time by the Committee with the approval of the Productivity, Prices and Incomes Board.

Payment of tax.

9.—(1) Any tax collected under section 8 of this Decree shall be paid to the appropriate State authority on or before the 30th day of the month next following that in which the tax is due.

(2) A manufacturer, importer or supplier shall, when making a payment under subsection (1) of this section, submit a return in the Forms prescribed in Schedule 2 to this Decree.

(3) A copy of every return submitted under subsection (2) of this section shall be forwarded to the Productivity, Prices and Incomes Board which shall act as a repository of information on the tax.

Miscellaneous

Power of inspection.

10. The appropriate State authority may in writing authorise any person on its behalf—

(*a*) to require any manufacturer, importer or supplier—

(*i*) to produce any books, documents or records relating to taxable goods or services for purposes of inspection ; and if the person so requires, to permit him to take copies of such books, documents or records;

(*ii*) to provide any information which in the opinion of the person would assist in the inspection ; and

(*iii*) to give such other assistance as may be required for the inspection ; and

(*b*) to enter the premises of any manufacturer, importer or supplier and remove any books, documents or records relating to taxable goods or services where it has reason to suspect that a contravention of this Decree is being made.

Offences.

11.—(1) Subject to subsection (2) of this section, any manufacturer, importer or supplier who contravenes or fails to comply with any provision of this Decree shall be guilty of an offence under this Decree.

(2) Subject to the provisions of subsection (3) of this section—

(*a*) if any tax collected under section 8 of this Decree is not paid within the time specified in section 9 of this Decree, the appropriate State authority shall serve on the manufacturer, importer or supplier, as the case may be, a demand note for the unpaid tax plus a sum which is equal to 5 *per cent* of the tax ; and

(*b*) if any sum demanded under paragraph (*a*) of this subsection is not paid within 2 months of such demand, the manufacturer, importer or supplier, as the case may be, shall be guilty of an offence under this Decree.

(3) The appropriate State authority may, if it thinks fit, remit in whole or in part any sum added to the unpaid tax under subsection (2) (*a*) of this section.

(4) Where an offence under this Decree is committed by a body corporate or firm or other association of individuals—

(*a*) every director, manager, secretary or other similar officer of the body corporate ;

(*b*) every partner or officer of the firm ;

(*c*) every person concerned in the management of the affairs of the association ; or

(*d*) every person who was purporting to act in any such capacity as aforesaid,

shall severally be guilty of that offence and liable to be proceeded against and punished for the offence in like manner as if he had himself committed the offence, unless he proves that the act or omission constituting the offence took place without his knowledge, consent or connivance.

(5) An offence under this Decree shall be triable in the High Court of a State.

Penalties.

12.—(1) Except as otherwise provided in this Decree, a person who is guilty of an offence under this Decree shall on conviction be liable—

(*a*) for a first offence, to a fine of N2,000 or imprisonment for 6 months ;

(*b*) for a second and subsequent offence, to a fine of N3,000 or imprisonment for one year or to both such fine and imprisonment.

(2) The institution of proceedings or imposition of any penalty under this Decree shall not relieve any manufacturer, importer or supplier, as the case may be, from liability to pay to the appropriate State authority any tax which is or may become due under this Decree.

Regulations.

13. The Minister may, with the approval of the National Council of Ministers, make regulations, generally for the purposes of this Decree and the due administration thereof.

Interpretation.

14. In this Decree, unless the context otherwise requires—

"appropriate State authority" means the Internal Revenue Department of the State where the distributor or agent of a manufacturer or of an importer of taxable goods or a supplier, in the case of taxable services, carries on business ;

"Committee" means the Sales Tax Committee established under section 3 of this Decree ;

"Joint Tax Board" means the Joint Tax Board established under the Income Tax Management Act 1961.

1961 No. 21.

"Minister" means the Minister charged with responsibility for matters relating to finance ;

"Productivity, Prices and Income Board" means the Productivity, Prices and Incomes Board established under the Productivity, Prices and Incomes Board Act 1977 ;

1977 No. 30.

"supplier" means the supplier of the taxable services listed in paragraph 1 of column A of Schedule 1 to this Decree ;

"tax" means the sales tax imposed under section 1 of this Decree ;

"taxable goods" means the goods listed in Schedule 1 to this Decree ;

"taxable services" means the services listed in Schedule 1 to this Decree.

Citation and commencement.

