



CRITICAL ANALYSIS OF VALUE ADDED TAX SYSTEM IN NIGERIA

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Value-added tax, commonly referred to as VAT, is an indirect consumption tax on goods and services that has significant importance in Nigeria for revenue collection. On the other hand, ambiguities such as legal jurisdiction, taxable supplies, input VAT recovery, and enforcement inconsistencies within the Nigeria legislation have thrown up many controversies in the operation of the tax between the Federal and State Governments. The aim of this study was to analyze the legal, administrative, and structure of VAT in Nigeria. Using the doctrinal research methodology, this study reviewed primary sources such as statutory laws such as the Value Added Tax (Amendment) Act (VATA) of 2007, as amended by subsequent Finance Acts, including the Finance Act of 2019, 2020 and 2023. court decisions and secondary sources including government reports to assess the efficacy and challenges of Nigeria's VAT system. The findings revealed that Nigeria's VAT system faces challenges, including insufficient taxpayer data, low compliance rates, and corruption in tax administration. Also, ambiguities within the 1999 Constitution have fueled jurisdictional conflicts. It was concluded that these challenges limits VAT's potential to drive economic and social sustainability. Key recommendations include amending the 1999 Constitution to include VAT in the Exclusive or Concurrent Legislative List because If VAT is to remain federal, Item 59 (Exclusive List) should be expanded to clearly define VAT as a federal tax also if states are to collect VAT, Item 7 (Concurrent List) should be amended to specify VAT as a state-administered sales tax, improving data collection methods, and strengthening punishments for tax corruption.

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1. INTRODUCTION

Nigeria, whose economy is heavily dependent on the oil industry, has struggled to diversify its revenue base despite repeated economic shocks caused by fluctuations in global oil prices.¹ Although the non-oil sector contributed to the GDP in 2024 and there was a notable increase. This implies diversification. Services such financial, telecommunications, entertainment, manufacturing, Trade and Export and technology contributed to the GDP. The contributions of the above sectors to the GDP indicate that in recent years, the diversification objectives are already becoming a reality. To address this over-reliance, the Nigerian government introduced Value Added Tax (VAT) through Decree No. 102 of 1993 as an alternative source of income to expand its tax base and promote fiscal sustainability.² VAT, which replaced the former sales tax since then has become an integral component of Nigeria's fiscal policy and a significant source of revenue for funding public services.

VAT is a consumption tax levied at each stage of production or distribution process based on the value added at each level. Unlike sales tax, which is charged only at the point of sale, VAT is collected incrementally at different points of the supply chain but the ultimate burden is borne by the end consumer. As an *ad valorem* tax, VAT is calculated as a percentage of the value of goods or services sold which makes it an essential instrument for generating revenue.³

Since its introduction, the Nigerian VAT system has undergone several amendments, all of which is aimed at improving its effectiveness and

¹ Nafi Chinery and Tengi George-Ikoli, 'Ending Nigeria's Oil Dependency: Not If, But When...and How' (NRGI 9 March 2022) <<https://resourcegovernance.org/articles/ending-nigerias-oil-dependency-not-if-whenand-how>> accessed 10 October 2024.

² Nazif Bala, Abubakar Muhammad, Muhammad Muktar, and Olarinre Samson, 'Efforts & Challenges of Nigeria Value Added Tax: From 2000-2020' (2023) 13(3) *Journal of Management Sciences* 82-90 <<http://dx.doi.org/10.26524/jms.13.37>> accessed 28 March 2025.

³ Theophilus Nwoke, 'Towards Effective Value Added Tax in Nigeria' (2023) 19(1) *Unizik Law Journal* 118 <https://www.researchgate.net/publication/374259975_TOWARDS_EFFECTIVE_VALU_E_ADDED_TAX_ADMINISTRATION_IN_NIGERIA> accessed 28 March 2025.

ensuring that it is in tandem with current economic realities. VAT was first established under the VAT Decree No. 102 of 1993, this Act was later codified as the Value Added Tax Act Cap VI, Laws of the Federation of Nigeria, 2004.⁴ Subsequent amendments include the VAT (Amendment) Act No. 12 of 2007, the Finance Acts of 2019 and 2020, and the VAT Modification Orders of 2020 and 2021 and 2024, which revised the list of VAT-exempt and zero-rated goods and services. Notably, the Finance Act 2019 increased the VAT rate from 5% to 7.5%, which marks the first significant adjustment since its inception.⁵ Despite these developments, Nigeria's VAT system still faces several challenges, including low compliance rates, insufficient taxpayer data, and jurisdictional conflicts between federal and state governments.

One of the most contentious issues surrounding VAT in Nigeria is the question of jurisdictional authority over its administration. This conflict came to the forefront in the case of *Attorney-General of Rivers State v Federal Inland Revenue Service & Attorney-General of the Federation*⁶ where the court ruled in favour of the state's legislative power to collect VAT. Such disputes shows the ambiguities within the 1999 Constitution and underscore the need for legal reforms to clarify the roles and responsibilities of different tiers of government in tax administration.

From a sustainable development perspective, VAT has the potential to serve as a tool for economic, social, and environmental development. Economically, VAT can provide a stable stream of revenue to fund public infrastructure and essential services and reduce the reliance on volatile oil revenues. Socially, equitable VAT policies such as exemptions for necessities can mitigate its regressive nature and ensure a fair distribution

⁴ Chioma Bernadine Nwankwo, 'Value Added Tax in Nigeria: An Overview of Notable Reforms and Implications of the Finance Act 2019 and 2020' (2022) 13(2) Nnamdi Azikiwe University Journal of International Law and Jurisprudence 49-157.

<https://www.researchgate.net/publication/373111492_Value_Added_Tax_in_Nigeria_An_Overview_of_Notable_Reforms_and_Implications_of_the_Finance_Act> accessed 28 March 2025.

⁵ Finance Act 2021, s 4.

