# The Conundrum in the Case between the A.G. Rivers State V Firs and Attorney General of the Federation

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## Abstract

*In Nigeria, VAT is regulated by the Value Added Tax Act of 1993, which established the Federal Inland Revenue Service (FIRS) as the agency responsible for administering and collecting VAT. Currently, the VAT rate in Nigeria is 7.5%, which was increased from 5% in 2020, which is relatively low compared to other countries[1]. Businesses that are required to register for VAT include those with an annual turnover of ₦25 million or more, as well as companies that provide taxable goods and services. The FIRS also provides exemptions and zero-rated VAT items, which include basic food items, medical and pharmaceutical products, books and educational materials, and exports. VAT is an important source of revenue for the Nigerian government. In 2020[2], the FIRS collected a total of ₦1.53 trillion in VAT, which accounted for about 17% of the agency's total revenue.*

**Keyword**: Revenue, Value Added Tax, Rate, Registration and Waiver

## 1. Introduction

The issue of which appropriate arm of government (state or federal) is reposed with the power to impose and collect VAT in Nigeria is still a matter of controversy. In the recent landmark case of

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1 Olumuyiwa A. Alaba, *'VAT and the Nigerian Economy: Issues, Challenges and Prospects'*, International Journal of Accounting and Financial Reporting (1)(10) (2008)

2 https://nairametrics.com/2021/01/27/nigeria-generates-n1-53-trillion-vat-in-2020-grows-by-29/ accessed April 10th 2023

*A.G. Rivers State v. FIRS &AG Federation,*[3] the Federal High Court provided a literal interpretation of the Constitution of the Federal Republic of Nigeria 1999 (as amended) holding that the National Assembly is only empowered to enact laws in relation to stamp duties, taxation of income/profit and capital gains. The court held that pursuant to the Constitution, the federal Government or any of its agencies, lack the powers to impose and collect VAT, or any other tax not specifically provided for in the Constitution.[4] The FIRS has however filed an appeal against the Federal High Court judgment at the Court of Appeal which led to the order of the Court of Appeal for parties in the case to maintain status quo (the existing state of affairs).

The Rivers State government has asked the Supreme Court to set aside the order of the court of appeal which directed the state to maintain status quo.

The 1999 Constitution of the Federal Republic of Nigeria contains distinct powers allotted to the Federal and States governments respectively. While the Federal government has the power to the exclusion of any other person or body to legislate and oversee matters under the Exclusive Legislative Lists, both the Federal and the States government are empowered to exercise power and oversee matters under the concurrent legislative list. The implication of this constitutional arrangement is that matters which can be found neither under the exclusive list nor in the concurrent legislative list are considered as residual matters and are vested on the legislative jurisdiction of the components states government. Consequently, since VAT whether specifically or in any other nomenclature or ejusdem generis like Sales or Consumption Tax was neither listed in the Exclusive nor in the Concurrent Lists of the 1999 Constitution of the Federal Republic of Nigeria, the implication therefore is that VAT is to be considered as a residual matter or item

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3 FHC/PH/149/2020, Federal High Court Port Harcourt division, 9th August 2021.

4 Alex-Adedipe, F. Akinyanmi, Nigeria's Value Added Tax (VAT) Regime; Regulatory Update https://www.mondag.com/nigeria/sales-taxes-vat/gst/110590/nigeria395-value-added-tax-vat-regime-regulatory-update accessed May 5th 2023.

which falls exclusively within the powers and jurisdictions of States to legislate.[5]

## 2. Registration of Value Added Tax (VAT)

VAT is collected through registered persons who are known as "taxable persons". A taxable person under section 12 of the VAT (Amendment) Act of 2007 includes an individual, family, corporation, sole trustee or executor or a person who carries out in a place economic activity, a person exploiting tangible or intangible to obtain income by way of trade or business or agency or government acting in that capacity. Also, section 46 of the VATA 2004 although narrow define a taxable person to be a person who independently carries out economic activity. A taxable person is obliged to register with the FIRS for VAT collection "within six months of the commencement of the Act or within six months of the commencement of business, whichever is earlier.[6] The penalty for failure to register is either for the First month of default is N50, 000 or the Subsequent months in which failure continues is N25, 000.[7]

Since a period of six months has elapsed after the promulgation of the Act, it presupposes that every taxable person is now obliged to register as soon as it commences business. Section 8 of the VAT Act was amended to mandate all taxable persons to immediately register for the tax upon the commencement of business as defined in Section 46 of the VAT Act.[8]

Although section 9 of the VAT Act simply requires a taxable person to register for VAT collection which presupposes a single registration, in practice, the FIRS has however directed that where a taxable person has more than one branch, each branch should register separately at the nearest tax office to it. The implication of this is that such a business entity is obliged to have a multiple registration and maintain independent records of its VAT transactions at each branch.

