

# FEDERAL GOVERNMENT TO INCREASE VALUE ADDED TAX RATE FROM 5% TO 7.2%



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The Federal Executive Council on Wednesday, 11th September 2019, approved that the Value Added Tax (VAT) rate be increased from the current rate of 5% to 7.2%. This proposed increase was announced by the Honorable Minister of Finance, Budget and National Planning. She however stated that this increase is subject to an amendment of the existing VAT Act Cap V1, LFN 2004 by the National Assembly and after consultations with relevant stakeholders.

The existing 5% VAT rate is enshrined in the Act and the law does not vest the power to vary VAT rate on the executive arm of government. The rate has thus been static since the promulgation of the VAT Decree (as it then was) by the military government in 1993. The Olusegun Obasanjo administration attempted to increase the VAT rate to 10% in 2007 but the succeeding administration of Musa Yar'adua reversed the it to 5% shortly after assuming office that same year.

Nigeria currently has one of the lowest VAT rates in Africa and amongst countries that operate the tax. The tax to GDP rate of about 6% is also criticized as one of the lowest for a country of its size and potentials and so much emphasize has been made around the need to increase the tax base of the country. According to the Minister however, the decision to increase the VAT rate is based on the need to generate more revenue, especially for the States to meet their obligations. This increment is scheduled to become effective sometime in 2020.

The impact of this development should ideally rest solely on consumers who should bear the burden of VAT, but this is not entirely the case with the VAT law as it currently exists because businesses are still made to carry part of the VAT burden, due to the partial restriction for companies to recover their VAT costs (input VAT). We therefore hope that the government and the National Assembly will seize this opportunity to correct this and other anomalies in the VAT Act, so as not to inadvertently increase the tax burden of Nigerian businesses.