International Journal of Humanities and Social Science Invention (IJHSSI)
ISSN (Online): 2319 – 7722, ISSN (Print): 2319 – 7714
www.ijhssi.org ||Volume 7 Issue 07 Ver. I ||July. 2018 || PP.73-76

Input-Output Credit Adjustment And Value Added Tax Rate Inrement In Developing Economy.

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ABSTRACT: *This paper attempted to examine the input-output credit adjustment policy on value added tax administration in developing economy using Nigeria as a case study. Series of Value Added Tax Act provisions especially Section 34 (a) of Nigeria were examined in order to access the challenges and prospects of the recent rate increment proposed from 5% to between 10% – 20% in Nigeria. Descriptive statistical method of simple percentage method (SPM) and the Likert – scale rating were used to measure the intensity of the effect of the policy amendment.The paper revealed that VAT rate increment is normal but ill-time and could be counterproductive since cost of goods, services and consumables were on the high side while basic physical infrastructures that was supposed to be an instrument of strong competitiveness with sound productive capacity building are lacking in the economy.The study recommends more time, adequate public sensitization, strong capacity building and sufficient tax professional input before the rate increment amendment policy could be implemented successfully in any developing Nations..*

Date of Submission: 04-07-2018 Date of acceptance: 19-07-2018

I. INTRODUCTION

Generally, the introduction of Value Added Tax started in Nigeria as a replacement to sales Tax through Decree No. 16 of 1986. The decree took effect from 1st of December, 1993 but by administrative arrangement, invoicing for tax purpose did not commence until Jan, 1994. Thus VAT is a tax on the supply of goods and services which was meant to be borne by the final consumers. It evolves through a chain at each stage of production and distribution. With VAT, it was reasoned that tax evasion will be practically impossible .The instrument that introduced VAT spelt out the goods and services that should attract the tax. Seller of goods and services on which tax should be paid must first and foremost registered with the Federal Inland Revenue Services which ensure that 5% VAT are changed at a flat rate. **It is important to note the fact that goods like food items are not changeable to VAT but in the contrary is what is happening in Nigeria economy.**

Market women changes VAT on food items with obvious reason that this tax will increase their profit margin. Landlords change VAT on house rent in the cities, hotels and eateries change VAT, and all these are contrary to the regulation governing VAT system, yet the regulatory authorities are bent to increase the rate with a reason to generate more revenue through this source without considering the burden bearers in the economy.

The input – output credit adjustment is based on the fact that every viable person is demanded by the enabling ACT to remit to the relevant local VAT office, the net VAT payable which is the excess of the VAT paid by a business on purchase in the input tax recoverable from company sales which is on output tax over the input tax while filling the VAT returns. Remittance are expected to bemade together with the tax return filled. The VAT carries a single rate of 5% on variable goods and services. Zero rate is assumed for exportsand other goods and services exempted from the tax. Already, there has been problem of multiple payment that has made cost of goods and services very expensive to bear by the final consumers and as such any increment will only add up to make life difficult for the masses.The taxable period is one month in Nigeria which was later extended administratively by FIRS to the 28th of the following month to allow the prayers to adjust to the system in the first year of assessment. In accounting for the payment, registered person must take note of the fact that if the output tax exceeds input in any particular month the excess is what is remitted to the Federal Board of Inland Revenue which in principle is not done in Nigeria.

The Amendment Act of 2007 was enacted to empower the Federal Government to fix the rate of VAT and as such the rate was increased to 10% through the amendment. Before the amendment, VAT use to contribute 4% to the total revenue raised by government, as at 1995 the contribution by this tax was 5.39%. The organized private sectors had voiced-out their reservations that the tax is taken a toll on the prices of their product and the operational prices are being unnecessary affected, such that all in all, the situation of VAT in Nigeria call for immediate attention as flaks are ongoing in all quarter of economy which invariably was as a result of the increment in the VAT rate while the input and output adjustment syndrome has not been judiciously tackled.Thus, this paper looked at the effectiveness of VAT administration and the related input and output adjustment policy so as to safeguard tax payers on the upward review of VAT rate in developing economy (Nigeria).

II. THEORETICAL FRAMEWORK

Value Added Tax which can simply be called the goods and services tax (GST) is levied on the value added to good and services that result from each exchange. It is an indirect tax collected from someone other than the person who actually bears the cost of the tax. It was invented by a French economist Maurice Laure in 1954 and was first introduce in France on April 10, 1954. The Federal Government of Nigeria introduced VAT in January, 1994. Nigerians believed it was introduced as a means of avoiding taking loan from international agencies but according to analysts, the tax was intended to be a supper tax to eradicate completely many other taxes related to goods and services. VAT was then imposed on virtually all goods and services whether produced or services rendered in Nigeria. Exemptions however was granted in respect of medical and pharmaceutical products, basic food items, fertilizers, agricultural and centenary medicine, books and educational items, farming and transport equipment, etc. The value added tax effectively replaced the formal sales tax, which, under the constitution, was supposed to be charged by states and not the Federal Government but since 1994 VAT has become a major source of revenue for the Federal governmentas well as a major cause of high cost of goods and services in Nigeria.

