



The Value Added Tax (VAT) Administration in Nigeria and the Practice of Estate Surveying and Valuation

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Abstract: Value Added Tax (TAX) is a consumption tax chargeable on the value added to a product in the process of production. Like all other indirect taxes, it is a tax that targets the final consumer of goods and services. The purpose of VAT in Nigeria is to increase governments' (federal, state and local) revenue from non-oil sector thereby reducing the government's dependence on oil revenue majorly. This study evaluates the effect of VAT on Estate Surveyors and Valuers practice and their clients. Based on secondary data and personal interviews with eight principal partners of Estate Surveyors and Valuers firms in Ikeja axis of the Lagos metropolis, the study revealed that VAT has a significant effect on the spendable income accruable to the clients of the practising Estate Surveyors and Valuers and by extension the income of the Estate Surveying and Valuation firms since these clients often see the firms as the agents of government being the channels through which government collect VAT on the services they render to clients. The study recommends adequate enlightenment of property owners and by extension all whose goods and services are VATable.

Keywords: Estate Surveying and Valuation, Value Added Tax, Revenue, Taxation, Nigeria

1. Introduction

Taxation, generally, is the imposition of levies by governments on individuals, groups, corporate bodies and services for the purpose of generating revenue for the defrayment of government expenditures (Igwe-Kalu, 1998). The importance of taxation lies in its ability to generate revenue for the government, influence the consumption pattern of the people, regulate the economy by influencing such vital economic variables such as income, employment, prices and other parameters in the economy. Tax can therefore be defined as a means by which government appropriates part of the private sector's income. Regardless of how tax or taxation is defined, the concept has its implicit functions. Slinger (1995) and Ola (1985) identified revenue generation, income and wealth redistribution and fiscal policy as the three basic functions the introduction of tax/taxation are meant to accomplish in any economy. However, Umeh (1975) listed revenue raising, social justice, income redistribution, capital formation, planning and economic development as the functions of taxes. Therefore, tax and indeed taxation is important and serves as source of revenue on which the life of government and indeed societies are sustained. The ability of government to generate enough revenue from this sector often affects services being rendered as the political, economic and social development of any country depends on the amount of revenue generated. One of the major means of generating revenue for providing the needed infrastructure and services in any economy is through a well-structured tax system. However, in Nigeria one of the criticisms often levelled against the country's tax system centres on its structure and administration. At the structural level, it

has peculiar socio-economic character, goal and problem of the country. While at the administrative level, it is argued that the machinery and procedures for implementing the tax system are inadequate and therefore accounts for the consistent low yields and inter group inequality.

It is against the aforementioned defects that the Federal Government of Nigeria introduced a new tax system known as Value Added Tax with the promulgation of Decree No. 102 of 1993. The new tax system came into effect on 1st January, 1994. Value Added Tax (VAT) is collected by the Federal Government and shared amongst the three tiers of government in the country in the following proportion; Federal Government 50%, States 35% and Local Governments 15% to augment their other sources of revenue. Even though the rationale behind the introduction of VAT in the country is laudable but its collection tends to impinge on the operations of practising Estate Surveyors and Valuers as well as their clients who are made to bear the effect of the tax by way of reduction in their incomes. It is on the premise of the above that the study sets out to examine the operation of the Value Added Tax system as it affects Estate Surveying and Valuation practise in Nigeria

2. Review of Related Literature

Literatures germane to taxation are hereby reviewed. It is structured into three sections namely; conceptual theory of taxation, concept of value added tax (VAT) and VAT administration, Registration and Vatable services/products in Nigeria.

2.1 Conceptual Theory of Taxation

Taxation can be defined as a "compulsory levy imposed by the government through its agent on income, capital and consumption of its

