

Assessment of Problems and Prospects of Value Added Tax Implementation in Nigeria Economy.

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DOI: <https://doi.org/10.47772/IJRISS.2026.100400120>

Received: 27 March 2026; Accepted: 02 April 2026; Published: 29 April 2026

ABSTRACT

The fundamental basis for carrying out this study was the recent introduction of value added tax (VAT) to the Nigerian economy. This new development has been attracting the attention of individual both in private and public sectors of the economy. On the problem and prospects of value added tax in Nigeria is in the intellectual areas in Nigeria. They might perhaps be due to the characteristic of the new tax system which is broader and dynamic when viewed in the context of the Nigeria micro economic and socio-political systems. The study further examined the prevailing problems being encountered in the system with a view of making constructive recommendations, which will enhance effective administration of VAT in Nigeria. In view of achieving the objectives of this study, various relevant literature of eminent writers in the field of taxation, references were also made for easy understanding. In the course of this study, it was discovered that value added tax is the most innovative means of generating revenue in the country and its introduction in Nigeria has long been overdue especially now that Nigeria is very vast in the payment of direct tax. Value added tax has all the advantages of modern-day taxation and by introducing it in Nigeria it is a move in right direction.

Keyword: Assessment, problems, prospect, value, tax, implementation, economy.

INTRODUCTION

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 ideal of VAT started with the acceptance of the recommendation of the Dr. Sylvester Ugoh led 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 other things, that VAT should be administered by an independent commission was rejected by government.

The administration of VAT was however given to the Federal Inland Revenue Service which was already charge with the responsibility of administering most other taxes in Nigeria through Decree 102 of 1993 mark the phasing out of the sales tax Decree No 7 of 1986. The decree took effect from 1st December, 1993 but by administrative arrangement invoicing for tax purpose did not commence until 1st January, 1994.

The year 1991 was a major landmark in the tax administration of Nigeria in Professor Edozien led group on the review of the Nigerian tax system first identified the need to transform our model sale tax that was to transform them administered by the state Government. The group came up with a recommendation in November 1991, that VAT be introduced after two years of preliminary work. As a follow up the Ijewere led modified value added tax (MVAT) committee when was set up to undertake the preliminary work. The committee worked in closed collaborated with the Federal Inland Revenue Service (FIRS) in 1993 with the hope that the latter will take over the administration of the new tax to commence September, 1993, but thus suffered a setback because the Nigerian government was a cross road as to which organisations was most suitable to administer the tax when the new tax about to commence in December.

Four possibilities emerged these are:

- The organization that administer custom and excise duties
- The income tax administration
- Separate new body
- The organisation that administer indirect taxes is separate from income tax.

The alternative of separate administrative outfit different from the existing direct and indirect tax apparatus was opted for in spite of the advantage of having existing experts most especially the income tax administration. The decision reached at introducing a new separate administrative body was based on political and parochial reasons.

Value added tax (VAT) be designation could be formed as consumption tax. It is a form of taxation levied on goods and services consumed by people. Value added tax as defined by Ola (1984: 449) "is charged on the supply of goods and services within the country and on the import of goods". VAT is charged at various states of production and is borne by the ultimate consumer as part of the purchase price of the goods or services.

Value added tax depends solely on standard of book keeping throughout the tax paying community and it involves vigorous and continuous checking on the goods collected as well as on the deduction made since its inception value added tax served as a major source of revenue to Nigeria it can rank favorable second to revenue earned from petroleum products. It is easy and simple in terms of collections and operation generally.

Value added tax suffers a setback taking into consideration the cost associating with its collection against that of purchase tax which was levied only at the whole sale level be it as it may and going buy positive trend recorded since its inception.

Looking at VAT from the accountant's point of view, the following questions need to be looked into. These are in line with statement made by Ola (1984:446) they are:

- i. What statement is it to replace and is it in that direct sense an improvement?
- ii. Will it and export?
- iii. Will it be possible to collect VAT from multitude of collection points?
- iv. Is the individual accommodating system sufficiently enough provide information and profit of liability required (or is the firm over exception limit enough)?
- v. Bearing in mind that VAT is a consumer tax does it really fall in the right consumers and are the poor adequately protected?
- vi. Is the cost of collection justified?

It is against this background that the government levy tax is order to meet up with its obligation of catering for the living standards of the people as well as to control the economy. Tax policy provides a mechanism for influencing consumers demand and for providing incentive for production, investment and savings. It is, therefore a key factor for promoting government socio-economic objectives.

Taxation is highly technical in nature both in nature of assessment because of its complexity it becomes necessary for the tax officials to undergo training and re-training so as to meet up with changing realities.

Looking at VAT in relation to the socio-economic development of Nigeria one may need to address the following question which was elected as part of study questions.

- i. Are the costs of VAT collection justified?
- ii. Are all revenue generated through VAT remitted into government account?
- iii. Do tax payers fail to pay VAT?

MATERIAL AND METHODS

It is significant to review what other authors have written on the subject matter of VAT.