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5 E I Amah, 'A Critical Analysis of the Federal and States Taxing Powers in Nigeria' (2011)1 Journal of Commercial and Contemporary Law (JCCL) of the Department of Commercial Law, Faculty of Law, Imo State University, 61-66.

6 See section 8 (1), (n39)

7 Finance Act, 2021

8 Ibid

This directive has been severely criticized as imposing avoidable hardship on affected taxable persons.[9]

Section 10 (a) of the VAT Act LFN 2004 provides that a non-resident person who makes taxable supplies to a person in Nigeria, is required to register for the tax with the FIRS and obtain a Taxpayer Identification Number (TIN)

Registration is one of the important determinants of the VAT base, in other words, the more the number of registrants the higher the expected tax yield.

Section 8 of the VAT Act NO 102 1993[10] implies that:

i. Any type of business, corporate or incorporate must register for VAT with the FIRS integral tax office (ITO)
ii. There is no registration threshold in Nigeria
iii. Even those trading in exempt goods and services must register.

VAT registration which is free is applied for through VAT form 001.

**Value Added Tax (VAT) Registration Number**

When a vatable person is registered, he is assigned a unique VAT registration Number (VRN) which will be on his VAT registration certificate. This number must be imputed on all his invoices and correspondence with the tax office. Thus, VRN is the unique number that identifies a taxable person (business) or non-taxable legal entity that is registered for VAT. Usually the VAT number an entity is provided with becomes such entity TIN registration Number. A VAT registration with FIRS is carried out by completing Form 001. The applicant must provide an incorporation number or personal ID if not incorporated. Upon being granted a VAT registration, a unique 10-digit VAT identification number is provided to the tax payer to use on invoices or when submitting VAT returns.[11]

The VAT registration Number is composed of the following:[12]

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9 (n25)

10 A manufacturer, wholesaler, importer and a supplier of taxable goods and service shall, within six months of the commencement of the Act or within six months of commencement of business, whichever is earlier, register with the board for the purpose of tax.

11 https://www.avalara.com/vatlive/en/country-guides/africa-and-middle-east/nigeria/nigerian-vat-registration.htmlaccessed June 13, 2023

12 Linus S. IGBOYI, "Principles and practice of taxation in Nigeria" REVISED EDITION

i. *Residence code:* this indicates the area of location of the company. All the taxable persons in a particular local VAT office are to have an identical residence code to identify jurisdiction area,

ii. *Business or Trade code:* all business in Nigeria has been classified into trade groups. Example 01 for financial institution, 02 for agriculture and agro-allied businesses, 03 for conglomerates, 05 for construction business, 06 for trading business etcetera.

We also have individual, registered businesses and incorporated businesses as possible registrants

iii. *Registration number:* the incorporation or registration number is the last component. Registration number are unique. Where the registered person is an individual (with no incorporation number) serial Number are assigned.

**Value Added Tax Registration Certificate**

Every registered person must be issued a VAT registration certificate. A VAT certificate is a document that FIRS board provides to confirm that your business is officially registered for VAT.

The VAT certificate contains the following

i. Name of the vatable person
ii. Address of the vatable person
iii. Vat registration Number (VRN)
iv. The signature of the VAT officer or Tax controller
v. The signature of the counter-signing VAT director
vi. Date of issuance of certificate.

**Value Added Tax (VAT) Returns and Remittance**

The amendment to Section 15 of the VAT Act created a threshold for taxable persons under the Act. By this provision, only taxable persons with taxable supplies of N25million or more are required to charge, collect, remit the tax and file monthly returns to the FIRS.

Monthly VAT returns are to be rendered in the appropriate form as listed below:[13]

i. Form VAT 002: for own business returns filing in line with Section 15(1).
ii. Form VAT 002A: for rendering returns on VAT withheld and reverse charged VAT in accordance with Section 13.
iii. Form VAT 002B: for rendering returns by self-account filers in line with section 14(3) and 14(4).
iv. Form VAT 002NRC: this is for non-resident filers rendering returns in line with Section 10.

