

**STUDY OF THE LIKELY IMPACT OF FEDERAL GOVERNMENT
DECISION TO INCREASE VALUE ADDED TAX (VAT) FROM 5% TO
10% ON THE ECONOMY**

BY

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**BEING A PROJECT SUBMITTED TO THE POST GRADUATE SCHOOL
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DECLARATION

I declare that the work in the project report entitled “study of the likely impact of the federal government decision to increase value added tax (VAT) from 5% to 10% on the economy” has been performed by me in the Department Of Business Administration. The information derived from the literature has been duly acknowledge in the text and a list of reference provided. No part of the project report was previously presented for another degree or diploma at any university.

Name of Student

Signature

Date

CERTIFICATION

This is to certify that this project titled “Study of the likely Impact of Federal Government Decision to Increase Value Added Tax (VAT) from 5% to 10% on the economy” writing by YAHAYA, Umar Maikano meet the regulations governing the award of the Degree of Master of Business Administration (MBA) of Ahmadu Bello University Zaria and it is therefore approved for its contributions to knowledge, and literacy presentation.

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DEDICATION

This research work is dedicated to my late father Suleman Yahaya, my beloved mother Hauwa'u (Azumi) and my late beloved aunty Aisa (Dodo) for all their wonderful love and kindness to me.

ACKNOWLEDGEMENT

Thanks be to Allah, the Lord of the world, the Beneficent most merciful for seeing me through this work.

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I also acknowledge the contribution of my course mates, my family for their assistance toward this course.

Finally, to GOD be the glory Amen.

YAHAYA, Umar Maikano

ABSTACT

The government of any nation has among its duties maintain law and order, provision of, necessary infrastructure such as electricity, education and health facilities. For the government to discharge these duties effectively it needs fund which it derive from public expenditure, one of the major avenues to derivation of this fund is taxation.

Value Added Tax (VAT) was introduce in 1993 to replace sales tax which was then administered by the states as part of recommendations of the study group on indirect taxation with an agreement to start at 5% but that over time the rates would be adjusted upwards while direct (income) tax rates would be adjusted downwards. Presently the federal the federal government is proposing to increase VAT rate to 10%. The major objective of the study is to examine the likely impact of the federal government decision to increase value added tax from 5% to 10% on the economy.

Accordingly, analysis of the data collected was carried out and a lot of finding regarding the impact of the tax increase on the economy was made. The increase in tax rate will have impact on the government by bringing more revenue to the government, it will have impact on the taxable person

by increasing cost of production, it will have impact on the consumer by bringing inflation and it will have impact on the Federal Inland Revenue Services by increasing the cost of collection on non oil tax.

Finally suggestions and recommendations on the findings were made for government consideration.

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CHAPTER ONE INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Taxes are classified into two main groups, namely, direct and indirect taxes, according to the way they are paid. Direct taxation are taxes imposed directly upon or onto property of the person paying the tax. Indirect taxes are taxes on goods or services. They are paid when certain purchases are made example, Value Added Tax.

Value Added Tax (VAT) is a tax on spending, the tax is borne by the final consumer of goods and services because it is included in the price.

Value Added Tax (VAT) was first introduced by France in 1954. It has since been embraced by well over 70 countries all over the world. These include all the OECD countries, Japan, Canada, the state of Michigan, in the USA and many African Countries including many members of ECOWAS.

In Nigeria, the idea of VAT started with the acceptance of the recommendation of the Dr Sylvester Ugoh led study group on

Indirect Taxation in November 1991. The decision to accept the recommendation was made public in the 1992 budget speech. A committee was later set up on 1st June 1992 to examine the feasibility of the earlier recommendation. The committee's recommendation, among the other things, that VAT should be administered by an independent commission was rejected by government.

The introduction of VAT in Nigeria through Decree 102 of 1993 marks the phasing out of the sales Tax decree No7 of 1986. The decree took effect from 1st December 1993, but by administration arrangement, invoicing for tax purpose did not commence until 1st January 1994.

1.2 **STATEMENT OF THE PROBLEM**

Pursuant to the provision of section 34 (a) of the Value Added Tax (VAT) Act (VATA) 1995 (as amended), which vest on the Honourable Minister of Finance, the power to amend the rate of tax chargeable under the Act, the Federal Government is proposing to increase VAT rate from 5% to 10% because:

- (i) the VAT rate of 5% is the lowest in the African sub-region and has remained without change since the commencement of VAT in 1993, thereby constituting a source of distortion to trade and discouraging competition within the region.
- (ii) the ECOWAS protocol on harmonization of Value Added Tax (VAT) and Excise Duties, which Nigeria subscribes to, requires all countries with a low Value Added Tax regime to adjust their respective rate upwards to a point within the range 10-20% and also to adopt a common list of taxable items. Nigeria, being a strong member of ECOWAS is obliged to review its current Value Added Tax (VAT) rate in line with the policy directives of the commission on harmonization of Value Added Tax and Excise Duties with the ECOWAS between now and 2009.

1.3 **OBJECTIVE OF THE STUDY**

The major objective of the study is to examine:

- (i) The concept of Value Added Tax (VAT) and its operation
- (ii) Reasons why government wants to increase VAT rate to 10%.
- (iii) The likely impact of the tax increase on the economy.
- (iv) The extent to which Value Added Tax has been a veritable source of revenue to government.

