BANKS' VAT COLLECTION IN NIGERIA: THE AFTER EFFECTS OF FINANCE ACT 2019

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Abstract
Banks in Nigeria thrive on their ability to generate income through their lending activities and fees based transactions. This paper examined the link between the finance Act 2019 and Banks VAT collection in Nigeria. Documentary method was used in sourcing the data for the impact analysis from the annual reports and accounts of DMBs, CBN bulletin and FIRS circulars. A census of 27 DMBs in Nigeria was used. The study concludes that the Finance Act would stimulate economic activities , provide the long overdue clarity on hitherto controversial tax issues and create an opportunity for raising the much-needed tax revenue in a more efficient and equitable manner that encourages economic growth and development. However there are contemporary challenges to VAT collection drive due to parallel and shadow banking activities along side with traditional banking in Nigeria. This poses threats to banks drives and by extension their VAT collection and remittance; this claim is hinged on the fact that it is only when fees based transactions (VATable) are consummated or provided by DMBs that VAT charges are generated and remitted accordingly. The study suggests that banks shall intensify efforts in mobilizing the huge deposits in the hands of unbanked people and also with support from regulatory authorities come up with effective strategy to checkmate the impact of parallel services so that more of VATable services are provided by the Banks which will further translate into more Revenue to the banks and by extension to the Government.

Keywords: Finance Act, Revenue, Parallel banking, Shadow banking and Value added tax

Introduction
Efficient management of deposit money banks (DMBs) in an economy can lead to economic growth, expansion of the economy and provision of funds for investment. DMBs by their peculiar nature, serve as intermediaries between borrowers and savers; they are authorized by the Central bank of Nigeria (CBN) to deal with money by accepting deposits from surplus units, giving out loan to deficit units for different reasons and investing profitably in securities. To augment their fortunes banks also by leveraging on modern technology provide services such as funds transfers, collections, and remittances through their various and distinct e-products. These and many other VATable services provided by DMBs in Nigeria, undoubtedly have linear relationship with the volume and value of VAT collection in the Banks. In the light of the above and given the dotted relationship between the two, there is the unalienable need to make an impact analysis of the Finance Act 2019. The paper discussed through the above structure based on the knowledge gained from data obtained from CBN Bulletins, books, articles/studies, internet sources and FIRS relevant circulars.

Historical Background of the Finance Act 2019
The Finance Bill was an Executive Bill prepared by the Honourable Minister for Finance, Budget and National Planning, which was approved by His Excellency, the President, Muhammadu Buhari and presented together with the 2020 Budget proposals on 14 October 2019 to a joint sitting of the National Assembly. The Bill was subsequently reviewed by the National Assembly, passed by the Senate on Wednesday, 20 November 2019 and the House of Representatives on Wednesday, 27 November 2019, respectively, prior to assent by the President to culminate into the Finance Act, 2019 (hereinafter referred to as "the Finance Act"). The Finance Act introduces changes to the Companies Income Tax Act (CIMA),

Value Added Tax Act (VATA), Petroleum Profits Tax Act (PPTA), Personal Income Tax Ac (PITA), Capital Gains Tax Act (CGTA), Customs and Excise Tariff Etc. (Consolidation) Act and Stamp Duties Act (SDA**) (**Obayomi, 2020)

The amendments made by the Finance Act are intended to raise necessary revenue required to defray public expenditure, support sustainable increase in public revenue and ensure that tax law provisions are consistent with the national tax policy objectives of the Federal Government of Nigeria. The amendments are staged across five broad thematic areas to: promote fiscal equity by mitigating instances of regressive taxation; reform domestic tax law to align with global best practice; introduce tax incentives for investment in infrastructure and capital markets; support small businesses in line with the ease of doing business reforms and raise revenue for government, by various fiscal measures, including, for instance, increase in the VAT rate from 5% to 7.5%.

Nigeria's domestic revenue mobilization has been one of the lowest in the world. This has had a severely limiting impact on economic growth and creation of an enabling framework for investments (Finance Act, 2019). According to the Organization for Economic Co-operation and Development (OECD)'s Revenue Statistics in Africa 2019 report, Nigeria's tax-to-Gross Domestic Product (GDP) in 2017 was 5.7%. This was a moderate increase from the figures reported in 2016 (5.3%). However, when compared with the same index across other African countries over the same period, it was apparent that Nigeria's tax revenue generation was significantly low for the level of economic activities in the country. Specifically, the 26 African countries (including Ghana and Botswana) reviewed in the OECD's study reported an average tax to GDP ratio of 17.2% (11.5 basis points higher than Nigeria's ratio).