⁶ (2022) 5 *NWLR (Pt 1828)* 448.

of tax burdens.⁷ Environmentally, VAT incentives for sustainable products and services recognises incentivises gas as an important fuel in the long-term transition to clean energy, provides VAT exemption for the renewable energy value chain. And recognises the impact of Nigeria's current energy challenges (and the related costs of fuels) since the harmonisation of exchange rates, and seeking to provide reliefs for Nigerian citizens in the medium-term.⁸

This indicates significant untapped potential for revenue generation and underscores the need for reforms to enhance efficiency and compliance. While these adjustments aim to boost revenue, they must be balanced against the risk of pushing the tax burden beyond the 'prohibitive range,' as described by the Laffer Curve Theory, which could reduce overall revenue collection.

Against this backdrop, this study critically analyses Nigeria's VAT system with an emphasis on its legal framework, administrative challenges, and contributions to sustainable development. Section 1 provides an introduction to the paper, section 2 provides a literature review and empirical analysis of VAT and its role in sustainable development, Section 3 provides an analysis of the structure and mechanism of VAT in Nigeria, Section 4 provides the legal framework governing VAT administration, section 5 discusses the gaps in Nigeria's VAT administration, section 6 provides recommendations for sustainable development value added tax (VAT) reforms in Nigeria.

⁷ PwC, 'Leveraging VAT to Support ESG Goals for Governments and Businesses' (PwC, 19 September 2024) < <https://www.pwc.com/m1/en/media-centre/articles/leveraging-vat-to-support-esg-goals-for-governments-and-businesses.html>> accessed 21 January 2025.

⁸ Chijioke Uwaegbute 'VAT Modification Order 2024 - Incentivising Energy Transition in Nigeria' <<https://pwc-nigeria.typepad.com/files/pwc-tax-alert--vat-modification-order-2024---incentivising-energy-transition-in-nigeria.pdf>> accessed 9th April 2025

2.0 CONCEPT OF VALUE ADDED TAX (VAT): A REVIEW OF THE LITERATURE

2.1 Taxation and Economic Development

A perusal of Nigeria tax laws reveals that none of the laws provided a definition of tax. However, recourse can be made to other sources for a workable definition of tax. Blacks Law Dictionary defines tax as a compulsory contribution to the revenue of the state, assessed and imposed by a government on the activities, expenditure, enjoyment, income and properties of individuals and organization.⁹ According to *Abiola & Asiwah*, VAT is a consumption tax imposed at each stage of the supply chain, from production to the final consumer, with the burden ultimately borne by the end-user rather than businesses acting as tax collectors for the government.¹⁰ Also, *Odusola* defines VAT as a multi-stage indirect tax system designed to ensure that tax is levied on the value added at each transaction point, with credit mechanisms in place to avoid double taxation.¹¹ Therefore, taxation is one of the strongest fiscal policies for any government that aims to remain sustainable, and it should be improved to achieve these goals.¹²

Previously, the focus of tax policies was on tax as a tool for economic growth and economic development but recently, it has also been geared towards sustainable development. This is because nations have recognized taxation as the most reliable source of revenue that must be reformed for the purpose of achieving the SDGs.¹³

⁹ *Black Laws Dictionary* (1999).

¹⁰ *Abiola J & Asiwah M*, 'Impact of Tax Administration on Government Revenue in a Developing Economy' (2012) *International Journal of Business and Social Research* 45.

¹¹ *Odusola A*, 'Tax Policy Reforms in Nigeria' (*African Economic Research Consortium* 2016) 112

¹² *Kola Benson Ajeigbe, Fortune Ganda and Rawlings Enowkenwa*, 'Impact of Sustainable Tax Revenue and Expenditure on the Achievement of Sustainable Development Goals in Some Selected African Countries' (2023) 26(10) *Environment Development and Sustainability* 26287–26311 <<https://doi.org/10.1007/s10668-023-03730-y>> accessed 28 March 2025.

¹³ *ibid.*

The importance of taxation in any growing economy cannot be overemphasized. Taxation serves so many purposes beyond merely generating revenue. It can be utilized as a tool for income distribution, sustainable expenditure, attracting foreign direct investments, budgetary plans and the accomplishment of sustainable economy thereby reducing inequality of wealth.¹⁴ The Sustainable Development Goals (SDGs) for zero poverty, zero hunger, very low unemployment, zero inequality, including gender inequality, zero environmental degradation, sustainable economic growth, and development can all be financed and achieved mostly through tax revenue. In actuality, every country benefits from the usage of sustainable tax income, and its achievement is something to strive for.¹⁵

2.2 Sustainable Development

In 1987, the United Nations Brundtland Commission defined sustainability as ‘meeting the needs of the present without compromising the ability of future generations to meet their own needs.’¹⁶ It goes beyond the growth of GDP since it considers how actions made by the government affect people’s quality of life, the environment, the economy, and future generations. Sustainable development brings to bear the ecological and human dimensions to the development process. The concept of sustainable development was stated at first in the report of Our Common Future prepared by Commission on Environment and Development of United Nations in the year of 1987 and has become prevalent.¹⁷

The SDGs are a set of 17 interconnecting global goals laid down by the United Nations in 2015 as call for action to address the most troubling challenges facing the planet, to be realized no later than 2030. They give an integrated framework through which to approach sustainable

¹⁴ *ibid.*

¹⁵ (n...12).

¹⁶ United Nations Commission on Sustainable Development, ‘Sustainable Development in Action’ (UN April 2007)
<https://www.un.org/esa/sustdev/csd/csd15/media/backgrounder_brundtland.pdf>
accessed 30 January 2025.

¹⁷ *ibid.*

development in three core dimensions: economic, social, and environmental. These Goals include:

- a. **Economic Objectives:** Those deal with eradication of poverty and hunger, economic growth, decent work, and reduction of inequalities. No Poverty (Goal 1), Zero Hunger, (Goal 2), Decent Work and Economic Growth (Goal 8), Reduced Inequality (Goal 10). This cluster assures everyone a possibility of prospering economically.¹⁸
- b. **Social Goals:** These target the improvement of human well-being and societal advancement. They include ensuring quality education (Goal 4), achieving gender equality (Goal 5), promoting good health and well-being (Goal 3), and fostering peace, justice, and strong institutions (Goal 16). These goals will help in creating more inclusive and equitable societies.¹⁹
- c. **Environmental Objectives:** This involves the care of the planet and judicious use of the natural environment. Goals like Climate Action (Goal 13), Life Below Water (Goal 14), Life on Land (Goal 15), Clean Water and Sanitation (Goal 6), Affordable and Clean Energy (Goal 7) and Sustainable Cities and Communities (Goal 11) appeal for environmental stewardship and resilience.²⁰

These goals, put together, would result in making a world more sustainable, inclusive, and resilient, leaving nobody behind.