subjects” (Adegboyega; 1998). Taxation is also defined as kind of levy imposed by government against the income, profit or wealth of an individual, partnership or corporate organisation. Business Dictionary on the other hand defines taxation as “a means by which governments finance their expenditure by imposing charges on citizens and corporate entities”. Ariwodola (2001) described tax as a compulsory levy imposed by the government authority through its agents on its subjects or his property to achieve some goals. Arnold and McIntyre, (2002) define tax as a compulsory levy on income, consumption and production of goods and services as provided by the relevant legislation. Tax is a charge imposed by government authority upon property, individuals, or transactions to raise money for public purposes. The Nigerian tax administration is in line with the British model of tax administration since 1960 and has been operating this up to 1990 when the self-assessment scheme came into play which seems similar to the American model of tax administration system (Adesola 2004). The British model of tax administration assumes tax payers are incompetent as to the tax process and as such tax authorities do not always rely on information supplied by tax payers. Hence, returns of the tax payers are carefully verified through the application of the set standards and models to ensure the information and data supplied by the tax payers are genuine and correct. The American model, despite the advantages that can be derived from its application, has not found a good place in Nigeria because all the phenomenon that made it a success in America, such as voluntary compliance system, competence of tax payer, efficient data processing system

which aids detection of fraud, are not present in the Nigeria context. Consequently, this disadvantage has adversely impacted on local government tax system in the country. Such impact has generally been based on problems associated with collection, assessment and returns procedures in each local government council area. There is doubt on how efficient the tax authority and other bodies participating in the collection of tax and make returns to the local and State government. In an economy, such as in Nigeria, where great reliance is placed majorly on allocation from Federal government as source of revenue by both State and local governments, the understanding and appreciation of the significance of tax, as a source of revenue, is of paramount importance. This is to enable those at the helm of affair the opportunity to examine potential revenue generated in the State but to enable the decision makers and government to appreciate the need for administrative changes within the context of tax system.

Many countries of the world today have been striving very hard to achieve rapid overall development through optimum tax collection and expanded revenue base. New forms of taxes are selectively being introduced, particularly by the less developed countries. One of such modern forms of taxation is the Value Added Tax (VAT) introduced into the Nigeria tax system as a replacement to the sales tax. The Federal Government of Nigeria introduced Value Added Tax by virtue of Decree No. 102 of 1993, but the implementation of the law did not commence until 1st January, 1994. Prior to the introduction of the tax, a committee was set-up by the Federal Government in 1991 to review the entire tax system in the country and one of the

recommendations of that committee was introduction of Value Added Tax in the country. Presently, the Federal Inland Revenue Service (FIRS) is saddled with the responsibility of collection of the value added tax.

2.2 Concept of Value Added Tax (VAT)

Value Added Tax is a tax on the supply of goods and services which is eventually borne by the final consumer but collected at each stage of the production and distribution chain. VAT is a consumption tax on economic operations which include imported goods and services and are borne by consumers of goods and services. History has it that VAT originated from the Rome Treaty signed by European Union Countries in the late 1960s. Value Added Tax is practiced in more

than 60 countries of the world cutting across Europe, Latin America, Asia and Africa. Some of these countries include Japan, Argentina, Switzerland, United Kingdom, the Netherlands, France and Zimbabwe among others. For Instance, Burgess and Stern (1993) argue that the structure of taxation in developing countries differs from that of developed. For developing countries, we have roughly two-third of tax revenue coming from indirect taxes like VAT while for developed countries two third come from direct taxes. The duo suggested that tax structure can change over time to maximize economic growth rate. Table 1 provides information about VAT regarding date of introduction, tax rates and mode of application in some countries of the world including Nigeria

Table 1: Details about VAT Introduction and Application in Some African Countries

Country	Year Introduced	Mode of Levy	Tax Rate (%)
Cote D'ivoire	1960	Wholesale	5,11,25,35
Guinea	1960	Retail	6,13
Kenya	1960	Retail	5,18,30,50,75
Madagascar	1960	Retail	15
Senegal	1961	Retail	7,20,30,34
Mauritius	1983	Retail	5
Togo	1984	Retail	-
Morocco	1986	Retail	7,14,19
Niger	1986	Retail	10,17,24
Tunisia	1988	Manufacturing	1,17,29
Malawi	1989	Retail	10,35,55,85
Benin Republic	1991	Wholesale	18
Mali	1991	Wholesale	10,17
South Africa	1991	Retail	14
Algeria	1992	Retail	7,13,21,20
Tanzania	1994	Retail	-
Nigeria	1994	Wholesale	5

Sources: 1. FERIA, R. and SCHOEMAN, A. (2016)
2. BODIN, J.P. and KOUKPAIZAN, V. (2009)

A cursory look at Table 1 indicates that there is variation in the mode of application and administration in the African countries. While the tax is charged at the wholesale level in some

countries, majority of the countries apply the tax at the retail level while in a country like Tunisia, the application of the tax is at the level of manufacturing.