A taxable individual that has performed or envisions making taxable deliveries totaling more than N25, 000,000.00 must now proffer VAT returns to the FIRS by the 21st day of each month in which the criterion is reached and by the same date in each succeeding month after that, in full compliance with the Finance Act. While businesses direct their attention first to their VAT registration and then to the creation of their VAT return for submission to the Tax Authorities, VAT remittance is a component of VAT compliance that is sometimes overlooked in the chain of compliance services.

Generally, suppliers of goods and services in Nigeria are required to collect VAT at the rate of 7.5% and remit it to the FIRS on or before the 21st day of the following month but now based on the recent provision 14 days[14]. Most service providers usually charge their clients VAT in addition to their fees.

Nigeria mandates that VAT returns be submitted on Form 002 on a monthly basis. By the 21st of the month following the reporting period, they are due. By this date, you should also pay any outstanding VAT. This must be accomplished by a payment or bank transfer from an authorized institution. Returns can be filed on paper or electronically.

A list of all supplies received and given that are Vatable must be submitted with the return.

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13 https://firs.gov.ng/wp-content/uploads/2021/06/CLARIFICATION-ON-THE-IMPLEMENTATION-OF-THE-VALUE-ADDED-TAX-VAT-ACT.pdfaccessed may 25th 2023

14 (n43)

The penalty for not filing a return is NGN 5,000 per month. Any unpaid VAT will result in a penalty of 5% of the liability plus interest.[15]

Returns illustrates the credit mechanism, which has been built into the vat system by which input tax paid is deducted from output tax received, and the balance remitted to the government. Every importer must also render returns to the VAT office monthly although payment is made to the custom officers at the port of embankment.[16]

Returns by the Nigeria custom is made on form VAT 006 which include[17]

a. A listing of the bill entries
b. Total vatable value
c. VAT charged
d. VAT remitted
e. Total amount lodged in the VAT account with the central bank of Nigeria (CBN)
f. The head of signature of the head of point entry including the date.

Monthly return of VAT reconciliation statement from local VAT office to zonal office, is made on form VAT 003. It contains the following:[18]

a. Amount of net VAT collected by the cash book of the local VAT office
b. Unexplained credit transfers by CBN, uncleared effect
c. Dishonored claque's
d. VAT refunded and other reconciliation items
e. Net VAT collection
f. Amount transferred to Abuja VAT account by CBN
g. VAT collation officer Name, signature and date
h. VAT area Tax controller name, signature and date.

Regional offices are obligated to provide their VAT reconciliation statement to headquarters employing Form VAT 004.

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15 https://www.imf.org/~/media/Files/Publications/CR/2018/cr1864.ashx accessed may 25th 2023
16 (n71)
17 SEYI OJO *Fundamental Principles Of Nigeria Tax*(2nd edition, Sagribra Tax Publication, 2003)
18 Ibid

The five returns from the regional officer's reports must be coordinated and compared to the cost incurred to CBN. Each local VAT office's collection will be reflected in the returns because this information is crucial for determining how to distribute income.

Form VAT 005 is employed to report returns of VAT Payment made to the CBN's VAT account as well as returns of VAT generated. It indicates the revenue in which each federation state remitted to the account.

## 3. Assessment of Value Added Tax (VAT)

In Nigeria, VAT is regulated by the Value Added Tax Act of 1993, which established the Federal Inland Revenue Service (FIRS) as the agency responsible for administering and collecting VAT. Currently, the VAT rate in Nigeria is 7.5%, which was increased from 5% in 2020, which is relatively low compared to other countries[19].

Businesses that are required to register for VAT include those with an annual turnover of ₦25 million or more, as well as companies that provide taxable goods and services. Registered businesses are required to charge VAT on their goods and services and remit it to the FIRS.

The FIRS also provides exemptions and zero-rated VAT items, which include basic food items, medical and pharmaceutical products, books and educational materials, and exports. In addition to exemptions and zero-rated items, the FIRS also provides for VAT refunds for businesses that have overpaid VAT or have incurred VAT on goods and services used for export. However, the process for obtaining VAT refunds in Nigeria can be cumbersome and time-consuming, and some businesses have reported difficulties in accessing their refunds[20].

