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AN EVALUATION OF VALUE ADDED TAX IN NIGERIA, PROSPECTS AND CHALLENGES

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ABSTRACT
There is no country that will be self-reliant without generated revenue for the provision of social amenities to its citizens. The paper highlightens the impact of VAT on imported goods into Nigeria, get the objectives of this paper numerical information (data) were collected using the secondary sources of data gathering which include journals, textbooks, information on the net which advices VAT not only in Nigeria but other selected countries worldwide and the analysis was descriptive. In Nigeria VAT is faced with myriads of problems which includes complex tax lairs, inadequate and poor administration led by Nigeria as they think as VAT lack attribute that leads to benefits, inadequate funding of the revenue services, lack of tribunals related to VAT cases and above all the issue of tax avoidance and tax evasion is probably the most challenging issue to the realization of VAT benefits. Then, the 5% VAT in Nigeria has been considered the least in the world. However the paper concludes that for VAT to produce benefits to Nigerians, challenges like those mentioned above must be addressed by enforcing laws that will prevent tax avoidance and tax evasion and total fight of corruption. The 7.5 % VAT presently applied in Nigeria will yield more benefits as discovered during research on this paper.

Keywords: *Value Added Tax, avoidance & Evasion, Levy, Taxation, Revenue.*

Introduction

Tax is a levy imposed by the government against the income, profit or wealth of the individual, partnership and corporate organizations. Taxation is a major player in the economic growth of every nation. Every country has its system of taxation. The tax system helps the government to generate fund which can be used to improve social amenities. According to Aneke (2009), taxes represent an instrument of fiscal policy, value added tax-VAT as it is known in the tax on consumption that came into effect from first January 1994, it is regulated by VAT Decree of 1993. It is an indirect form of taxation based on the general consumption behaviour of the people. It is a tax on spending expected to be borne by the final consumer of goods and services. Taxes not only VAT is an opportunity for goods to collect additional revenue needed in discharging 'its present obligation. Jhingan (2004) defines tax as compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the tax payer in relation. Also, Buhari (2005) notes that tax is a compulsory payment made by a citizen for which there is no immediate benefit in return for the payment of the tax. It is a burden which every citizen must bear to sustain its government. Anyanwu, (1997) feels that, taxes have three functions namely the allocational function, distributional function and the stabilization function. The allocation function ensures that the public sector determines the production patterns, the nature of goods and types to be produced, who produces them, where they are produced, the social balance between the public sector and the private sector. The distribution function of the taxes discusses the ways to attain high level of fix creation, non-fluctuating prices, balance of payment equilibrium, non-inflation economy and abled exchange rate stability, Musgrave and Musgrave, (2006); Nzotta, (2007). VAT is charged at a flat rate of 7.5% on goods and services in Nigeria, and addition of 2.5 to the rate in 1994 which was in use till 2019.

Value added tax is a consumption tax imposed on certain category of goods and services introduced in Nigeria following the recommendation of the panel set up by the government in 1991, Buhari, (2005). Pascal (1996) states that the value added tax is not a tax on the total value of goods being sold, but only on the value added to it by the last seller, so it is only on the

value added meaning the difference between the value of factor services and materials that the firm purchases as inputs. VAT is also the value that a firm adds by the virtue of its own activities to it by its last seller.
Taxation is divided into various types, which VAT is one, we have income tax, corporation tax known as company tax, capital gains tax etc. In Nigeria, tax is levied on the authority of the Federal Government income tax management account 1961 (ITMA) and subsequent amendments including the finance (miscellaneous taxation provisions) decree 1992 and the (finance miscellaneous provision) Decree 1997 and 1998.

Nature of Nigerian Tax System

Ola (2001) and Appah (2009) define taxation as “compulsory payment by a good citizen to be bonafide national identity holder”. They further explained that taxation has a principle which must be applied and to be used to evaluate the Nigerian tax structure. Barhtia (2009) also defines tax as a compulsory levy payable by economic unit to the government without any corresponding entitlement to receive a definite and direct quid pro quo from the government Musab, (2012) reports, that the level of taxation affects the level of public saving and thus the volume of resources available for capital formation.
The principle of good tax system depends on good governance. Anyato, (1996) argues that in order to achieve a broader objective of social justice, the tax structure of Nigeria should be based on principles acceptable by all the tax payers, possible and adequate response to payment due to sound principle. He went further to explain that a good system of tax incentives to come on board with acceptable penalties so that efficiency and resource utilization be influenced. The distribution of tax burdens plays a large part in promoting an equitable distribution to yield the economy.
A situation where tax system is not well structured has been criticized over the years. Musab, (2012) includes the canonry taxation which includes canon of equality, canon of certainty, canon of convenience; that of economy simplicity, flexibility, productivity and that of importability. The good use of the afore mentioned canons is to provide tax features to allow little sacrifice, make the tax burden tone able; provide physical social amenities; provide employment for economic growth and development.