15. This Decree may be cited as the Sales Tax Decree 1986 and shall come into force on 30th June 1986.

SCHEDULES

SCHEDULE 1 *Section* 2

TAXABLE GOODS AND SERVICES AND RATES OF TAX THEREON

A	*B*
1. *Taxable Services*	*Rate of Sales Tax*
Sales and Services in registered Hotels, Motels, Catering Establishments, Restaurants and other personal service establishments (excluding drinks).	5 *per cent*
2. *Taxable Goods*	
1. Beer	36k per carton/crate
2. Wine Liquor and Spirits	10 *per cent*
3. Soft Drinks (including mineral water) ..	24k per carton/crate
4. Cigarettes and Tobacco	5 *per cent*
5. Jewels and Jewelleries	5 *per cent*
6. Perfumes and Cosmetics (excluding toiletries)	5 *per cent*
7. Electrical and Electronics Equipment (Video Recorders, Stereo sets, Radio and Television Sets, Video Casettes, Cameras, Airconditioners, Fans, Deep Freezer)	5 *per cent*
8. Carpets and Rugs (excluding Linoleum) ..	5 *per cent*
9. Bottled Natural Water (excluding mineral water)	5 *per cent*

SCHEDULE 2 *Section* 9 (2)

FORMS

FORM A

(*To be completed in respect of every distributor, agent or consumer*)

SUPPLY OF TAXABLE GOODS OR SERVICES

Name of *Manufacturer/Importer/Supplier.....

.....

Name of *Distributor/Agent/Consumer.....

.....

Address.....

Bill No.....

TAXABLE GOODS OR SERVICES SUPPLIED	*Amount* ₦ : k
.....	
.....	
.....	
Total	
Add Sales Tax	
Gross amount payable	

Supplied by *Signature of*
**Distributor/Agent/Consumer*

(**Delete words not applicable*)

FORM B

MONTHLY RETURN OF PAYMENT OF SALES TAX

KASHIM IBO

Name of **Manufacturer/Importer/Supplier*.....

Address.....

Ref. No. .....

Internal Revenue Department Code No. .....

Type of **taxable goods/services supplied*.....

Total value of **taxable goods/services supplied for the month of*.....

₦.....

Sales Tax for the month of..... ₦.....

Amount remitted..... ₦.....

I certify that the amount stated above represents the true and correct value of **taxable goods/services supplied and sales tax collected by*.....

.....

for the month of..... 19.....

Details of **taxable goods/services supplied for the period is shown on the attached Form C.

Signature.....

Name.....

Position.....

Date.....

(**Delete words not applicable*)

FORM C

TAXABLE GOODS/SERVICES FOR MONTH OF.....

Serial No.	*Name of Distributor/ Agent/ Consumer*	*Value of taxable goods/ services supplied*		*Sales Tax*		*Remarks*
		₦	k	₦	k	
TOTAL.....						

Name and Address of *Manufacturer/Importer/Supplier.....

.....

.....
Date

.....
Signature

(**Delete words not applicable*)

KASHIM IBRAHIM LIBRA

FORM D

LIST OF DISTRIBUTORS/AGENTS FOR MONTH OF.....

Serial No.	*Name and Address of Distributors/ Agents*	*Type of Taxable Goods Sold*	*Quantity of Taxable Goods Sold*

Name and Address of *Manufacturer/Importer.....

.....

.....
Date

.....
Signature

(**Delete words not applicable*)

MADE at Lagos this 14th day of March 1986.

MAJOR-GENERAL I. B. BABANGIDA,
President, Commander-in-Chief of the Armed Forces, Federal Republic of Nigeria

VALUE ADDED TAX DECREE 1993

ARRANGEMENT OF SECTIONS

Section

PART I- IMPOSITION, ETC. OF VALUE ADDED TAX

1. Imposition, etc. of Value Added Tax
2. Taxable goods and services and rate.
3. Goods and services exempt.
4. Computation of tax.
5. Value of taxable goods and services.
6. Value of imported goods.

PART II-ADMINISTRATION

7. Administration of the tax.
8. Registration.
9. Records and accounts.

PART III- RETURNS, REMITTANCES, RECOVERY AND REFUND OF TAX

10. Payment of tax by taxable person
11. Collection of tax by taxable person.
12. Taxable person to render returns.
13. Remission of tax.
14. Effect of failure to render returns.
15. Effect of non-remittance of tax
16. Recovery of tax.