VAT is an important source of revenue for the Nigerian government. In 2020[21], the FIRS collected a total of ₦1.53 trillion in VAT, which accounted for about 17% of the agency's total revenue

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19 Olumuyiwa A. Alaba, *'VAT and the Nigerian Economy: Issues, Challenges and Prospects'*, International Journal of Accounting and Financial Reporting (1)(10) (2008)

20 Kayode Fagbemi,"*Value Added Tax in Nigeria: An Overview of the Law and Practice: Taxation in Nigeria*"

21 https://nairametrics.com/2021/01/27/nigeria-generates-n1-53-trillion-vat-in-2020-grows-by-29/ accessed April 10th 2023

and in 2022 the Nigerian government collected a total of 697. 38 billion Naira; in the fourth quarter of 2022[22], the revenue generated from VAT is used to fund government programs and projects, including infrastructure development, healthcare, education, and social welfare programs.

However, there have been concerns about the administration and collection of VAT in Nigeria. Some businesses have been accused of failing to register for VAT or remit the tax, while others have engaged in fraudulent activities to evade payment. The FIRS has been taking steps to address these issues, including the introduction of a new electronic platform for VAT registration and payment, as well as the deployment of technology to monitor compliance and detect fraud.

The increase in the VAT rate from 5% to 7.5% in 2020 was aimed at boosting government revenue and reducing the country's reliance on oil revenue. The move was met with mixed reactions from the public and business community in Nigeria. Some argued that the increase would lead to higher prices for goods and services and hurt consumers, while others supported the move as necessary for funding government programs and improving the country's economy.

## 4. Types, Rate and Method of Calculation of the Value Added Tax

Since there are different types of VAT in which the calculation is determined by its rate, it is thus crucial to thoroughly learn and comprehend the types, rate and method of calculation of the value added tax.

### Types of Value Added Tax (VAT)

A VAT is levied on the difference between the purchase cost of an asset and the price at which it can be sold. The types of VAT are determined on the basis of the treatment of capital goods of a firm. Input tax paid for capital goods is allowed or not is the

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22 https://www.premiumtimesng.com/news/more-news/586862-nigerian-govt-generates-n697-billion-vat-in-q4-2022nbs.html#:~:text=The%20National%20Bureau%20of%20Statistics,Q4%202022%2C%20released%20on%20Wednesday. Accessed April 10th 2023.

fundamental question in the study of types of VAT. The VAT tax is imposed on the value-added at each stage of production and distribution. The VAT is used worldwide as a way to tax the consumption of goods and not the taxpayer's income.[23]

There are three distinct categories of VAT all over the world:

a. Usage kind of tax.
b. Earnings kind of tax.
c. Gross National Product (GNP) type of tax.

*Usage kind of VAT Tax:* this type is also known as intake or consumption tax, a tax on the resources for the development with purchasing goods and services is known as a consumption tax obligation. With usage-type VAT, all resources procured from other corporations are exempted from the tax base during the calendar year of purchase, therefore depreciation is not subtracted from the tax base in subsequent years. The money spent on consumption functions as the tax amount for this type of tax.

*Earnings kind of VAT Tax:* this type is also known as revenue type or income type tax. The financial sort Resources and goods purchased from other businesses are included in the tax base in the year of acquisition under VAT. Depreciation from the tax requirement base in later years is not accounted for in this type, nevertheless. This type does not exclude capital goods purchased from other firms from the tax base in the year of purchase. This type, however, excludes depreciation from the tax base in subsequent years. The tax falls both on consumption and net investment. The national internet income functions as the tax base for this type.

*Gross National Product (GNP) Type of Tax:* Gross national product (GNP), calculated without taking into account the depreciation or consumption of capital utilized in the process of manufacturing, is the total market value of the final goods and services generated by an economic growth of the country during a given time period (often a year). It differs from net national product, which is calculated after

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[23] https://assignmentpoint.com/types-of-value-added-tax-vat/accessed April 10th 2023

making this allowance. The difference between the GNP and GDP is that the latter does not include revenue received by the people of a nation from international investment (minus the income earned in the domestic economy accruing to non-nationals from abroad).

Resources purchased by a company from other businesses under this category are not deducted from the tax liability base in the year of acquisition. Furthermore, it does not let the potential tax obligation base's depreciation to be reduced. Both gross investment and intake become subject to taxation. The tax base of this type is the gross domestic product.

**Rate of value added Tax (VAT)**

A tax rate refers to the percentage at which individuals or an organization is taxed. Value-added taxes are collected by state governments, so each state has its own set of standards and guidelines.Nigeria adopted the single rate of 5%[24] of the value of all taxable goods and services when it commenced first, which was the world lowest VAT rate. An attempt by the National Assembly was made to increase the rate of VAT to 10% in 2007[25] which was unsuccessful because it received stiff opposition from the Chartered Institute of Taxation of Nigeria, Organized Private Sector, the Nigerian Labour Congress and even the State Governments who are the major beneficiaries of the revenue from VAT.