1.4 **RESEARCH QUESTIONS**

In this study the following questions were asked:

- (i) Why federal government want to increase the VAT to 10%?
- (ii) What will be the impact of the tax increase on the government?
- (iii) What will be the impact of the tax increase on the taxable person?
- (iv) What will be the impact of the increase on the final consumer?
- (v) What will be the impact of the increase on the Federal Inland Revenue Service?

1.5 **SIGNIFICANCE OF THE STUDY**

The significance of this study is associated with the increase in VAT rate.

VAT being a consumption tax, the incidence of the increase in VAT rate falls on the final consumer only. Intermediate handlers of the goods only bear the burden of the tax temporarily. This is because taxes paid by the intermediate handles are only input taxes that are rebated when the goods are sold to the final consumers and the output tax is collected.

This study, also reveals that, is not because of revenue generation that government want to increase the VAT rate, but it has been necessitated by some development.

1.6 SCOPE OF THE STUDY

This study covers the implementation of Value Added Tax (VAT) in Nigeria, History and involvement of stake holders on the increase in VAT rate to 10% and the likely impact of the increase.

1.7 ORGANIZATION OF THE STUDY

Chapter one of the study is introduction which include the followings, statement of problem, objective of the study, research questions and hypothesis, significance of the study, scope of the study and definition of terms. The second chapter is mainly concerned with the literature review and theoretical frame work. Chapter three and four deals with the research methodology and analysis of data finally chapter five, summary, conclusion and recommendation.

1.8 DEFINITION OF TERMS

Value Added Tax: is a tax on consumption, it is borne by the final consumer of goods and services because it is included in the final price paid.

Registration: those registered for VAT are the tax agents but they don't necessarily bear the burden of the tax.

VATABLE PERSON: this is one who transact business in vatiable goods and services for consideration. Every Vatable person has an obligation to register for VAT.

Goods and Services Exempted: this goods and services are not in the VAT system at all. It means that they are outside the VAT net altogether.

Input VAT: This is the VAT that is charged on business purchases and expenses. These include goods and services supplied in Nigeria or imported into Nigeria. VAT payer can claim for input VAT on the VAT returns for the month.

Output VAT: This is VAT that is due on VATABLE transaction. It is derived by multiplying the tax value of the aggregate supply by the Tax rate.

Refund: Refund could be made to a taxable person if the input tax exceeds the output tax claim for refund is made in the normal process of rendering the filling return.

VAT Rate: That is the rate in percentage (%) applicable to all goods and services with the VAT circle. It is presently at a flat rate of 5% in Nigeria.

VAT Account: This is the summary of the input and output VAT in a normal ledger account form.

B.O.T: Stands for Best Of Judgment. This arises when a vatable person refused to file his returns within the statutory period.

Zero-rate VAT: Zero rating is a form of exclusion from VAT since no input TAX is to collected on zero rated goods.

VAT Period: The VAT period is one calendar month. The period has to coincide with the calendar months. No taxable person is allowed to choose the middle of the months as its VAT accounting date. Returns should be submitted within one calendar month after the month of transaction.

Consumer: A person who buys goods or uses services.

F.I.R.S: Federal Inland Revenue Service is the board that is responsible for the assessment and collection of the taxes collected by Federal Government like Value Added Tax, company Income Tax, Petroleum Profit Tax etc.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter is to look into the expert views as they relates with the subject matter. The literature will be reviewed under the following heading.

1. Definition of Value Added Tax (VAT)
2. Types of Value Added Tax
3. Methods of calculating VAT
4. Objectives and Advantages of VAT
5. Goods and services covered by VAT and rate of VAT
6. Why federal government want to Increase VAT rate from 5% to 10%
7. The Impact of the increase in VAT rate to 10% on the economy.
8. The theoretical frame work of taxation

2.2 DEFINITION OF VALUE ADDED TAX

Ogundele (1999) defined Value Added Tax (VAT) " as a tax on the supply of goods and services which is eventually borne by the final consumer but collected at each stage of production and distribution".

This definition is the one contained in the United Kingdom statement of standard accounting practices (SAP) No 5. The definition is very good to me because it highlights the three essential characteristics of Value Added Tax. These Characteristics are elaborated upon as follows:

VAT is a consumption: This means that VAT can only be paid if there is consumption of either VATable goods or services. This fact has a very important implication on the efficiency of the administration of the tax and ease of compliance with it on the part of the administrator and the tax payer respectively. It makes administration easier and cheaper and the rate of compliance higher.

VAT Incidence is on the Final Consumer: Being a consumption tax, incidence of VAT is ideally borne by the final consumer only. Intermediate handlers of the goods only bear the burden of the tax

temporarily. This is because taxes paid by the intermediate handlers are only input taxes that are rebated when goods are sold to the final consumers and output tax is collected.

VAT is a Multi-stage Tax: Since it is a Value Added Tax, the tax must be paid at every stage in which Value is Added at the end of the day, the final consumption price of the goods will be the addition of all the values added at the various intermediate stages of handling the goods. So the sum of the tax paid at the various stages will add up to the tax payable on the consumer price of the goods.

Where a tax satisfies these three conditions, it is classical Value Added Tax. However, where only one or two of them are found it has to be some other form of tax or a Modified Value Added Tax (MVAT).