PART IV- VALUE ADDED TAX TECHNICAL COMMITTEE

17. Establishment and Composition of the Value Added Tax Technical Committee.
18. Functions.
19. Proceedings.
20. Staff.

PART V- OFFENCES AND PENALITIES

21. Furnishing of false document, etc.

22. Evasion of tax.
23. Failure to make attribution.
24. Failure to notify change of address.
25. Failure to issue tax invoice.
26. Resisting, etc. an authorised officer.
27. Issue of tax invoice by an unauthorised person.
28. Failure to register.
29. Failure to keep proper records and accounts.
30. Failure to collect tax.
31. Failure to submit returns.
32. Aiding and abetting commission of offence, etc.
33. Offence by body corporate, etc.

PART VI- MISCELLANEOUS

34. Powers of Secretary to vary Schedules.
35. Power of inspection.
36. Distribution of revenue.
37. Appointment of agent for manufacturer or impoter.
38. Signification.
39. Forms.
40. Regulations.
41. Repeal.
42. Interpretation.
43. Citation and Commencement.

SCHEDULES

DECREE NO. 102

(1ST December 1993) Commencement.

THE FEDERAL MILITARY GOVERNMENT hereby decree as follows:-

PART I-IMPOSITION, ETC. OF VALUE ADDED TAX.

Imposition, etc. of Value Added Tax.

1. There is hereby imposed and charged a tax to be known as the Value Added Tax (in This Decree refered to as *the tax*.) which shall be administered in accordance with the provisions of this Decree.

Taxable goods and Services and rate.

2. The tax shall be charged and payable on the goods and services (in this Decree referred to as *taxable goods and services*.) listed in column A of Schedules 1 and 2 to this Decree at the rate specified in column B of the said Schedules.

Goods and services exempt.

3. There shall be exempt from the tax the goods and services listed in Schedule 3 to this Decree.

Computation of tax.

4 The tax shall be computed at the rate, specified in column B of Schedule 1 and 2 to this Decree, of the value of all taxable goods and services as determined under sections 5 and 6 of this Decree.

Values of taxable goods and services.

5. (1) For the purpose of this Decree, the value of taxable goods and services shall be determined as follows, that is
(a) if the supply is for a money consideration, its value shall deemed to be an amount which with the addition of the tax chargeable is equal to the consideration;
(b) if the supply is for a considerationnot consisting of money the value of the supply shall be deemed to be its market value.

(2) Where the supply of taxable goods or services is not the only matter to which a consideration in money relates, the supply shall be deemed to be such part of the consideration as is properly attributed to it.

(3) For the purpose of this Decree, the open market value of supply of taxable goods or services shall be taken to be the amount that would fall to be taken as its value under subsection (1)(b) of this section if the supply were for such consideration in money as could be payable by a person in a transaction as arm's length.

Value of imported goods

6. The value of imported taxable goods for the purpose of this Decree shall be the amount which is equal to the price of the goods so imported and shall included.
(a) all taxes, duties and other charges levied out side or by reason of importation into Nigeria, other than the tax

473714

imposed by this Decree;

(b) all costs by way of commission, parking, transport and insurance up to the port or place of importation.

PART II- ADMINISTRATION

Administration of the tax.

7. (1) The tax shall be administered and managed by the Federal Board of Inland Revenue (in this Decree referred to as *the Board*).

(2) The Board may do such things as it may deem necessary and expedient for the assessment and collection of the tax and shall account for all amounts so collected in accordance with the provisions of this Decree.

Registration.

8. A manufacturer, wholesaler, an importer and a supplier of taxable goods or services (in this Decree referred to as *taxable person*.) shall, 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.

Records and accounts.

9. A person who is registered under section 8 of this Decree (in this Decree referred to as *a registered person*.) shall keep such records and books of all transactions., operations, import and other activities relating to taxable goods and services as are sufficient to determine the correct amount of tax under this Decree.

PART III- RETURNS, REMITTANCES, RECOVERY

Payment of tax by taxable person.

10. (1) A taxable person shall pay to the supplier the tax on taxable goods and services purchased by or supplied to him.

(2) The tax paid by a taxable person under subsection (1) of this section shall be kown as input tax.

Collection of tax by taxable person.

11. (1) A taxable person shall on supplying taxable goods or services to his accredited distributor, agent, client or consumer, as the case may be, collect the tax on those goods or services at the rate specified in section 2 of this Decree.

(2) The tax collected by a taxable person under subsection (1) of this section shall be known as output tax.

Taxable person to render returns.

