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MODIFIED VALUE ADDED TAX IN NIGERIA: SOME ISSUES FOR CONSIDERATION

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ABSTRACT

The study examined the appropriateness of Modified Value Added Tax (MVAT) with respect to equity, efficiency, acceptability and resource allocation, in Nigeria between 1994 and 2003. It established that the system of taxation has been regressive, though very efficient. The study found that MVAT had not only generated significant revenue, it possesses the potential to generate more revenue as well as reduce the current over-dependence on oil revenue. Although, the system of computation was relatively simple, the level of acceptability was rather low given the high level instability of the sharing formula. In our opinion this could impair the sustainability of the tax system. A correlation was found between MVAT and inflation rate as the tax was found to have stimulated inflation rate. Also, the MVAT was found to have negative impact on private consumption and consequently welfare of the inhabitants of Nigeria.

KEYWORDS: value-added, tax, equity, efficiency, acceptability.

INTRODUCTION

The collapse of crude oil in the world market in 1981/82 and the consequent dwindling of public revenue exposed the low fiscal capacity of Nigeria in the 1980s. These had made the government to run persistent fiscal deficits, and had been impairing economic growth, (Abiola, 1996). The need to improve the capacity necessitated some tax reforms. It should be noted that the International Monetary Fund (IMF) and World Bank in their Structural Adjustment Programme Supervised Document (see World Bank, 1987) had called for tax reforms in Nigeria. The reform was to evolve an optimal tax structure and to reduce the over-dependence on oil revenue in Nigeria. The call prompted the Federal Government to introduce Value Added Tax (VAT) through the VAT Decree of 1993, published in the supplement to the Federal Official Gazette extra ordinary No. 27 Vol. 80 of 1st September 1993 and it came into effect on 1st January, 1994.

The tax reform adopted Modified Value Added Tax (MVAT) to replace the Retail Sales Tax (RST), which had been grappling with many problems notably: a narrow base, low revenue yield and difficult to collect. MVAT aimed at reducing tax evasion and tax avoidance by shifting taxation towards consumption rather than savings; reduce dependence on oil revenue; and to maintain a fairly even tax incidence (in other words equity) across stages of production. Before the introduction of MVAT, tax evasion and avoidance were rampant resulting in low yield from the RST. For example, in the first year of MVAT, it was projected to generate ₦6 billion, which was about 300 per cent of the yield of the RST in nine years (1986-1993)! The MVAT generated ₦7,260.8 billion in 1994, which was about 400 per cent of the total RST collection by the then 30 states and the Federal Capital Territory of Abuja between 1986 and 1992, (Naiyeju, 1996)!

The MVAT has been in operation since 1994, but due to poor database, data could not be obtained beyond 2003 as at the time of this study, the study therefore covers 1994-2003. Observers of the Nigerian economy are raising many questions about the extent to which MVAT has achieved its objectives. How equitable is MVAT in Nigeria? How efficient has it been, especially with respect to reducing tax evasion and avoidance? How acceptable is it with respect to simplicity of computation and the sharing formula? What is the prospect of MVAT with respect to resource allocation in Nigeria? What is the relationship between MVAT and other revenue sources notably, Petroleum Profit Tax (PPT), Company Income Tax (CIT) and Custom and Excise Duties (CED) and given the observed relationship, has it reversed the over-dependence on oil revenue as envisaged? How valid is the fear that MVAT could be inflationary?

To consider the above issues and provide answers to the questions raised, this study examines the appropriateness or otherwise of the administration of MVAT with respect to equity, efficiency, acceptability and resource allocation in Nigeria. Apart from the above introductory section, the rest of the study is divided into four sections. Literature review and conceptual framework are addressed in sections two and three respectively. Section four presents the analysis of relevant issues, while section five concludes the study.

LITERATURE REVIEW

The Consultancy Services Department of Obafemi Awolowo University, Ile-Ife, Nigeria (see UNIFECS, 1991) attempted to determine the feasibility of VAT and the modality for its operation in Nigeria. The study found VAT was feasible and possesses certain merits over some other indirect taxes. The merits include economic neutrality, self-enforcing feature and no pyramiding effect. However, the report was skeptical that the introduction of VAT could lead to increase in general prices level i.e. inflation. The skepticism is largely because firms would treat the VAT as input costs and pass on these to the consumers in form of higher prices.

