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DANNE INSTITUTE FOR RESEARCH | INSIGHTS

VAT and Subnational Financing in Nigeria

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Two major national events informed this report. The first: August 9, 2021, a Federal High Court ruled that the Rivers State Government and not the Federal Inland Revenue Services (FIRS) has the authority to collect Value Added Tax (VAT) in the State. The judge explained that FIRS has no constitutional grounds to collect VAT, Withholding Tax, Education Tax and Technology levy in Rivers State or any other state in the country.

Following this ruling, the Lagos State Government swiftly passed its VAT Act which gives the State the power to collect VAT. An appeal court later halted the implementation of the judgement by the High Court. The Rivers State Government has taken the matter to the Supreme Court.

The VAT ruling has sparked debates in the country. While oil proceeds remain the main source of federal revenue, VAT has become an important contributor to the country's non-oil revenue. We ran the numbers for ten years and found that Company Income Tax (CIT), Nigeria's largest non-oil tax, was about N1.9 trillion more than VAT receipts which totalled N9.372 trillion in the period. However, VAT was N255.79 billion more than the total CIT receipts in 2020.

We believe that the ongoing debates on VAT are a great way to kick-start important conversations about Nigeria's public sector financing architecture. In line with our mission to champion conversations that promote transformational change in Nigeria and Africa, we complied the numbers to enable conversations that are data driven. Trends can be identified in the data. For example, VAT and CIT receipts across ten years, top VAT receiving States, etc.

The second event. There were reports in the newspapers that the Nigerian Senate Committee on Constitution Review "recommended" the creation of 20 new states in the country. The Senate later denied the report but acknowledged that it had received bills proposing the creation of new states.

It seems to be the right time to x-ray the finances of the 36 states that currently make up the Nigerian federation with a view to determining their ability to be self-sustaining. If a state is not able to generate revenues internally to cover at least its recurrent expenditures, splitting it up into two may not be a wise decision economically. If a decision is taken to go ahead with the creation of new states, stakeholders should at least be aware of the situation of these states and the challenges posed by the decision.

This report provides data on the States' total revenues, their debt profiles, Internally Generated Revenue (IGR) as a percentage of total revenue, recurrent and capital expenditures, etc.

We hope that this effort will enrich the conversations on both topics and lead to better informed decisions and positive change in public sector financing in Nigeria.

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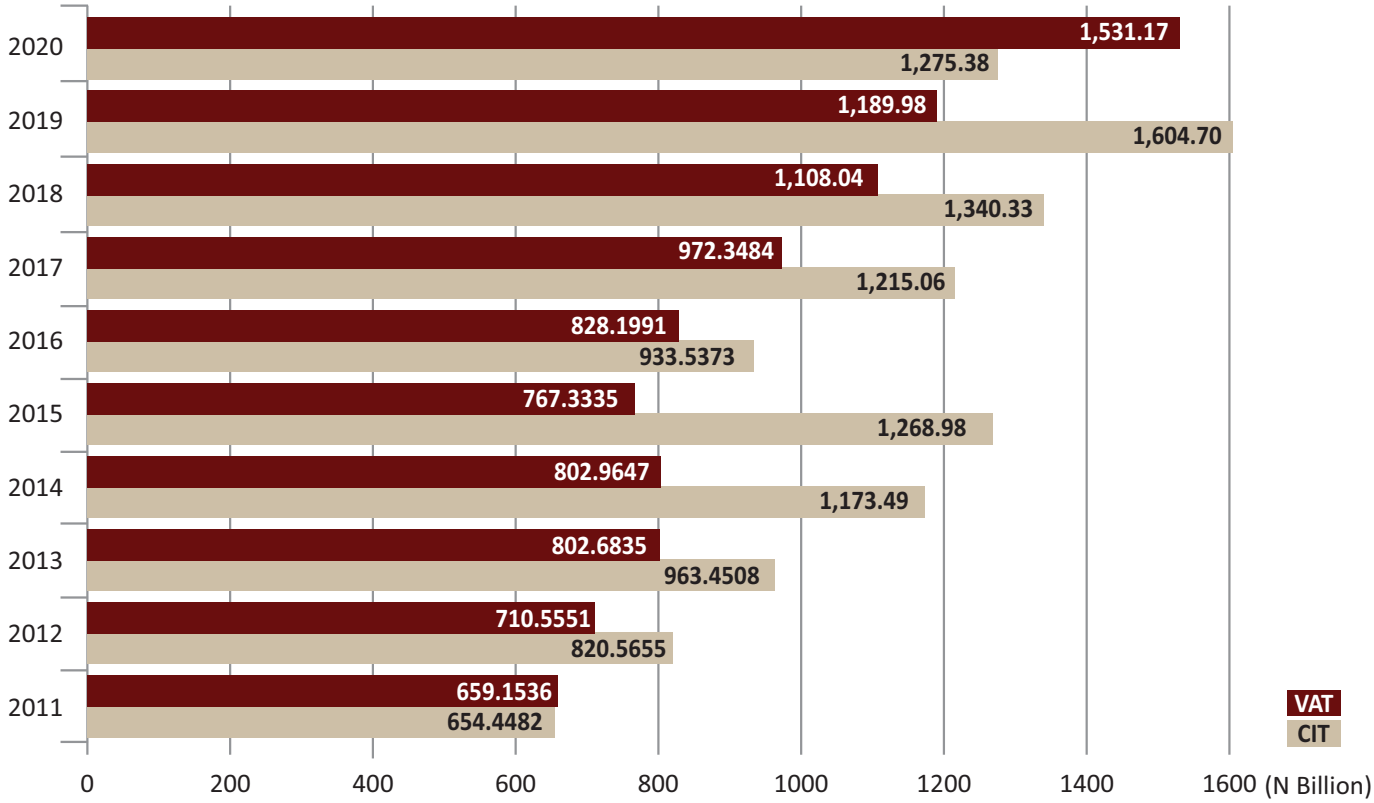
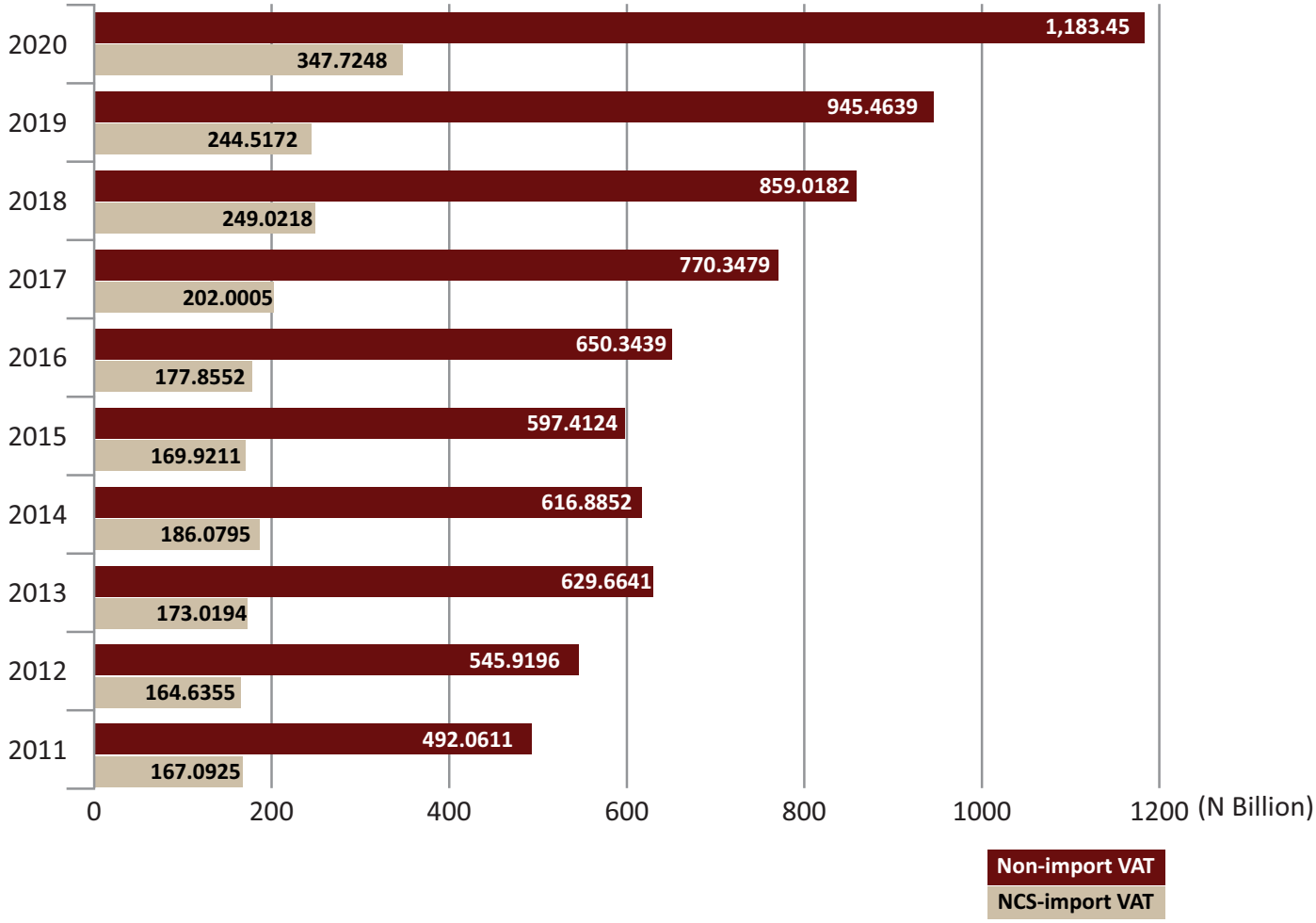
Value Added Tax vs Company Income Tax