12. (1) A taxable person shall render to the Board, on or before the 14th day of the month following that in which the purchase or supply was made, a return of all taxable goods and services purchased or supplied by him during the preceding month in such manner as the Board may, from time to time, determine.

(2) A person who imports taxable goods into Nigeria shall render to the Board returns on all the taxable goods imported by him into Nigeria

Remission of tax

13. (1) A taxable person shall, on rending a return under subsection (1) of section 12 of this Decree-

(a) if the output tax exceeds the input tax, remit the excess to the Board; or

(b) if the input tax exceeds the output tax, be entitled to a refund of the excess tax from the Board on production of such documents as the Board may, from time to time, require.

(2) An importer of taxable goods shall, before clearing those goods, pay to the Board the tax due on those goods.

(3) The Nigeria Customs Service shall, before releasing taxable goods to its importer, demand the Value Added Tax Compliance Certificate issued by the Board on those goods.

Effect of failure to render returns

14. Where a taxable person fails to render returns or renders an incomplete or inaccurate returns, the Board shall assess, to the best of its judgement, the amount of tax due on the taxable goods and services purchased or supplied by the taxable person.

Effect on remittance of tax.

15. (1) if a taxable person does not remit the tax within the time specified in section 13 of this Decree, a sum equal to five per centum per annum (plus interest at the commercial rate) of the amount of tax remittable shall be added to the tax and the provisions of this Decree relating to collection and recovery of unremitted tax, penalty and interest shall apply.

(2) The Board should notify the taxable person or his agent of the tax due together with the penalty and interest and if payment is not made within thirty days from the date of such notification, the Board may proceed to enforce payment as provided in section 16 of this decree.

Recovery of tax.

16. Any tax, penalty to interest which remains unpaid after the period specified for payment may be recovered by the Board through proceedings in the Federal High Court.

PART IV-VALUE ADDED TAX TECHNICAL COMMTTEE

Establishment and composition of the Value Added Tax Technical Committee.

17. There is hereby established a committee to be known as the Value Added Tax Technical Committee (in this Decree referred to as *the Technical Committee*) which shall comprise.

(a) a chairman who shall be the Chairman of the Federal Board of Inland Revenue;

(b) all Directors in the Federal Inland Revenue Service;

(c) a Director in the Nigeria Customs Service; and

(d) three representative of the State Government who shall be members of the Joint Tax Board.

Functions.

18. The functions of the Technical Committee shall be to-

(a) consider all the tax matters that require professional and technical expertise and make recommendation to the Board;

(b) advise the Board on the duties specified in section 7 of this Decree; and

KASHIM IBRAHIM LIBRARY

(c) attend to such other matters as the Board may, from time to time, refer to it.

Procceedings.

19. Subject to such directions as the Board may, from time to time, give, the Technical Committee shall determine its quorum and otherwise regulate its own procedure.

Staff.

20. The Federal Inland Revenue Service may post to the Technical Committee such staff as the Technical Committee may require for the discharge of its functions.

PART V- OFFENCES AND PENALTIES

Furnishing of false document,etc.

21. A person who -

(a) with intent to deceive, produces, furnishes or sends for the purpose of this Decree or otherwise makes use for that pupose a document which is false in any material particular; or

(b) (b) furnishing an information to the Board, makes a statement which he knowns to be false in a material particular or recklessly makes a statement which is false- in any material particular, guilty of an offence and liable on conviction to a fine of twice the amount under-declared.

Evasion of tax

22. A person who -

(a) knowingly participates in; or

(b) takes steps with a view to;

the fraudlent evasion of the tax by him or any other person, is guilty of an offence and liable on conviction to a fine of N30,000 or two times the amount of the tax being evaded, whichever is greater, or to imprisonment for a term not exceeding three years.

Failure to make attribution.

23. A person, required to make an attribution, who knowingly or intentionally.

(a) fails to do so; or

(b) having done so, fails to notify the Board,

is liable to pay a penalty of N5,000.

Failure to notify change of address.

24. A person who fails to notify the Board of any change of address within one month of such change, is liable to pay a penalty of N5,000.

Failure to issue tax invoice.

25. A person who fails to issue tax invoice for goods sold or services rendered, is guilty of an offence and liable on conviction to a fine of 50 per cent of the cost of the goods or services for which the invoice was not issued.

Resisting, etc. an authorised officer.