2.3 TYPES OF VALUE ADDED TAX

According to Ogundele (1999) there are three types of Value Added Tax (VAT). The distinction depends on how the purchases of capital inputs such as plants and machinery are treated in the calculation of the tax base. These three types are:

- i. **The Consumption VAT:** Under the consumption VAT capital purchase are expensed. This means that they are treated like the purchase of any other inputs such as raw materials. The duplication of this is that taxes paid on the capital goods are deducted as input taxes from the output taxes fully and immediately. This is the tax burden of capital purchases are passed on the consumer rather than being borne by the tax paying company. These companies are encouraged to expand their businesses. Another advantage of the consumption VAT is that it is easier to compute since the company does not have to separate expenditure into capital and revenue to know on which taxes have been levied. This form of VAT is the most popular with the advance nations of the EU and the OECN.

- ii. **The Income VAT:** Under the income form of VAT, the tax Paid on capital inputs is amortized over the expected lives of the capital asset. This means that it is rebated from output tax of the firm on an equal (or other worked-out) basis over the life span of the asset. The treatment is much like the deduction of capital allowances with the difference that while capital allowances are set against assessable income, the input VAT is amortized against the output tax of the company.

- iii. **The Gross Product VAT:** Under this type of VAT, no deduction of VAT on input of capital purchases is allowed against the firm's output tax. This means that the tax on capital purchases has to be borne fully by the company. These types of VAT are not encouraging industrial expansion. However, such taxes are allowed to be capitalized for the tax purpose of capital allowances claims. This is a small consolation since the reliefs are not immediate. This is the type of VAT that Nigeria has adopted.

2.4 METHOD OF CALCULATING VAT

Ogundele (1999) notes that, there are three methods of calculating VAT. Credit method, subtraction method and addition method.

- i. **The Credit Method:** Under the credit method, the VAT payable to the government is calculated by the following three steps process:
 - a. Multiply purchases by the tax rate to determine the tax.
 - b. Multiply the sales by the tax rate to determine the output tax.
 - c. Deduct the input tax from the output tax to arrive at the remittable tax.
- ii. **The Subtraction:** Under the method, the taxable purchases (cost) is subtracted from the taxable sales to arrive at the value added. We then multiply the value added by the tax rate to arrive at the tax liability. The subtraction method is the Japanese method.
- iii. **The Addition Method:** With this method, the firm calculates the Value Added by all the payments for Untaxed. The result is then multiplied by the VAT rate to get the VAT payable.

2.5 THE OBJECTIVES AND ADVANTAGE OF VAT

According to Federal Inland Revenue module vii on Value Added Tax (1995) state the objectives and advantage of Value Added Tax (VAT). Specifically, in Nigeria, the introduction of VAT became necessary because government expenditure was steadily over-shooting revenue, resulting in wide deficit financing. Besides, records shows that between 1960 – 1971, income from indirect taxes in Nigeria constitute the single most important source of government revenue. However with the oil boom of the 1970's its contribution (In relative but not absolute terms) declined.

Specifically VAT has the following advantages that inform its introduction in Nigeria.

- a. It will reduce our dependence of oil revenue
- b. VAT can be used as a tool of fiscal policy you can exempt items to achieve specific economic objectives.
- c. It has the tendency to bring in a lot of money because of the expanded base.

- d. VAT addresses the issue of regressivity in taxation the more you buy the more you pay, so the richer tends to buy more and pay more.
- e. VAT provides incentives for export and therefore enhance balance of payment position.
- f. VAT easy to understand because it is based on actual selling price of goods.
- g. VAT is free from complicated computation- no capital allowance, not capital gains, no balancing allowances, no minimum tax, no balancing charges etc are collected in arriving at VAT payable.
- h. VAT encourages voluntary compliance since it is based on self assessment system.
- i. VAT is neutral to investment since it is not a tax on profit or on savings.
- j. VAT encourages record keeping small businessmen.
- k. VAT can be a source of finance as agents collect VAT and keep for some time before remitting it to the government.

2.6 **GOODS AND SERVICES COVERED BY VAT**

According to Value Added Tax (VAT) decree No 102 of 1993 (as amended (all goods and services with the exception of exempted items, are taxable and the VAT decree (as amended). The goods and services exempted are as follows:

i. Goods exempted

- (a) Medical and pharmaceutical products,
- (b) Basic food items
- (c) Books and educational materials
- (d) Baby products
- (e) Agricultural equipments and products and veterinary medicine
- (f) Fertilizers
- (g) Agricultural chemicals
- (h) Exported goods

ii. Services exempted

- (a) Medical services
- (b) Plays and performances conducted by education institutions as part of learning.
- (c) Religious services

(d) Exported services.

No individual organization or government agency is exempted from tax. Only goods and services are exempted. The list of exempted goods and services may be altered by the government periodically.

RATE OF VAT

Presently the rate of VAT is at a single rate of 5% on all vatiable goods and services except where a good or services has been described in the law as exempted. The rare of Vat may be altered by the government periodically.