In the same vein, the rate (i.e per cent) of the taxation equally varies.

In Nigeria, VAT is computed at a flat rate of 5 per cent of prices of goods and services but a zero rate on exports. The rate is imposed on goods and services at various stages of distribution from manufacturing, importation through whole sale to retail and then consumers of such goods and services.

VAT was adopted in Nigeria as a sales tax in 1994 to:

- i. Broaden the country's revenue base;
- ii. Effect an equitable tax;
- iii. Provide incentive for export oriented production;
- iv. Shift taxation towards consumption rather than savings; and
- v. Reduce the incidence of tax evasion

The introduction of VAT in the country:

1. Covers a wide range of goods and services and as a result, provides an avenue for high revenue generation for the government at all levels in the country.
2. Being a consumption tax, makes it impossible to avoid or evade as could be commonly done with income tax and some other form of taxes.
3. VAT is progressive in nature, since the more goods or services consumed, the more the tax the consumer of such goods or services pay.
4. It is tied to consumption, thus helping government to rationalize the consumption pattern of the society.

2.3 VAT Administration, Registration and VATable Services/Products in Nigeria

The Decree that established the introduction of the tax bestowed the administration and management of VAT on the Federal Board of Inland Revenue and specifically empowered the Board with the responsibility for the assessment and collection of the tax and account for the entire amount so collected in accordance with the provision of the Act.

With regards to VAT registration, this is a process of identifying those who are expected and/or required under the provisions of the VAT Decree to be registered or liable to be registered and consequently required under the Decree to be charged and account for VAT collections and subsequent remittance to the government appropriate authorities. Hence, all domestic manufacturers, wholesalers, distributors, importers and suppliers of goods and services in Nigeria are expected to register for VAT.

A taxable activity for the purpose of VAT includes any activity, other than those in exempt list, conducted as business, vocation, trade and profession. It includes the activities of public or government authorities, associations and clubs. It does not matter whether or not the activity is carried out on a profit, but it should involve the supply of goods and services to another person for consideration. Besides those expressly exempted by law, a number of activities are not taxable activities. These are:

- a. Salary or wage from employment;
- b. Hobby activities;
- c. Private transactions such as the occasional sale of domestic or household articles, furnishings, personal effects etc; and
- d. House rent.

Some of the exempted goods from VAT payment include:

- i. Medical and pharmaceutical products;
- ii. Basic food items;
- iii. Books and educational materials
- iv. Baby products
- v. Commercial vehicles and their spare parts; and agricultural equipment and products, fertilizer and veterinary medicine.
- vi. All exports;
- vii. Plant and machinery imported for use in the Export Processing Zones;
- viii. Plant, machinery and equipment purchased for utilization of gas down-stream petroleum operations;
- ix. Tractors, ploughs and agricultural equipment purchased for agricultural purposes.

Exempted services from VAT include:

- a. Medical services; and
- b. Services by Community/Peoples (now Microfinance) banks and Mortgage Institutions;
- c. Plays and performance conducted by educational institutions as part of learning.

Below is a breakdown of the schedule of the VATable goods and services as spelt out in the law that established the introduction of Value Added Tax in Nigeria and a flat rate of 5% is charged on all.

All goods manufactured or assembled in Nigeria
 All goods imported to Nigeria
 All second hand goods
 Household furniture and equipment
 Petroleum and all petroleum products
 Jewels and jewelleryes
 Textiles, clothing, carpets and rugs
 Beer, wine, spirit, soft drinks and bottled water

Perfumes and cosmetics (including toiletries)
 Cigarette and tobacco
 All vehicles and their spare parts
 All air crafts, air crafts bodies and their spare parts
 Soaps and detergents
 Mining and minerals
 Office furniture and equipment
 Electric materials of all description
 Such other goods as may be determined by the Board from time to time as taxable goods
 All services rendered by financial institutions (excluding mortgage institutions)
 Accounting services including any type of auditing, book-keeping or any other related services
 Legal services including services supplied there with
 Computer including the provision of bureau facilities, system analysis, software design, site development and training
 Services supplied by Architects and other allied services such as Estate Surveying and valuation
 Services supplied by Brokers
 Services supplied by Security companies and enterprises
 Courier services
 Repair, alteration, processing or any other services provided in connection with designated goods by designated dealers
 Telecommunication equipment installation and maintenance services
 Letting of video tapes or any audio visual recording or hiring, copying, rewriting of video tapes and other similar services
 Entertainment services including plays and performance, crime shows and music concerts including plays and performance conducted by educational institutions as part of learning