26. A person who

(a) resists, hinders or obstructs or attempts to resist or hinder an authorised officer acting under section 35 of this Decree; or

(b) fails to comply fully with any requirement made under section 35 of this Decree; or

(c) makes any statement in response to a requirement made under sectionh 35 of this Decree knowing it to be false or incomplete; or

(d) procures or attempts to procure by any means any other person to act as aforesaid,

is guilty of an offence and liable on conviction to a fine of N10,000 or imprisonment for a term of 6 months or to both such fine and imprisonment.

Issuing of tax invoice by an unauthorised person.

27. A person who, other than -

(a) a person registered under this Decree; or

(b) a person authorised to do so under this Decree,

issues an invoice purporting same to be attributable to tax, is guilty of an offence and is liable on conviction to a fine of N10,000 or imprisonment for a term of 6 months.

Failure to register.

28. A taxable person who knowingly or intentionally fails to register under this Decree, is guilty of an offence and liable on conviction to a fine of N5,000 and, if after one month, the person is not registered, the premises where the business is carried on shall be liable to be sealed up.

Failure to keep proper records and accounts.

29. A taxable person who fails to keep proper records and accounts of his business transactions to allow for the correct ascertainment of tax and filing of returns is liable to pay a penalty of N2,000 for every month in which the failure continues.

Failure to collect tax.

30. A taxable person who fail to collect tax under this Decree, is liable to pay as penalty 150 per cent of the amount not collected, plus 5 per cent interest above the Central Bank of Nigeria rediscount rate.

Failure to submit returns

31. A taxable person, who fails to submit returns to the Board, is liable to a fine of N5,000 for every month in which the failure continues.

Aiding and abetting commission of offence, etc.

32. (1) An officer of the Board or any other person, who aid or abets the commission of any of the offences under this decree, is guilty of an offence and is liable on conviction to a fine of N50,000 or to imprisonment for a term of 5 years.

(2) Where a person's conduct during any specified period has involved the commission or omission by him of any one or more of the foregoing offences under this Decree, then whether or not the particulars of the offences are known, he shall, by virtue of this section, be guilty of an offence and liable to pay a fine of N10,000 or if greater, four times the amount of any tax that was, or was intended to be evaded by his conduct, or to imprisonment for a term not exceeding 6 months or to both such fine and imprison ment.

Offence by body corporate, etc.

33. Where an offence under this Decree is committed by a body corporate or firm or other association of individuals

(a) every director, manager, secretary or other similar officer of the body corporate; or

(b) every partner or officer of the firm; or

(c) every person concerned in the management to act in any capacity as aforesaid,

(d) every person who was purporting to act in any capacity as aforesaid,

is severally guilty of that offence and liable to be proceeded against and punished for the offence in like manner as if he had himself committed the offence, unless he proves that the act or omission constituting the offence took place without his knowledge, consent or connivance.

PART VI- MISCELLANEOUS

Power of Secretary to vary Schedules.

34. The Secretary may by order published in the Gazette -

(a) amend the rate of tax chargeable; and

(b) amend, vary or modify the lists set out in Schedules 1, 2 and 3 to this Decree.

Power of inspection.

35. (1) An authorised officer may at any time enter without warrant any premises upon which he has reasonable grounds to believe that a person is carrying on business in order to ascertain whether this Decree is being complied with (whether on the part of the occupier of the premises or any other person) and on entry he may carry out such inspections and make such requirements as may be specified by the Board.

(2) Where an authorised officer enters any premises in exercise of the power conferred on him by subsection (1) of this section, he may take with him such persons as he considers necessary for carrying out his functions under this Decree.

Distribution of revenue.

36. Notwithstanding any formula that may be prescribed by any other law, the revenue accruing by virtue of the operation of this Decree shall be distributed as follows, that is -

(a) 80 per cent, to the State Governments and the Federal Capital Territory, Abuja in such proportion as the Federal Government may, from time to time, determine; and

(b) 20 per cent to the Federal Government to cover the cost of administration and collection.

Appointment of agent for manufacturer or importer.

37. (1) The Board may, by notice in writing, appoint any person to be the agent of any manufacturer or importer and the person so appointed shall be the agent of the manufacturer or importer for the purposes of this Decree.

(2) An agent may be required to pay any tax which is or may become payable by the manufacturer or importer from any money which may be held by him for, or due by or to become due by him to the manufacturer or importer, as the case may be, and in default of such payment, the tax shall be recoverable from him.

(3) For the purpose of this section, the Board may require a person to give information as to any money, fund or other assets which may be held by him for, or of any money due from him to a manufacturer or an importer.