Some of the factors highlighted as contributing to the poor tax to GDP ratio are a sub-optimal Value Added Tax (VAT) system (which deviates from modern consumption tax designs), comprising a low standard VAT rate of 5% and restricted recoverability of input VAT. Other factors, such as extensive use of tax incentives to encourage investment, have resulted in a narrowing of the corporate tax base. A weak tax administration system coupled with high cost of taxpayer compliance has also resulted in a systemic non-compliance and a lack of faith in the tax system. These challenges are typical of a number of tax jurisdictions, however, the lack of responsiveness of the Nigerian tax system in a dynamic and ever changing economic and business environment further exacerbate these issues.

It is imperative that the Nigerian tax legislation is updated frequently to respond to the challenges of today's business environment which therefore underscores the importance of the Finance Act 2019. The Finance Act is the first of its kind in over two decades and is intended to support the funding of the 2020 budget. The Finance Act contains several long-awaited changes to the tax framework which seek to address issues of low tax revenue growth, such as an increase in the VAT rate to 7.5% and the introduction of tighter deductibility rules. In view of global economic and tax trends, the Finance Act also seeks to modernize the Nigerian tax system by incorporating recommendations of the OECD on taxation of the digital economy and profits earned by non-resident companies. These proposals have been recommended for global adoption in recognition of the impact of globalization and technology, whereby trade flows increasingly transcend traditional and formal frameworks. Nigeria will thus be one of the few early adopters of globally relevant tools for tracking and harnessing tax revenue from economic activities that occur within our fiscal community. Furthermore, the Finance Act seeks to provide a boost to small and medium scale enterprises by reducing their tax burden. It also seeks to replace existing tax incentives with more targeted incentives to stimulate economic activity in the capital market and infrastructure sectors.

Also, the Finance Act amends several onerous tax provisions which have impeded investment in Nigeria, such as the complex insurance tax rules and the excess and interim dividend tax rules that limit the dividend available for distribution to shareholders as contained in the Companies Income Tax Act.

Overall, the provisions contained in the Finance Act are intended to incentivize economic activities to stimulate GDP growth and facilitate increase in the revenue generated (Obayomi, 2020)

Concept of Value Added Tax

Value added tax (VAT) is simply called the goods and services tax (GST), it is levied on the value added that results from each exchange. It is an indirect tax collected from someone other than the person who actually bears the cost of the tax. Value added tax (VAT) is a consumption tax payable on the goods and services consumed by any person, business organizations or individuals. VAT can also be defined as a tax on spending/consumption levied at every stage of transaction but eventually borne by the final consumer of such goods and services (Ugwa & Embuka, 2012). Naiyeju (1996) highlighted that the basic values of VAT are simple. A supplier, manufacturer, seller or producer of VATable goods or services returns a percentage of the price he charges his customers to the VAT directorate at regular intervals. This percentage is the VAT rate which is 5%. This is called output tax. If the seller has paid VAT on the VATable goods and services when he purchased them for resale or as intermediate input in his production business, then the VAT paid by him is input tax. In this situation, the VATable person expected to deduct his input tax from output tax before remitting his tax to the directorate. But if the input tax is greater than the output tax then the VAT directorate is liable to repay him for his claim. As taxable goods and services move from person to another in the production chain till the final consumer, each VATable person in the chain pays input tax when he buys and charges output. When he sells his products and pays the difference between the two as stated earlier. The final consumer then pays the total tax burden.

Naiyeju (1996) also identified certain specific inherent characteristics of VAT. Some of these characteristics are:

i. Broad Base**:** VAT has perhaps the broadest base in tax history. In most countries, it applies to both public and private consumption thus reducing the disadvantage associated with tax holidays. Also private individuals and developing countries are in one way or another compelled to pay VAT.
ii. Shifting: The incidence of the tax is shifted forward or dissolved in successive stages so that at the end it is final consumer that pays the tax. Since the elasticity of both demand and supply determines the degree of tax, shifting this quality of VAT prevents the substitution effect associated with direct taxes on income and profits. It thus induces the taxable business person to pay tax while encouraging the production and distribution of the taxable items as if no tax has been imposed on them.
iii. Adaptability: The tax is flexible and has been variously adapted to the political and economic realities of different countries. For instance in developing countries, essential goods and services are exempted from VAT so as not to hamper them, while in developing countries, such goods and services are taxed.
iv. Paper Work: The operation of VAT involves a lot of paper work. Return forms, registration forms, tax, invoices etc.
v. Export rebate: It is a main characteristic of VAT to zero rate export i.e export has a tax rate of zero percent. The taxpayer is consequently entitled to a refund of whatever amount he might have paid as input VAT.
vi. Favourable Rate: The tax rate of VAT when compared to other taxes is relatively low for example, Nigeria's VAT rate in 1994 was 5% while the rate of company income tax was 35% and personal income tax was 30%. VAT rate remains 5%.