Source: FIRS Tax Statistics/Report

At N11.250 trillion, Company Income Tax (CIT) was about N1.9 trillion more than Value Added Tax (VAT) receipts (N9.372 trillion) across the 10-year period. VAT receipt has grown significantly in recent years. That shows the significance of the VAT in the non-oil tax revenue pool and its importance to the overall public sector financing architecture in Nigeria.

NCS-Import VAT vs. Non-Import VAT

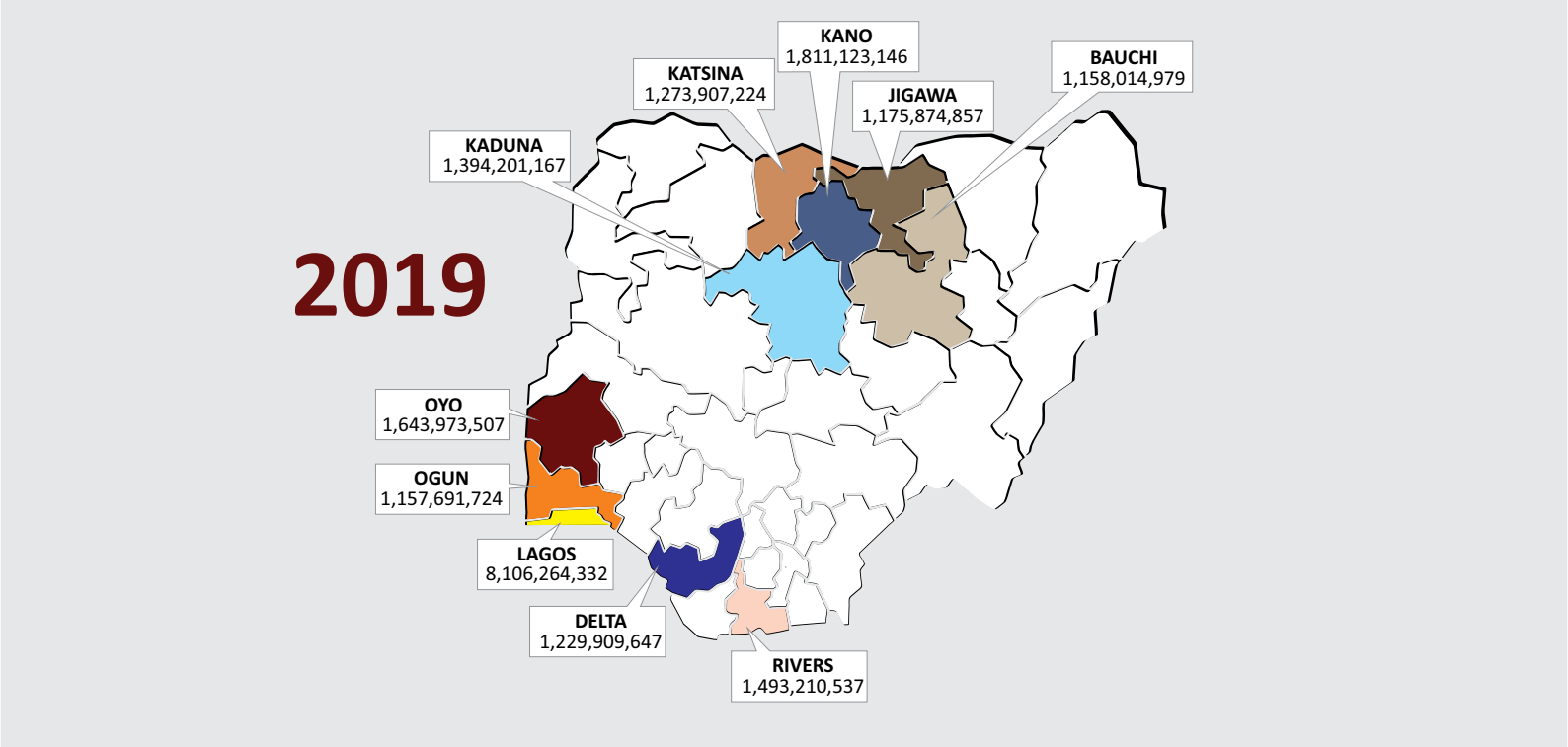


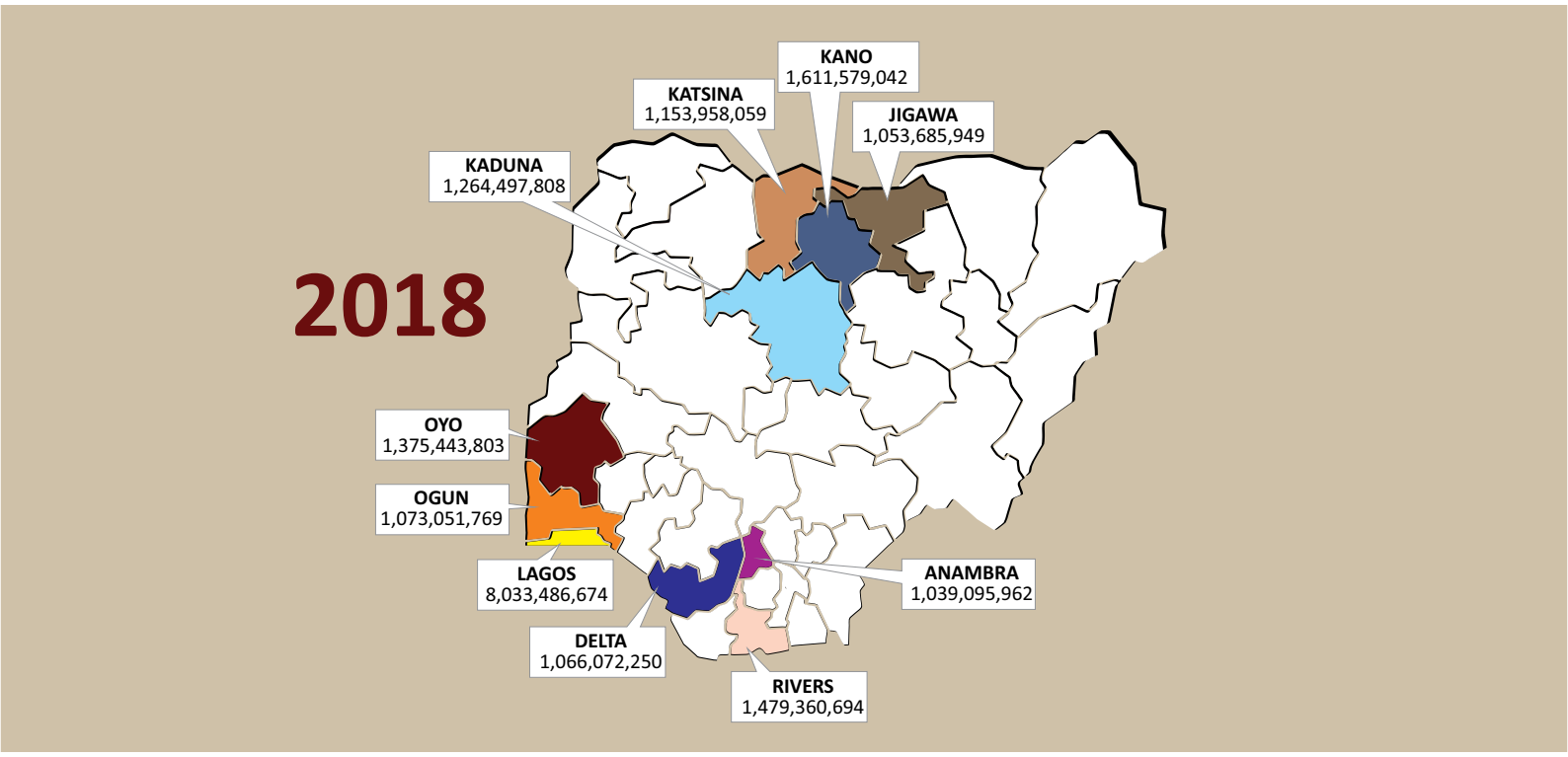
Source: FIRS Tax Statistics/Report