Tax is defined as “money that has to be paid to government in manner”. According to Alabade and Dandogo (2000), in their view define taxation as a “compulsory contribution made by individuals and organisation toward defraying the expenditure of the government.

Concept of Taxation

Tax may be defined as a demand made by the government of a country for a compulsory payment of money by the citizens of that country. Agyeman (1987), define tax as a compulsory contribution imposed by a public authority, in respect of the exact amount of services rendered to the tax payer in return.

Similarly, Osakwe, (1999) defined tax as a compulsory level compulsory from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.

Evolution of Vat in Nigeria

Vat international practice and problem information revealing most country adopted value added tax (VAT) after the 2nd world war of 1939-1945 and the economic depression that followed. Thus, the first country to adopt value added tax in 1955 was France, the state in Michigan (USA) also adopted in 1955, in the 1967 the council of minister of European Economic Community (EEC) adopted a directive to monies through direct taxation among themselves was introduced on the basis of VAT.

The adoption of VAT in Denmark in late 1967 a comprehensive VAT at National level France and Germany followed in 1968 the VAT replaced several types of tax namely; VAT restricted to manufacturing (optional for wholesales) a separate tax on service a local tax on retailer (France) turnover taxes or casead in Germany and whole sales tax.

The Nigeria tax system (an overview)

The Nigeria tax system refer to a set of rules ad regulation and the aggregation of the tax arrangement institutions and agents that interact with each other and the rest of the economy to generate revenue for government.

These are tripartite constitution of the tax system in Nigeria which include:

The Tax Policy

A policy us a particular course of action adopted by the government in of respect of taxation. Taxation is one of the major fiscal policy instruments used in regulating the economy, boosting investment saving capacity, regulating inflation and son on.

The policy objectives of any government tax system is aimed at achieving the following.

- i. To create a fair and equitable society
- ii. To create an economic society free of distortion of investment decision to investment decision.

The Tax Law

- i. Value Added Tax Act No102 (1993)
- ii. Value Stamp Duties Ordinance (1958)
- iii. Capital Gains Tax (1967)
- iv. The Industrial Development (income Tax Relief) Act (1979)
- v. The Petroleum Profit Act Cap 354 LFN 1990 regulates the taxation of oil producing companies including NNPC
- vi. Personal Income Tax ACE (Act 104 of 1993) regulates taxation in Nigeria. It deals with the assessment and collection procedures for individuals or body of individuals including a family are corporation sole trustee or executor havening any income which is chargeable with tax under provision of the ACE
- vii. Companies income tax cap 60 LFN 1990 (CITA 1990) regulates the assessment and collection procedure for the taxation of the cooperate bodies other than those in the production of crude oil or gas.

Tax Administration of VAT

Tax administration is the application of tax laws and collection of revenue. The taxation of valve added tax is exclusively administrated by Federal Board of Inland Revenue of Nigeria (FIRS) through its operative arm the Federal Inland Revenue Service (FIRS).

According to Ogundele, (1999) the tax authority also has some specified power which are

- i. Power to rate assessment
- ii. Power to collect and account for the tax
- iii. To receive representation from the tax payer and their agents:

Form of Taxes

According on Ogundele (1999:25) stated that there are two forms of taxes, namely direct and indirect” taxes. He defined a direct tax as a tax levied on the income of individuals and business firms. It is actually paid by the person or persons on when it is legally imposed. In Nigeria’s direct taxes includes:

- i. Personal income tax
- ii. Companies income tax
- iii. Petroleum profit tax
- iv. Capital transfer tax.

An indirect, tax on the other hand is a tax imposed on individual as well as cooperate person for the enjoyment of goods and services. It is a x levied on the sales or purchase of goods and services which his expectation that the incidence will be shifted to another person. Examples of indirect taxes are:

- i. Value Added Tax (VAT)
- ii. Import duties
- iii. Export duties
- iv. Custom duties
- v. Excise duties
- vi. Entertainment, pools and casino tapes

Taxable Goods

- i. All goods and manufactured or assembly in Nigeria
- ii. All goods imported into Nigeria
- iii. Mining and mineral items
- iv. All petroleum product
- v. Beer, liquor, spirits, soft drink

Taxable Services

- i. All services rendered by financial institution (Banks, insurance)
- ii. All services of accountancy
- iii. Legal
- iv. Computer service
- v. Service supplied by professional body

Good Example from Vat

According to value added tax (VAT) degree of 1993, schedule 2 states that goods and service that are example from VAT under part I and II respectively are as follows.

- i. All medical and pharmaceutical product
- ii. Basic good items
- iii. Newspapers and magazines
- iv. Body product
- v. Commercial vehicle and their spare parts

Service Exempted from VAT, include:

- i. All goods manufactured or assembled in Nigeria
- ii. Service offered by community banks; mortgage bank
- iii. Plays and performance conducted by educational institution as part learning
- iv. Social service like orphanages, charities
- v. Over sea air transportation

Accounting for Value Added Tax

Taxes collected by each branch must be remitted directly to the account of the FIRS in the local EBN and not to the headquarters of the designated bank to avoid delays in accordance with the guidelines on payment of income VAT and other (1995:3). The FIRS has set up monitoring term to ensure timely remittance of the taxes to designated account in CBN, which the appropriate interest rate will be changed on fund not remitted with the stipulated time of one week.