The most pending problem in the Nigeria tax system is corruption. This paper suggests that the greatest objective of taxation which includes, to regulate production, regulate control and consumption of certain commodities, raise revenue, to control internal and external businesses, to prevent dumping, control inflation, control monopoly and provide a conducive system for the country's balance in foreign accounts: Another objective is to allocate resources, reduce income in equalities, provide a law if violated awaits punishment.

Nigeria and Its Sales Tax

It is said, Nigeria is the giant of Africa, but with few businesses only in the South - South or South East of the country, with few in the North Central Musgrave and Musgrave (2006) define sales tax as taxes imposed on flows generated in the production of the current output, while Bello, (1999) states that sales tax are applied on the beginning of manufacturing which channels through retailer before the consumer sees it for consumption. On the other hand, Buhari (1993), reports that sale tax is a tax imposed on the flow of goods and services in production. It may be true if one defines sales tax as tax only applied at initial stage of manufacturing which in the process of buying and selling reaches the retailer and the final consumer.

Sales tax suffered from several limitations in Nigeria. The greatest one is tax evasion in the process of collecting the tax. This limitation has force tax experts to advocate for the use of multi stage tax system known as the value added tax(VAT).

Value Added Tax in Nigeria.

VAT came into being in Nigeria in 1991 but come into effect on 1st January, 1994 as regulated by Decree 1993 VAT Decree. VAT as an indirect form of taxation based on the wider consumption of the people. Ola (2001) feels that, value added tax is the difference between the increase in the value of goods or services in the process of their production of delivery, while Nzota, (2007) states that value added tax is not a tax on the total value of goods or services being sold but only as the value added. Value added is calculated by subtracting from the value of goods or services; the cost of the input of other goods or services that were used in the process of production of the goods or in the delivery of services.

The IMF, Ezejelue, (2001) give the IMD definition of VAT as an, "Indirect tax imposed on each sale beginning from the start of production to distribution cycle which adds up to the customer", this implies that, each seller in the distribution chain embraces VAT from the purchase at the time of sales, that means the VAT is added to the sales price. The balance of VAT is remitted to the government of the day.

Exempt Goods and Exempt Services

This paper went further to finds out the goods that exempt from charge to value added tax and the goods exempt from VAT include:

i. medical and pharmaceutical products
ii. basic food items such as beans, yam tubers, rice, cassava, millet, meat, fish and infant foods,
iii. books and educational materials including exercise books, laboratory equipments, school fees, PTA.
iv. newspapers and Magazines,
v. baby products such as feeding bottles, carriages, clothes, napkins, baby cream and powder, soap and toys,
vi. commercial vehicles and their spare parts,
vii. agricultural equipment/products and fertilizers, veterinary medicine while exempt services include: medical services, service by community banks, peoples banks, plays and performance conducted by educational last.

In addition, all diplomatic items are exempt from VAT, these includes house rent, private transactions such as occasional sales of domestic or household activities, furnishings, personal effect and private motor vehicles.

Registarable Persons in Nigeria

All domestic manufacturers, distributors, importers and suppliers of goods and services in Nigeria are required to register for VAT. Professionals like accountants, lawyers, architects, engineers etc are to register for VAT. VAT registration carriers with some rights and obligations on the part of the registered persons. The registered persons have the right of regular visits by the VAT inspector for advice.

Arguments For and Against Value Added Tax

It has been said that VAT progressive in outlook, hence it has numerous advantages which represent shift in taxation toward expenditure rather than income; thereby solves the problems of evasion; since it is a consumption tax, while other school of thought reveal that VAT induces inflation. The common man will as a result be worse off: manufacturers have also argued that VAT will hike prices of their products which in turn will reduce demands, Those who argue for VAT also said that VAT provides steady source of income to government and more predictable, while those that are not happy with VAT, according to them it will entail additional administrative duty, while they are not prepared for.

