



VAT

INCREASE IN THE RATE OF VALUE ADDED TAX PAYABLE IN NIGERIA

The Federal Executive Council (FEC) recently approved an increase in the rate of Value Added Tax (VAT) payable in Nigeria to 7.5 percent, effective 2020. This proposed increase, represents an additional 2.5 percent on the 5 percent currently payable, as contained in Nigeria's extant VAT legislation.

The action of the FEC is the latest attempt to increase the current rate payable in the country, which sees Nigeria currently being ranked among countries with the lowest VAT rate. While the proposed increase is by no means final, it would undoubtedly

involve consultations with the National Assembly and relevant stakeholders and could possibly amount to an amendment of the VAT Act.

The proposed increase is in line with the National Tax Policy and the Economic Recovery and Growth Plan (ERGP) which both stressed the need for an increased focus on revenue generation from VAT, amongst other avenues in Nigeria. What remains to be seen however, is whether an increase in the rate of VAT is the right approach to achieving the aforementioned objective. The move, regardless, is being seen by the Federal Government as an avenue to increase the revenue generation capacity of state

governments in a bid to meet up with their latest minimum wage obligations, amongst other fiscal responsibilities.

The proposed increase has been met with mixed reactions as stakeholders have argued that the increased rate, coupled with the current rate of corporate tax would lead to an increase in the price of goods and services and consequently, reduce the available disposable income of citizens. The proposed increase has further been fraught with concerns by the Nigerian Labour Congress of it depleting any benefits sought to be gained by the recent increase in the minimum wage in the country.

On the above premise, it has been argued that as an alternative to increasing the rate of VAT, a better approach, with little or no economic repercussion, would be to both widen the tax net, and improve the implementation of, and compliance with, the VAT Act at the current rate of 5 percent. According to a 2018 International Monetary Fund (IMF) report, out of 1.5 million registered corporations in Nigeria, only 522,000 could be matched (as of May 2016) to any type of data available within the Federal Inland Revenue Service (FIRS), and 77,000 filed VAT returns in 2016. This suggest an excessive level of systemic noncompliance and puts the level of active taxpayers' population at a little over 5 percent. It is therefore hoped that the concerns and recommendations of stakeholders would be taken into account by the Federal Government as the engagement progresses.

A News Alert of the Business & Regulatory Advisory Practice of Jackson, Etti & Edu.

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