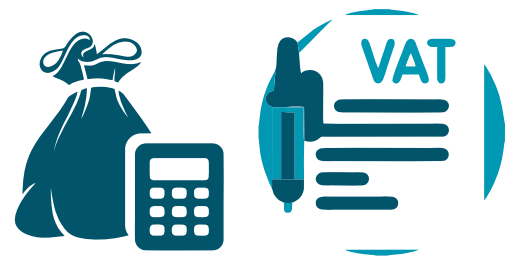


Civil Society Position Paper on Proposed VAT Reform by the Presidential Committee on Fiscal Policy and Tax Reforms (PCFPTR)



In response to the Presidential Committee's proposal on Value Added Tax (VAT) reform, the Tax Justice and Governance Platform (TJ&GP), through its Secretariat, the Civil Society Legislative Advocacy Centre (CISLAC), organized a one-day review workshop. The event which was held on 17th September 2024 brought together 30 participants, representing civil society organizations, women's groups, professional associations, labor unions, the private sector, media, and think tanks.

The workshop aimed to



1 Review the proposed VAT reforms and implementation strategies through an equity lens, assessing their potential impact on households, businesses, and tax revenues.

2 Evaluate the anticipated benefits and challenges of the reforms and provide recommendations for enhancing the proposals and improving tax revenues overall.

After reviewing the proposed VAT reforms which were shared by the Chairman of the PCFPTR across various media platforms, the participants, led by the TJ&GP in its capacity as a Partner and Observer in the reform process, have reached the following conclusions and offer these recommendations.

Major Highlight



We commend the Presidential Committee for its efforts in undertaking this critical national assignment. We understand that reforms of this magnitude are challenging and require significant commitment, which the Committee has shown throughout the process. While we acknowledge the Committee's proposals for reforming the VAT system and appreciate its attempts to engage citizens through a social media poll, we have identified the following gap:

There is a lot of opaqueness in the proposed VAT regime. The result is that Nigerians lack clear, accessible information needed to make an informed decision on the proposal.

Our Call



We want to emphasize the right of every Nigerian to question and fully understand how these reforms will affect their daily lives.

To this end, we expect that the PCFPTR will share a more elaborate detail on the proposals. Given the limited information provided to the public for now, we have identified several critical questions left unanswered and we urge the PCFPTR to clarify them:



- Why are Nigerians still paying VAT on items that are supposed to be exempt under the current system?

- What items are classified as "non-essential"? Who determines what is classified as non-essential? How equitable is this classification?

- What is the current compliance rate and collection efficiency under the existing VAT system that informed the prioritization of an increase in the VAT rate as opposed to enforcing compliance and improving efficiency of collection?

- What administrative framework will be used for implementation?

- What data supports the claim of 82% exemptions?

Our Detailed Positions and Recommendations

In the meantime, based on the limited information provided by the Presidential Committee, we have adopted the following positions and recommendations:

- 1. We reject the proposed VAT rate increase**



Increasing the VAT rate on “non-essential items” in the current economic climate is unacceptable as the burden ultimately falls on low-income households who spend a greater share of their income on consumption. With diminished purchasing power, skyrocketing food and transport costs, rising cost of rent and fuel, the proposed zero-rated VAT on these expenses will be countered by the simultaneous VAT hike on non-essential items whose burden will still be borne by already impoverished Nigerians. Without a social safety net, this will worsen already difficult living conditions. A blanket 10% VAT increase will disproportionately impact low-income Nigerians, further deepening inequality.

Our Recommendations

And so, rather than an increase in VAT rate, we urge the government to explore more equitable ways of raising tax revenues, including but not limited to:

1

Cutting unnecessary tax expenditures like reliefs and waivers given to multinationals, oil companies, and others which cause significant revenue loss without clear commensurate benefits to the country.

2

Strengthening the collection of property taxes.

3

Raising VAT on luxury goods and services.