The total Non-Import VAT over the 10-year period (N7.291 trillion) is more than three times bigger than the NCS-Import VAT (N2.082 trillion), tax levied on imports, for the same period. Non-Import VAT has grown significantly in the last four years.

FOOTNOTE: NCS means Nigeria Customs Service and NCS-Import VAT means the Value Added Tax levied on goods and services brought from abroad into Nigeria.

Top 10 Recipients of VAT Revenue Allocation



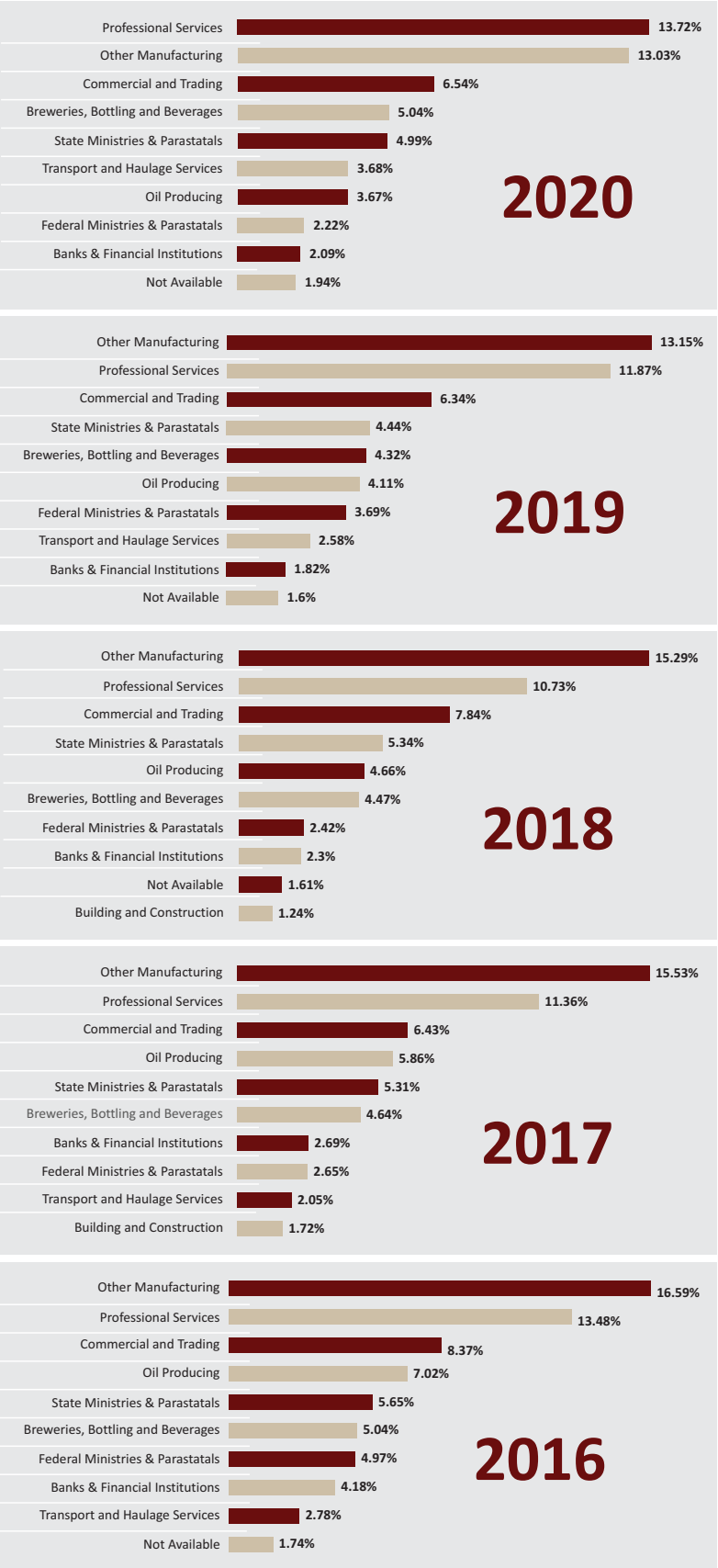


Source: BudgIT State of States 2018 and 2019

Lagos is by far the largest recipient of VAT allocation. Rivers occupied the 3rd and 4th positions in 2018 and 2019 respectively.