Air travels and car hires

Any other services as may be determined by the Board from time to time as taxable services

2.4 Estate Surveying and Valuation Profession

The profession of estate surveying and valuation is defined as the art, science and practice of:

- (a) Determining the value of all description of property and of the various interest therein;
- (b) Managing and developing estates and other businesses concerned with the management of landed property;
- (c) Securing the optimal use of land and its associated resources to meet social and economic needs;
- (d) Determining the structure and condition of buildings and their services and advising on their maintenance, alteration and improvement;
- (e) Determining the economic use of land resources by means of financial appraisal for the building industry; and
- (f) Selling (whether by auction or otherwise) and buying or letting (as agent) of real and personal property and any interest therein.

The Nigerian Institution of Estate Surveyors and Valuers which is a non-profit voluntary, professional organisation set up in 1969 to cater for the interest of the landed profession in Nigeria. The Institution and by extensions, the profession was accorded official government recognition in 1975 with the promulgation of Estate Surveyors and Valuers (Registration, etc.) Decree Number 24 of 1975. The decree also established the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON), as a corporate body empowered to regulate

the profession of Estate Surveying and Valuation in Nigeria.

3. Methodology

The methodology used involved review of relevant literature on the subject of study and interview with eight principal partners of selected Estate Surveying and Valuation firms having their offices located within Ikeja axis of Lagos Metropolis with a view to ascertaining their views on the effects of Value Added Tax on their practice and by extension, the effects of the law on their clients.

4. Value Added Tax and Real Estate Practice in Nigeria

Professionals such as Accountants, Lawyers, Engineers, Architects, Quantity Surveyors, Estate Surveyors and Valuers, etc, who provide professional services to their clients are required to register under the law establishing the tax. Estate Surveying and Valuation firms as a profession, essentially provide services such as property valuation, estate agency, feasibility and viability appraisal, property management, property development, project management, etc and for these services, fees are charged or chargeable. Therefore, Estate Surveyors and Valuers, in their professional capacities provide services and these services are VATable or subject to payment of VAT. It is worthy of note for professional Estate Surveyors and Valuers to realise that:

- i. VAT is a tax on spending and as such, the tax is borne by final consumer of goods and services because it is included in the price paid for goods and services under the law authorising the tax;
- ii. The tax is flat rate of 5 per cent;
- iii. The tax is collectable on behalf of government;

- iv. A business or organisation which has registered for VAT is classified as a “registered person”;
- v. The registered person has to make regular returns monthly to the local VAT office; and Records and accounts have to be kept.

The Estate Surveyor and Valuer have an obligation under the Value Added Tax Decree 102 of 1993 to register at the nearest VAT office. As a VATable person, Estate Surveyor and Valuer is required to keep proper records and books of all transactions, operations, importance and activities sufficient enough to calculate the correct amount of VAT payable at every material time. These records include cash books, sales and purchases day books, ledger accounts, balance sheets etc. In addition, VAT accounts need to be kept. This can be in form of ledger card. To make VAT returns, Estate Surveyor and Valuer is required by law establishing VAT to render a return to his or her local VAT office on monthly basis using VAT Form 002.

Failure to comply with the provisions of the VAT Decree (Act) by any practising Estate Surveyor and Valuer or any professional constitutes a serious offence attracting various degree of punishments. Some of the acts that constitute offence under the provision of Decree (Act) establishing VAT in Nigeria include: failure to register; failure to furnish required information; making false claims; failure to keep proper records and accounts; failure to collect tax; obstructing VAT inspectors; and failure to submit VAT returns.