2.7 WHY FEDERAL GOVERNMENT WANT INCREASE VAT RATE FROM 5% TO 10%

According to Nenadi (2007), the increase in the rate to 10% has been necessitated by the following development:

- (i) The VAT rate of 5% is the lowest in the African sub-region and has remained without change since the commencement of VAT in 1993; thereby constituting a source of distortion to trade and discouraging competition within the region.
- (ii) The increase in VAT rate was to stem the over dependence on oil revenue which is now increasingly threatened with hostilities

- in the Niger Delta and shift to production sharing contracts with less revenue accruing to government.
- (iii) The ECOWAS protocol on Harmonization of VAT and excise Duties, which Nigeria subscribes to, requires all countries with a low VAT regime to adjust all their respective rates upwards to a point within the range of 10-20% and also the adopt a common lists of taxable items. Nigeria being a strong member of ECOWAS is obliged to review its current VAT rate in the line with the policy directives of the commission to harmonization of VAT and excise Duties within the ECOWAS between now and 2009.

2.7.1 HISTORY AND INVOLVEMENT OF STAKEHOLDERS ON THE INCREASE IN THE VAT RATE

Nenadi (2007) explained that:

- (a) VAT was introduced in 1993 to replace sales tax which was then administered by the states as part of recommendations of the Study Group on Indirect Taxation (set up by the Hon Minister of Budget at the time and chaired by dr. Sylvester Ugoh-an economist and a former minister of the Federal

- Republic of Nigeria) with an agreement to start at 5%, but that overtime the rates would be adjusted upwards whilst Direct (Income) tax rates would be adjusted downwards.
- (b) Corporate tax rates reduced from 45% (1979), 40% (1987) to 35% (1993) and then to 30% (1996). Top marginal rates of Personal Income Tax were deduced from 70% (1985) to 55% (1987) to 35% (1993) to 30% (1996) to 25% (1996) and then 25% with expanded income band (1998).
 - (c) Despite the intention to adjust VAT upwards in line with the reduction in Income tax, this was never done.
 - (d) It should also be noted that substantial part of the Personal Income Taxation was and is collected by the State Governments (FIRS was charged with the administration of PIT in the Federal Capital Territory and officers of the Nigerian Police, Armed Forces and Ministry of foreign Affairs) and despite several protestations, a significant number of Nigerians and residents do not pay personal Income Tax and if they if they pay at less than expected.

- (e) The State Government agreed at the time of VAT to be administered by the Federal Government on behalf of the States. Accordingly as at date 85% of VAT proceeds accrue to the State and Local Governments.
- (f) Collection from VAT has proven that VAT has been more effectively and efficiently administered than sales Tax. Even though there is clearly a lot of additional room for improvement, VAT remains one of the most efficient taxes for collection in an environment where the tax base is low.
- (g) The Study Group that was set up in 2002 (by the Hon. Minister of Finance) to review the Nigerian Tax System (in its entirety) amongst other recommendations, recommended an increase in the VAT rate to 10%. The study group was chaired by Prof Dotun Philips and had representatives from the following institutions:
 - i. Nigerian Employer consultative Association (NECA) – the umbrella body for MAN, NACCIMA and other Private Sector organizations
 - ii. Foreign residents

- iii. Nigerian Economic Summit Group
 - iv. Chartered Institute of Taxation of Nigeria
 - v. Institute of chartered Accountants of Nigeria
 - vi. Nigeria Customs Service
 - vii. State Internal Revenue Service
 - viii. Federal Inland Revenue Service
- (h) As part of its work program, the Study Group conducted Public Hearings across the country to receive inputs from the generality of the people and stakeholders. This was capped by a National Tax Seminar where ideas and suggestions were sieved.
- (i) The Working Group set up in 2003 (by the Hon Minister of Finance) to review the outcome of the study Group agreed as part of its recommendations that the Country's tax system should shift from direct to indirect (inc. VAT) forms of taxation. The Working Group was chaired by Oluseyi Bickersteth (Managing Partner, KPMG) and include members from:
- i. Oil Producers Trade Section of the Lagos Chamber of commerce and Industry.

- ii. Chartered Institute of Taxation of Nigeria
 - iii. Institute of Chartered Accountant of Nigeria
 - iv. A legal practitioner from the Private sector
 - v. Multilateral Agencies –Open Society Initiative/World Bank
 - vi. State Internal Revenue Board/Joint Tax Board.
 - vii. Federal Inland Revenue Service
- (j) The federal Inland Revenue Service in 2004 based its comprehensive tax reform agenda on the outcome of the study and working group reports after harmonizing both reports and distilling a common agenda. This agenda was presented and approved by the special session of the Federal executive Council in October 2004.
- (k) The VAT increase to 10% was seen as part of an overall shift from direct to indirect taxation. This was also linked to other recommendations that included a reduction in the Personal Income tax rates as well as abolition of what were regarded as nuisance taxes.
- (l) Even though the national assembly had not approved the increase in the vat rate and therefore did not amend the rate in

the act, the section 38 of the vat act LFN 2004 empowering the Hon minister of finance to amend the rates by order of a gazette was not amended and additional information had become available which made an increase of vat imperative.