Signification.

38. Anything required to be done by the Board under this Decree may be signified under the hand of the chairman or any other senior officer assigned to do so by him.

Forms.

39 The Board may, from time to time, specify the forms, statements and notices to be used under this Decree.

Regulations.

40. The Board may, with the approval of the Secretary, make regulations for giving effect to the provisions of this Decree.

Repeal of 1986 No.4 Cap. 192 LFN.

41. Subject to section 6 of the Interpretation Act, the Sales Tax Decree 1986 is hereby repealed.

Interpretation.

42. In this Decree, unless the context otherwise requires.

Authorised officer means an officer who has been authorised by the Board to perform any function under or in pursuance of this Decree;

Board means the Federal Board of Inland Revenue;

KASHIM IB

Building means any house including any garage, dwelling apartment, hospital and institutional building, factory, warehouse, theatre, cinema, store, mill building, and similarly roofed structure affording protection and shelter, radio and television masts, transmission line, tower, vehicle and other similar structure but excludes mobile homes, caravans and trailers;

Business includes any trade commerce or manufacture of any concern in the nature of trade, commerce or manufacture;

Chairman means the Chairman of the Federal Board of Inland Revenue:

Company means a company as defined under the Companies and Alied Matters Decree 1990 and a corporate body that may be found under any other written law and include any association, whether incorporated in or outside Nigeria;

Entertainment includes any exhibtion and performance in which admission of persons is subject to payment by such persons but does not include the following, that is -

(a) play on stage and performance which are carried out by educational institutions, approved by the Secretary for the time being responsible for education as part of learning;
(b) sport, game or other cultural performance conducted under the superintendence of the Ministry charged with the responsibility for culture and social welfare;
(c) entertainment of a charitable, educational, medical scientific or cultural nature as may be approved in writing by the Board prior to the date of the entertainment for the benefit of the public, and
(d) entertainment organised by a non-profit making charitable, educational, medical, scientific or cultural society registered under the law where the entertainment is in furtherance of the objectives of the society as may be approved in writing by the Board prior to the date of the entertainment;

Import means bringing in or carrying to be brought in goods and services from another country or from an export processing zone;

Importer means any persons who imports taxable goods;

Input tax has the meaning assigned to it in section 10 of this Decree;

Invoice means any document issued as an evidence of demand for payment;

manufacturer means any person who engages in the manufacture of goods and includes a person who has manufactured for him or on his behalf by others, goods made to his specification or design;

Manufacturing means the process by which a commodity is finally produced, including assembling, packing, bottling, repacking, mixing blending, grinding, cutting, bending, twisting and joining or any other similar activity;

Motel means premises on which accommodation, flats service, apartments, beach cottages, holiday cottages, game lodges are provided but excludes the following that is -

(a) premises run by a charitable or religious organisation registered under the relevant law for charitable or religious purposes;
(b) premises operated by a medical institution approved by the Secretary for the time being responsible for health for the use of the staff of that institution;
(c) premises whose supply is under a lease or license of not less than one month, unless by prior arrangement, the occupier may without penalty, terminate that lease or license on less than one month's notice;

Output tax has the meaning assigned to it in section 11 of this Decree;

Owner means in respect of any goods, aircraft, vessel, vehicle, plant or any other goods, a person, other than an officer acting officially, holds out himself to be the owner, manufacturer, agent or the person in possession of or beneficially interested in, or having control of or powers of disposition over the goods, aircraft, vessel, vehicle, plant or other goods;

Registered person means any person registered under section 8 of the Decree.

Restaurant means any establishment carrying out the business of restaurant services, and includes cafeterias, fast-food oulets, snacks and food stuffs at exhibitions or sports arenas and similar establishments but excludes -

(a) an establishment operated for a charitable or religious purpose;
(b) an establishment run by an educational or training institution approved by the Secretary for the use of the staff and students of the institutions; and
(c) an establishment run by an medical institution approved by the Secretary for the time-being responsible for health for the use of staff and students of the institution;

Restaurant service means the supply of foods or beverages prepared for immediate consumption, whether or not such consumption is on premises of the restaurant and including outside catering;

Secretary means the Secretary or Minister responsible for matters relating to finance;

Supplies means any transaction, whether it is the sale of goods or the performances of a service for a consideration, that is, for money's worth;

