

Proposed Increase in Value Added Tax VAT to 7.5% by the Federal Executive

TAX ALERT

The Federal Executive Council (FEC), on Wednesday 11 September 2019, approved an upward review of Value Added Tax (VAT) rate from 5% to 7.5%. The Minister of Finance, Budget and National Planning stated that the increase would not take effect until the VAT Act has been amended to reflect the new policy. The Minister stated further that the increase in the VAT rate is necessary in raising revenue to enable the government (both Federal and State) meet its obligations (including payment of the new minimum wage).

Our Comments

The thrust of the government on VAT increase is to drive the Nigerian economy in a positive direction and synchronize the Nigerian VAT rate to comparable economies despite the current issues and challenges surrounding its administration in Nigeria.

It would be difficult to administer the VAT increase side-by-side the same existing inefficient collection framework in the current tax administration. The government must look to eliminating all leakages also associated with the present regime.

The current collection system appears to be narrow as the number of people ordinarily required to remit VAT are not adequately captured, especially operators in the informal sector. There is therefore need for the introduction of an improved and aggressive collection strategy on the part of the FIRS, so as to widen the tax net rather than increase the tax rate.

Further, the government needs to resolve the difficulties encountered by Nigerian businesses in the recovery of input VAT on services. Consequently, where there is an increase in VAT rate without a

practical means of recovering the input VAT, the effect is an increase in the tax burden of existing compliant taxpayers.

Therefore, the proposed tax rate increase may have adverse effects on businesses and household consumers as it will further erode their disposable income, thereby reducing their purchasing power while increasing their cost of living.

We envisage a situation where the government would initiate VAT reforms in the area of source deduction on Companies operating in the Oil and Gas Sector as well as activities carried out through electronic services.

We recommend sufficient sensitization of the public on the new policy; allowing for taxpayers to embrace this change with minimal resistance.

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