

Imported and Non-Imported Value Added Tax (VAT) Collection in Nigeria from January to December 2024

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Abstract

The study presents a comprehensive analysis of Nigeria's monthly Value Added Tax (VAT) collections, disaggregated into imported and non-imported VAT categories, covering the period from January to December 2024. The research aims to uncover patterns, assess the proportional contributions of each category to VAT revenue, and explore the underlying factors driving fluctuations across the year. By leveraging granular monthly data, the study employs robust statistical techniques, including trend analysis and variance decomposition, to extract meaningful insights. Key findings reveal notable disparities in VAT contributions between imported and non-imported goods and services, shedding light on seasonal variations, economic cycles, and external trade dynamics that influence collection volumes. The study also identifies policy gaps and structural inefficiencies within the VAT system, offering actionable recommendations to enhance compliance, broaden the tax base, and optimise revenue mobilisation.

Keywords: Value Added Tax; Imported VAT; Non-Imported VAT

1.1 Introduction

Value-Added Tax (VAT) is a cornerstone of public finance and a significant revenue stream for governments globally, including Nigeria. As a broad-based consumption tax levied at each stage of production and distribution, VAT plays a vital role in funding public expenditures, supporting infrastructural development, and fostering economic stability. In Nigeria, VAT represents a crucial component of non-oil revenue, helping to diversify the country's fiscal base and reduce dependence on volatile oil earnings.

The dual structure of Nigeria's VAT system, encompassing both imported and non-imported goods and services, reflects the country's integration into the global economy while highlighting the importance of domestic consumption. Imported VAT stems from goods and services brought into the country, subject to taxation at the point of entry, while non-imported VAT pertains to goods and services produced and consumed domestically. This bifurcation creates unique dynamics, as external trade policies, exchange rate fluctuations, and domestic economic activities collectively shape VAT collection outcomes.

Understanding the patterns and relative contributions of imported and non-imported VAT is essential for informing fiscal policy and optimising tax administration. By examining monthly VAT collection data from January to December 2024, this study seeks to identify emerging trends, assess seasonal variations, and pinpoint factors driving revenue fluctuations. This granular analysis aims to provide policymakers with actionable insights that enhance tax compliance, improve revenue forecasting, and strengthen Nigeria's overall revenue mobilisation framework.

Furthermore, the study contributes to the broader discourse on tax policy efficiency by addressing potential structural gaps within Nigeria's VAT system. It underscores the need for continuous reform to align tax policies with evolving economic realities and ensure that VAT collection mechanisms remain resilient and responsive to domestic and global economic shifts.

The research advances academic understanding by delving into the intricacies of VAT performance across different sectors. It is a valuable tool for government officials, tax authorities, and development partners seeking to bolster Nigeria's fiscal capacity and achieve sustainable economic growth.

1.2 Statement of the Problem

Value-added tax (VAT) as a consumption tax holds great potential for enhancing Nigeria's financial resilience and reducing dependency on volatile oil revenues. However, despite its significance, the effective collection of VAT remains a significant challenge in Nigeria. The issues contributing to these challenges are multifaceted and include persistent administrative inefficiencies, widespread under-declaration of taxable transactions, inadequate tax compliance, and an overall lack of enforcement mechanisms. These inefficiencies result in a substantial loss of potential revenue and undermine the ability of the government to achieve its fiscal objectives. Economic volatility, such as fluctuations in consumer spending driven by inflation, exchange rate instability, and external financial shocks, exacerbates the difficulties of maintaining stable VAT collections.

An additional complication is the insufficient understanding of the relative contributions of imported and non-imported VAT to Nigeria's total VAT revenue. Although VAT is collected on imported and domestically produced goods and services, the dynamics of how each component behaves over time, especially monthly fluctuations, remain inadequately explored. This lack of detailed, disaggregated analysis hinders the formulation of targeted and effective fiscal policies. Specifically, the contribution of imported VAT affected by trade policies, exchange rates, and global supply chain disruptions can behave very differently from non-imported VAT, which is closely tied to domestic consumption patterns and economic activities. Without a deeper understanding of these dynamics, Nigeria is limited in its ability to design policies that address specific challenges faced by each VAT category, leading to missed opportunities for optimising tax collection and enhancing revenue generation.