It should be noted that for any firm to remain in business it should cover its cost of production, especially its average variable cost (AVC), otherwise it should consider closing down. Any increase in cost of production should therefore accompany increase in prices. Taxes, especially indirect taxes can increase cost of production and consequently generates increases in price level, that is, inflation. Whether a producer would be able to pass on the higher prices to consumers would depend on the nature of elasticities of the commodities in question. It should be noted that Oyejide (1972) had argued that least developed countries (LDCs), including Nigeria, would find it difficult to maintain price stability and economic growth simultaneously, suggesting that some inflation is necessary to promote economic growth.

Ola and Adejumo (1998) opined that VAT could increase inflationary rate. They however, further argued that if the proceeds from the VAT were spent on productive sector of the economy, it could reverse the inflationary pressures. From

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seventy-five countries that introduced VAT, they reported that forty-eight did not experience significant inflation as a result of VAT. Eighteen countries experienced inflation with increase in consumer prices, while the remaining nine countries simultaneously took counter measures like price control and reduction in, and abolition of other taxes to stem the inflationary pressures occasioned by VAT.

In Nigeria, a major persistent plaque has been inflation and the degeneration in the value of money, even before the introduction of MVAT. A general increase in the price level was first noticed in the 1970s. In 1995, the inflation rate stood at 73 per cent compared to 13.8 per cent in 1970. Folorunso and Abiola (2000) found fiscal balance as one of the factors, among others, that determine inflation spiral in Nigeria and concluded that reduction in fiscal deficits should be pursued as means of controlling inflation. To reduce fiscal deficit would call for either reducing expenditure or increasing revenue (taxes). However reducing public expenditure is not popular, as it may have implications on economic growth in LDCs, including Nigeria; where government is a major participant in the economy. Thus, government may not have some other sustainable options other than looking for ways to increase its revenue. Imposition of taxes is one of these ways.

Udoh et al (1999) examined the potentials of Value Added Tax in strengthening the finances of Cross River State of Nigeria. The analysis showed that VAT had greatly helped the state's revenue generation profile. They concluded by recognizing the need for the potentials of VAT to be exploited so that more revenue can be generated for the socio-economic growth and development of the state. However, Cross River State is one of the thirty-six states in Nigeria. The question that readily comes to mind is whether the findings from one state could be generalised for the whole country? Furthermore, what about some states in the country where some of the 'vatable' goods and services, notably liquor and pool betting have been outlawed in the name of religion? Moreover, efficiency, that is, ability to generate more revenue, is one among the many objectives of MVAT. In fact, if MVAT is adjudged efficient and fails other criteria of a good tax system, the efficiency may become unsustainable. Unfortunately, Udoh et al study did not address other objectives notably, equity, acceptability and resource allocation, these gaps were filled in this study.

Obisesan (2000) viewed the issue of the distribution of Value Added Tax proceeds as highly contentious. He queried why some states that do not contribute at all or contribute little to the "VAT Wealth" should benefit equally as those who contribute substantial amount. This in his opinion was morally unjust and unconstitutional, as the constitution provides for the pursuance of a just world order. As a way out, he advocated for a sharing formula based on derivation where each state should tap the resources within its jurisdiction and only pay tax to the Federal Government. The argument above by Obisesan has implication for political acceptability of the MVAT in Nigeria. Thus, even if VAT generates more revenue and fails general acceptability test, it could impair its sustainability.

CONCEPTUAL FRAMEWORK

A tax is a compulsory levy imposed by government on individuals, firms, goods and services as well as other legal entities, with the aim of achieving certain objectives. The responsibility to prefer a tax system and the choice of its base rest with the government of the day. Tax systems can either be direct or indirect, depending on whether they are designed to be shiftable or not. If shiftable, they are indirect taxes and if otherwise, they are direct taxes. Retail sales tax and the Value Added Tax (VAT) are indirect taxes.