2.8 **THE IMPACT OF INCREASE IN VAT RATE FROM 5% TO 10% ON THE ECONOMY**

1. IMPACT OF THE TAX INCREASE ON THE GOVERNMENT

- a. **To Raise Revenue:** According to Paul (2000) VAT is expected to become the principal non oil indirect tax as a sustainable source for funding government. Any increase in tax will raise revenue for the government revenue collected enable the government to meet the cost of general administration, defence and provision of social services.
- b. **Amendment of Personal Income Tax:** According to Nenadi (2007), the idea of increasing VAT to 10% also necessitated the amendment of the personal Income Tax law in which the effective tax rate was likely to be 12-15% from 20-25%. In increasing the VAT, it was also recognized that an immediate consequence of the Personal Income Tax

rate change would be an immediate reduction in the revenue generated by the state and local government.

2. **IMPACT OF THE TAX INCREASE ON VATABLE PERSON:**

- a. **Lead to higher costs of production and fall in supply:** Paul (2000) states that, higher rates of taxes caused higher cost of production and consequently a decrease in supply of goods and services, especially where the demand of the goods and services is perfectly elastic, where the incidence of the tax increase falls entirely on the seller of the taxed goods and services, since any increase in price as a result of tax increase, the consumers will refused to buy.

3. **IMPACT OF THE TAX INCREASE ON THE FINAL CONSUMER**

- a. **Inflationary:** According to Paul (2000) any attempt of a government to increase its total revenue through increased in VAT rate can easily lead to higher prices especially if the demand for the goods and services is inelastic, where the incidence of tax increase falls completely on the buyer of the tax goods and services. This will result in workers demanding for higher wages and salaries, thereby worsening the inflationary situation.
- b. **More Regressive:** Paul (2000) explain that, one major disadvantage of increase in VAT rate, they tend to take same amount of money from consumers irrespective of differences in consumers' income. The poor therefore suffer more than the rich i.e indirect taxes are regressive.

4. **IMPACT OF THE TAX INCREASE ON FEDERAL INLAND REVENUE SERVICE**

Nenadi (2007) explain that, the increase in tax rate to 10% will increase the 4% cost of collection on non-oil tax to Federal Inland Revenue Service

2.9 THE THEORETICAL FRAME WORK OF TAXATION

According to Babatunde (1986), the first early man was probably a family unit in which case there was no necessity for taxation. Man later on evolved into small communities of peasant farmers and animals from marauding people from other communities. At first the various communities had volunteers. Later on, it was felt that these volunteers should give food and other materials by other members of the community who were engaged in animal and food production these men were engaged in police and defence activities. These contributions should actually be treated as the first form of taxation by men.

The various government needed money and material to maintain the various government apparatus like defence, police and general administration, hence various levies and contributions were asked for

from various subjects. These contributions and levies as we know are now styled taxes.

Therefore, the essence of all taxes is the removal of resources from private hands of the individuals, corporate bodies, trusts, families, societies and communities into the public sector to finance activities that have to do with the whole society.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter deals with the various methods used in collecting and analyzing data. It also consider the population of the study, the sample and sampling procedure validity and reliability of the research and method of data analysis.

3.2 METHOD OF DATA COLLECTED

For the purpose of this research, the method of collecting data used by the researcher are as follows:

- a. Questionnaire method.
- b. Personal interview
- c. Documentary method

a. QUESTIONNAIRE

The research used this method by presenting a list of questions relating to the aims and objectives of this research work, to be answered by various respondents. In the light of this, members of staff of Federal Inland revenue Service, taxable persons, and

consumers were served with the questionnaire. The questionnaire was adopted to enable the researcher get first hand information on the subject matter.

b. PERSONAL INTERVIEW

The researcher has the privilege of having personal contact, that is face to face, with some vatable person. On the occasion, opportunity was seized to interview such people to get information needed. Vatable person and staff of the FIRS interviewed, constitutes big sources of information. This method was used to enable the researcher ascertain the validity of information given in the questionnaire. It also helped the researcher to clarify some ambiguities and answered the unanswered questions by respondent administered with questionnaire.

c. DOCUMENTARY

The last source of instrument used by the researcher is the documentary source. The researcher was able to supplement some of the answer, which the survey was intended to cover with available data gathered from Federal Inland Revenue Service's record and

other sources at his disposal. Some of such sources include journals, textbooks, committee reports, News papers and reference to other research project.

3.3. **POPULATION OF THE STUDY**

This involves a group of persons or aggregate items, things that the researcher is interested in getting information for the study. In this case, the population of the study comprises of the staff Federal Inland Revenue Service, vatable persons and final consumers.

3.4 **SAMPLE AND SAMPLE PROCEDURE**

In order to determine the sample size, the researcher used this formula:

$$n = \frac{N}{1 + N (r)^2}$$

Where n is the appropriate sample size

N is the population size

r is the coefficient of confidence of margin of error

$$\begin{aligned} n &= \frac{900}{1 + 900 (0.1)^2} = \frac{120}{1 + 120 (0.1)^2} \\ &= \frac{900}{10} \\ &= 90 \end{aligned}$$

The sample size is 90, so the researcher printed and distribute 90 (ninety) questioners in order to help him carry out his work effectively.

There are sampling procedure a non- probability sampling was applied. A non-probability sampling is a method in which all the population does not have equal chance of being selected or sampled. The samples are drawn on human judgment convenience.