FOOTNOTE: Monthly average (January - June)

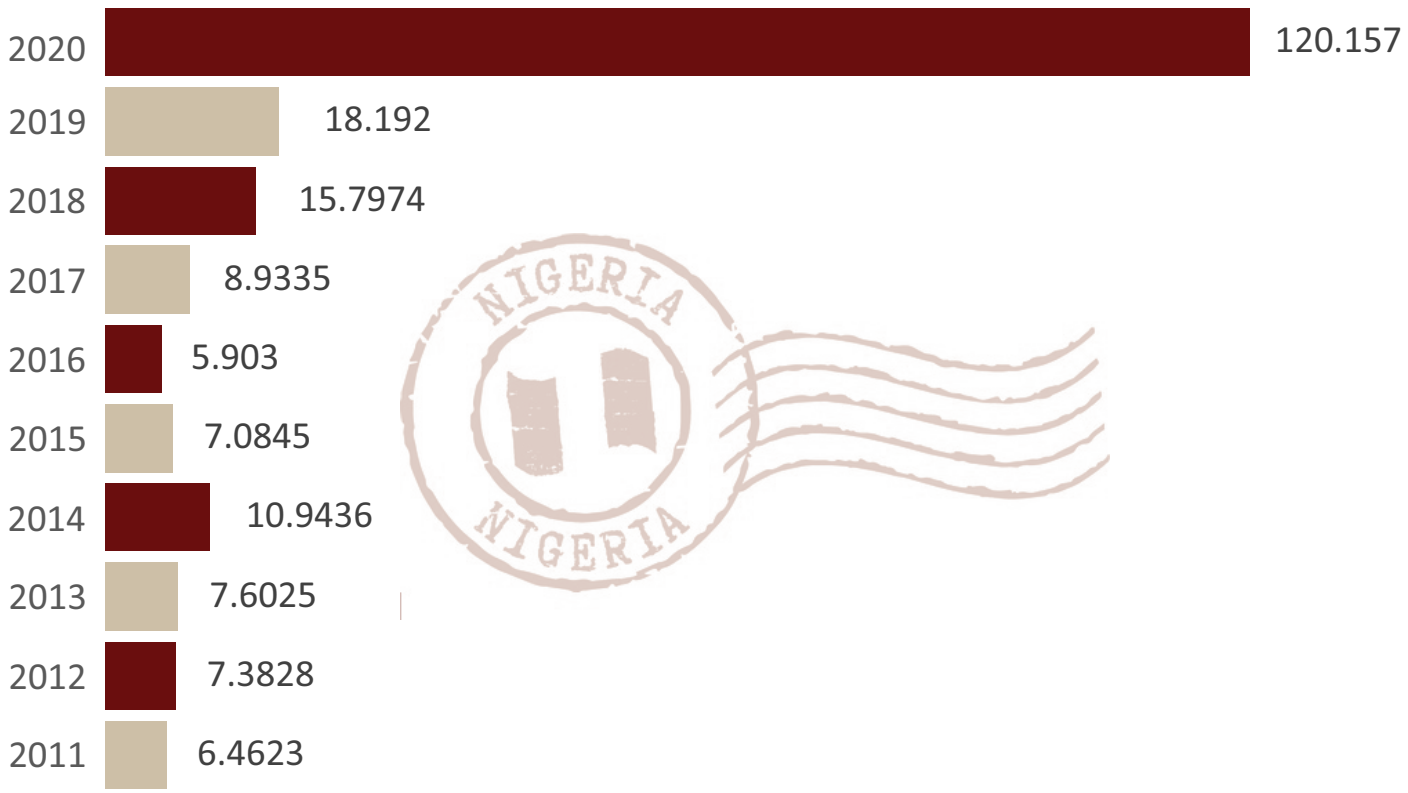
Top 10 VAT Contributing Sectors



Source: NBS Sectoral Distribution of Value Added Tax Q1 2021

Manufacturing and Professional Services contributed above 10% each of VAT receipts between 2016 and 2019.

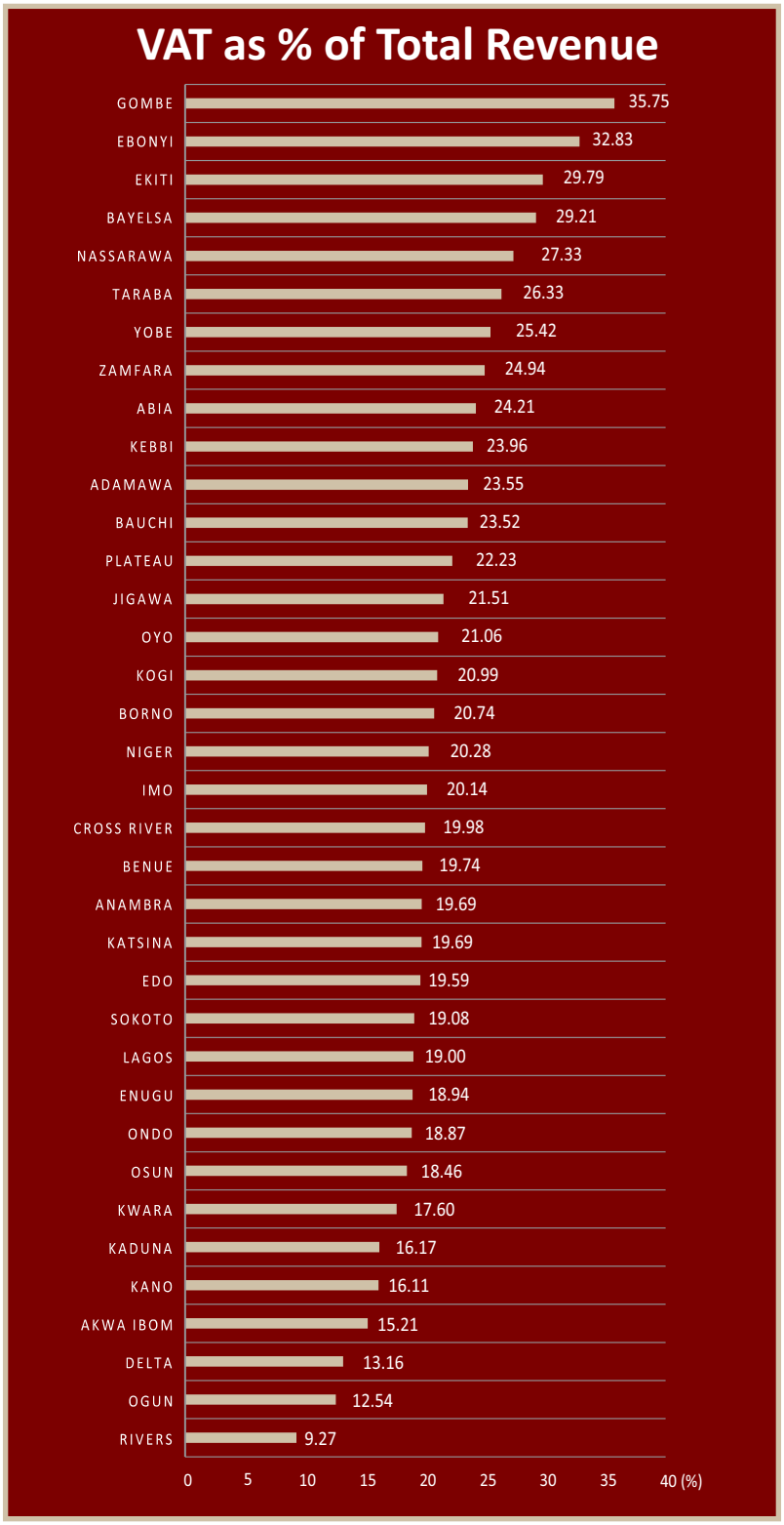
Nigeria's Stamp Duty Receipts [N Billion]