Currently in 2025, Nigeria ranks 146 out of 166 in SDG Index rank globally and scores an average score of 54.85 on SDG achievements. This means that Nigeria still lags behind in terms of sustainable development.²¹

¹⁸ United Nations General Assembly Resolution 70/1 ‘Transforming Our World: The 2030 Agenda for Sustainable Development’ (25 September 2015) <<https://sdgs.un.org/goals>> accessed 7th April 2025

¹⁹ *Ibid*

²⁰ *Ibid*

²¹ Jeffrey Sachs, Guillaume Lafortune, Grayson Fuller and Eamon Drumm, ‘The SDGs and the UN Summit of the Future. Sustainable Development Report 2023’ (Dublin University Press 2023).

2.3 The Role of VAT in Sustainable Development

Ogley defines VAT as ‘a consumption tax charged on businesses throughout the production and distribution chain.’²² This tax burden is passed on to the end consumer, while businesses recoup VAT paid at earlier stages through an input-output mechanism. The VAT paid by a business is subtracted from the VAT collected, resulting in the net tax liability. Without this mechanism, VAT would become a cascading tax, which could unfairly increase the tax burden on consumers.²³ Simply, VAT is an indirect tax imposed at every phase of the absorption sequence and suffered by the ultimate end user of a product or service.²⁴ From a buyer’s perspective, it is a tax on the purchase price, while the seller views it as a tax only on the value added to a product, material or service. By the provision of Section 2, Value Added Tax (Amendment) Act (2024), VAT is a tax charged and payable on the supply of all goods and services, except those listed in the First Schedule to this Act.²⁵ VAT in Nigeria is collected on behalf of the federal government by businesses registered for VAT with the Federal Inland Revenue Service (FIRS).²⁶

Vatable Persons are persons or company carrying out business or trade and whose products or services are not exempted under the Value Added Tax Act.²⁷ Zero-Rated Tax items include non-oil exports, goods and services purchased by diplomats and goods purchased for use in humanitarian donor-funded projects.²⁸ Exempt items are items that do not attract a 7.5% rate and includes equipment and infrastructure for Compressed Natural Gas(CNG) and Liquefied Petroleum Gas (LPG) expansion, including conversion kits, domestic LNG processing facilities and equipment, electric vehicles and parts for their assembly, biogas and

²² Adam Ogley, *The Principles of Value Added Tax: A European Perspective* (IBFD 1998) 12.
²³ *ibid.*

²⁴ Oraka Onuora, Theophilus Okegbe and Raymond Ezejiofor, ‘Effect of Value Added Tax on the Nigerian Economy’ (2017) 5(2) European Academic Research 1185–1223
<https://www.researchgate.net/publication/326689328_Effect_of_Value_Added_Tax_on_the_Nigerian_Economy> accessed 28 March 2025.

²⁵ CAP V 1, LFN 2004.

²⁶ Value Added Tax (Amendment) Act 2007, s 8.

²⁷ (n..4).

²⁸ VAT Modification Order of 2021 (MO 21).

biofuel equipment for clean cooking and transportation, CNG conversion and installation services, LPG conversion and installation services and manufacturing, assembly and sale of electric vehicles.²⁹

VAT has been recognised as an important source of revenue for both developed and developing nations. A myriad of studies have examined the relationship between VAT and economic development in promoting sustainable development. A study carried out by Adewale and others which investigated the impact of tax components in achieving sustainable growth in Nigeria using time series data from 1987-2019 revealed that Petroleum Profit Tax, Company Tax, Value Added Tax and Personal Income Tax have a positive short-run relationship with economic growth (GDP).³⁰ A study conducted in 2021 which investigated the nexus between Value Added Tax and economic growth in Nigeria from 2004 – 2018 also found that there is a significant positive relationship between VAT and economic growth in Nigeria.³¹ Another study conducted in 2013 on VAT and economic development also found that VAT is significantly related to economic development in Nigeria and accounts for 94.4% variation in economic development.³²

This is because VAT provides a stable and predictable source of revenue that supports the development projects of the country. The funds generated from VAT can finance infrastructural development, healthcare, and education, all of which are necessary for achieving SDGs. Furthermore, the VAT system in Nigeria which exempt or reduce rates

²⁹ Chijioko Uwaegbute, 'VAT Modification Order 2024 - Incentivising Energy Transition in Nigeria' <<https://pwc-nigeria.typepad.com/files/pwc-tax-alert--vat-modification-order-2024---incentivising-energy-transition-in-nigeria.pdf>> accessed 9th April 2025

³⁰ Adewale Mathew Adekanmbi, Amos Dauda, Shallie and Oladimeji Abeeb Olaniyi, 'Tax Revenue and Sustainable Development in Nigeria: A Disaggregated Analysis' (2022) 10(3) *Global Journal of Arts, Humanities and Social Sciences* 43-54 < [Tax-Revenue-and-Sustainable-Development-in-Nigeria.pdf](#)> accessed 28 March 2025.

³¹ Abimbola Cole, Bola Aroyewun, Timothy Soetan, and Abolade Akintola, 'Value Added Tax and Economic Growth in Nigeria 2004-2018' (2021) 3(12) *AJMRD* 9-13 < [B3120913.pdf](#)> accessed 28 March 2025.

³² Chike Nwankwo, *Taxation and National Development, Fiscal Policy and Economic Growth in Nigeria* (University of Lagos Press 2013) 112-135.

for small and medium enterprises (SMEs) can stimulate economic growth and promote inclusivity (SDG 8).

Also, while the literature consistently emphasizes the importance of VAT as a source of revenue for financing SDGs, there is a notable paucity of research that directly links VAT revenues to specific developmental outcomes such as improvements in healthcare, education, or environmental sustainability.