According to Soyode and Kajola (2006) there are three types of VAT. The basic difference between them lies on how the purchaser of new capital inputs (example Plants, equipment etc) is treated in the determination of tax base. The types of VAT are:

(i) Income VAT: This is the tax paid on purchase of capital inputs which to be amortized against the firm's VAT liability over the expected lives of such capital inputs.

(ii) Consumption VAT: under consumption VAT, capital purchases are treated like purchases of any other inputs and the treatment of capital inputs is equivalent to expensing.
(iii) Gross Production VAT: under the Gross Product VAT, no deduction of tax input or capital purchased is allowed against the firm's output tax: in other words, the taxable firm is treated as the final consumer of all its capital inputs. The tax paid on capital input is treated as part of cost of that capital input thereby reducing the problem of cash refunds.

Significant Amendments to the Value Added Tax Act (VATA) by the Finance Act (FA) 2019
The Finance Act amends the major tax legislation in Nigeria to align with the Federal Government's monetary and fiscal reform policies. Of particular concern to businesses and consumers with regard to the Finance Act is perhaps the introduction of a new Value Added Tax ("VAT") system, and an increase in the VAT rate from 5% to 7.5%, based on the amendments made to the Value Added Tax Act (Chapter V1) Laws of the Federation of Nigeria 2004 (as amended) (the "VAT Act"). Besides the increment of the VAT rate, there are other notable amendments to the VAT Act which will impact the business landscape in Nigeria. The Finance Act (FA) 2019 introduced significant amendments to the Value Added Tax Act (VATA). The FIRS circular issued in May 2020 seeks to provide guidance on how the FIRS intends to implement the VAT amendments in respect of the following: definition of goods and services; transition to the new VAT rate, VAT registration and deregistration; self accounting for VAT; registration by non-residents; introduction of VAT threshold; business re-organisation; exported service; penalty regime; and status of the information circular.(Obayomi,2020)

The Finance Act increases the VAT rate by 50% from 5% to 7.5%. While this will increase the amount of revenue generated from VAT by the government, it will also lead to increases in the prices of taxable goods and services. Although the Finance Act has a commencement date of 13th January, 2020, the Minister for Finance, Budget and National Planning announced 1st February, 2020 as the commencement date for the implementation of the VAT rate of 7.5%. What this means is that from that date, entities that are registered for VAT (excluding small companies – i.e., companies with less than NGN25 million annual turnovers) must include VAT at the rate of 7.5% on invoices for the supply of taxable goods and services. In discussing Revenue there is need to give conceptual clarification on Government Revenue and Revenue generation. Government Revenue is any fund accruing to the government to enable it defray its expenditure, which can be from either tax or non-tax sources otherwise known as oil revenue and non oil revenue while Revenue generation is the processes of assessment, collection and accounting for revenues from various sources, and ensuring that all revenue leakages are blocked.

VAT was invented by a French economist, Maurice Leave in 1954 and was first introduced in France in April, 10, 1954. The concept of VAT in Nigeria can be traced to the Dr. Sylvester Ugoh led study group on indirect taxation in November, 1991. Thereafter, a committee was setup under the chairmanship of Mr. Emmanuel Ijewere to conduct extensive research and make recommendations. Following the problem of evasion and avoidance shocking the collection of personal income tax and Company profit tax and the subsequent need to boost government revenue and dipping government borrowing, the VAT was introduced in January 1993 by the VAT decree No. 2 of 1993 and came into force on the 1st of January 1994 to substitute the pre-existing sales tax. Ochei (2010) noted that many Nigerians believed that the tax was presented as a means of dodging taking loans from international agencies. VAT was-finally introduced in Nigeria in 1993 as a replacement of the sales tax which had been in operation under Federal government Legislated decree No.7 of 1986 but administered by the states and the Federal capital territory (Ugwa & Embuka, 2012).