Thus, the VAT is a consumption tax with collection through the production chain. Ola (2001), reports that the history of VAT in Nigeria can be traced back to Ola's Nigerian income tax law and practice; where he made a strong case for the implementation of VAT. This leads to the inauguration of a 20 member study group by the former Minster of Budget and Planning Dr. S.P. Okongwu in 1991 to review the entire tax system which came up with the idea of introducing VAT in Nigeria as a result of the low voluntary compliance with our tax law so in time to that the government of then set up a modified value-added tax MVAT committee to undertake feasibility studies on the implementation of VAT in Nigeria. Ola, (2001) notes that there are basically 3 types of VAT namely; production VAT where only the value of non-capital purchase is deducted where the VAT equals gross net product GNP while consumption VAT according to Bhartia (2009) that the absence of foreign trade the tax VAT becomes $W+P + D = C+I$, in which, W means Wages, P means Profits and D stands for Depreciation while C and I stands for consumption and investment. The income VAT allows the firm to deduct the full value of its noncapital purchase from other firms, while the wages VAT is when a firm is able to deduct the net earnings from its capital in other to arrive at the tax base.

Table 1

Taxable goods and rate of tax in Nigeria VAT Act 2007 as amended provided taxable goods and services (for selected goods).

S/No	Taxable Goods	Rate	Rate Present
1.	All goods manufactured and assembled in Nigeria	5	7.5
2.	All goods imported into Nigeria	5	7.5
3.	Household furniture and fittings	5	7.5
4.	Petrol & all petroleum products	5	7.5
5.	Jewels and jewelries	5	7.5
6.	Textiles, carpets and clothes	5	7.5
7.	All vehicle parts	5	7.5W
8.	Cigarettes and tobacco	5	7.5
9.	Soaps and detergent	5	7.5
10.	Mining and minerals	5	7.5
11.	All agricultural products	5	7.5

VAT ACT 2007

Table 2

VAT Services

S/No	Taxable Goods	Rate Previous (%)	Rate Present (%)
1.	Legal services	5	7.5
2.	Services rendered	5	7.5
3.	Financial institutions	5	7.5
4.	Accounting and auditing	5	7.5
5.	Computer services	5	7.5
6.	Architects	5	7.5
7.	Surveyor	5	7.5
8.	Engineering	5	7.5
9.	Repairs	5	7.5

10.	Airs travels/car hire	5	7.5
11.	All goods and services	5	7.5

VAT 2007

Table 3
African Countries with VAT System

S/NO	Country	Date of Introduction	Rate
1.	Algeria	1992	7, 13, 21, 40
2.	Benin	1991	18
3.	Burkinafaso	1993	0, 10, 15
4.	Cameroun	1999	0, 18, 7
5.	Congo	1997	18
6.	Cote D'ivore	1960	8
7.	Gabon	1995	0,18
8.	Ghana	1998	0,10
9.	Lesotho	1993	-
10.	Madagascar	1969	6,12
11.	Malawi	1989	10, 25, 55, 95
12.	Mali	1991	10, 17
13.	Mauritania	1998	0,10
14.	Morocco	1986	1, 12, 14, 19, 30
15.	Mozambique	1999	0,10
16.	Namibia	2000	0, 15, 30
17.	Niger	1986	8, 12, 18

18.	Nigeria	1993	5,7.5
19.	Senegal	1960	15,28
20.	South Africa	1991	10
21.	Tanzania	1992	7
22.	Kenya	1990	17, 20, 40, 50, 270

VAT

Problems of VAT Administration in Nigeria

Nigeria is one of the countries that evades tax most due to the high rate of corruption that has engulfed the country over the years. The problems ranges from inadequate skilled staff, corrupt tax collectors and tax payers, poor relationship between the tax payers and the government that gives self-assessment forms.

Anayo (1997), argues that the problems are deficient tax administration and collection mechanism and inadequate supporting legislation; some problems include lack of VAT tribunals; some state government re-introduce self-taxation. Conflicting with sharia laws in sharia operating states. Another problem of VAT administration is poor data collection (record keeping) which can be used to foster improvement in VAT collections.

Conclusion

The paper discusses the prospects and challenges of value added tax in Nigeria as consumption tax Nigeria imposes on goods and services that is why Ola, (2001) describes it as a tax paid with sweating but no charting. The paper further discusses the problems encountered by the Vat collectors which include poor submission of self assessment filler; tax evasion and avoidance consequently for Vat to achieve the required revenue the government need to clear and put a transparent means of Vat collection. Therefore, for this form of taxation to produce the revenue needed the fight against all forms of corruption must be tackled.

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