2.4 Methodology

The methodology used in this study is primarily qualitative, utilizing historical and descriptive approaches to analyze secondary data from various sources, including textbooks, journals, newspapers, magazines, and online publications. The study employs qualitative analysis techniques to interpret and understand the collected data, focusing on the social phenomena and meanings behind policy decisions and actions. It conducts an extensive literature and document review, examining academic articles, official records, and other institutional publications to gather relevant information. The research approach is qualitative as the information was compiled through literature and document review like journal articles, newspaper articles, theses, dissertations, internet sources, Acts, and official records of various institutions form part of literature and document reviews. The information was analysed through conceptual analysis. A conceptual analysis “is generally regarded as an explanation proposed to reach a better understanding of the social reality and/or phenomenon that is being investigated.”³³ The information based on the research methodology is stated in various sections below. While a doctrinal approach provides a foundational legal and theoretical critique of Nigeria’s VAT system, integrating empirical data (quantitative) and stakeholder perspectives (qualitative) would make the analysis more robust, policy-relevant, and actionable for reform.

³³ Jonathan Grix, *The Foundations of Research* (Red Globe Press, 2019) 102.

2.5 Theories on Cultural Attitudes to Taxation in Nigeria

The effectiveness of VAT depends not only on its legal framework but also on cultural attitudes toward taxation.³⁴ In Nigeria, historical distrust in government, weak institutional enforcement, and perceptions of unfairness shape taxpayer behaviour.³⁵ Below are key theories that can be applied to understand how cultural, social, and psychological factors influence Nigerians perceptions and compliance with the Value Added Tax (VAT) system:

2.5.1 Fiscal Exchange Theory (Social Contract Theory)

This theory suggests that taxpayers comply when they perceive a fair exchange between taxes paid and government-provided benefits.³⁶ In Nigeria, weak public services and corruption undermine this social contract, leading to VAT resistance.³⁷ Many Nigerians resist VAT due to poor public infrastructure, corruption, and lack of trust in government. If citizens do not see tangible benefits (e.g., good roads, healthcare, education), tax evasion and avoidance may increase.

2.5.2 Tax morale Theory

Tax morale refers to the willingness to pay taxes based on trust and social norms.³⁸ In Nigeria, low trust in government and ethnic diversity weaken tax morale.³⁹ Low tax morale is prevalent due to high corruption, weak governance, and ethnic diversity, which reduce voluntary compliance. Religious and ethnic differences may also affect attitudes toward taxation (e.g., some groups may see VAT as exploitative)

³⁴ Benno Torgler, *Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis* (Edward Elgar 2007).

³⁵ Adefeso Odusola, 'Tax Policy Reforms in Nigeria' (World Bank 2006).

³⁶ Robin Burgess and Nicholas Stern, 'Taxation and Development' (1993) 31(3) *Journal of Economic Literature* 762.

³⁷ Folajimi Adegbe and Adegbola Fakile, 'The Challenges of Tax Compliance in Nigeria: A Study of Value Added Tax' (2011) 5(6) *Journal of Economics and International Finance* 236.

³⁸ Benno Torgler, *Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis* (Edward Elgar 2007)

³⁹ Adefeso Odusola, 'Tax Policy Reforms in Nigeria' (World Bank 2006).

2.5.3 Psychological Tax Contract Theory

This theory examines how perceptions of fairness influence compliance.⁴⁰ Nigerians often view VAT as regressive, disproportionately affecting the poor.⁴¹ If Nigerians perceive VAT as unfairly targeting the poor (since VAT is a consumption tax), compliance may decrease. Lack of transparency in VAT revenue usage contributes to resentment.

2.5.4 Institutional Theory

Weak tax institutions reduce compliance.⁴² Nigeria's Federal Inland Revenue Service (FIRS) struggles with enforcement, contributing to VAT evasion.⁴³ Weak tax institutions (e.g., inefficient FIRS administration, multiple taxation) discourage compliance. Informal sector dominance means many businesses evade VAT due to weak enforcement.

2.5.5 Economic Deterrence Theory

Compliance depends on enforcement.⁴⁴ Nigeria's weak penalties and corruption reduce VAT compliance.⁴⁵ Weak enforcement and corruption in tax collection reduce the deterrent effect. For example, many small businesses evade VAT due to low audit rates

⁴⁰ Erich Kirchler, *The Economic Psychology of Tax Behaviour* (CUP 2007).

⁴¹ Simon James and Christopher Nobes, *The Economics of Taxation* (Fiscal Publications 2020).

⁴² Douglass North, *Institutions, Institutional Change and Economic Performance* (CUP 1990).

⁴³ Ademola Ariyo and Pius Okoye, 'Value Added Tax and Economic Growth in Nigeria' (2018) 12(1) *European Journal of Accounting, Auditing and Finance Research* 1.

⁴⁴ Michael Allingham and Agnar Sandmo, 'Income Tax Evasion: A Theoretical Analysis' (1972) 1(3) *Journal of Public Economics* 323

⁴⁵ C S Ola, *Taxation in Nigeria: Principles and Practice* (Ibadan University Press 2001).

3.0 ANALYSIS OF THE STRUCTURE AND MECHANISM OF VAT IN NIGERIA

The VAT structure in Nigeria is designed as a multi-stage tax which is collected at different points in the production and distribution chain. It ultimately ensures that the final consumer bears the tax. Elements of Nigeria's VAT system include:

3.1 Taxable Persons

Although Value Added Tax is charged on the supply of goods and services, it is collected through registered entities known as taxable persons. This includes an individual or body of individuals, family, sole corporations, trustee or executor or a person who carries out in a place an economic activity, a person exploiting tangible or intangible property for the purpose of obtaining income therefrom by way of trade or business or a person or agency of Government acting in that capacity.⁴⁶

By virtue of Section 8, a taxable person is required to register with the Federal Inland Revenue Service (FIRS) for Value Added Tax collection within six (6) months of commencement of business. While this timeframe is intended to provide new businesses with adequate time to comply, reducing the registration period to three months could enhance compliance and tax revenue collection but success depends on upgrading digital systems (e.g., AI, automation), strengthening inter-agency collaboration (CAC, banks, etc.), ensuring enforcement mechanisms (penalties for defaulters), continuous staff training & taxpayer education.