VAT is a special form of sales tax, which is applied at the stage of business activity, usually at the wholesale level or at the retail level. This is unlike the turnover tax, which is applied at each sales transaction. Naiyeju (1996) defined VAT as tax on the supply of goods and services, which is eventually borne by the final consumer but collected at each stage of the production and distribution chain. However, Adesola (1998) defined VAT as a consumer tax, charged on the value, which a taxable person adds to a good before selling the good. The VAT decree defines a taxable person as a person who independently carries out in any place in Nigeria an economic activity as a producer, wholesale trader, supplier of services or a person exploiting tangible or intangible property for the purpose of obtaining income, by way of trade or business or an agency of government acting in that capacity.

The Federal Inland Revenue Service (FIRS, 1995), which administers VAT in Nigeria, drew the basic differences between Withholding Tax and Value Added Tax. It defined Withholding Tax as an advance payment of income tax, which is to bring the prospective taxpayer into the tax net, and thereby widening the income tax base. The withholding tax system helps to track down taxpayers and their incomes, which may not have been reported. VAT, on the other hand was defined as consumption tax payable on goods and services consumed by taxpayers whether government agencies, business organizations or individuals. VAT is targeted at consumption of goods and services and unless law specifically exempts an item, the consumer is liable to the tax. By implication VAT is on expenditure rather than on income. Ordinarily, expenditure should equal income. If the introduction of VAT increases expenditure, income earners will have some of their needs not satisfied. This will have implications on loss of welfare and its attendant consequences on the residents of Nigeria. This may promote poor tax compliance from the taxpayers.

The concept Value Added is the value a firm adds to output by virtue of its own activities (Lipsey, 1995). The added value forms the base of the tax, and thus, the name Value Added Tax (VAT). Ordinarily a VAT should be a comprehensive tax levied on all sorts of transactions: manufacturing, wholesale or retail. However, under a Modified Value Added Tax (MVAT) the tax chain is only extended to wholesalers excluding retailers. The Modified Value Added Tax in Nigeria has three characteristics: it is a consumption tax, a multi stage tax and falls on the final consumer.

Musgrave and Musgrave (1989) identified three types of VAT: the Gross National Product (GNP) VAT, the Income VAT, and the Consumption VAT. The GNP VAT has GNP as its base and it is levied on all sales with no deduction for business inputs. It is calculated as gross receipts less the value of intermediate goods from prior producers in the production line. GNP VAT is not popular with the government, as it militates against the use of capital and retards economic growth.

The Income VAT is levied on the net value added by each firm. The net value added is defined as gross receipts minus purchases of intermediate goods and depreciation. The Income VAT is the most complicated of all the varieties though logically it has a greater appeal. The Income VAT differs from Consumption VAT in that it permits the firm to deduct depreciation while the latter permits deduction of gross investment, that is, purchase of capital goods.

The base of Consumption VAT is a firm's gross receipt less the value of all its purchases of intermediate products including its capital expenditures on plant and equipment. Thus, the firm is left with the value of consumer goods output only. Such a tax, therefore, is equivalent to a general retail sales tax on consumer goods, the two differing in administrative procedure only.

The size of the base for Consumption VAT is similar to that of a retail-type sales tax on consumer goods. The base depends greatly on the breadth of coverage. There are two possibilities of collecting the tax. The first is to ask a firm to pay its tax on the base as earlier determined. The second is the invoice method where the firm computes its gross tax by applying the tax rate to total sales. It then credit against this tax an amount equal to the tax already paid by the suppliers from which the firm has purchased intermediate and capital goods. Thus, the invoice method possesses a self-enforcing element, as each buyer could demand for a copy of such receipt. The invoice method constitutes an advantage of the value-added approach, especially in countries, like Nigeria, where tax compliance is poor.

The base of Income VAT exceeds that of Consumption VAT by the difference between gross investment and depreciation. Disregarding governmental purchases, indirect business taxes, and net exports, this relationship is represented as follows:

$$GNP = I_g + C \qquad (1)$$

$$I_g = D + I_n \qquad (2)$$

$$NNP = I_n + C \qquad (3)$$

$$NY = NNP \qquad (4)$$

where
NNP is net national product; NY is national income; I_g is gross investment; I_n is net investment; D is depreciation; and C is Consumption. GNP less D equals to NNP or NY, is the base of Income VAT, while GNP less I_n less D equals to C is the base of Consumption VAT. No doubt, the Consumption VAT is very simple to estimate.