In 1994, a total of ₦8.194 million was generated from VAT. This figure was 36.5% higher than the projection made for that year. Ever since then, VAT proceed have been on the increase and is now the third generator of revenue for the government after petroleum profit tax (PPT) and company income tax (CIT). VAT collected by the Federal Inland Revenue Service (FIRS) rose from ₦48.7 billion in 1999 to ₦ 232.7 billionin 2006. In the year 2000, Federal Government raked in ₦58 billion from VAT. Details of further proceeds are as follows:

Year 2013 2014 2015 2016 2017 Amount (₦ billions)
115 136 171 205 242

In 2006, a total of ₦1.7 trillion was generated from various types of tax including petroleum profit tax and educational tax. The recommendation of the position paper on the value added tax (VAT) presented by the Chartered Institute of Taxation of Nigeria (CITN) to the National Assembly Public Hearing On Tax Bills, December, 2006 was that the Value Added Tax Amendment Bill should include companies operating on the oil and gas sector and should not be treated like government agencies and parastatals any more so as to boost revenue accruable to the government. It was also recommended that VAT rate should remain at 5%, VAT base and administration should be expanded to untapped areas and that exemption be granted to goods and services and should be limited to inputs alone.Thus, goods and services purchased in for use, all donorfunded agencies should be zero rated. Zero rates should be limited to those goods produced for export only and there should be consistency in the use of either taxable person or tax payer to preclude any confusion.

Also, the office of the Honorable Minister of Finance issued a public notice on dailies notifying the public on the increase in VAT rate from 5% to 10% with effect from May 23, 2007, citing section 34 (a) of the Value Added Tax (VAT) of 1993 as amended, with vested power on the Honourable Minister of Finance to amend the rate of tax chargeable under the ACT. Reasons adduced for the increase were as follows: the VAT rate of 5% is the lowest in the Africa 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; Nigeria being a strong member of ECOWAS is obliged to review its current VAT rate in line with policy directives of the commission in ammonization of VAT and exercise duties within the ECOWAS between now and 2009; the ECOWAS commission has for this reason, suggested a transition period of two (2) years, terminating in 2009, within which member state presently applying low VAT regime should close the gap to a point within the range of 10 – 20%. With the recently promulgated VAT amendment, certain key features of a standard VAT system are now been introduced into the country's VAT system in order to make it attractive for business. The input-output credit adjustment mechanism will eliminate inflationary effect; the Public Notice concluded.

III. VAT INCREASE AND ITS IMPLICATIONS FOR THE ECONOMY

African Economy Research Consortium (AERC), in a work carried on VAT system in Nigeria conducted some years ago, stated that Nigerian companies treat their VAT expenses as input cost and pass these to the consumers while the government injects most of the VAT revenue back into the system as consumption expenditures, causing urge disruption to the economy. In a country where basic physical infrastructure for transport, communications, power and information technology to strengthen competitiveness and expand productive capacity are lacking, the increase in VAT was ill timed and counter-productive in the already highly distorted Nigeria economy. Nigeria is a poor country by any standard and constrains are many in its business prowess even if it is better than average in Africa.

In a recent World Bank survey, manufacturing companies in the country ranked infrastructure enabling environments as their most severe business constraints. Apart from the negative implications of VAT increase as highlighted above, the following issues are likely to be the problems associated with the increase;

Total collapse of the real sector: Before now, there has been a sharp drop in capacity utilization in one real sector or the other from about 40% in 2011to more than 80% in 2014in the manufacturing industries in business and further increase in VAT rate will further disrupt the manufacturing sector and lead to astronomical increase in prices of produced goods and services. The sector which is already grappling with the problems of multiple taxation, poor road network, and epileptic and non- functional power supply. The increase will not only lead to higher cost of production but also increase the volume of unsold goods with its attendant result in reduced capacity utilization; consequently, it will increase the rate of unemployment and exacerbate the poverty level in the country. Local and foreign investors currently operating in the economy would find the environment much more economically volatile than ever and be discouraged.

Rise in inflation: as a matter of fact, the increase in VAT will automatically increase the inflation rate. VAT being a consumption tax will have further excruciating effect. The real income of the final consumers (especially fixed income earners). Manufacturers had already jolted their prices of goods and services even where such goods and services are not expressly subject to VAT. For instance, composite goods producers and services producers may still be indirectly expose to adverse conditions that could lead them under necessity to increase prices because the spate of uncontrolled hike in prices already being witness. Nigerians who are already living under the (dollar) with the attendant low purchasing power of the already improvise Nigerians income earners, will only but compound the poverty situation in the country. Already, analyst are projecting possible rise inflation to 18% arising from the ratchet effect of the increase of VAT rate is implemented.