If a taxable person fails or refuses to register within the stipulated time they are liable to face penalties of N50,000 for the first month in which the failure occurs and N25,000 for each subsequent months in which the failure continues.⁴⁷ These penalties for non-registration might not be enough to discourage non-compliance. To boost VAT compliance, the FIRS could incentivize early registration by offering benefits such as a 1-2% Corporate Income Tax reduction for the first year, penalty waivers for

⁴⁶ Value Added Tax (Amendment) Act 2007, s 46.

⁴⁷ Value Added Tax (Amendment) Act, 2007, s 8 as amended by Finance Act 2019, s 35.

voluntary regularization, expedited VAT refund processing, and tiered "Gold/Silver" compliance statuses with preferential treatment while implementing safeguards against abuse and phasing out incentives after 2-3 years to balance revenue impact.

3.2 Input and Output VAT

Input tax is defined in section 12 of the Act as the tax a taxable person pays to the supplier on taxable goods and services purchased by or supplied.⁴⁸ Output tax is defined in section 11 as the tax collected by the taxable person for which he is required to keep records and books to sufficiently determine the correct amount of Value Added Tax due.⁴⁹

As established previously, VAT is collected at each stage of production or distribution. Companies pay input VAT on the products and services they buy and charge output VAT on their sales. Businesses can use the VAT system to balance their input VAT (VAT paid) against their output VAT (VAT collected). This ensures that the tax is levied only on the value added at each stage of production. For instance, a Nigerian farmer grows cassava and sells it to a local processing company. The farmer charges output VAT on the sale of the cassava. When the processing company buys the cassava, it pays input VAT to the farmer. The processing company then processes the cassava into flour and sells it to a bakery, charging output VAT. The bakery can deduct the input VAT it paid to the processing company from the output VAT it collects from selling the flour to consumers.

A well-structured VAT system plays an important role in achieving Nigeria's sustainable development objectives. When the tax base is widened through compliance, the government can increase its budget for essential public services since they generate more revenue such as healthcare, education, and infrastructure which aligns with the SDGs 3, 4, and 9. Furthermore, the emphasis of VAT on addition of value promotes industrial growth and job creation (SDG 8), while the exemptions or incentives can support sustainable economic growth.

⁴⁸ Value Added Tax (Amendment) Act, 2007, s 12

⁴⁹ *Ibid* S.11

4.0 LEGAL FRAMEWORK IN VAT ADMINISTRATION

The law regulating VAT in Nigeria is the Value Added Tax (Amendment) Act (VATA) of 2007, as amended by subsequent Finance Acts, including the Finance Act of 2019, 2020 and 2023. The Value Added Tax Act is structured into six parts, and it covers how VAT is collected, remitted and administered.

Apart from those specifically exempted under the First Schedule to the Act, all goods and services supplied in Nigeria are subject to VAT under Sections 2 and 3 of the Act. The Finance Act 2020 widened the tax base by expanding what services includes, services will be deemed to have been provided in Nigeria and therefore becomes subject to Value Added Tax where the recipient is in Nigeria, it does not matter whether such services were rendered within or outside Nigeria. Also, services connected to existing immovable property (including the service of agents, experts, architects) if the property is located in Nigeria.⁵⁰

In *Vodacom Business Nigeria Ltd v FIRS*,⁵¹ the Federal High Court upheld the decision of the Tax Appeal Tribunal. The FHC held that the supply of satellite network bandwidth capacities by a non-resident company to a Nigerian company for a consideration is liable to Value Added Tax (VAT), in line with the provisions of Section 2 of the VAT Act.

The inclusion of services rendered by persons not resident in Nigeria raises issues with enforcement. This extraterritorial reach of VAT can lead to disputes regarding where the service was rendered, particularly for multinational companies with global operations. There may also be challenges with double taxation, where services are taxed both in Nigeria and in the country of the service provider, unless there are double taxation agreements in place to resolve such issues.

In Nigeria, taxation is administered at three levels of government: federal, state, and local. This leads to institutional pluralism, whereby several tax

⁵⁰ Finance Act 2020, s 40.

⁵¹ FHC/L/4A/2016.

agencies may have overlapping jurisdiction. Each state in Nigeria has its own internal revenue board responsible for tax administration, and this creates a dual tax system where both federal and state authorities can impose the same type of tax on the same taxpayer as seen in the case of *Attorney General of Lagos State v Eko Hotels & Anor*⁵² where Lagos State imposed a sales tax of 5% similar to that of VAT imposed by the Federal Government.

Another gap in Nigeria's VAT system which prevent its sustainability, is the unresolved jurisdictional conflict between the Federal and State Governments over VAT administration. The Federal Government claims exclusive rights to VAT collection by virtue of Section 7 of the VAT Act which empowers the FIRS with the administration of VAT in Nigeria. On the other hand, state governments contend that VAT falls under the residual powers of the states since it is not expressly included in the federal-exclusive tax list. Based on the Concurrent Legislative List in the 1999 Constitution, States argue they have the right to administer and collect VAT independently.

The courts have weighed in on this conflict multiple times. In *Attorney General of Rivers State v Federal Inland Revenue Service*,⁵³ the court held that a thorough review of the Constitution found no basis for the Federal Government to impose or collect taxes outside of those specified in items 58 and 59 of the Exclusive Legislative List. As a result, it cannot legislate on VAT, Education Tax, or Technology Tax, as they fall beyond its taxing jurisdiction.

Nonetheless, it appears that the courts' stance on this matter lacks uniformity. The Federal High Court which hitherto gave judgement in favor of the State Governments on the tax has now acknowledged that the Federal Government has power to administer and collect VAT in the *Incorporated Trustees of Kogi State v Kogi State Board of Inland Revenue and Ors.*⁵⁴ where the court rightly held that:

⁵² (2017) 12 NWLR (Pt 1580) 1.

⁵³ FHC/L/4A/2016.

⁵⁴ FHC/LKJ/CS/58/2018.

By Section 4 of the 1999 Constitution, the National Assembly has power to make laws for the Federal Government for collection of taxes. The Value Added Tax Act is an existing law by virtue of the Constitution. That by virtue of section 7 of the Value Added Tax Act, the body empowered to manage VAT Tax is the Federal Board Inland Revenue. That in line with the constitution and since Value Added Tax is tax law of National Assembly, the inconsistent of Kogi State taxation of Consumable Goods and Services (in Hotels, Restaurant, etc.) law 2015 is void to the extent of its inconsistency.