Bhatia (1987) identified the Wage VAT, where the firm is allowed to deduct net earnings from its capital in order to arrive at the tax base. Since earnings from capital amount to profits plus interest, therefore, the balance to be taxed is equivalent to wages. The wage VAT is defective, because by imposing taxes on wages it could discourage saving, consequently investment and economic growth.

An optimal tax structure maximizes the material satisfaction of majority of people and satisfies certain conditions. First, it should maximize revenue yield and minimize the cost of collecting it. Secondly, it should be equitable with a view to correcting for inefficiency of the market to reward economic agents according to their contributions. Thirdly, it should be able to influence the economic behaviours of taxpayers with a view to increasing productivity of factor services. Finally, it should be politically acceptable.

MVAT Administration in Nigeria

The policy in modern taxation is towards low tax regime in order to encourage voluntary compliance and widen the tax base. A Nigerian Federal Minister of Finance has reported that, the country has been pursuing the above policy but has not succeeded, Ciroma (2002). Also, Abiola (2002) found that Nigerian tax administration is neither buoyant nor elastic, thereby making the yield very low with its attendant consequences.

The VAT Directorate within The Federal Inland Revenue Service (FIRS) is centrally administered in close co-operation with the Nigerian Customs Service (NCS). The inclusion of NCS is because MVAT involves export of goods and services. For administrative convenience the country is divided into five zones. These are Lagos zone with office in Lagos; North-West zone with office in Kaduna; West zone with office in Ibadan; Eastern zone with office in Enugu; and North-East zone with office in Jos. Each state in the country also has its own local office located in the state capital.

The MVAT imposes a flat rate of 5 per cent. Zero rates are assumed for exports while there are goods and services exempted from the tax. The tax is collected on behalf of government by organisations, which have registered with the VAT Directorate of FIRS. Such registered taxpayers pay 5 per cent on goods and services purchased but claimed credit for this tax called input tax. In essence, it is the output tax less input tax that constitutes the VAT payable. It is the equivalent of the VAT paid by the final consumer of the product that will be collected by the government.

One characteristics of the VAT system is its ability and promptness in making refund as and when due. When there is an excess of input tax over output tax, the FIRS is obliged to pay back the excess tax in the course of their agency role with the vatable taxpayer. Also, VAT paid on zero rated goods and services attract refund. In demanding for a refund, a registered vatable taxpayer must among other things fill the VAT return form 002, duly completed to the local VAT officer. The refund can be claimed either by credit refund or direct cash refund method.

Computation of MVAT in Nigeria

The MVAT can be computed from two perspectives: direct and indirect methods. Both give the same results. The methods are briefly examined below. Direct method is further sub-divided into two: addition and subtraction methods. Under the direct addition method, the formula below holds:

$$VAT = t\,(wages + profit) \qquad (5)$$

Under the direct subtraction method, the formula below holds:

$$VAT = t\,(output - input) \qquad (6)$$

The specification in equation 6 above is also referred to as business transfer tax. The indirect method also known as the credit or invoice approach is as specified below:

$$VAT = t\,(output) - t\,(input) \qquad (7)$$

where
VAT = Value Added Tax.
t = the tax rate.

MVAT computation in Nigeria adopts the specification in equation (7) above, simply because the specification has the greatest appeal to many countries for some reasons. First, the method relates tax liability to a particular transaction as it relies on invoices, which become an important evidence for the transaction and tax liability. Second, it eases cross-checking and information matching. Finally, the tax liability can be calculated at intervals. In fact, it eases up- to-date assessment even when more than one rate is used. Thus, computation of MVAT in Nigeria satisfies the simplicity criterion

METHODOLOGY

This study examines the appropriateness of the administration of the Modified Value Added Tax with respect to equity, efficiency, acceptability and resource allocation. It adopts descriptive analysis using growth rates, ratios, percentages, etc, of key variables. The secondary data came from publications of the Federal Office of Statistics (FOS) and Central Bank of Nigeria (CBN) especially the Statistical Bulletin as well as Annual Report and Statement of Accounts spanning the period under consideration. It should be noted that the MVAT decree provides that consumers of goods should pay 5 per cent extra on price of goods they consume or the professional services they require (i. e. an ad valorem tax). Technically the tax is collected at several points in the process of transfer of goods and services from producer to consumer. Essential goods and services are exempted from the MVAT.