Those who oppose the rise in interest rates have continuously stated that FIRS should work to broaden VAT coverage to individuals who are currently not obligated to pay taxes and overall raise level of compliance.

However, of recent the federal Executive Council (FEC) of the Federal Government of Nigeria on the 11th of September 2019, approved a 50% increase in the value added tax (VAT) rate from 5% to 7.5%. This rate took effect 2020 after due consultation was taken.[26]

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24 See section 4, VAT Act. ibid

25 Paragraph 3 of a Bill passed in 2007, to amend the Value Added Tax Act which was pending before the National Assembly.

26 Finance Act 2020 accessed from https://pwcnigeria.typepad.com/files/finance-act-2020-official-gazette.pdf on June 12, 2023.

The increase in the rate has thus increase the revenue generated for the state. The National Bureau of Statistics (NBS) said the federal government generated N625.39 billion as Value Added Tax (VAT) in the third quarter of 2022.[27]

It is important to note that the advantages of the VAT Act depend on its effective implementation, proper administration, and enforcement. Additionally, the specific design and features of the VAT Act may vary from country to country, influencing the extent to which these advantages are realized.

## 5. Demerit of Value Added Tax (VAT)

While the Value Added Tax (VAT) Act has several advantages, there are also some potential disadvantages that should be considered. Here are some of the disadvantages of the VAT Act:

1. Repressiveness[28]: The VAT is opposed by individuals who favour a progressive tax system, in which taxes are increased in accordance with an individual's income. In general, those who are impoverished tend to spend their money more frequently than they do their savings. This implies that a low-income earner would be subject to VAT to a greater extent than a high-income. VAT can contribute to inflationary pressures, as it increases the cost of goods and services. This can lead to higher prices for consumers, which can be a burden for low-income households.
2. The omission of certain products: Due to government exemptions, the final cost of some goods and services—such as medical supplies or postal services—does not include VAT. This could reduce the overall tax revenue that a government receives. Consumers profit from these exclusions since they have to spend less money, even if they can burden businesses. Most businesses generate enough money from VAT to offset the negative effects of these exclusions.
3. Regressive nature[29]: VAT is a regressive tax, which means that it has a greater impact on low-income individuals and families.

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27 https://www.premiumtimesng.com/news/top-news/571261-nigerian-govt-generates-n625-billion-vat-in-q3-2022-nbs.htmlaccessed April 28th 2023

28 https://www.firs.gov.ng/Tax-Types/Value-Added-Tax accessed April 19th 2023.

29 https://openknowledge.worldbank.org/handle/10986/21437) accessed April 19th 2023.

This is because low-income households spend a higher proportion of their income on goods and services, so they are more affected by the tax.

4. Administrative costs[30]: VAT can be complex to administer, especially for small businesses. This can lead to additional administrative costs, as businesses may need to hire experts or software systems to help them comply with the tax regulations.
5. Burden on small businesses[31]: VAT can be a burden on small businesses, especially those that operate at a low profit margin. This is because VAT is levied on each stage of production and distribution, which can increase the cost of doing business.
6. Complexity: VAT can be complex and difficult to understand for consumers, especially for those who are not familiar with tax regulations. This can lead to confusion and frustration among consumers, which can be a barrier to compliance.
7. Distortion of consumption[32]: VAT can distort consumption patterns, as it can incentivize consumers to purchase cheaper goods and services that are subject to a lower VAT rate, rather than higher-quality goods and services that are subject to a higher VAT rate. This can lead to a reduction in the overall quality of goods and services available in the market.
8. Cross-border issues: VAT can create cross-border issues, especially in the context of international trade. This is because VAT regulations can vary significantly between countries, which can make it difficult for businesses to comply with the tax regulations when operating across borders.
9. Administrative complexity[33]: VAT can be administratively complex, especially for businesses that operate in multiple jurisdictions. This can increase the administrative burden for businesses and create compliance challenges.
10. Compliance Costs for Government[34]: Effective administration and enforcement of VAT require significant resources and

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30 https://www.imf.org/en/Topics/imf-and-taxation/VAT-Value-Added-Tax accessed April 19th 2023.