5.0 GAPS IN VAT ADMINISTRATION

Beyond Nigeria, the effectiveness of VAT as a tool for sustainable development still has its challenges, the study conducted by Gupta and others to examine tax buoyancy in sub-Saharan Africa revealed that current tax capacities and systems would not be able to generate the financial support to achieve SDGs. Hence, the need for African nations to improve on their revenue generation and taxation across the region.⁵⁵

One challenge by faced by the VAT system in Nigeria is weak enforcement. According to the World Justice Report, Nigeria ranks 120 out of 142 globally in terms of regulatory enforcement.⁵⁶ Despite the Federal Inland Revenue Service (FIRS) being the regulatory body for VAT, the actual implementation of VAT laws is often lax. The lack of strict enforcement allows many businesses to evade tax obligations, resulting in loss of revenue which can be harnessed to achieve SDGs.

The issue of inadequate taxpayer data also remains a formidable obstacle in Nigeria's tax system. Blockchain technology can improve the integrity

⁵⁵ Sanjeev Gupta and others, 'Tax Capacity and Growth: Is There a Tipping Point?' (2020) 67(1) IMF Working Papers 1, 15.

⁵⁶ World Justice Project 'Rule of Law Index 2023' (WJP 2023) 78 <<https://worldjusticeproject.org/rule-of-law-index/global/2023>> accessed 7th April 2025.

of taxpayer records through its immutable, decentralised ledger, which prevents unauthorised alterations and enhances transparency.⁵⁷ Smart contracts could automate tax calculations and payments, reducing administrative burdens and compliance errors.⁵⁸ Real-time data sharing between tax authorities, employers, and financial institutions would minimise discrepancies, while cryptographic identity verification mitigates fraud.⁵⁹ Though challenges like scalability persist, Estonia's use of blockchain in public registries demonstrates its potential for secure, efficient tax administration.⁶⁰ Although the Federal Inland Revenue Service has started issuing Tax Identification Numbers (TINs), many businesses are still unregistered, especially in the informal sector. This sector in Nigeria accounts for a substantial part of the economy yet their contribution to tax revenue is very minimal. One problem within this sector is the lack of proper record keeping which makes it challenging for tax authorities to track and precisely assess their tax liabilities. The ripple effect of this is that there is a reduction in the revenue which ought to be realized from taxation. This means the government is unable to adequately fund projects that will help them achieve sustainable development.⁶¹

One major deterrent for compliant taxpayers is the delay in receiving their VAT refunds. Tax refunds have a growing perception of being a myth in Nigeria. Although the VAT Act allows for tax refunds, taxpayers usually have to wait for a long time, sometimes for years. This delay, compounded by inflation, results in reduction in the real value of the refund which discourages compliance.⁶² FIRS requires a tax audit as a prerequisite for

⁵⁷ European Commission, 'Blockchain for Government Services' (Digital Strategy 2020) <<https://ec.europa.eu/digital-strategy/en>> accessed 9th April 2025

⁵⁸ OECD, 'Tax Administration 3.0: The Future of Tax Compliance' (OECD Publishing 2021) <<https://www.oecd.org/tax/administration/>> accessed 9th April 2025

⁵⁹ Guardtime, 'KSI Blockchain: Estonia's Digital Infrastructure' (Case Study 2022) <<https://guardtime.com/estonia-case-study>> accessed 9th April 2025

⁶⁰ David Chaum, 'Blockchain-Backed Tax Compliance' (2020) 15 *Journal of Tax Technology* 112.

⁶¹ Federal Inland Revenue Service (FIRS), 'National Tax Policy' (2020) para 4.3 <<https://firs.gov.ng>> accessed 7th April 2025

⁶² PwC, 'Tax Refunds in Nigeria - Myth or Reality' (PwC 9 March 2023) <<https://www.pwc.com/ng/en/assets/pdf/tax-refunds-in-nigeria.pdf>> accessed 31 January 2025.

the grant of a tax refund.⁶³ The tax audit process in Nigeria is known to be rigorous, lengthy and expensive and the tax refund applicants often times end up incurring more expenses that exceed the refund requested. The FIRS Act does not also specify a timeframe within which tax refund audits must be concluded as a result, there seems to be a low level of commitment from the tax authority to finalise the audits. All of these reduces the credibility of VAT as a tool for enhancing sustainable development.⁶⁴

Lastly, corruption in the administration of VAT is still a difficult and ongoing problem within the Nigeria VAT system. Corruption manifests in various forms, from bribery among tax officials to deliberate under-reporting by taxpayers. This dishonest behavior distorts the VAT system and reduces the confidence of the public in the VAT system which inadvertently leads to tax evasion and avoidance.⁶⁵ Nigeria has introduced policies that could have led to the achievement of sustainable development and eradicated poverty, hunger, and unemployment. Unfortunately, these policies have failed because of politicking, corruption, lack of transparency and accountability. For example, Nigeria's Operation Feed Your Nation would have eradicated hunger and achieved SDG 3. The green revolution would have made the country enjoy food security, and other structural adjustment programs such as N-power would have reduced unemployment drastically. However, all these failed due to corruption and other political practices, to the detriment of citizens.⁶⁶

Furthermore, the exclusion of digital assets from VAT also limits generation of revenue. Currently, in Nigeria there is no imposition of VAT on digital services in this present age of technological advancement. Other African countries like Kenya have published the Value Added Tax (Electronic, Internet and Digital Marketplace Supply) Regulations, 2023,

⁶³ Federal Inland Revenue Service (Establishment) Act, s 23(1).

⁶⁴ Federal Inland Revenue Service (Establishment) Act 2007 (Nigeria), s 8 (granting audit powers but omitting timelines)

⁶⁵ Corrupt Practices and Other Related Offences Act 2000 (Nigeria), ss 8–9 (criminalizing bribery of public officials)

⁶⁶ (n12).

which, amends the current VAT rules applicable to non-resident digital services providers.⁶⁷

6.0 RECOMMENDATIONS FOR SUSTAINABLE DEVELOPMENT VALUE ADDED TAX (VAT) REFORMS IN NIGERIA

Having discussed the problems and opportunities identified in Nigeria's VAT system, the following recommendations ensures that VAT can effectively meet the imperatives of sustainable development. This, therefore, can help Nigeria increase its revenue generation capability, promote equity, and further environmental sustainability as it continues to build a more resilient and inclusive economy.