Despite the recognised importance of VAT in Nigeria's revenue generation, there is a significant gap in the literature regarding a comprehensive, monthly disaggregation of VAT collections into imported and non-imported categories. Existing studies primarily focus on

aggregate VAT performance or examine specific sectors, leaving the intricate dynamics of VAT collection across these two components underexplored. There is limited analysis of how imported VAT fluctuates in response to changing global economic conditions, such as exchange rate movements or global trade disruptions, compared to domestic consumption trends that influence non-imported VAT. This gap limits the capacity of policymakers and tax authorities to effectively address sector-specific challenges and implement tailored interventions to optimise VAT collection.

Much of the existing research also fails to delve into the seasonal or cyclical trends within VAT collections, which are crucial for effective revenue forecasting and budgeting. The failure to account for these patterns, particularly the underlying factors influencing fluctuations in imported and non-imported VAT, limits understanding of the broader economic forces and potential consequences for national revenue mobilisation. This study seeks to fill the existing gap in knowledge by providing a comprehensive and detailed analysis of Nigeria's monthly VAT collection, disaggregating the data into imported and non-imported VAT categories.

1.3 Objectives of the Study

- i. To analyse monthly trends in imported and non-imported VAT collection in Nigeria.
- ii. To compare the contributions of imported and non-imported VAT to VAT revenue.
- iii. To identify factors influencing monthly variations in VAT collection.
- iv. To provide policy recommendations for optimising VAT collection.

2.0 Literature Review

2.1 Conceptual Issues on Value-Added Tax (VAT)

Value-added tax (VAT) is a consumption-based indirect tax levied on goods and services at each stage of production or distribution. The tax is applied incrementally, with each seller in the production chain adding tax to the price of goods or services based on the value they add. Ultimately, VAT is passed onto the final consumer, who bears the full cost. It is considered one of the most efficient forms of taxation due to its broad base, ease of administration, and relatively low compliance costs for taxpayers (Bird & Zolt, 2018).

In developing economies like Nigeria, VAT is particularly valuable for diversifying government revenue sources. Historically reliant on oil revenues, Nigeria has increasingly turned to VAT as a critical tool to address revenue shortfalls and reduce vulnerability to global oil price fluctuations. However, the effectiveness of VAT as a stable revenue source is influenced by several factors, including economic conditions, trade policies, and domestic consumption patterns.

VAT collections can be categorised into two primary components: imported VAT, which applies to goods and services entering the country, and non-imported VAT, which pertains to domestically produced and consumed goods and services. The relative contributions of these two categories to overall VAT revenue are influenced by domestic economic factors and external trade dynamics, making it essential to understand the monthly variations within each category.

2.3 Empirical Literature

VAT has been studied to contribute to Nigeria's government revenue and economic growth. Adeosun (2020) emphasises the role of VAT in bridging the revenue gap in Nigeria's mono-product economy, highlighting its potential to reduce over-reliance on oil exports. Adeosun's study argues that VAT can provide a stable and predictable revenue stream, which is crucial for financing infrastructure projects and public services. However, the study does not provide a detailed breakdown of VAT collections by category, thus limiting its ability to offer a nuanced understanding of how different components of VAT behave in response to changing economic conditions.

Eze (2021) further explores VAT's role in enhancing revenue generation in Nigeria, particularly during periods of fiscal stress. The study focuses on the institutional challenges of VAT collection, including administrative inefficiencies, tax evasion, and underreporting. However, like Adeosun (2020), Eze's work overlooks the need for a granular VAT analysis, particularly in differentiating the patterns of imported versus non-imported VAT. This gap in the literature underscores the need for a more disaggregated approach to VAT analysis, particularly when examining monthly trends and seasonal fluctuations.

A study by Oladipupo et al. (2019) provides a broader perspective on VAT's role in Nigeria's fiscal policy. The authors argue that while VAT can be an effective tool for revenue diversification, its impact is often undermined by the lack of robust data and inefficiencies in tax administration. They suggest that improving the accuracy and timeliness of VAT data is essential for enhancing its effectiveness as a fiscal tool. However, this study does not focus specifically on the distinctions between imported and non-imported VAT, further highlighting the research gap that this study intends to fill.