Source: FIRS Tax Statistics/Report

Stamp Duty receipt spiked in 2020

VAT as a Proportion of States Total Revenue (2019)



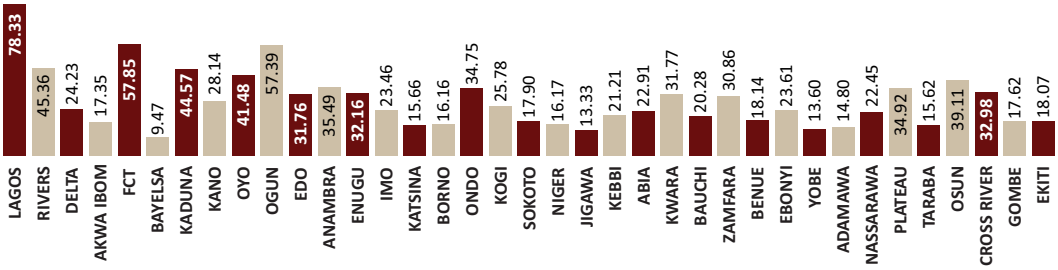
Sources: BudgIT State of States 2020 & NBS IGR at State Level 2020 & NBS FAAC Disbursement Series

Only Rivers State's Net VAT share of total revenue was less than 10% in 2019. It was at least 20% in 24 states. For Ekiti, Ebonyi and Gombe States, VAT receipts accounted for as much as 30% of total revenue.

FOOTNOTE: FGN gets about 15%, States - 50% and LGs - 35%: Net of 4% cost of collection which goes to the FIRS and 20% of pool shared based on derivation

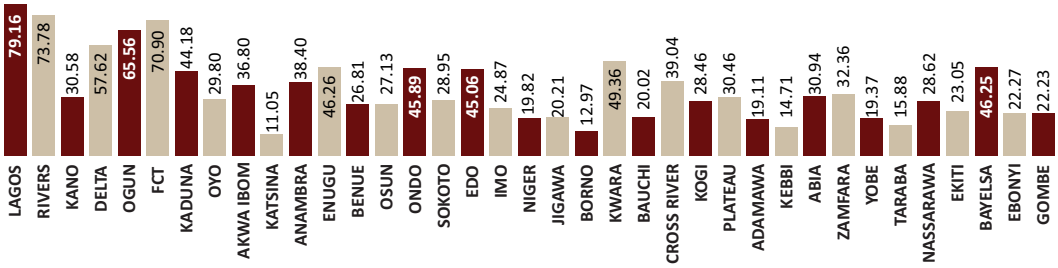
IGR as % of Total Revenue

2020



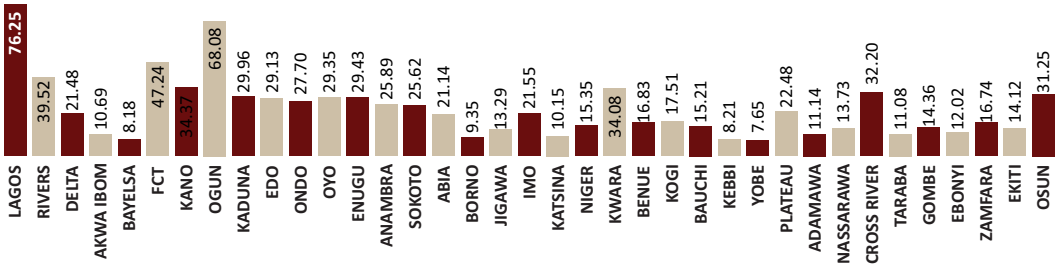
Sources: NBS IGR at State Level 2020 & NBS FAAC Disbursement Series 2020

2019



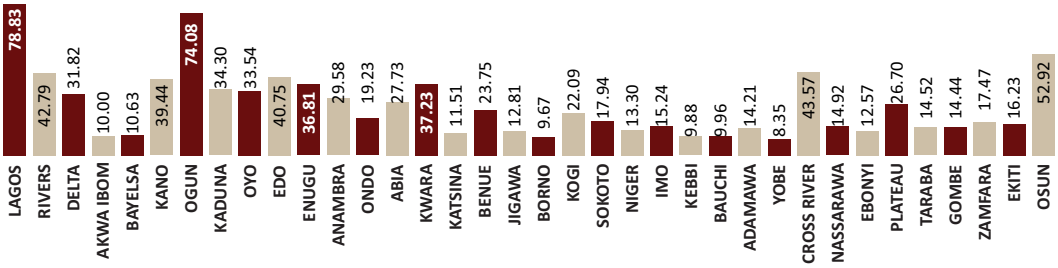
Sources: NBS IGR at State Level 2019 & NBS FAAC Disbursement Series 2019

2018



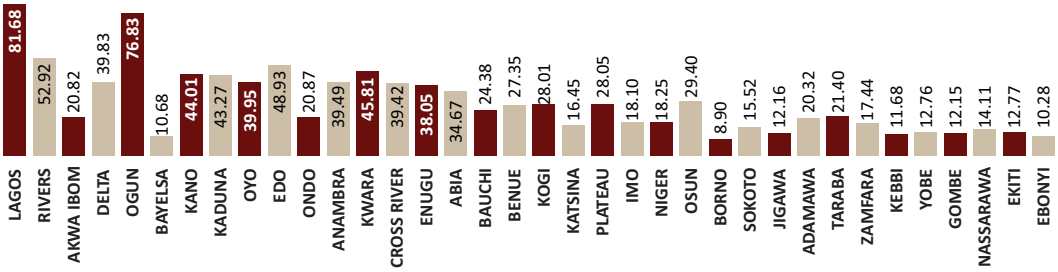
Sources: NBS IGR at State Level 2018 & NBS FAAC Disbursement Series 2018