3.5 VALIDITY AND RELIABILITY OF THE RESEARCH

To ensure the validity and reliability of the research, the researcher personally distributed the questions and the questions that are not clear to the respondent were given further explanations to make it clear to them

3.6 METHOD OF DATA ANALYSIS

The method used in analyzing data that was collected in quantitative based on statistical percentages. This method was used for the purpose of comparing and grouping population with similar reactions to the particular questions so as to know whether to accept or reject the hypothesis. The researcher used descriptive tables to represent the response from the questionnaires on which the analysis would be based and decisions were taken through analysis. Also evidence obtained from the interviews was presented in a running narrative.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

In order to ensure a thorough investigation on the topic, ninety (90) questionnaires were structurally prepared and distributed to the staff of Federal Inland Revenue Service, Vatable persons and final consumers.

However, out of these, eighty (80) completed questions were returned representing 90%, while ten(10) were not returned representing 10%. So in carrying out the project 80 questionnaire received from the respondents were used in order to help the researcher to carryout his work effectively. The questionnaires completed and collected were arrange, prepared, analyzed and interpreted in this chapter.

Then, key top personnel of FIRS, Vatable person were interviewed is discussed in this chapter. The questions from the questionnaire can be found in appendix I and that of interview in appendix II.

4.2 PRESENTATION AND ANALYSIS

Question 1

What is the level of your educational qualification?

Table 4.1

OPTIONS	RESPONDENTS	PERCENTAGE
Primary	-	-
Secondary	20	25%
BSC/OND & Above	60	75%
TOTAL	80	100%

Source: Questionnaire Administered 2008

From the above table, it is clear that majority of the consumers are elites, this then, implies that, they are aware about government policies in the country.

QUESTION 2

Is there any need for the introduction of VAT in Nigeria?

Table 4.2

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	80	100%
No	-	-
TOTAL	80	100%

Source: Questionnaire Administered 2008

This shows that there is great need for the introduction of Value Added Tax in Nigeria. 100% of the respondents in the above table agreed to that.

QUESTION 3

If question 2 above is yes, does it have any impact in the economic development of Nigeria?

Table 4.3

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	60	75%
No	20	25%
TOTAL	80	100%

Source: Questionnaire Administered 2008

75% of the respondents in the above table, shows that introduction of VAT in Nigeria had made significant impact in the development of Nigerian economy, while 25% of the respondents disagreed.

QUESTION 4:

Is there any need for taxable goods and services and exempted goods and services?

Table 4.4

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	80	100%
No	-	-
TOTAL	80	100%

Source: Questionnaire Administered 2008

All these respondents 100% agreed by answering yes to the question. In wholistic term, that there should be taxable and exempted goods and services.

QUESTION 5

Is it advisable that vat should be at a flat rate of 5% on every taxable goods and services?

Table 4.5

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	76	95%
No	4	5%
TOTAL	80	100%

Source: Questionnaire Administered 2008

This is an indication that VAT should be at a flat rate of 5% as agreed by 95% of the respondents, while 5% of the respondents show contrary to the notion.

QUESTION 6

How long have you been paying VAT?

Table 4.6

OPTIONS	RESPONDENTS	PERCENTAGE
1-10 years	16	20%
10 years and above	64	80%
TOTAL	80	100%

Source: Questionnaire Administered 2008

As shown above, 80% most of the respondents agreed that they have been paying VAT for more than 10 years, meaning that they have known much about VAT, while 20% of the respondents shows that they are paying VAT for less than 10 years.

QUESTION 7

The VAT rate of 5% is the lowest in the African sub-region.

Table 4.7

OPTIONS	RESPONDENTS	PERCENTAGE
True	80	100%
False	-	-
TOTAL	80	100%

Source: Questionnaire Administered 2008

From the table above 100% of the respondents agreed that VAT rate of 5% is the lowest in the African sub-region.

QUESTION 8

The VAT rate has remained without change since the commencement of VAT in 1993.

Table 4.8

OPTIONS	RESPONDENTS	PERCENTAGE
True	80	100%
False	-	-
TOTAL	80	100%

Source: Questionnaire Administered 2008

100% of the respondents in the above table agreed to the question, that VAT rate has remained without change since commencement of VAT in 1993.

QUESTION 9

The ECOWAS protocol on harmonization of VAT and Excise Duties, requires all countries with a low VAT regime to adjust their respective rates upwards to a point within the range of 10-20%.

TABLE 4.9

OPTIONS	RESPONDENTS	PERCENTAGE
True 64	64	80%
False	16	20%
TOTAL	80	100%

Source: Questionnaire Administered 2008

From table 4.9 above, 80% of the respondents agreed that ECOWAS has directed countries with a low vat regime to adjust their respective rates upwards while 20% of the respondents disagreed.

QUESTION 10

Do you want government to increase VAT rate to 10%?

Table 4.10

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	-	-
No	80	100%
TOTAL	80	100%

Source: Questionnaire Administered 2008

As show above 100% of the respondents don't want government to increase VAT rate to 10%, meaning that no one likes a tax increase.

QUESTION 11

If yes, do you want the increase in tax to affect every good and services?

TABLE 4.11

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	-	-
No	80	100%
TOTAL	80	100%

Source: Questionnaire Administered 2008

This shows that even if government increase the tax rate, 100% of the respondents don't want the tax increase to affect every goods and services, some should be exempted.

QUESTION 12:

Would the increase in tax have impact on the government?