ANALYSIS

This section presents the analysis of the study. The four issues of equity, efficiency, acceptability and resource allocation are addressed in turn.

Equity objective

This is a basic criterion for tax structure design, because tax is a burden. This suggests that each taxpayer should contribute a fair share to the cost of government. Two principles: benefit and ability-to-pay are relevant in this regard. Under benefit principle, an equitable tax system is one in which each taxpayer contributes in line with benefits received from public services. The ability-to-pay principle requires each taxpayer to contribute in line with the ability to pay, where the ability is measured in terms of potential consumption/ income. It should be noted that consumption is a function of disposable income. Analysis for the Nigerian case focuses on whether or not the MVAT is progressive. Three income groups were identified notably: low, middle and high earners.

In examining the equity objective, the progressivity of the MVAT in Nigeria was appraised by considering how the tax varies with the incomes of the different taxpayers. A regressive tax takes a smaller percentage of taxpayer's income, the larger the income, while the opposite is true for a progressive tax. A proportional tax is the boundary case between a regressive and progressive tax as it takes the same percentage of income from every taxpayer, the income levels notwithstanding. As stated earlier MVAT in Nigeria imposes 5 per cent extra (as tax) on price of every taxable item except those that are zero-rated. Thus the high, middle and low-income groups pay the same amount of tax. Comparing the amount of tax with the income of the different groups of taxpayers, it becomes clear that the proportion of the amount paid on MVAT decreases as income level rises. By implication, the high-income earners pay lower proportion, while the middle and low-income earners pay higher proportions of incomes as taxes.

The message from the above is that MVAT is a regressive form of taxation and therefore negates the equity principle of taxation. Consequently, it also fails to achieve one of the objectives of MVAT, which is to maintain a fairly even tax incidence. A regressive tax has implication for widening the income inequality gap, thereby making the poor poorer. This would no doubt increase the poverty level, with its attendant socio-political and economic consequences. With increased poverty the amount people spend on consumption would fall, and given the fact that MVAT in Nigeria is a consumption tax the yield of the tax may eventually fall.

Although, the classical economics postulates that the rich may be favourably disposed to saving more and consequently increase investment and output, but Chinsman (1997) reported that most Nigerians are poor. Also, Jega (2002) argued that the poverty situation in Nigeria has worsened, posing a threat to national security and the quest for democratic consideration. In 1980 the poverty level stood at 28 per cent, rose to 65.7 per cent in 1996 and further to 70 per cent in 2000! The poverty level has been increasing and might soon attain a crisis dimension. In fact, at present most Nigerians are not only poor they are suffering. Thus, anything that increases the poverty level will impair welfare of majority of the citizens and their ability to pay any form of taxes, including MVAT

Efficiency

Another general consensus is that a tax system should be efficient and cost effective. An efficient tax system obtains needed revenue with a combination of taxes such that the marginal naira derived from each tax imposes the same efficiency cost. A cost effective tax system provides that the capital for financing a tax project should neither be more than 100 per cent of the revenue yield nor less than 5 per cent of estimated revenue for an efficient administration. For the purposes of this study the growth rates of the MVAT will be considered. In Nigeria MVAT has been meeting its targets. Thus, if it recorded impressive growth rates it will be concluded that the tax system is buoyant and efficient. Although, tax efficiency is measured by the ratio of cost of tax collection to the tax yield but data on cost of collection in Nigeria is difficult to come by. This is because officials of FIRS, which administers MVAT, are civil servants who perform other duties apart from collecting VAT. In fact, they are paid using the civil service salary scale irrespective of the amount of taxes they collected.