2017



Sources: NBS IGR at State Level 2017 & NBS FAAC Disbursement Series 2017

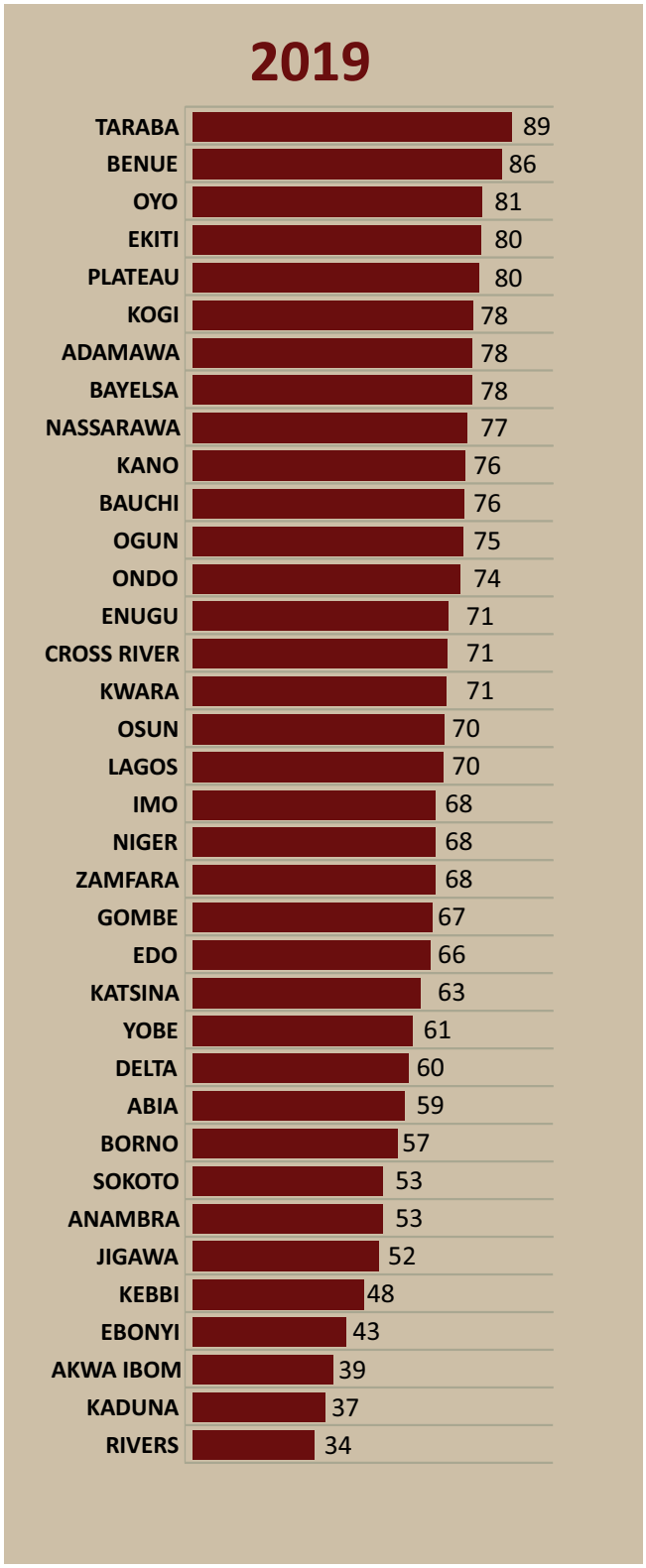
2016



Sources: NBS IGR at State Level 2017 & BudgIT State of States 2017

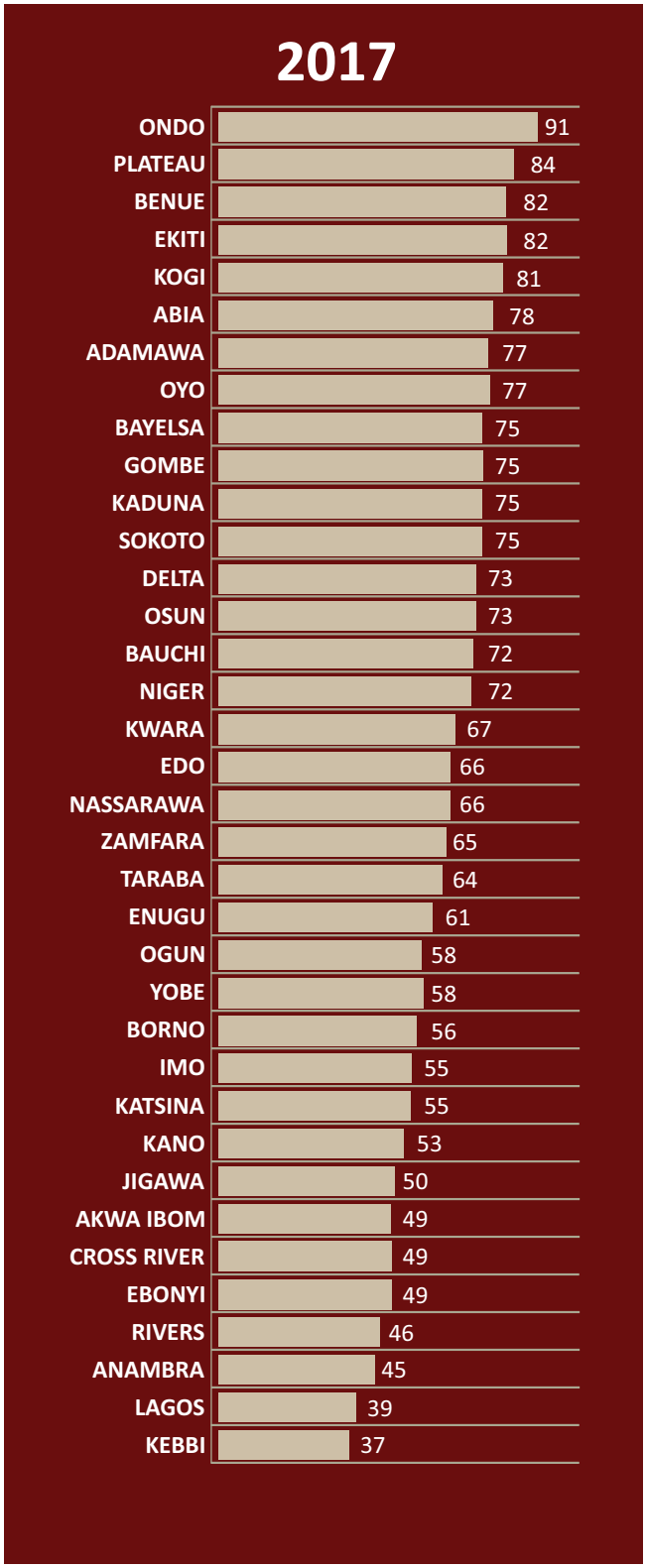
A large majority of the states receive more revenues from FAAC than they generate internally. The exceptions are: 2020 - Lagos & Ogun; 2019 - Lagos, Rivers, Delta & Ogun; 2018 - Lagos & Ogun; 2017 - Lagos & Ogun; 2016 - Lagos, Rivers & Ogun.