Idris (2024) comprehensively analyses Nigeria's VAT administration and allocation challenges. In this work, Idris discusses the structural and operational difficulties hindering effective VAT collection and allocation, including weak enforcement mechanisms, insufficient taxpayer education, and the lack of accurate data on VAT payments. A significant portion of the study focuses on the difficulty in distinguishing between imported and non-imported VAT, which affects the accuracy of revenue reporting and allocation across states. The author argues that the lack of clarity in VAT categorisation has resulted in an under-representation of revenues derived from imports, which could otherwise contribute significantly to national revenue. Idris also highlights how economic factors such as exchange rate fluctuations and trade imbalances exacerbate these challenges, ultimately affecting fiscal policy planning and the allocation of VAT revenue. This study serves as a critical addition to the existing literature by addressing the administrative complexities that underpin the inefficiencies in VAT collection and allocation in Nigeria.

Other studies, such as those by Adebayo and Adeyemo (2020), have explored the economic impact of VAT in Nigeria, particularly in terms of consumption patterns and inflation. These studies indicate that VAT is sensitive to economic cycles, and changes in consumer behaviour, such as spending during periods of economic contraction or expansion, directly impact VAT collections. However, these studies fail to provide a detailed monthly breakdown of VAT data

and do not address how external factors, such as exchange rate volatility, affect the relative contributions of imported VAT.

International studies, such as those by Tanzi and Zee (2001), have discussed the broader role of VAT in economic development and the challenges developing countries face in implementing and managing VAT systems. These studies emphasise the importance of VAT as a tool for enhancing public revenue and fiscal stability. However, they do not delve into how VAT collections vary month by month or between imported and non-imported goods and services.

2.3 Theory Framework

The theory underpinning this study is the Optimal Taxation Theory developed by James A. M. (1971). The theory seeks to design tax systems that maximise social welfare while minimising economic distortions. The central tenet of Optimal Taxation Theory is that taxes should be structured to balance efficiency (minimising economic inefficiencies) with equity (fair distribution of tax burdens). The theory emphasises the importance of understanding how different forms of taxation affect consumers and producers and how these taxes can be implemented to ensure maximum utility without causing adverse market distortions.

In the Value-Added Tax (VAT) context, the theory asserts that the tax structure should ideally capture broad-based consumption, applying uniformly across all goods and services. The Optimal Taxation Theory supports VAT as a desirable form of taxation because it is considered a consumption tax that is relatively efficient and less likely to distort consumer and producer behaviour compared to other forms of taxes. This is because VAT is levied at each production stage, ensuring it is collected incrementally without causing significant disruptions to production processes or consumption choices. Moreover, VAT allows for transparency and ease of administration, making it a valuable tool for revenue generation, particularly in developing economies like Nigeria.

The relevance of the Optimal Taxation Theory to this study lies in its framework for evaluating the efficiency and equity of VAT as a revenue instrument. Specifically, the theory helps analyse how VAT can maximise public revenue while minimising negative economic impacts on domestic consumers and producers. The theory's focus on minimising economic distortions is especially pertinent when considering the differential impacts of imported and non-imported VAT. Imported goods are subject to VAT upon entry into the country, which raises the cost of imports and can affect consumer spending and trade patterns. Conversely, non-imported goods are taxed within the domestic market, and domestic economic conditions, including supply chain efficiency, production costs, and consumer demand, influence VAT's impact.

3.0 Methodology

This study adopts a quantitative research design to systematically analyse the dynamics of Value-Added Tax (VAT) collection in Nigeria, specifically focusing on the distinction between imported and non-imported VAT categories. The study employs secondary data from multiple credible sources, primarily the Federal Inland Revenue Service (FIRS), Nigerian Customs Service (NCS), and the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC),

particularly the National Bureau of Statistics (NBS). The November and December 2024 data were estimated using the moving average method. The monthly VAT collection data from January to December 2024 is categorised into imported and non-imported VAT. This data forms the foundation for analysing VAT trends and identifying key factors influencing fluctuations in VAT collections.