Subsequently, the Nigeria Federal Government enacted the VAT Amendment Act in 2007 under the leadership of Olusegun Obasanjo as the President Commander-in-Chief of Nigeria. This act empowered the Federal Government to fix the rate of the Value Added Taxes to be 10%, which is a 100% increase from the initial 5%. However, discussions which resulted from protests from the public, trade unions, pressure groups and parties led to the reverse of this act to 5% VAT rate (i.e. 50% of 10%) at the Wake of Yar'adua – Jonathan administration. In 1994 the revenues received from VAT in Nigeria exceeded the predictions. VAT contributed 4% of the total income raised by the Federal Government in that year. In 1995 the rate of input was 5.39%. In 2017, 2018 and 2019 VAT income accrued to the sum of 967.7 Billion, N990.6 Billion N 1175.9 Billion respectively (CBN Bulleting, 2020). VAT is collected by government through an agency called Federal Inland Revenue Services (FIRS). According to Emmanuel (2013), VAT contributes immensely on economic growth in Nigeria as evidenced by the data generated in the last 25 years (1994-2019). The trends and breakdown of Federal Government of Nigeria revenue from oil and non oil sources for the past 25 years (1994 – 2019) is given in Table 1 below.

Table 1: **Government Revenue from 1994 – 2019**

YEAR	Oil Revenue (₦ Billion)	Non-Oil Revenue (₦ Billion)	VAT Revenue (₦ Billion)	Total (₦ Billion)
1994	160.19	41.72	5.03	201.91
1995	324.55	135.44	6.26	459.99
1996	408.78	114.81	11.29	523.60
1997	416.81	166.00	13.91	582.81
1998	324.31	139.30	16.21	463.61
1999	724.42	224.77	23.75	949.19
2000	1,591.68	314.48	30.64	1,906.16
2001	1,707.56	903.46	44.91	2,611.03
2002	1,230.85	500.99	52.63	1,731.84
2003	2,074.28	500.82	65.89	2,575.10
2004	3,354.80	565.70	96.20	3,930.50
2005	4,762.40	785.10	87.45	5,547.50
2006	5,287.57	677.54	110.57	5,965.10
2007	4,462.91	1,264.60	144.37	5,727.51
2008	6,530.60	1,336.00	198.07	7,866.60
2009	3,191.94	1,652.65	229.32	4,844.59
2010	5,396.09	1.907.58	275.57	7,303.67
2011	8,878.97	2,237.88	318.00	11,116.65
2012	8,025.97	2,628.78	347.69	10,654.75
2013	6,809.23	2,950.56	389.53	9,759.79
2014	6,793.72	3,275.12	388.85	10,068.65
2015	3,830.18	3,082.4	522.7	6,912.58
2016	2,693.09	2,922.50	548.8	5615.59
2017	4,108.80	3,331.2	967.7	7440.0
2018	5,545.80	4,006.0	990.6	9551.80
2019	5,536.70	4,678.40	1175.9	10215.10

Source: CBN Statistical bulletin (various)

VATable Services Rendered by Banks in Nigeria

VATable services are rendered by banks at the instance of customers are not free but fees are charged along with VAT to the debit of customers account. The Finance Act increases the VAT rate from 5% to 7.5% with effect from 1st February, 2020. The following are the classic examples of transactions which are grouped under the relevant headings for convenience sake.

Credit related fees: This includes advisory and commitment fees. These are fees charged for administration and advisory services to the customer up to the customer's acceptance of the offer letter. The advisory and commitment fees are earned at the point in time where the customer accepts the offer letter which is when the Bank recognizes its income. These fees are not integral to the loan, therefore, they are not considered in determining the effective interest rate.

Account maintenance fees: These are fees charged to current accounts. N1 on every N1, 000 in respect of all customer induced debit transactions is charged on these accounts. These fees are earned by the Bank at the time of each transaction and the Bank recognizes its income accordingly.

Card maintenance fees: The Bank charges these fees to customers for maintaining their cards. The fees are earned and recognized by the Bank over the validity year of the card. The Bank charges the customers for this service on a monthly basis.

Other fees and commission income: includes commission on letters of credit, account servicing fees, investment management and other fiduciary activity fees, sales commission, placement fees and syndication fees.

E-money products: In the year 2019, the value of payment on various channels (comprising ATM, POS, Mobile Money and Internet) rose by 45.4 per cent to million and N15,276.46 billion compared with N10,503.80 billion recorded in the preceding year (CBN, 2019).