From table 1 below certain things are noteworthy. In Nigeria MVAT is collected under two headings: Imports and Non-imports. MVAT revenue from imports gives a relatively higher trend than that of non-imports. For the years 1995, 1996, 1997 and 1998 MVAT revenue from imports recorded 53.62, 61.64, 57.60 and 52.11 per cent respectively, as against 46.38, 38.36, 42.40 and 47.89 per cent respectively for the non-imports. However, the non-imports revenue has since shot into the lead, as it increase from 57.20 per cent to 77.64 per cent for the years 1999 and 2000 respectively. The non-imports revenue has been relatively stable though at a high proportion of over 70 per cent for the periods 2001-2003. Thus, Nigerians have been attempting to shift from high dependence on imported goods to non-imported goods, especially on vatable goods.

Table 1: Summary of VAT Revenue Generation in Nigeria, 1994-2003.

Year	Amount from Non-Import (N'million)	% of total MVAT revenue	Amount from Imports	% of total MVAT revenue	Total MVAT revenue (N' million)	Growth rate of total MVAT revenue (%)
1994	3,634.03	50.05	4,039.48	49.95	7,260.8	---
1995	9,624.80	46.36	10,427.46	53.62	20,761.0	65.03
1996	12,130.55	38.36	19,492.379	61.64	31,000.0	33.03
1997	14,528.56	42.40	19,736.92	57.60	34,000.0	8.82
1998	18,851.96	47.89	18,015.74	52.11	36,867.7	7.78
1999	23407.46	57.20	17517.46	42.80	47,135.8	21.78
2000	30,935.01	77.64	27,073.41	22.36	58,469.6	19.38
2001	65,542.03	71.43	26, 214.97	28.57	96,757.0	39.57
2002	80,701.40	74.31	27,899.60	25.69	108,601	10.91
2003	98, 277.91	72.06	38,113.29	27.94	136,411.2	20.39

Source: VAT Directorate, Abuja.

Resource Allocation

This addresses the potential of a tax to influence the economic decisions of consumers and producers of economic goods and services, thereby making tax a useful tool of economic policy of government. Thus, this study examines the tendency of MVAT to promote inflation and influence private consumption. An economy is experiencing inflation if it is undergoing a period of continuous rising prices resulting in a loss of the purchasing power of money and misallocation of resources. In Nigeria, a major plaque that has been persisting in the economy is inflationary pressure and the degeneration in the value of money, (Folorunso and Abiola, 2000). This is because inflation among, others, distorts tax burdens. The growth rates of inflation and private consumption are compared with the growth rate of MVAT. Theoretically, introduction of MVAT should increase prices. Sellers would like to shift the incidence to consumers depending on the nature of elasticity of the goods and services. If the goods and services have inelastic demand the consumer bears the burden and in the case of elastic demand both seller and consumer will share the burden. In both cases demand (private consumption) will be negatively affected.

Firms in Nigeria treat MVAT payments as input costs and pass on to the consumers. From Table 4 below it could be observed that a strong correlation exists between the growth rates of MVAT and inflation rates in Nigeria. For example, in 1995 when the growth rates of MVAT stood at 65.03 per cent, the inflation rate recorded 72.8 per cent haven risen from 57.0 per cent in 1994. The unprecedented increase could be attributed to the shock arising from the introduction of the new tax. In fact, the average inflation rate and the growth rates of MVAT have been very close. The average growth rates for the two variables for the 1994-2003 period closely stood at 24.58 and 22.92 per cent for inflation rates and MVAT respectively. By implication the fears expressed about MVAT stimulating inflation was unfounded in Nigeria. As argued elsewhere (see Fabayo and Abiola, 2004) monetary authority in Nigeria was unable to meet the targets for single digit inflation rate during the period under review. By implication the fears expressed about MVAT stimulating inflation were founded in Nigeria.