TABLE 4.12

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	80	100%
No	-	-
TOTAL	80	100%

Source: Questionnaire Administered 2008

100% of the respondents in the above table, shows that increase in VAT rate to 10% will have impact on the government especially increase in revenue and development interms of social amenities.

QUESTION 13

Would the increase in tax have impact on the taxable persons?

TABLE 4.13

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	20	25%
No	60	75%
TOTAL	40	100%

Source: Questionnaire Administered 2008

This is an indication that, increase in tax will have less impact on the taxable person as agreed by 25% of the respondents, while 75% of the respondents, show contrary view to the notion.

QUESTION 14

Would the increase in tax have impact on the final consumers?

TABLE 4.14

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	60	75%
No	20	25%
TOTAL	80	100%

Source: Questionnaire Administered 2008

From the data presented above, 75% of the respondents agreed that increase in tax will have impact on the final consumers while 25% of the respondents disagreed.

QUESTION 15

Would the increase in tax have impact on the Federal Inland Revenue Service?

Table 4.15

OPTIONS	RESPONDENTS	PERCENTAGE
Yes	40	50%
No	40	50%
TOTAL	80	100%

Source: Questionnaire Administered 2008

From the table above 50% of the respondents agreed that the increased in tax will have impact on FIRS while 50% of the respondents disagreed to that.

Following the presentation, analysis and interpretation of data in this chapter of the study, this chapter, at this point will use the result of the analysis to answer research questions and test relevant hypothesis.

4.3 DISCUSSION OF FINDINGS

From question 2, 100% of the respondents asked answered Yes that, there is need for the introduction of VAT in Nigeria. Since it was practice in many countries of the world and it has succeeded.

100%of the respondents to question seven and eight agreed that VAT rate of 5% is the lowest in the African sub-region and has remained without change since the commencement of VAT in 1993. That means constituting a source of distortion to trade and discouraging competition within the region.

In question ten, 100% of the total respondents don't like a tax increase. Any tax increase, government has a duty to seek ideas from, inform and educate the public on proposed planned policy.

Question twelve had 100% of the respondents sharing the same idea that increase in tax will have impact on the government, because it will bring more revenue to the government. Government's spending interms of provision of social amenities will also increase as a result of the increase in revenue.

Only 10% of the respondents to question thirteen agreed that, increase in tax will have impact on the taxable persons, since taxable person is an agent to government, any increase in tax will affect this goods and services only if the demand is perfectly elastic since the consumer will run away from him because high price while 30% of the respondents disagreed to that, on the basis that any increase in tax be shifted to the consumers.

Question 14 had 75% of the respondents agreed that increase in tax is having a serious impact on the final consumers. Since any increase in tax will be shifted to the final consumer, he bears the burden of the tax especially if the demand is perfectly inelastic. While 25% of the respondents disagreed to that on the basis that any tax increase burden can be shared between the consumers and the taxable person.

In question fifteen, 50% of respondents agreed that, the increase in tax is having impact on the Federal Inland Revenue Service since it will increase there 4% cost of collection because the more they

collected the more 4% cost of collection. On the other hand 50% of the respondents disagreed to that,

In a similar development, some taxable persons, staff of Federal Inland Revenue Service were interviewed on the subject matter. 90% agreed that the increase in tax will have an impact on the economy of Nigeria. In the sense that, increase in tax will have impact in the government by bringing more revenue to the government, it will have impact on the taxable person by increasing cost of production. It will have impact on the consumer by bringing inflation.

4.4 TEST OF HYPOTHESIS

The test of hypothesis will be an extract of the research findings, from chapter four. From the test of hypothesis, some selected number of questionnaire were used, which gave indication that federal government decision to increase VAT from 5% to 10% is having an impact on the economy.

Table: Test of Hypothesis

QUESTIONS NO	FAVOUR-ABLE	PERCENTAGE	UNFAVOUR-ABLE	PERCENTAGE	TOTAL PERCENTAGE
--------------	-------------	------------	---------------	------------	------------------

2	80	100%	-	-	100%
3	60	75%	20	25%	100%
8	80	100%	-	-	100%
10	80	100%	-	-	100%
12	40	100%	-	-	100%
Total	380		20		400

Source: Questionnaire Administered 2008

Percentage:

$$\text{Favourable} \quad \frac{280}{400} \times \frac{100}{1} = 95\%$$

$$\text{Unfavourable} \quad \frac{20}{400} \times \frac{100}{1} = 5\%$$

This assertion means that, strong responses were recorded from respondents as shown in the above provisions (table and percentage ratio).

The findings are consistent with existing knowledge and views. This shows that federal Government decision to increase VAT from 5% to 10% is having impact on the economy.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter summarises the previous chapters and draw conclusions and proffer recommendations accordingly.

5.2 SUMMARY

To summarise the findings made in this research, there is the need to look at the main objective of writing the project. That is the reasons why government wants to increase the VAT rate to 10% and the likely impact of the Federal Government decision to increase VAT rate from 5% to 10% on the economy.

Some hypotheses and questionnaires were developed, the tests were carried out, these tests made it possible for the researcher to obtain opinions of the people.