31 https://openknowledge.worldbank.org/bitstream/handle/10986/21437/9781464803295.pdf?sequence=12 accessed 19th April 2023

32 Alan Schenk and Oliver Oldman, Value Added Tax: A Comparative Approach. (Transitional Publishers, 2001)

33 Monica Adele Orisadare and Kazeem fasoye 'The Effect of Value Added Tax on economic growth of Nigerian' African Journal of Economic Review (2022) (10) (1)

34 Ibid

skilled personnel for tax authorities. Monitoring compliance, conducting audits, and addressing tax evasion can be costly and time-consuming, impacting the efficiency of tax administration.

It's important to note that not all of these potential disadvantages will apply to every implementation of the VAT system. The specific design and implementation of the VAT Act can influence which disadvantages are most relevant and significant. However, it's important to consider these potential disadvantages when evaluating the effectiveness and fairness of the VAT system.

## 6. Goods and Services Exempted from Value Added Tax (VAT)

The Act[35] provides for the fact that some goods and services are exempted from VAT. Detailed outright exemption of VAT on some goods and services in Nigeria was provided for in the first schedule of the VATA.

This means that there is no obligation of VAT and no attempt at charging VAT ab initio. Exempted goods and services attract neither input nor output, of the former from the latter and remittance of the difference to FIRS does not arise.

Taking the social, political and economic development of Nigeria into consideration, section 3 of the VATA exempts the listed goods and services itemized in the Schedule[36] which is divided into three parts thus:

***Part 1 – Good Exempt***

1. All medical and pharmaceutical products
2. Basic food items
3. Books and educational materials
4. Baby products
5. Locally produced fertilizer, agricultural and veterinary medicine, farming machinery and farming transportation equipment
6. All exported goods

35 section 2, Value Added Tax Act, Law of the Federation of Nigeria,102, 1993
36 First schedule Ibid.

7. Plant and machinery imported for use in the Export Processing Zone
8. Plant, machinery and equipment purchased for utilization of gas in downstream petroleum operations
9. Tractors, ploughs, agricultural equipment and implements purchased for agricultural purposes.

***Part II – Services Exempt***

1. Medical services
2. Services rendered by Community Banks, People's Bank and Mortgage Institutions;
3. Plays and performances conducted by educational institutions as part
4. All exported services.

**Part III - Zero-rated goods and services**

1. Non-oil exports.
2. Goods and services purchased by diplomats.
3. Goods purchased for use in humanitarian donor funded projects.

The meaning and scope of the exempted goods and services are not defined in either the Statute or the FIRS Circulars. Thus, this has created so many controversies on what really is the meaning of basic food.

## 7. Conclusion

Generally, what is a basic food depends on the status in life of an individual and varies from person to person. The present practice by the FIRS is to limit the meaning of basic food to uncooked and unprocessed food items,[37] while processed food items such as spaghetti, corn flakes, baked beans, rice etcetera are taxable. However according to Arowolo & Folarin, there have been inconsistency in the application by FIRS of the "Processed and unprocessed" rule.[38]

37 such as garri (a staple cassava food in Nigeria)

38 Yomi Olugbenro, issue 35- VAT exemption status: the controversy on basic food items(2014).https://www.mandaq.com/nigeria/sales-vat-gst/294438/inside-tax--issue-35---vat-exemption-status-the-controversy-on-basic-food-items accessed 18th April 2023

It is a matter of understanding that in the absence of clear and precise definition of what constitutes basic food item, the current practice which imposes tax on processed and manufactured foods is open to challenge. This will thus be construed in favour of the taxpayer.

When goods and services are said to be Zero rated it means such goods and service are liable to Tax but at zero per cent. This is simply saying the suppler provides payment for input VAT, the consumer pays no output VAT as the zero rate is on the output VAT.

As seen above they are some goods and services that has been itemized and kept aside so as to be exempted from been vatable, this is done with a reason which varies based on the country nature of economic interest. Most developing countries exempt goods from been vatable for development purposes.

According to Ogundele basic food items, baby food, medical services etc. are exempted because they are heavily patronized by the poor people. Medical services and pharmaceutical products are exempted because they are essential to life and governments wants to make them affordable. Books and educational materials are exempted because of the government policy of eradicating illiteracy and innumeracy. Agricultural products because they are difficult to tax. Financial services are exempted because they are low revenue yielding and vatting them may not be cost effective.[39]

[39] Ogundele, E.A., Value Added Tax (VAT), Theory and Practice, (Lagos: Libriserve Ltd, 1996).