4

Targeting high net-worth individuals and strengthening compliance with income tax obligations considering that in 2023, Nigeria generated N12.37 trillion in personal income taxes from 41 million (18.76% of population) taxpayers, compared to N88.29 trillion from only 24.8 million (41.4% of population) taxpayers in South Africa in 2023.

5

Strengthening tax administration through automation and use of technology to facilitate tax return process, reduce paperwork and human intervention, lower administrative cost, protect sensitive tax data, and plug leakages

Also, in following the ECOWAS regional directive on VAT rate, the government should prioritize Nigeria's unique economic situation and explore the alternative revenue sources mentioned above.

2. We Demand for Clarity on Non-essential Items



What constitutes non-essential items? Understanding this is crucial because what is considered **non-essential** varies by context, gender, and age. For example, sanitary products may not be essential for men, but they are vital for women. Ambiguity around what qualifies as 'non-essential' makes it difficult to assess the likely impact of the proposed reforms. Without such clarity, the fairness of the proposed VAT reform is questionable. A detailed list of the 'non-essential' items will help the public to understand how the government plans to recover revenue from zero-rated goods. The government must be transparent in this regard if it is to garner public support and trust.

Recommendation:

The Presidential Committee should clearly define what constitutes 'non-essential items.'

3. We Request the Compliance Rate of the Current VAT Regime

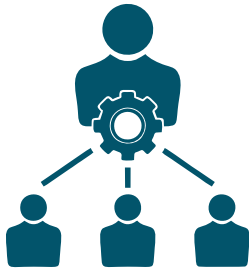


A cursory comparison of the provisions of the current VAT regime with the proposed regime is not enough. There is a need to understand where the current system falls short. This will help Nigerians grasp the real implementation gaps and the Committee's proposed strategy to close them. If the compliance rate is low, the priority should be to enhance collection efficiency by tackling these gaps and not to place further burdens on poor Nigerians.

Recommendation:

The Presidential Committee should provide detailed data on the compliance rate of the current VAT regime and the specific challenges that have contributed to the weak implementation of current VAT exemptions.

4. We Demand for an Administrative Framework



The Committee has a duty, supported by the Federal Inland Revenue Service (FIRS) to make available, a clear and detailed framework for the implementation of the proposed reform. This framework is essential to ensure transparency and consistency and reduce arbitrariness in enforcement. Providing this information will allow the public and businesses to thoroughly evaluate and understand the proposed reforms.

Recommendation:

The Presidential Committee should work with the FIRS to develop and make public a standardized administrative framework for implementing the proposed VAT changes.

5. Before Discontinuing Consumption Tax



We need clear data that will show us the implications of ending Consumption Tax and raising VAT. If discontinuing Consumption Tax will increase inequality by further reducing the disposable income of the poor while benefiting the wealthy, it is not justified.

Recommendations:

A decision on whether to keep or end the Consumption Tax should be based on solid evidence regarding social benefits, costs, and fairness.

Conclusion

In conclusion, VAT is widely recognized as a regressive tax with the potential to disproportionately impact poor and marginalized groups, particularly women, due to their consumption patterns. Women spend a larger proportion of their income on items that may otherwise be considered generally non-essential, including, but not limited to, reproductive health, sanitary and hygiene products and basic needs of their children. We strongly recommend that the proposed VAT reform should be inclusive, gender-sensitive, and extend beyond revenue generation to consider how the poor and marginalised groups, especially women, persons with disability, and other groups will be affected.

Signed:

1. CISLAC on behalf of the Tax Justice and Governance Platform Steering Committee and 19 State Platforms
2. Nigeria Civil Service Union
3. National Association of Nigerian Traders
4. Nigerian Women Economic Development Project
5. Association of Nigerian Women Business Network
6. Trade Network Initiative
7. Dataphyte
8. Good Governance Team
9. International Centre for Investigative Reporting
10. African Centre for Tax and Governance
11. Centre for Social Justice
12. Centre for Inclusive Social Development
13. African Leadership Strategy and Transparency Debt Initiative
14. Society of Women in Taxation
15. CEO Advisory Ltd