

# PDF - VALUE ADDED TAX VAT IN NIGERIA, EMERGING PROBLEMS AND PROSPECTS AND THE WAY FORWARD - researchcub.infoAbstract

This project is an attempt to analyze and evaluate the level of success made in the implementation and management of Value Added Tax.(VAT) was introduced in Nigeria was seen by, many as another fixed policy that may not succeed. In the contrary, this notion was proved wrong by the success of the Federal Board of Inland Revenue Services in the administration of VAT. Under the Federal Board of Inland Revenue Services, there exist a VAT directorate responsible for the management and implementation of VAT in our country Nigeria. This piece of work focused on the strategies adopted by the Federal Board of Inland Revenue Services facilitates payment by the taxable individuals. A touch is also made on the analysis and comparison of VAT with other forms of tax in Nigeria to prove its viability. Finally, the work treated the contributions of VAT to Federal, State and local government revenue and their expectations.

## TABLE OF CONTENT

Title page	
Certification	ii
Approval page	iii
Dedication	iv
Acknowledgement	v
Abstract	vii

## CHAPTER ONE

### Introduction

- 1.1 Statement of the problem
- 1.2 Purpose of study
- 1.3 Research Questions
- 1.4 Need for the study
- 1.5 Assumption of the study
- 1.6 Limitation of the study
- 1.7 Operational definition of terms

## CHAPTER TWO

### Literature Review of VAT in Nigeria

- 2.1 VAT Reconstruction in Nigeria
- 2.2 VAT Returns
- 2.3 VAT Implementation in Nigeria
- 2.4 Advantage of VAT
- 2.5 Problem of VAT
- 2.6 Administration of VAT
- 2.7 Overview of VAT administration
- 2.8 The offences and penalties in VAT administration.
- 2.9 Taxable goods and service
- 2.10 Exempted goods and Service
- 2.11 VAT in versus other form of tax.
- 2.12 VAT versus Withholding Tax.

2.13 The wayforward.

## CHAPTER THREE

Research Methodology

Introduction

Population of the study

Sample size

Sources Collection of Data

Method of Data Analysis

## CHAPTER FOUR

Data Presentation and Analysis

Introduction

Data presentation

Analysis of Responses

## CHAPTER FIVE

5.0 Summary, Conclusion, Recommendation

5.1 Summary of Findings

5.2 Conclusion

5.3 Recommendation

Bibliography

## CHAPTER ONE

### INTRODUCTION

Taxation in every sense is a tool of economic reformation. Government, the work over, have always found ways of imposing various levies on their subjects. This is done with a view for raising revenue for its expenditure.

In Nigeria, some of the type of taxation include personal income tax, Capital gain tax, Capital transfer tax, sales tax, petroleum tax and Withholding tax.

Value added tax as a form of tax was introduced in Nigeria on December 1st 1993. Though the operational date was 1st January 1994. VAT is a tax charged on the consumption of goods and service locally or imported into the country since then; many countries have adopted this tax policy as it has proved successful in its implementation. In Africa, up to 17 countries including Nigeria adopted VAT and over sixty countries in the World operated VAT since its inception. The trend has kept on growing as many countries are turning toward VAT as a remedy for the other unsuccessful form of taxes, even though Nigeria joined the league of countries operating VAT just of 1994. She has very unique attributes in the operation of this new tax policy. Nigeria charges a single rate of 5% unlike most of other countries which charge multiple high rates. Value Added Tax (VAT) in Nigeria is Federal Government Tax which is centrally administered using the existing machinery of the Federal Inland Revenue Service (FIRS). Value Added Tax has a directorate within the framework of the FIRS with the head office in Abuja. It was this group that proposed VAT and in that direction, a committee was set up to conduct studies on the implementation of VAT.

VAT replaced the sales tax whose base is regarded as narrow and which covers only nine categories of goods plus sales and service in registered hotels, Motels, and similar establishments. In contrast, VAT base is broader and includes most professional services and banking transactions which are high profit generating

sectors. The revenue generated from VAT is shared among the three tiers of government, the Federal, state and Local government. When the tax system was first implemented in 1994, the state government received 50% of the proceeds. While 20% went to Federal government for covering its administration cost. In 1996, the distribution of the revenue generated from VAT was further shared as follows: Federal government 35%, state government 40% and the local government 25% in 1997, the distribution formula was the same as in the 1996 distribution formula. It was further changed as follows:

Federal Government 15%, State government 50% and Local government 35%, the 2000 distribution formula is Federal government 15%, state government 50% and local government 35%.

### 1.1 STATEMENT OF PROBLEMS

As a result of the unsuccessful nature of the previous economic recovery policies such as the structural adjustment program, we may see VAT as another such policy that would join the bandwagon of failure in the light of the above, these are some of the problems associated with the management and implementation of VAT in Nigeria.

1. The infrastructure facilities needed for the effective implementation of VAT are either not in existence or in sub-standard forms.
2. It is not clear where government channels the revenue derived from VAT in Nigeria.
3. The public either directly or indirectly resists VAT.
4. People argue that VAT will lead to inflationary tendencies.
5. The VAT administration and the VAT-able person are illiterate.

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