Recurrent Expenditure as a % of Total Expenditure



Sources: BudgIT Patterns in States' Expenditure 2020

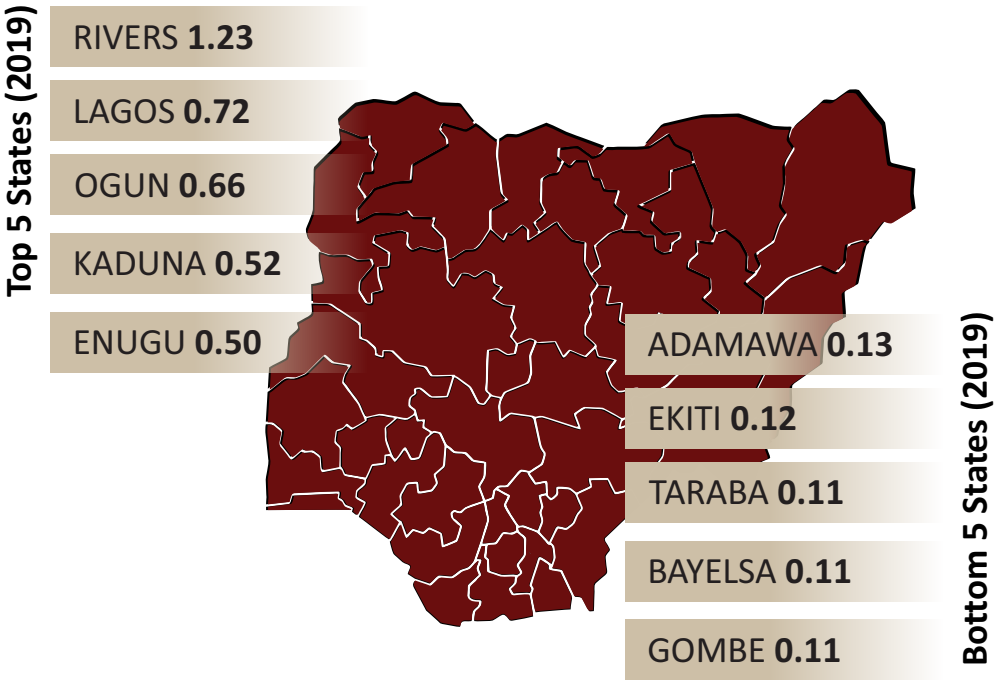
Only Kebbi, Ebonyi, Akwa Ibom, Kaduna and Rivers had recurrent expenditures as a % of total expenditure of less than 50%.

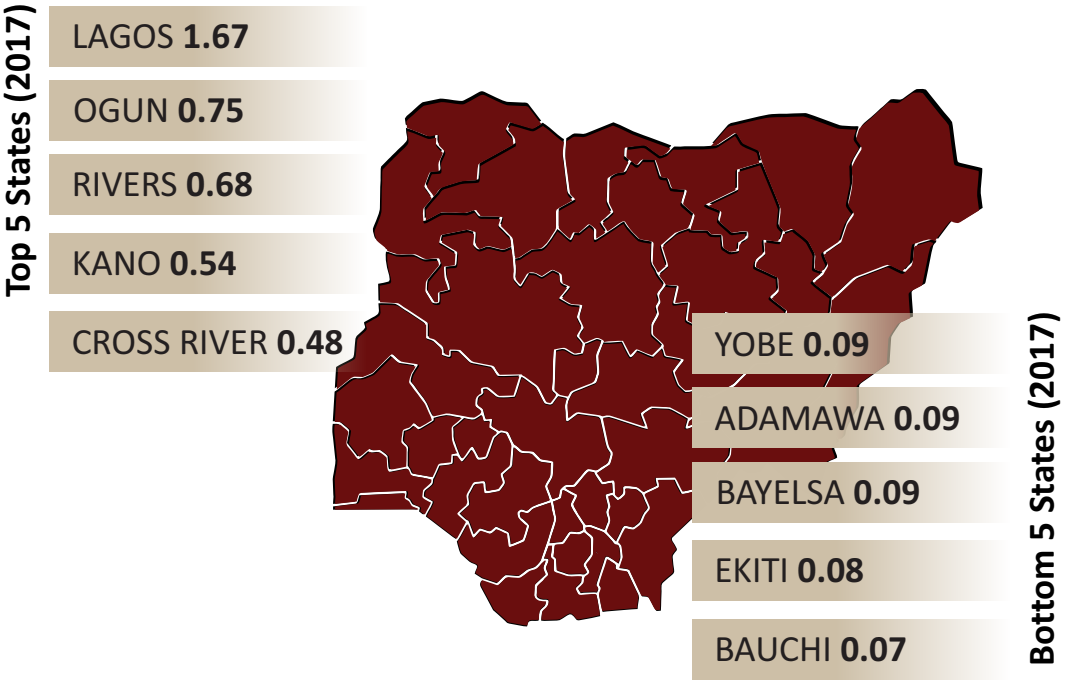


Sources: BudgIT 2019 State of States Report

Only Kebbi, Lagos, Anambra, Ebonyi, Akwa Ibom, Cross River and Rivers had more capital expenditure than recurrent expenditure. Both capital and recurrent expenditures are about same for Jigawa.