There is a need for the amendment of the 1999 Constitution of Nigeria, to include sections which has not clearly stated on which tier has such powers to impose, administer, and collect VAT. For example, if VAT is to remain federal, Item 59 (Exclusive List) should be expanded to clearly define VAT as a federal tax. Also, if states are to collect VAT, Item 7 (Concurrent List) should be amended to specify VAT as a state-administered sales tax. Also, If states collect VAT, Section 162 may need adjustment to reflect a new sharing model. This would avoid disputes like the most recent cases between the federal and state governments over who should collect the VAT, giving rise to a harmonized and effective tax administration system in Nigeria.

There should be an increase in VAT rate which will improve government revenue in line with international standards, as Nigeria has remained one of those countries with very low value-added tax rates. It is suggested that expanding the list of exempt goods and services will reduce the financial burden of the tax on low-income households. Although the House of Representatives on 18th March, 2024 passed four key tax reform bills presented by President Bola Tinubu to the National Assembly in the final quarter of 2024. The adopted report made several amendments to the

⁶⁷ KPMG, 'Taxation of the Digitalised Economy' (KPMG, 30 January 2025) <<https://digitalized-economy-taxation-developments-summary.pdf>> accessed 5 February 2025.

controversial provisions of the tax bills, one significant change is that the report introduces a new approach for distributing VAT proceeds to State and Local Governments. Under this arrangement, 55% of the VAT revenue will be allocated to States, and 35% to Local Governments. For States, the distribution will be as follows: 50% will be shared equally among all states, 20% will be allocated based on population, and 30% will be distributed according to consumption patterns.⁶⁸

The government should intensify efforts to gather accurate taxpayer data to improve tax compliance and reduce revenue leakage. A nationwide business census, including the formal and informal sectors, can achieve this. This would provide a comprehensive list of all taxable businesses in the country.

The Nigerian government needs to introduce quicker VAT refund procedures that quickly resolve the claims put forward by taxpayers. Furthermore, it should provide interest on delayed refunds to motivate compliance and indicate that the government is upholding justice and fairness.

Nigeria should impose stricter penalties on corrupt tax personnel and taxpayers engaged in fraudulent practices to curb corruption within the tax system. Other recommendations include:

- a. **Strengthening Digital Infrastructure for VAT Administration:** Invest in advanced digital platforms and technologies to streamline VAT collection and administration. Digital platforms can streamline tax collection, reduce evasion through real-time transaction tracking⁶⁹, and lower long-term administrative costs.⁷⁰ However, challenges include high initial investment,⁷¹ technical and human resource gaps,⁷² resistance

⁶⁸ Torkwase Nyiekaa 'House Passes Major Tax Reform Bills In Final Quarter Of 2024' (2025) <<https://independent.ng/house-passes-major-tax-reform-bills-in-final-quarter-of-2024/>> accessed 7th April 2025

⁶⁹ OECD, 'The Role of Digital Platforms in VAT Collection' (2021) Policy Report No 45.

⁷⁰ World Bank, 'Digital Tax Administration: Cost-Benefit Analysis' (2020) Working Paper 9321

⁷¹ IMF, 'Fiscal Policy and Digital Infrastructure' (2022) Fiscal Monitor Report

⁷² UNCTAD, 'Capacity Building for Digital Tax Systems' (2021) TD/B/C.II/34

from informal sectors,⁷³ cybersecurity risks,⁷⁴ and the need for legal adjustments.⁷⁵ Feasibility varies by economic context—high-income nations can adopt it easily,⁷⁶ middle-income countries may require phased implementation, and low-income economies face hurdles like limited digital access and funding.⁷⁷ To ensure success, governments should adopt pilot programs, leverage public-private partnerships,⁷⁸ invest in cybersecurity,⁷⁹ provide taxpayer training, and offer compliance incentives.⁸⁰ While the long-term benefits outweigh the challenges, strategic planning and stakeholder engagement are crucial for effective adoption across different economic settings.

- b. Public Awareness and Education Campaigns:** Launch extensive public awareness and education campaigns to inform businesses and the general public about VAT obligations and benefits. Educating taxpayers on the importance of compliance can help improve voluntary compliance rates.⁸¹ Such campaigns build trust between authorities and taxpayers,⁸² offer cost-effective solutions compared to enforcement,⁸³ and can be adapted for diverse audiences through multiple channels.⁸⁴ However, challenges include reaching informal sectors,⁸⁵ cultural resistance to

⁷³ World Bank, 'Informality and Taxation in Developing Economies' (2019).

⁷⁴ European Commission, 'Cybersecurity in Tax Administration' (2023) 112.

⁷⁵ A Sandmo, 'The Theory of Tax Evasion' (MIT Press 2012).

⁷⁶ OECD, 'Tax Administration 3.0' (2023).

⁷⁷ IMF, 'Digital Taxation in Low-Income Countries' (2021) WP/21/187

⁷⁸ P Besley and T Persson, 'Pillars of Prosperity' (Princeton UP 2013)

⁷⁹ NIST, 'Cybersecurity Framework for Tax Systems' (2022) 800-53

⁸⁰ R Bird and P Gendron, 'The VAT in Developing and Transitional Countries' (CUP 2007).

⁸¹ OECD, 'VAT/GST and Taxation of SMEs' (OECD, 2021) <<https://www.oecd.org/tax/tax-policy/vat-gst-and-taxation-of-smes.htm>> accessed 11 February 2025.

⁸² MG Allingham and A Sandmo, 'Income Tax Evasion: A Theoretical Analysis' (1972) 1(3-4) *Journal of Public Economics* 323

⁸³ World Bank, 'Taxpayer Education and Compliance' (World Bank Group 2018) Policy Research Working Paper 8491

⁸⁴ International Monetary Fund, 'Fiscal Policies for Digital Development' (IMF Working Paper WP/21/89, 2021).