With respect to private consumption, the introduction of MVAT increases prices, making consumers to consume relatively less. This could be supported with the unimpressive growth rates of private consumption. For example, apart from 1995 when the growth rate stood at 155.79 per cent, largely from the spillover of panicking purchases of the 1994 over the annulment of the 1993 polls, the other years moved in the same direction relative to inflation rates. For example, when in 1996 inflation rate fell to 29.3 per cent and later to 8.5 per cent in 1997, private consumption also fell to 33.38 per cent and later to 0.49 per cent. Similarly, when inflation fell from 10.0 per cent in 1998 to 6.6 per cent in 1999, private consumption also fell from 18.39 to a negative 16.63 per cent. In 2002 when the growth rate of MVAT fell from 36.78 percent to 15.51 per cent, inflation rate fell from 18.9 per cent to 12.9 per cent, the growth rate of private consumption increased from -8.37 percent to 3.49 per cent. Thus, the higher the growth rate of MVAT and inflation rates, the lower the growth rate of private consumption in Nigeria. The message from the above analysis is that MVAT has been having negative impact on resource allocation in Nigeria by impairing private consumption.

Table 4: Relationship between MVAT, Inflation rate and Private Consumption in Nigeria, 1994-2003.

Year	Growth rate of MVAT (%)	Inflation rate (%)	Private Consumption (N' million)	Growth rate of private consumption (%)
1994	---	57.0	694,060	21.81
1995	57.86	72.8	1,775,330	155.79
1996	38.50	29.3	2,367,960	33.38
1997	7.71	8.5	2,379,560	0.49
1998	7.06	10.0	2,817,080	18.39
1999	9.91	6.6	2,348,710	-16.63
2000	29.45	4.5	2,611,330	11.18
2001	36.78	18.9	2,409,567	-8.37
2002	15.51	12.9	2,496,785	3.49
2003	20.39	14.9	2,987,626	16.43

Source: (1) Central Bank of Nigeria, Abuja.

CONCLUSION

The study examined the appropriateness of Modified Value Added Tax (MVAT) with respect to equity, efficiency, acceptability and resource allocation, in Nigeria between 1994 and 2003. It was established that the system of taxation has been regressive, as the flat tax rate did not take congnisnace of differences in income levels. One of the implications of a regressive tax is that it could stimulate higher level of poverty. In terms of efficiency the tax had been very efficient. It had not only generated significant revenue, it shows that it possesses the potential to generate more revenue as well as reduce the rather worrisome dependence on oil revenue. However, although there is efficiency in revenue generation, whether there is efficiency in utilization is doubtful. When governments receive their shares from the VAT Pool Account, they inject the revenue back into the economy as consumption expenditures. This could be part of the reasons for the observed inflationary trend. Governments may consider directing the revenue to stimulate domestic production, as increase in output will not only generate more tax revenue it will also help to ameliorate the inflationary trend and improve private consumption.

Although, the system of computation was relatively simple, the level of acceptability was rather low given the high level of instability of the sharing formula. In our opinion this could impair the sustainability of the system. A direct relationship was found between MVAT and inflation rate as the taxes were found to have increased inflation and keeping inflation rate at double digit rate. Also, the MVAT was found to have negatively impacted on private consumption and consequently welfare of the inhabitants of Nigeria.

As a way out, MVAT in Nigeria should be graduated as done in France, where VAT rates differ from one group of product / services to another. This would make people with different income levels to pay different taxes, i.e. it will achieve vertical equity. Also, it is necessary to consider strategies for ensuring that firms treat VAT properly and that governments direct their expenditure towards sectors that are most likely to lessen the

Furthermore, the MVAT yields have been growing positively suggesting that the MVAT have been relatively buoyant and efficient. The growth rates stood at 57.86 and 38.50 per cent for the years 1995 and 1996 respectively. It however fell to 7.06 in 1998, rose to 9.91 per cent in 1999 and further rose to 29.45 per cent 2000. The total amount generated has been on the increase since the inception of the tax. It rose from ₦7, 260, in 1994, to ₦47, 135.8 in 1999 and skyrocketed to ₦136, 411.2 in 2003. The implication deducible from the observed positive growth rates is that the revenue yield has been increasing and has in-built potential to generate more revenue with a view to reducing the dependence on oil sources of revenue. Furthermore, one of the objectives of MVAT to reduce tax evasion and avoidance by shifting taxation towards consumption rather than savings is being realised.