Also, arrangements have been concluded for the introducing of electronic service to facilitate monitoring of collection regularly, with reconciliation of account and the speedy transfer of information's.

Types of Value Added Tax

The Consumption Vat

Under the consumption VAT, capital purchased are treated the same way as the purchase of any other impact. This tax treatment of capital purchase is equivalent to expensing

Income Vat

Under the income VAT, the VAT paid on purchase of capital inputs is amortized (i.e. credited against the firm's VAT liabilities) over the expected lives of the capital inputs.

Gross Product VAT

Under the gross product VAT, no deduction of VAT on input of capital purchase is allowed against the firm's liability. Nigeria for one has adopted the gross product types of VAT of the input tax on capital allowances claimed over the expected span of the fixed asset.

General Features of Value Added Tax (VAT)

VAT is a consumption tax designed primarily to tax propionate consumption by individuals of goods and services that are subject to tax. VAT has a beat in self-assessment mechanism that allow business to clear credit for tax paid on it inputs and calculated the tax abilities

- i. To elongate the tax base on bringing in those who ordinarily cannot be reached through direct tax
- ii. To reduce consumption of cultures and
- iii. To curb increase in the consumption of non-essential.

Theoretically, indirect tax on consumption on like the VAT will present consumption from rising as fast income.

Possible Way of Levying VAT

Omotosho (2000) said the most popular method is the tax on output less tax por input, normally referred to as the invoice or credit method which is associate with tax abilities in the transformation and provide good audit trail.

Although technically tax is chargeable on goods and services produced the objectives of the tax on a VAT structure is a vatable person, "A vatable person can be defined as one who carried on economic activity as a producer, wholesaler, traders or supplies of goods and services. A vatable person does not bear true tax liability himself because whenever he purchases goods or services the suppliers invoice entitles him to claim credit for tax shown on the invoice. At the end of each accounting period the ratable person will send to the relevant tax authority a VAT return showing.

- i. Total tax on all input purchased by him in the normal course of his business
- ii. Total tax on all the final product that is goods and services supplied by him (output) and
- iii. The different between the two.

Arguments for and Against VAT

According to Ola (1994) since its inception, VAT has recorded positive trend in terms of revenue generation and thus have the following benefits.

- i. VAT represent a shift in taxation toward expenditure rather than income and thereby minimize the problem of tax evasion since it is a consumption tax. One pays only when he consumed
- ii. VAT which ranked as second major source of Nigeria revenue after income from oil help a lot in sustaining determined economic development whether the income from oil dwindles as the result of decreased in the price of oil.
- iii. VAT is collected on imported and so does not place imported items at an advantage over locally manufacture goods.

Improving relationship between tax officers and tax payer Ogundele, (1999) state that it is perhaps most potent fact that the tax officers and tax payer need good working relationship for taxes to be easily collected. Other benefit of a good working relationship between the groups include.

- a. Enhancing government revenue yield through voluntary compliance
- b. Establishing understanding and good working relationship
- c. Instilling confidence and self-dignity in the tax payers.
- d. The need for the tax officer to render courteous and constructive advice to the tax payer and instill an effective flow of information that will be mutually beneficial to both parties.

CONCLUSION

In spite of the problems associated with VAT implementation as reflected in the studies on the whole, it is evident that value added tax implantation have attained a meaningful achievement in Nigeria going by the positive trends of revenues generated since its establishment. There is no doubt that value added tax, the most innovation revenue source of the country and its introduction in Nigeria has been long over-due especially now that Nigeria is very verse to the payment of direct Tax.

Value added tax has all the advantage of modern taxation and by introducing it Nigeria has for once move in the right direction. It is to be hoped that the suggestion and recommendation countenanced in this paper would assist in a better administration and operation of the tax.

RECOMMENDATION

Having identified the prevailing problems of the implementation of VAT in the Nigeria economy the following recommendations toward effective and better way of VAT collection and management in the country are by:

- i. There should be adequate provision for logistics for an effective system of tax by making provision for effective record keeping and means of collection and adequate document such as stationeries, there is proper custodian of document and receipt by tax official.
- ii. Trained personnel should be employed while existing one should be trained; the FIRS should also meet up with day to day challenges that move of the VAT proceed should go to the state and the local government.
- iii. Tax official should be well remunerated so as to avoid fraud and fraudulent practice
- iv. There should be establishment of more VAT office so that the work load of each inspector of tax will become more manageable.
- v. There should be VAT tribunals strong enough to provide a means for prosecution of non-compliance of tax defaulter, and any official of tax collector that divert money collected for their own personal use.

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