5. The Role of Estate Surveyors and Valuers in the Administration of Value Added Tax (VAT) in Nigeria

Schedule 2 of the Decree (Act) under items 7 and 9 identified the services

rendered by Estate Surveyors and Valuers as VATable services. Therefore, an Estate Surveyor and Valuer is regarded as taxable person. Section 8 of the Decree also requires that Estate Surveyors and Valuers who engage in private practice are required to register with any of the VAT offices of Federal Inland Revenue Service for purposes of tax. Sections 14, 15 (1), 28 and 31 of the Decree (Act) amongst others spelt out penalties that await defaulters and/or offenders under the law. In line with the provision of the law establishing Value Added Tax in the country, any Estate Surveyor and Valuer just like other professional organisations who knowingly or intentionally fails to register under the Decree (Act) is guilty of an offence which is punishable in accordance with the dictates of the law. Also, an Estate Surveyor and Valuer who fails, to collect VAT or submit returns, is equally liable to pay penalty.

In accordance with Section 1 of the Decree (Act), the value of taxable goods and services shall be determined as follows:

- (a) If the supply is for a monetary consideration, its value shall be deemed to be an amount which, with the addition, of the tax chargeable, is equal to the consideration;
- (b) If the supply is for non-monetary consideration, the value of the supply shall be deemed to be its market value.

Therefore, all fees receivable for various services being rendered by practising Estate Surveyors and Valuers (Estate Agency, Valuations for various purposes, Property Management and Property Development, including all rents and Service Charges payable on all type of properties as well as well

property lettings) are VATable. Estate Surveyors and Valuers just like other professionals are not expected to build VAT into their fees as they are expected to be treated separately. Rather they are

required to indicate their fees and VAT separately. The typical way of preparing professional fees and VAT account is shown in Table 2:

Table 2: Typical Statement of Value Added Account in Respect of Fees Chargeable on Management Property by Estate Surveyor and Valuer

Particulars/Details of Services Rendered	Subtotal Total (N)
Collected Rents	500,000.00
Professional Fees @ 10% of Total Rent	50,000.00
Value Added Tax deductible at source as mandated by Federal Government of Nigeria being 5% of the Professional Fees	2,500.00
Total Amount to be remitted to the Client	447,500.00

From Table 2, it can be seen that the deduction of 5 per cent for VAT purposes has led to reduction of the spendable income of the landlord with the sum of N2,500.00 which the Estate Surveyor and Valuer managing such properties is expected to deduct from the rent collected on behalf of the landlord.

The conclusion that can be drawn from the introduction of Value Added Tax is that the law, has in a way, added to the tax burden of house owners or anyone employing the services of Estate Surveyors and Valuers or any other professional for any services.

Table 3: Typical Statement of Value Added Account in Respect of Fees Chargeable for Valuation Assignment by Estate Surveyor and Valuer

Particulars/Details of Services Rendered	Fees Chargeable (N)	Total (N)
Valuation figure/estimate	-	5,000,000.00
Professional Fees based on the Nigerian Institution of Estate Surveyors and Valuers Scale of Fees	750,000	
Value Added Tax payable to Federal Inland Revenue Service by the Estate Surveying and Valuation firm that carried out the valuation	37,500	
Total Amount Payable by the Client	787,500	

Table 3 reveals the scenario of the situation in the case of typical valuation assignment undertaking by Estate Surveyors and Valuers for their client. On a valuation assignment whereby the Valuers arrive at valuation figure of five million naira (N5,000,000.00), based on the approved scale of professional charges, the Valuers that carried out the valuation assignment is obliged to charge seven hundred and fifty thousand naira (N750,000.00) as his professional charge and on the basis

of the law which established value added tax in Nigeria, the Valuer involved is expected to pay five per cent (5%) of his professional charges in the sum of thirty seven thousand, five hundred naira (N37,500.00) as tax to the Federal Inland Revenue Service. The additional 5% payable to the Federal Inland Revenue Services by the firm of Estate Surveying and Valuation as VAT constitute additional burden which in most cases, clients do complain about as

additional expenditure and burden impinging on their spendable income.

6. Conclusion

The introduction of Value Added Tax (VAT) has since been negatively impacting the practising Estate Surveyors and Valuers due to the fact that their clients are not favourably disposed to the implementation of the tax as it tend to result into reduction in

their spendable income and as such often vent their anger on their consultant Estate Surveyors and Valuers whom they often perceived as being responsible for adding to their financial burden since they (Estate Surveying and Valuation firms) are responsible for collection of the tax from their clients on behalf of the government.

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