IGR Adequacy



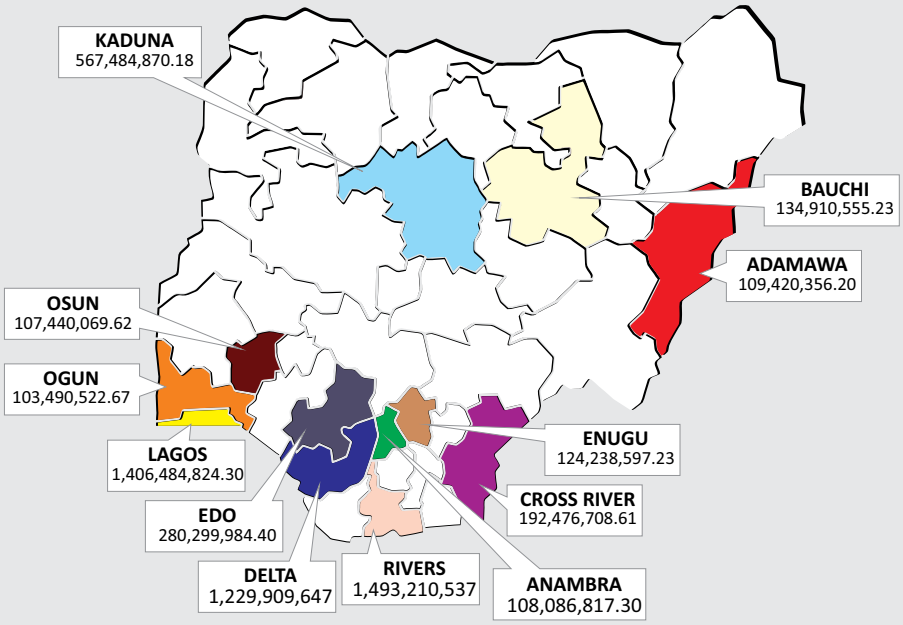


Sources: NBS IGR at State Level 2017 & BudgIT State of States 2017

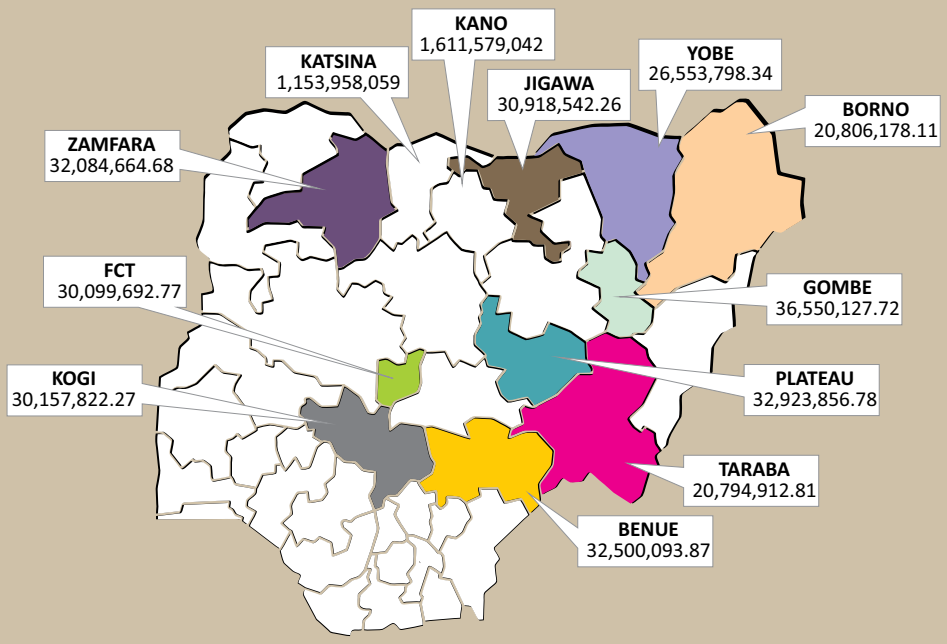
2019: Only Rivers State could cover its recurrent expenditure with IGR alone
2017: Only Lagos could fund its recurrent expenditure entirely from its IGR

FOOTNOTE: IGR Adequacy is defined as the ability of a state to cover its recurrent expenditure from IGR alone. It is calculated by dividing IGR by recurrent expenditure. A score greater than or equal to 1 means that the state's IGR is adequate while a score below 1 indicates that the IGR is inadequate.

States with Highest External Debt ($) - 2020

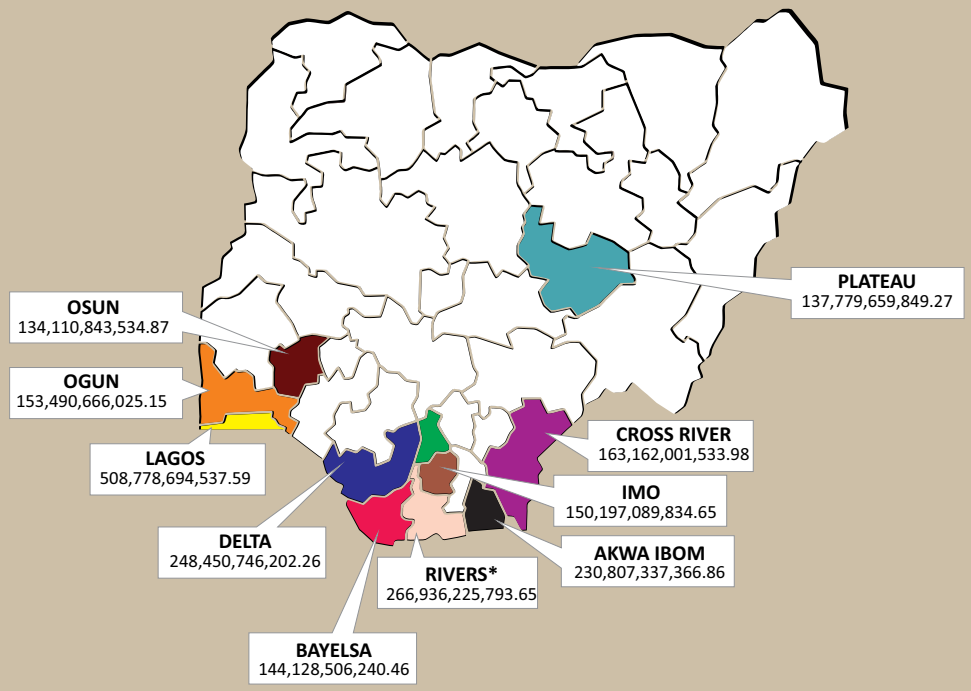


States with Lowest External Debt ($) - 2020

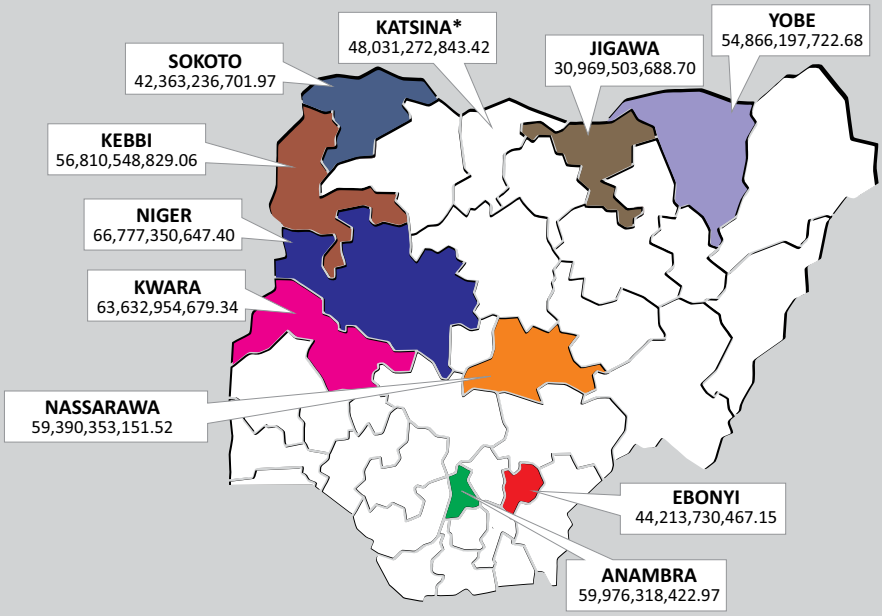


Source: DMO 2020 States, FCT & FG External Debt Stock

States with Highest Domestic Debt (N) - 2020



States with Lowest Domestic Debt (N) - 2020



Source: DMO 2020 States, FCT & FG Domestic Debt Stock

*FOOTNOTE: *Rivers State Domestic debt profile as at December 30, 2018*
*FOOTNOTE: *Katsina State Domestic debt profile as at September 30, 2020*

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