Table 2: Relationship between MVAT and other taxes in Nigeria, 1994- 2000

Year	PPT (₦'million)	CIT (₦'million)	CED (₦'million)	MVAT (₦'million)	VAT as % of Total Federally Collected Revenue
1994	42,802.7	12,274.8	18,294.6	7,260.8	3.60
1995	42,857.9	21,878.3	37,364.0	20,761.0	4.44
1996	76, 667.0	22,000.0	55,000.0	31, 000.0	5.92
1997	68,574.1	26,000.0	63,000.0	34, 000.0	5.75
1998	67,986.6	33,315.3	57,683.0	36,867.7	7.76
1999	164,273.4	46,211.2	87,906.9	47,135.8	4.97
2000	525,072.9	51,147.4	101,523,6	58,469.6	3.07
2001	639,234.0	68,680.0	170,557.1	96,757.0	4.11
2002	392,207.2	89,104.0	181,408.2	108,601	6.27
2003	683,448.9	114,771.1	195,468.6	136,411 2	5.30

Sources: Central Bank of Nigeria (CBN), Abuja.

From table 2 above it could be observed that in terms of revenue generation MVAT though relatively the newest source of revenue, is the third most important source after Petroleum Profit Tax (PPT), and Customs and Excise Duties (CED). Company Income Tax (CIT) yields the least revenue on the average. The MVAT provided the least revenue in 1994 with ₦7, 260.8 million, as against ₦42, 802.7 million; ₦18, 294.6 and ₦12, 274.8 for PPT, CED and CIT respectively. However, MVAT has since 1996 overtook CIT when it provided ₦31, 000 million as against ₦22, 000 million generated by CIT Although, MVAT has not been able to significantly reverse the country's high dependence on revenue from petroleum, it has demonstrated that it has the potential as a formidable source of revenue. This assertion could be further buttressed by the proportion of VAT in the Total Federally Collected Revenue, which has reached an average of 5.12 per cent for the period 1994-2003.

Acceptability

The VAT decree provides that revenue from MVAT should be shared among the Federal, States and Local Governments in Nigeria. Here the study examines the simplicity in the computation of MVAT (this has already been addressed in section 3.2 above) and the stability in the allocation formula for sharing the revenue. If the computation is adjudged simple and significant stability exits in the sharing formula, it will be concluded that MVAT has been acceptable. The essence of this question of acceptability is to examine the sustainability of the tax system, as non-acceptability would no doubt impair sustainability.

The revenue from MVAT is allocated between the three tiers of government namely: Federal, State and Local Governments. The sharing formula for MVAT has witnessed significant instability during the year under review. At inception the sharing formula gave the Federal Government 20 per cent (to cover cost of collection and administration), while State Governments and the Federal Capital Territory Abuja were to share 80 per cent.

Table 3: VAT Sharing Formula in Nigeria, 1994-2003

Year	Fed. Govt.	State Govt.	Local Govt.
1994	20%	80%	----
1995	40%	35%	25%
1996	35%	40%	25%
1997	35%	40%	25%
1998	25%	45%	30%
1999	15%	45%	35%
2000	15%	45%	35%
2001	15%	45%	35%
2002	15%	45%	35%
2003	15%	45%	35%

Sources: Federal Office of Statistics (FOS) and Central Bank of Nigeria (CBN), Abuja.

From Table 3 above, it could be observed that within ten years (1994-2003) the sharing formula had been changed five times. In fact, as the time of this study a new formula is being proposed. This suggests that the formula has been highly unstable. The instability is as a result of complaints by the people and governments at the lower levels especially States and Local Governments. Many factors have been responsible for the incessant hues and cries, notably the criteria being used to share the allocation for the lower levels as well as the percentages allocated for each criterion. The above instability no doubt has implications for poor acceptability of the MVAT. This is because as the complaint increases the taxpayers may develop apathy, which will lead to poor compliance. The above will be better appreciated if we realise the fact that taxes are usually unpopular policies, as it reduces welfare. In response to the complaints, the Federal Government has been reducing its own share. The share was reduced from 40 per cent in 1995 to 35 per cent in 1996 and.to 25 per cent in 1998, by 20002 and 2003 the share stood at 15 per cent.

adverse effects of VAT on consumers' welfare, production, employment and income.

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