From the analysis of the 80 respondents to the 15 questions, it shows that the increase in tax rate to 10% has been necessitated by some development. The VAT rate of 5% is the lowest in the African sub-region and has remained without change since the commencement of

VAT in 1993, thereby consisting a source of distortion to trade and discouraging competition within the region and the ECOWAS protocol on Harmonization of VAT and excise Duties requires all countries with a low VAT regime to adjust all their respective rates upwards to a point within the range of 10-20%.

The analysis also shows that the increase in tax rate has impact on the Government by bringing more revenue to the Government. It also has impact on the taxable person by increasing cost of production. It has impact on the consumer by bringing inflation and has impact on the Federal Inland Revenue Service by increasing their 4% cost of collection. This was indicated by the hypothesis showing 95% of the respondents in agreement. Also some taxable persons, staff of Federal Inland Revenue Service will have viewed on the subject matter. 90% agreed that the increase in tax will have an impact on the economy of Nigeria.

5.3 **CONCLUSIONS**

No one likes a take increase by the government. Any tax increase (or reduction is done with the interest of the people in mind and with the

agreement of all stake holders for understanding and acceptance, as part of government's overall fiscal policies. Government at all times has a duty to seek ideas from, inform and educate the public on proposed and planned policies.

It can therefore be concluded that, in increasing the VAT to 10% VAT is expected to become the principal non-oil indirect tax as a sustainable source of funding government and also a harmonization of VAT rates with a view to convergence at a rate of 15% by the end of 2009. Nigeria is expected to be the highest beneficiary of a common economic zone, if properly implemented – resulting in increased job opportunities and increased wealth creation. Also increasing the VAT rate to 10%, all other non-oil indirect taxes were to be scrapped. This with the cooperation of the state and local Government is expected to reduce the multiplicity of taxes as well as taxes/ levies which were usually passed to consumers in form of higher prices of Goods.

5.4 **RECOMMENDATIONS**

Having ascertained the likely impact of the federal government decision to increase VAT from 5% to 10% on the Government taxable person, Consumers and Federal Inland Revenue Services, the researcher wishes to make the following recommendations.

- a. Government should be committed to engage all stakeholders on the reasons behind the proposed tax increase with a view to build a friendly tax environment whilst generating sufficient funds for sustainable development.
- b. Federal Inland Revenue Service should be committed to working with the relevant agencies of Government to address Issues of Vat abuse for example, prices of goods and services are expected to remain stable. Any increase as a result of tax must be clearly state and seen on the tax receipt/invoice (which should be obtained) and such taxes must be remitted to the Federal Inland Revenue Service.
- c. Government should ensure that a consumer protection bills is passed by the National assembly to protect the right of consumers who are abused by unscrupulous Nigerians under the guise of tax increases which they do not pay to government.

- d. Federal Inland Revenue Service should be committed to working with tax payer to providing avenues for the taxpayer to request information on what tax monies are being used for.
- e. Federal Inland Revenue Service should be committed to entertaining genuine cases of tax refund and encourages tax payers to request for such refunds with proper and relevant documentation to support such domestic. This would reduce the cost of doing business.
- f. Federal Inland Revenue Service should be committed to discharge its constitutional responsibilities to uphold the responsibility and accountability of the government to the people.

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APPENDIX 1
DEPARTMENT OF BUSINESS ADMINISTRATION
AHMADU BELLO UNIVERSITY ZARIA

**M.B.A QUESTIONNAIRE ON THE STUDY OF THE LIKELY
IMPACT OF FEDERAL GOVERNMENT DECISION TO INCREASE
VAT FROM 5% TO 10% ON THE ECONOMY.**

Instruction: Please answer all the question by ticking the appropriate box.

1. What is the level of your educational qualification?
Primary []
Secondary []
HND/BSC and above []
2. Is there any need for the introduction of Value Added Tax in Nigeria?
Yes []
No []
3. If yes, does it have any impact in the economic development of Nigeria?
Yes []
No []
4. Is there any need for taxable goods and services and exempted goods and services?
Yes []

- No []
5. Is it advisable that VAT should be at a flat rate of 5% on every goods and services?
Yes []
No []
6. How long have you been paying VAT?
1-10 years []
10years and above []
7. The VAT rate of 5% is the lowest in the African sub- region.
True []
False []
8. The VAT rate has remained without change since commencement of VAT in 1993.
True []
False []
9. The ECOWAS protocol on harmonization of VAT and excise duties, requires all countries with a low VAT region to adjust their respective rate upwards to a point within the range of 10-20%.
True []
False []
10. Do you want government to increase VAT rate to 10%?
True []
False []

11. If yes, do you want the increase in tax to affect every goods and services?
Yes []
No []
12. Would the increase in tax have impact on the government?
Yes []
No []
13. Would the increase in tax have impact on the taxable persons?
Yes []
No []
14. Would the increase in tax have impact on the final consumer?
Yes []
No []
- 15.** Would the increase in tax have impact on Federal Inland Revenue Services.

APPENDIX II

RESEARCH INTERVIEW

1. What is the name of Vatable person/staff?
2. What is the registered address of your place of Business/ Office?
3. What is your nature of Business/work?
4. Do you want Federal Government to increase VAT rate from 5% to 10%?
5. Suppose government decided to increase the VAT rate to 10% what will be the likely impact of the increase on the Government, taxable person, final consumer and Federal Inland Revenue Service?
6. What advice will you give on the decision of the Federal Government to increase VAT rate for 10%?