Unemployment: One of the attendant implications of the VAT rate increase for the economy is the high rate of unemployment. Already it is estimated that over 8 million graduate of tertiary inclement operating clime. Social vices like, armed robbery, which are already on the increase are likely to become more pronounced in the society and many other social vices will be embraced by the Nigerian graduates. The fact of the matter is no longer whether Nigerian graduate are responsible for this vices, but the simple truth is that they are one of the social groups always at the receiving end of the whole bad economic policies.

Strike: The recenthike in the VAT rate and fuel prices resulted to total collapse of the economy. For over four years, the entire Nigeria economy witnessed a terrific slump via fuel palavers in the country. Economy watchers estimated the cost at over ₦160 billion. Such trend is not good for a growing economy like ours. A more efficient tax administration is longedobjective reforms of tax laws. The Federal Government had taken some far-reaching steps aimed at reforming the nation's tax system in the past. For instance, Tax Force on Tax of 1978 succeeded in introducing the withholding tax regime, the imposition of 10% special level on Bank excess profit, imposition of 21/22% turn over tax on building and construction companies. In 1992, study group no Nigeria tax system and administration recommended the establishment of FIRS as the operation arm of FBIR and setting up of Revenue Services at the other tiers of Government (State and Local). The study group was also responsible for policy shift from direct taxation to conduct/consumption VAT evolved.In 2002, another study group was put in place to look into how to entrench a better tax policy and improve tax administration in the country. The group addressed macro and micro issues on tax policy and administration. Among them were micro issues discussed were the drafting of a National Tax policy, taxation and federalism, tax incentives and tax administration generally. The study group and operation working committee's recommendation and subsequent evaluations saw the need for more input from stakeholders and bearers of the burden of value adding tax.

Also, August, 2010 retreats were held on some issues that were expedient necessarily for Nigeria tax systems. Part of the issue were on how to redistribute wealth and entrench a more equitable tax system and capacity building foradulterations and tax payers. The most concerned area of valued added tax is on the high cost of goods and services which emanate from multiplicity of VAT and various stages of sales. Thus the input-output mechanism adjustment is highly needed for equitable and judicious tax policy. All these were the consideration of various committee put in place to resolve issues and not increment of rate over the years.The question now is why the ideal of increasing the rate when the 5% is generating sufficient revenue to government and people (Tax payer consumer) who bore the burden are complaining.This paperis therefore set-out to investigate the impulse of Taxpayers on the increment and the adjustment request in the new policy on VAT in the south- west geo- political zone in Nigeria.

DATA COLLECTION AND ANALYSIS

Questionnaire were administered on fifty respondents in each of the five selected retailing businesses and their consumers totaling 250 (100%) respondents. One hundred and eighty consumers (72%) and seventy business owners/agents (28%) constitute the respondents to this study. Total respondents response were used as the basis of assessing the justification of increment suggested by the Federal Board on Inland Revenue.

Table 1.1 Distribution and Retrieval of Questionnaires

Business entity	No. of Questionnaire	No of Returned	Percentage
Hotels	50	50	100
Cement Stores	50	50	100
Filling Stations	50	50	100
Banks	50	50	100
Private Schools	50	33	66
Total	250	233	93.2

Source: study survey, 2017

Thus the total sample used for this study is 233 respondents and their classification into business owners/ agents and consumers were as given below:

Business entity	Retrieved Questionnaire	Business Owners/Agents	Consumers
Hotels	50	50	100
Cement Stores	50	50	100
Filling Stations	50	50	100
Banks	50	50	100
Private Schools	50	33	66
Total	250	233	93.2

Source: study survey, 2015

On the satisfaction of the 5% VAT rate, 65% of the respondents were of the opinion that the rate is okay but the multiple stages of charging it on goods and services is causing high cost of living in the country.Also, 15% of the respondents say that input-output adjustment is necessary thus, the mechanism to apply should be to charge the tax only at sales point so that cost of the purchase will be minimized and as such the issue of moderate price to the end user of goods will operate in the economy.Generally, the policy reform on tax system were never in support of increment and if only the revenue generation capacity of the tax is considered then the payers who are the ultimate burden bearers will continued to be short-changed. This is not good for a viable tax system. The result of independent interview carried out on this study revealed the ill timing and that danger is imminent if the increment is lord on taxpayers without due consideration of payers opinion probably through referendum.

IV. CONCLUSION

Based on the above findings, the study therefore concludes that VAT rate increment is not timely and could be counter-productive in the present prevailing high cost of living.in developing Nations of the world. The idea of correcting the multi-stage charges which are the cause of high cost of goods and services should be reconciled before any adjustment could be implemented. Also that the 10% or more suggested should be put on hold until when the lapses discovered in the input-output were judiciously corrected.

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Adesola Adebayo Akande (Ph. D)"Input-Output Credit Adjustment And Value Added Tax Rate Inrement In Developing Economy.."International Journal of Humanities and Social Science Invention (IJHSSI) 7.07 (2018): 73-76.