To ensure comprehensive analysis, the study employs various statistical tools and methods to investigate VAT collection patterns and the macroeconomic factors influencing them. The data is first subjected to descriptive statistics to summarise the central tendencies, dispersions, and overall distribution patterns of the VAT collections for imported and non-imported goods using statistical software E-view 12. Descriptive statistics measures mean, median, standard deviation, and frequency distributions to understand monthly fluctuations in VAT collection and the overall trend for each category.

Further, the study uses normality tests to assess the VAT data's distribution characteristics, ensuring it adheres to the assumptions required for specific parametric analyses.

4.0 Results and Discussions

Table 1: Descriptive Statistics

	NON IMPORTED VAT (FIRS)	IMPORTED VAT NCS
Mean	4.23E+11	1.32E+11
Median	4.44E+11	1.31E+11
Maximum	4.89E+11	1.79E+11
Minimum	3.32E+11	8.81E+10
Std. Dev.	5.33E+10	2.23E+10
Skewness	-0.485712	0.094996
Kurtosis	1.809788	3.574883
Jarque-Bera	1.180134	0.183294
Probability	0.554290	0.912427
Observations	12	12

Source: Researcher's Compilation (2024) Employing E-Views 12

Table 1 presents descriptive statistics for Value Added Tax (VAT) collections by two Nigerian agencies: the Federal Inland Revenue Service (FIRS) and the Nigeria Customs Service (NCS). **Mean (Average):** FIRS collects significantly more VAT on average (₦423 billion) than NCS (₦132 billion). This suggests that domestic economic activity (FIRS's domain) generates more VAT revenue than imports (NCS's domain). **Median (Middle Value):** The median is less sensitive to extreme values than the mean. The median for FIRS (₦444 billion) is slightly higher than its mean, while the median for NCS (₦131 billion) is very close to its mean. This suggests that the distribution of NCS collections is more symmetrical than FIRS.

Maximum: FIRS's maximum monthly collection of ₦489 billion is substantially higher than that of NCS (₦179 billion). This indicates that FIRS has experienced months with significantly

higher VAT revenue. Similarly, FIRS's minimum collection of ₦332 billion is higher than NCS's (₦88.1 billion). Standard Deviation measures the spread or variability of the data. FIRS has a more significant standard deviation of ₦53.3 billion than NCS of ₦22.3 billion, indicating that FIRS collections are more volatile monthly while **skewness** measures the asymmetry of the data distribution. The FIRS has a negative skewness of -0.49, indicating a slight left skew. It means more months with higher collections and fewer with low collections. NCS has a skewness very close to zero (0.09), indicating a nearly symmetrical distribution.

Kurtosis: This measures the "peakedness" of the distribution: FIRS has a kurtosis of 1.81, less than 3 (the kurtosis of a normal distribution). This suggests a platykurtic distribution, meaning flatter tails and a less pronounced peak than a normal distribution, while NCS has a kurtosis of 3.57, which is greater than 3. This indicates a leptokurtic distribution, meaning heavier tails and a sharper peak than a normal distribution. This suggests that NCS collections have more extreme values (outliers).

Jarque-Bera and Probability: These test for normality (whether the data follows a normal distribution). For FIRS and NCS, the probability (p-value) is more significant than 0.05 (an ordinary significance level). This means we fail to reject the null hypothesis of normality for both datasets. Thus, based on this test, we cannot conclude that either FIRS or NCS collections are *generally not* distributed.

Table 2: Percentage Distribution

MONTH	FIRS VAT (%)	Import VAT (%)
JAN	6.55	5.54
FEB	6.87	7.02
MAR	8.22	8.32
APR	7.4	7.88
MAY	7.28	8.05
JUN	8.73	7.53
JUL	9.44	9.2
AUG	8.75	8.12
SEP	8.84	8.5
OCT	9.64	11.25
NOV	9.17	9.29
DEC	9.1	9.29
TOTAL	100	100

Table 2 shows the monthly distribution of Value Added Tax (VAT) collection as a percentage of the annual total.

Overall Contribution: FIRS and Import VAT contribute to the overall VAT revenue, each representing 100% of the yearly total. The table breaks down *how* that contribution is distributed monthly.