Supply of goods means any transaction where the property in the goods is transfered or where the agreement expressly contemplates

that this will happen and in particular includes the sale and delivery of taxable goods or services used outside the business, the letting out taxable goods on hire or leasing, and any disposal of taxable goods;

Supply of service means any service provided for a consideration;

Tax means the Value Added Tax imposed and charged under section 1 of this Decree;

Tax period means one calendar month commencing from the begining of the month to the end of the month;

Taxable person means a person (other than a public authority acting in that capacity) who indepently carries in any place an economic activity as a producer, wholesale trader, suplier of services (including mining, and other related activities) or person exploiting tangible or intangible property for the purpose of obtaining income therefrom by way of trade or business;

Taxable service means the services listed in Schedule 2 to this Decree which are subject to tax under this Decree;

Transaction at arm's length means a transaction on normal open market commercial terms;

Vehicle includes for the purpose of this Decree every description of conveyance for the transaction by land of human beings or good;

Vessel means a mode of transportation or conveyance by water of human beings or goods;

Wholesaler means a person who obtains his stock predominantly from the manufacturers and sells in bulk to the retailers.

Citation and Commencement.

43. This Decree may be cited as the Value Added Tax Decree 1993 and shall come into force on 1st December 1993.

SCHEDULES

SCHEDULE 1

Section 2

TAXABLE GOODS AND THE RATE OF TAX

	A Taxable Goods	B Rate %
1.	All goods manufactured or assembled in Nigeria	5
2.	All goods, imported into Nigeria.	5
3.	All of second hand goods.	5
4.	Household furniture and Equipment.	5
5.	Petrol and all petroleum products. (including engine oil, greases and gas.	5
6.	Jewels and jewelleries.	5
7.	Texiles, clothing, carpet, and rugs.	5
8.	Beer, wine, liquor, spirits, soft drinks, and bottled water including mineral water.	5
9.	Cigarettes and tobacco.	5
10.	All vehicles and their spare parts, excluding commercial vehicles and their spare parts.	5
11.	All aircraft, aircraft bodies and their spare parts.	5
12.	Perfumes and cosmetics (including toiletries)	5
13.	Soaps and detergents	5
14.	Mining and minerals	5
15.	Office furniture and equipment (including toiletries)	5
16.	*Electric materials of description*	5
17.	Such other goods that may be determined by the board from time to time as time taxable goods.	5

SCHEDULE 2

Section 2

TAXABLE SERVICES AND THE RATE OF TAX

	A Taxable Services	B Rate%
1.	All services rendered by financial institutions to their customers (excluding People's Banks, Community Banks and Mortgage Institutiions.	5
2.	Accountancy services, including any type of auditing, book-keeping or related services.	5
3.	The provision of report, advice, information or similar technical services in the folloowing area :-	
(a)	management, financial, taxation; and related consultancy services	
(b)	recruitment,staffing and training;	
(c)	market research;	
(d)	public relations; and	
(e)	advertising.	5
4.	Legal services, including services supplied in connection therewith.	5

KASHIM IBRAHIM LIBRARY

5.	Computer services, including the provision of bureau facilities, system analysis design software, site development and training.	5
6.	Services supplied by architects (including landscape architects) and draughtsman.	5.
7.	Services supplied by land and building surveyors, quantity surveyors, insurance companies and assessors, fire and marine insurers, loss adjusters or similar services.	5
8.	Services supplied by consulting engineers.	5
9.	Services supplied by auctioneers, estate agents and valuers.	5
10.	Services supplied by agents, including insurance agents, and person who acts for or represents someone else in arranging or conducting a transaction or other activities.	5
11.	Services supplied by brokers.	5
12.	Services supplied by secretarial agencies, including the supply of typing, photography telex, facsimile and type-setting facilities and related service.	5
13.	Services supplied by security companies and enterprises.	5
14.	Courier Services.	5
15.	Repairs, alteration, processing or any other services provided in connection with designated goods by designated dealers.	5
16	Services supplied in the course of altering, processing, asembling packing, packaging, bottling or manufacturing goods owned by another person	5
17.	Telecommunication services, including rental of telecommunication equipment, installation and maintenance services.	5
18.	Letting of video tapes or any other audio visual records or hiring, copying and rewriting of video tapes and similar services.	5
19.	Entertainment services including plays and performances, cinemas, shows and music concerts, excluding plays and performances conducted by educational institutions as part of learning.	5
20.	Accommodation and all other services provided by a hotel owner or operator including bars, conference and business services.	5
21.	Restaurant services supplied by a restaurant owner or operator.	5
22.	All goods and services for repairs and maintenance (including accessories of vehicles, plants and machineries and equipments, aircraft and related services.	5
23.	Air travels and company car hires.	5
24.	Any other services as may be prescribed by the Board from time to time as taxable services.	5

