PDF - ASSESSING THE CONTRIBUTION OF VAT TO THE REVENUE PROFILE OF NIGERIAN GOVERNMENT - researchcub.infoCHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The increasing cost of running government coupled withdwindling revenue has left various state governments in Nigeria withformulating strategies to improve the revenue base. More so, the near collapseof the National Economy has created serious financial stress for all tiers ofgovernment. Hardest hit are the state governments all of whom have experiencedunusual reduction in their share of the National Revenue from the FederationAccount. Despite the numerous sources of revenue available to the various tiersof government as specified in the Nigeria 1999 Constitution, since the 1970still now, over 80% of the annual revenue of the three tiers of government comefrom petroleum. However, the serious decline in the price of oil in recentyears has led to a decrease in the funds available for distribution to thestates. The need for state and local governments to generate adequate revenuefrom internal sources has therefore become a matter of extreme urgency andimportance. This need underscores the eagerness on the part of state and localgovernments and even the federal government to look for new sources of revenueor to become aggressive and innovative in the mode of collecting revenue fromexisting sources.

To meet the inescapable need for increased revenue, the useof external tax consultants was introduced by the federal and state governmentsin Nigeria to boost revenue generation under a programme known as theAccelerated Revenue Generation (ARG) Programme. The Federal governmentappointed Consultants/ Monitoring agents on Value Added Tax (VAT).

Value added tax (VAT) has become a major source of revenuein many developing countries. VAT has become an important contributor to totalgovernment tax revenues. Shalizi and Squire (1988) find that VAT accounted forabout 30% of total tax revenues in Nigeria in 1982. The oil producing countriesare not excluded from the list of countries introducing this tax handle. Thisimpressive performance of VAT in virtually all countries where it has beenintroduced clearly influenced the decision to introduce VAT in Nigeria inJanuary 1994.

Specifically, the Federal Inland Revenue Service (FIRS)pointed out that VAT is a consumption tax that is relatively easy to administerand difficult to evade and it has been embraced by many countries world-wide(FIRS, 1993: 4). Evidence so far supports the view that VAT is already asignificant source of revenue in Nigeria.

VAT is a multi point levy where the tax paid on localpurchases from the registered dealer can be set off against the tax payable onthe sale of goods, other than special goods. A value added tax is a tax onsales to consumers that is collected at different stages of the productionprocess. It has the same base as a retail sales tax (RST) that is collectedonly on sales to final consumers.

Value added tax is an indirect tax charged on sale of goods.Before the implementation of Value Added Tax, Sales tax was charged on sales.Sales tax was levied at first point of sale, and the resellers did notcontribute to the Government. Government was losing huge revenue due to thissystem. Finally Government introduced VAT on 1st April 2005, with the motto ofuniformity in tax structure and to reduce the evasion of tax. VAT works on theprinciple that when raw material passes through various manufacturing stagesand manufactured product passes through various distribution stages, tax shouldbe levied on the ‘Value Added’ at each stage and not on the gross sales price.A value added tax or value-added tax (VAT) is a form of consumption tax. Fromthe perspective of the buyer, it is a tax on the purchase price. From that ofthe seller, it is a tax only on the “value added” to a product, material orservice, from an accounting point of view, by this stage of its manufacture ordistribution. The manufacturer remits to the government the difference betweenthese two amounts, and retains the rest for themselves to offset the taxes theyhad previously paid on the inputs.

The “value added” to a product by a business is the saleprice charged to its customer, minus the cost of materials and other taxableinputs. A VAT is like a sales tax in that ultimately only the end consumer istaxed. It differs from the sales tax in that, with the latter, the tax iscollected and remitted to the government only once, at the point of purchase bythe end consumer. With the VAT, collections, remittances to the government, andcredits for taxes already paid occur each time a business in the supply chainpurchases products.

The value added taxes in Nigeria were created asreplacements or substitutions for the sales taxes that were in operationbefore. They were imposed on all goods that were manufactured in the country aswell as goods that had been made outside the country and were selling there. Asper the VAT Decree No. 102 made on the 24th of August, 1993 in Abuja by thePresident and Commander-in-Chief of Nigeria, General I. Babangida certain goodsand services have been exempted from the purview of value added taxation. Asper the specifications laid down in the above mentioned decree goods such asall exported goods, medical and pharmaceutical products, products meant forkids, basic food items, commercial vehicles and their spare parts, books andother educational materials, fertilizer, farming machines, agriculturalproducts, farming transportation equipments and veterinary medicines andmagazines and newspapers.

As per the above mentioned decree a number of services havebeen declared exempted from value added taxation in Nigeria. These services areall the services that are exported, medical services, plays and performancesthat are run by educational institutions for educational purposes and servicesthat are provided by community banks, mortgage organizations and people’sbanks. In Nigeria the companies or business organizations that function on a noprofit making basis are required to pay value added taxes.

1.2 STATEMENT OF PROBLEM

In most of the developing countries of the world. It isimpossible to assess and collect various taxes especially those on Income. Thisis mostly as result of the

Insincerity of both the tax payers and tax administrators,who rather prefer the money in their pocket to generating same for thegovernment even when at the end of the month, they still expect salaries to bepaid by the government.

It has long been evident that VAT in Nigeria has remainedthe most unsatisfactory, disappointing and problematic of all the taxes in thesystem today.

This is as a result of weakness and inconsistency of the taxpolicies in Nigeria tax system. For instance, the National Tax Policy (NTP)which is yet to be effective even though approved by the Federal ExecutiveCouncil

(FEC).Nigeria is yet to have any policy thrust for its taxsystem. The year 2010 was not an exception as there was no notable policypronouncement to drive the tax system. This has contributed to the slow pace ofdevelopment that the system has witnessed.

The irony remains that not much has been done to set theNigerian tax system on the right footing. Despite the fact that reforms hadbeen ongoing, there is yet to be a clear direction for the system.

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