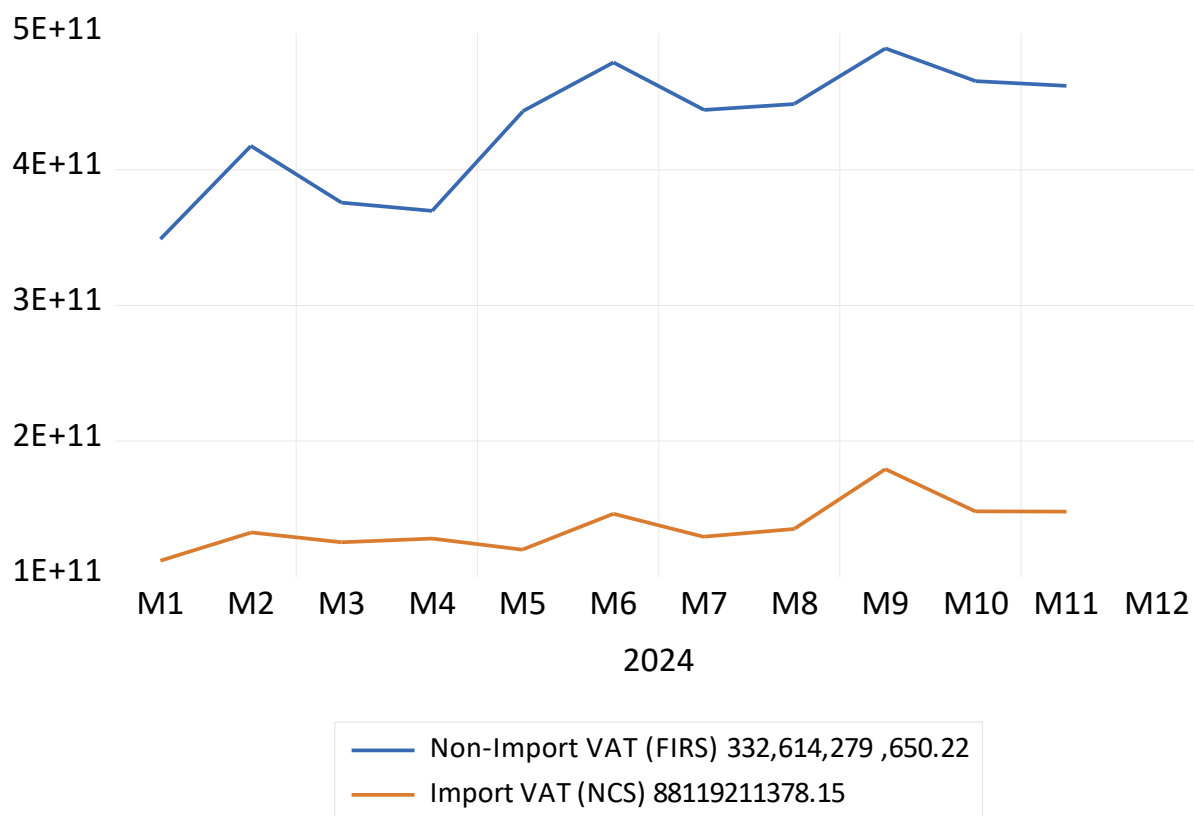
Seasonal Trends: There is evidence of seasonality in both FIRS and Import VAT collections: Year-End Peak (October-December 2024): FIRS and Import VAT show higher percentages in the last three months (October, November, and December 2024). This is a common trend, likely driven by increased consumer spending during the holiday season and businesses stocking up for year-end sales. October 2024 shows an exceptionally high percentage for Import VAT (11.25%), suggesting a surge in imports in preparation for the holiday season. Mid-Year Peak (July-September 2024): FIRS also shows a noticeable peak in the mid-year months (July-September 2024), indicating increased domestic economic activity. Import VAT also shows higher percentages in July and September 2024.

Relatives Monthly Contributions

FIRS generally contributes a higher percentage of the total VAT in the first half of the year (January-June 2024), suggesting more muscular domestic economic activity during these months than imports. Import VAT contributes a larger share in the latter part of the year (October-December 2024), indicating a shift towards import-related economic activity during this period.

Monthly Fluctuations: Monthly contributions for FIRS and Import VAT vary, reflecting the dynamic nature of economic activity and trade. March shows a relatively high percentage (8.22% for FIRS and 8.32% for Import VAT), suggesting a strong economic performance.