SCHEDULE 3

GOODS AND SERVICES EXEMPT

Part I- Goods Exempt

1. All medical and pharmaceutical products.
2. Basic food items.
3. Books and education materials.
4. Newspapers and magazines.
5. Baby products.
6. Commercial vehicles and commercial vehicle spare parts.
7. Fertilizer, agricultural and Veterinary medicine, farming machinery and farming transportation equipment.

Part II- Services Exempt

1. Medical Services.
2. Services rendered by Community Banks, People's Bank and Morgage Institutions.
3. Plays and performances conducted by educational institutions as part of learning.

MADE at Abuja this 24th day of August 1993.
GENERAL I. B. BABANGIDA,
President, Commander-in-chief
of the Armed Forces,
Federal Republic of Nigeria.

APPENDIX 5

NIGERIA FORM VAT 001

FEDERAL INLAND REVENUE SERVICE

.....LOCAL VAT OFFICE

.....STATE

VAT REGISTRATION FORM

Part A To be completed by all VATable persons for VAT

1. (a) Name of VATable person ..... (Note 1 below)

(b) Principal place of Business (Not P. O. Box)

.....

.....

.....

Other Branches/Units located within the State

(i) .....

(ii) .....

(c) Incorporation/Registration Reference ..... (as applicable)

Date of Incorporation/Registration: .....

2. (a) Nature of Business

(i) .....

(ii) .....

(iii) .....

(b) Types of Goods/Services

(i) .....

(ii) .....

3. Date of Commencement of Business .....

KASHIM IBRAHIM LIBRARY

Part B **CERTIFICATION**

I certify that the information given above is correct in all respects and confirm that to the best of my knowledge and belief there are no other facts the omission of which would be misleading.

.....
Signature of principal Officer of VATable person. (Note 2 below)

.....
Official Stamp of the VATable Person

.....
Full Names

.....
Designation

.....
Date

Notes:

1. "VATable Person" means a person (other than a public authority acting in the capacity) who independently carries out in any place an economic activity as a producer, a wholesale trader, an importer, supplier of services (including mining and other activities of any profession) or person exploiting tangible or intangible property for the purpose of obtaining income therefrom.
2. 'Principal Officer" means any director or the secretary of the company, firm or enterprise.

APPENDIX 6

FORM VAT 002

NIGERIA

IMPORTANT. Please read the "VAT Information" circular before completing this return. If in doubt contact local VAT office.

FEDERAL INLAND REVENUE SERVICE

VALUE ADDED TAX RETURN

For Official Use Only

VAT Identification Number | 1

Name: _____

Address: _____

Return to LOCAL VAT OFFICE
FEDERAL INLAND REVENUE SERVICE

This return covers ☐ Month | Start Month | End Month | This return and payment due on or before 14th day of month following the month specified.

THIS RETURN MUST BE COMPLETED AND SENT TO LOCAL VAT OFFICE EVEN IF NO VATABLE SUPPLIES HAVE OCCURRED.

VAT ON SUPPLIES MADE BY YOU.

(Sales/Income) Total VATable supplies made for the period (including VAT.)		2
Less: Zero - rated supplies included above.		3
Total Supplies subject to VAT		4
VAT charged by you		5
Add: Adjustments		6
TOTAL OUTPUT TAX		7

DEDUCTION OF VALUE ADDED TAX ON PURCHASES MADE BY YOU

(Purchases/Expenses) VAT on total vatable supplies received for which invoicing requirements have been met.		8
Add: VAT Adjustments		9
----------		10
Total VAT payable by you.		11
Less: VAT on Purchases not wholly used in making vatable supplies		12
TOTAL DEDUCTIONS (INPUT TAX).		13
Amount to pay/refund due (delete as applicable).		14

SUBSTRACT BOX 13 FROM BOX 7

NOTE: LATE PAYMENTS SHALL BE PENALISED

DECLARATION: I declare that the particulars in this return are true and correct.

Signature _____ | Full Name: | Title/Position: | Date:

FOR OFFICIAL USE ONLY.

Checked by..... Date..... Verified by.....

Amount Received ₦ _____ Cash/Bank Draft Date.....