⁸⁵ J Alm, 'Explaining Tax Morale' (Oxford University Press 2019).

taxation,⁸⁶ sustained funding requirements,⁸⁷ literacy barriers,⁸⁸ and difficulties in impact measurement.⁸⁹ Feasibility varies by development level, being highest in high-income nations with existing infrastructure, moderately feasible in middle-income countries requiring localized approaches, and challenging but possible in low-income contexts through community methods. Successful implementation requires multi-channel outreach, business association partnerships,⁹⁰ simplified messaging,⁹¹ behavioural nudges,⁹² and pilot testing.⁹³

- c. **Collaboration with International Tax Organizations:** Engage with international tax organizations and bodies to adopt best practices and learn from the experiences of other countries. This collaboration can provide valuable insights and help Nigeria refine its VAT policies and administration.⁹⁴ This approach is particularly valuable given international organizations' role in facilitating knowledge transfer and capacity building.⁹⁵ However, challenges include potential misalignment between international standards and Nigeria's domestic realities,⁹⁶ reliance on external technical assistance,⁹⁷ and the need for sustained political

⁸⁶ R Murphy, *The Joy of Tax* (Transworld Digital 2015).

⁸⁷ United Nations General Assembly, 'Promotion of Inclusive and Effective International Tax Cooperation' (2020) A/RES/75/284

⁸⁸ OECD, 'Tax Administration in Africa' (OECD Publishing 2023).

⁸⁹ B Torgler, *Tax Compliance and Tax Morale* (Edward Elgar Publishing 2007).

⁹⁰ International Tax Compact, 'Engaging SMEs in Tax Compliance' (BMZ 2020).

⁹¹ World Bank Group, 'Visual Tools for Tax Communication' (World Bank 2019)

⁹² RH Thaler and CR Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness* (Yale University Press 2008).

⁹³ International Monetary Fund, 'Fiscal Monitor' (IMF 2022).

⁹⁴ African Tax Administration Forum, 'Collaboration with International Tax Organizations' (ATAF, 2021) <https://www.ataftax.org/sites/default/files/publications/2021-08/2021-0827_ATAF_International%20Collaboration_FINAL.pdf> accessed 11 February 2025.

⁹⁵ MF, 'Capacity Development Strategy' (IMF Policy Paper 2022/003). <<https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/03/15/IMF-Capacity-Development-Strategy-515052>> accessed 11 February 2025.

⁹⁶ AE Abiola and JO Oyewole, 'Tax Reforms in Developing Countries' (2013) 8(2) African Journal of Taxation 45

⁹⁷ United Nations, *Guidelines for International Tax Cooperation* (UN 2020) <<https://undocs.org/E/2020/15>> accessed 11 February 2025

commitment to implement recommendations.⁹⁸ The strategy's feasibility is strengthened by Nigeria's existing memberships in organizations like the African Tax Administration Forum,⁹⁹ but requires careful localization of imported solutions¹⁰⁰ and balanced integration with homegrown reforms.¹⁰¹ Successful implementation would involve targeted participation in technical working groups,¹⁰² selective adoption of international guidelines¹⁰³ and complementary domestic stakeholder consultations.¹⁰⁴

- d. **Support for Small and Medium Enterprises (SMEs):** Implement measures to support SMEs in complying with VAT requirements, such as offering tax advisory services, simplified VAT filing procedures, and financial incentives for compliance. Supporting SMEs will encourage their growth and contribution to the economy.¹⁰⁵

In addressing the existing challenges and optimizing Nigeria's VAT system requires a comprehensive approach which would see Nigeria strengthen its revenue base, promote equitable tax policies, and support sustainable development goals.

⁹⁸ P Pistone and J Villar Ezcurra, 'The Impact of BEPS in Africa' (IBFD 2019).

⁹⁹ African Tax Administration Forum, 'Annual Report 2023' (ATAF 2023). <<https://www.ataftax.org/en/resources/publications/annual-reports>> accessed 11 February 2025

¹⁰⁰ World Bank, 'Country-Specific Tax Reform' (World Bank 2019) Working Paper 8794

¹⁰¹ R. Deutsch, 'Developing Country Perspectives on International Tax' (Cambridge UP 2022)

¹⁰² OECD, *Inclusive Framework on BEPS* (OECD 2021). <<https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf>> accessed 11 February 2025

¹⁰³ International Monetary Fund, *Tax Policy Handbook* (IMF 2021) <<https://www.imf.org/en/Publications/Tax-Policy-Handbook>> accessed 11 February 2025

¹⁰⁴ Federal Inland Revenue Service (Nigeria), *Strategic Plan 2021-2025* (Abuja 2021). <https://www.firs.gov.ng/Media/FIRS_Strategic_Plan_2021-2025.pdf> accessed 11 February 2025

¹⁰⁵ OECD, 'Supporting SMEs to Enhance Tax Compliance' (OECD, 2020) <<https://www.oecd.org/tax/tax-policy/supporting-smes-to-enhance-tax-compliance.htm>> accessed 11 February 2025.

7.0 CONCLUSION

In conclusion, Nigeria's path to economic diversification and sustainable development depends significantly on how well its VAT system is administered and reformed. The introduction of VAT in Nigeria was a deliberate effort to decrease overdependence on oil revenues and create a more stable and predictable revenue stream. Over the years, despite several amendments and reforms, the system has been plagued by persistent challenges that have prevented it from realizing its full potential. Issues that have to be taken seriously to maximize the role of VAT in Nigeria's fiscal policy are compliance issues, jurisdictional conflicts, and an enhanced taxpayer data base.

In using VAT as an instrument of sustainable development, there is the need for balance among its economic, social, and environmental dimensions. Care will have to be taken to make sure that policies on VAT do not discriminate against anyone and make life too harsh on the low-income earners of the population.

The future of the Nigerian VAT system, however, rests on its continuous improvement and adaptability to changing economic realities. The proposed increase in VAT rates do call for a proper balance between revenue generation and the economic well-being of the populace. Legal reforms that will clearly spell out the roles of federal and state governments in VAT administration, coupled with efforts to enhance compliance and efficiency, will be key to unlocking the full potential of VAT. Addressing these challenges and capitalizing on the opportunities, Nigeria can therefore be able to pave the way towards a more sustainable and prosperous future.