Figure 1: Trend of FIRS & NCS



Source: Researcher's Plot (2024) Employing E-Views 12

The graph presents a comparison of monthly Value Added Tax (VAT) collections in Nigeria, differentiating between VAT generated from domestic economic activities (Non-Import VAT, collected by FIRS) and VAT from imports (Import VAT, collected by NCS). A key observation is the consistently higher revenue generated by FIRS compared to NCS, indicating the significant role of the domestic economy in contributing to VAT revenue. While both revenue streams generally trend upwards, suggesting overall growth in VAT collection, the Non-Import VAT collected by FIRS exhibits more significant monthly variability than the relatively stable Import VAT collected by NCS. This difference in volatility likely reflects the influence of various domestic economic factors on internal transactions compared to the more consistent nature of import activity. Additionally, both collection types have apparent seasonal peaks, particularly towards the end of some years, possibly coinciding with increased economic activity during holidays.

5.0 Findings

1. **Overall Contribution:** FIRS and Import VAT contribute to the total VAT revenue, with the monthly distribution indicating their respective shares throughout the year.
2. **Seasonal Trends:**
 - **Year-End Peak (October-December 2024):** FIRS and Import VAT show significant spikes in the last quarter, likely due to increased consumer spending and holiday season-related imports. Notably, October sees an exceptional 11.25% for Import VAT.
 - **Mid-Year Peak (July-September 2024):** FIRS experiences a peak in the mid-year, while Import VAT shows an uptick in July and September, reflecting seasonal shifts in domestic and import activity.
3. **Relative Monthly Contributions**
 - FIRS contributes more in the first half of the year (January-June), highlighting stronger domestic economic activity.
 - Import VAT sees a larger share in the latter months (October-December 2024), indicating increased import-related activity.
4. **Monthly Fluctuations:** There are notable monthly variations, with March showing a robust performance for both FIRS (8.22%) and Import VAT (8.32%), suggesting a period of strong economic performance.
5. **Higher Revenue from Domestic Activities:** FIRS consistently generates higher VAT revenue than NCS, underscoring the dominant role of the domestic economy in VAT collection.
6. **Growth Trend:** Non-Import VAT (FIRS) and Import VAT (NCS) exhibit upward trends, indicating overall growth in VAT revenue.
7. **Volatility in Domestic VAT:** Non-Import VAT collected by FIRS shows more significant monthly variability, reflecting the influence of fluctuating domestic economic factors, whereas Import VAT collected by NCS remains relatively stable.

8. **Seasonal Peaks:** Both revenue streams display seasonal peaks, particularly towards year-end, likely driven by increased holiday economic activity.

Limitation: The non-imported VAT data includes VAT on international services or VAT on imported services. The FIRS consistently reported it in aggregation with other domestic VAT.

6.0 Recommendations

1. **Strategic Revenue Planning:** Capitalize on year-end (Q4) 2024 spikes by introducing tax incentives or promotional compliance campaigns to maximise VAT collection during peak consumer spending and import periods.
2. **Mid-Year Engagement:** Focus on boosting domestic VAT revenue through targeted economic initiatives and enforcement during mid-year (Q3) 2024, leveraging the observed FIRS peak.
3. **Import Monitoring and Facilitation:** In Q4 2024, import facilitation and customs processes will be enhanced to capture the increase in import VAT and ensure minimal revenue leakages.
4. **Diversification Efforts:** Expand efforts to strengthen domestic VAT collection in the first half of 2024 (Q1-Q2), reinforcing local business engagement and tax education.
5. **Predictive Modelling:** Develop predictive models using historical VAT data to anticipate seasonal peaks and adjust policy measures proactively.
6. **Address Domestic VAT Volatility:** Stabilize domestic VAT by supporting SMEs, enforcing tax compliance, and addressing economic factors contributing to monthly variability.
7. **Continuous Growth Focus:** Promote policies that enhance economic activities across all sectors, both domestically and through imports, to sustain the upward VAT growth trend.
8. **Comprehensive Data Analysis:** Regularly analyse monthly VAT contributions to identify emerging trends and adjust collection strategies dynamically, ensuring year-round revenue optimisation.

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