Table 2: Value of payments on various channels

VALUE OF TRANSACTIONS	2015 (NBILION)	2016 (NBILION)	2017 (NBILION)	2018 (NBILION)	2019 (NBILION)
E PAYMENTS	4,952.7	6,636.4	9,134.0	10,508.3	15,276.40
ATM	3,970.3	4,988.1	6,437.6	6,480.1	6,512.6
WEB	91.6	132.4	184.6	404.6	478.1
POS	448.5	759.0	1,409.8	2,381.1	3,204.7
MOBILE	442.4	756.9	1,102.0	1,830.2	5,081.0

Source: CBN (Various)

Contemporary challenges on Banks' VAT collection in Nigeria

From Table two above, the value of payments made on various channels shows an increasing trends and since the VAT is a function of these services it is expected that other things being equal, Banks' collection in this respect should have proportionate increase particularly as the Finance Act contains several long-awaited changes to the tax framework which seek to address issues of low tax revenue growth, such as an increase in the VAT rate to 7.5% and the introduction of tighter deductibility rules. .Undoubtedly, the statutory backing of the FA 2019 and the growing fortunes of banks would translate into fantastic VAT generation in the Banks, however there appears to be contemporary challenges to VAT collection drive manifesting in the scenarios.

(i) General implications of the Finance Act

The financial services industry (FSI) covers a broad range of operations, such as banking, insurance, asset and investment management, payment and credit solutions, etc. The industry typically plays a pivotal role in the development of any economy and Nigeria is not an exception in this regard. Notwithstanding this, despite the strategic nature of the industry, some of its key performance indicators are yet to be met in Nigeria. These interesting dynamics will automatically alter the income profile of many banks who typically have significant investment in these instruments.

The Finance Act imposes a requirement on banks and other financial institutions to request the TIN of prospective business customers (companies and individuals), prior to opening any account for their business operations. For continued operation of an account, banks and other financial institutions are required, within three months from passage of the Finance Act, to obtain the TIN of business customers who had not provided this information at the time of opening the account. This requirement is not expected to influence the activation or maintenance of retail bank accounts set up for personal, non-business-related uses. Exemption of services rendered by microfinance banks from VAT The Finance Act has now modified the VAT Act to clarify the VAT exempt status of services rendered by microfinance banks new and existing customers

(ii) Parallel banking: The word parallel as the name implies is a term coined from parallel lines theorem which means similar or exactly equivalent of something. The parallel system in this case works outside that system of regulation and supervision they operate within a close knit community often using lines of

communication built up over the world over a period of decades. Some of the money transfer mechanism which forms the basis of parallel system where developed to enable the movement of value without the movement of money. The parallel system works outside that system of regulation and supervision they operate within a close knit community often using lines of communication built up over the world over a period of decades. Some of the money transfer mechanism which forms the basis of parallel system where developed to enable the movement of value without the movement of money (Okafor, 2011).
(iii) Shadow banking: Shadow banks are organizations that operate outside the administrative structure of the conventional banking system. The global increase in the regulation of banks has encouraged the diversion of investment funds into less regulated institutions such as shadow banks to avoid restriction. The global increase in the regulation of banks which affect the profit margin of banks across the globe has encouraged the channeling of investment funds into less regulated institutions such as shadow banks to avoid restriction. Shadow banks are institutions that operate outside the regulatory framework of the traditional banking system and because of that, they do not have the same safety net as the traditional banks, although they conduct operations similar to that of the traditional banks (Seglin, 1989).
The exploitation of some advantages being employed by both parallel and shadow banking systems along with other factors make them more attractive and popular with business community particularly at the time of insurgency in Nigeria. This poses serious threats to banks drives in their key performance indicators and by extension their VAT collection and remittance

Conclusion
Amendment of tax laws during annual budgetary process through the Finance Act is a laudable development that will assist in implementing several important long-awaited changes to the Nigerian taxation framework. The Finance Act would stimulate economic activities and bolster investor confidence, provide the long overdue clarity on hitherto controversial tax issues and create an opportunity for raising the much-needed tax revenue in a more efficient and equitable manner that encourages economic growth and development. However there appears to be contemporary challenges to VAT collection drive due to parallel and shadow banking activities along side with traditional banking in Nigeria. This undoubtedly poses serious threats to banks drives in their key performance indicators and by extension their VAT collection and remittance this claim is hinged on the fact that it is only when fees based transactions (VATable) are consummated or provided by DMBs that VAT charges are generated and remitted accordingly.

Suggestions
1. With large chunk of deposits lying and being left out of the official banking stream coupled with the fact that fees based transactions being provided by the parallel systems
2. Banks should intensify efforts in mobilizing the huge deposits in the hands of unbanked people and also with support from regulatory authorities come up with effective strategy to checkmate the impact of parallel services so that more of VATable services are provided by the Banks which will further translate into more Revenue to both the banks and by extension to the Government.

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