



Governance and Value-Added Tax Question in Nigeria: The Way Forward

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ABSTRACT

To perform its many responsibilities, the government needs to generate income from various and available sources. One of the sources is tax – value-added tax. Its acknowledged merits as an additional source of generating revenues for the government notwithstanding, VAT in Nigeria is fraught with difficulties. Given the foregoing, the study examined the associated issues with Nigeria's governance system and value-added tax administration. The study relies on the authors' observation of the events surrounding the VAT administration in Nigeria. Secondary data are sourced from the government's official documents, academic journals, textbooks, newspapers, magazines, and internet sources. The study showed that VAT, was introduced to get additional revenues to solve the problem of delivery of services, and the VAT transfer to the state government has a positive relationship with social development, while that of the local level does not. The study further revealed issues, of contentions surrounding VAT including - the constitutionality of the Federal Government to oversee the collection of VAT; and unfair disbursement of the proceeds from VAT to the component units of the federation. Furthermore, the study showed that the governance system of Nigeria has created an avenue whereby the VAT collection right, which normally should be an economic dispute, is tainted with politics and generates inter-ethnic issues. The study concluded that the value-added tax question is a pointer to the fact that Nigeria's fiscal federalism is problematic and, if not well-handled, can further polarize the country along different divides and impede its development.



INTRODUCTION

One of the unique responsibilities of governments across the globe is to carry out economic development to improve people's condition of living. To pursue economic development, the government has to operate a peculiar governance system suitable for its economy, as well as, for its macroeconomic objectives. Regarding the systems of government, constitutional divisions of powers amongst different orders of government are categorized into three: unitary, confederal, and federal. These trio of orders of government, thus, differ in scopes and structures. Federalism, for instance, involves the "coming together" or "holding together" of component geographic units to benefit from the globalized world. A federal government according to Shah, is a multi-order structure of government, where these orders of government enjoy some independence and are involved in decision-making responsibilities (Shah, 2007).

Nigeria perhaps adopts a federal system for the country's different ethnic, and local groups to benefit within one common politico-administrative unit (Adamolekun & Ayo, 1989). And for its appropriateness in the realization of its macroeconomic objectives (Ordu & Omesi, 2022). The macroeconomics objectives in terms of achieving stable economic growth, vis-à-vis, improved living standard, and gainful employment among others. The government can attain these by applying monetary policy and fiscal policy as tools of economic control.

Given the enormous responsibilities of the government, and the need to meet those responsibilities, the government needs to generate income from various available sources. One such source is tax. Taxes are central to modern economic development, and a key source of revenues for the government. One of the veritable forms of taxes is the Value-Added Tax (VAT), and many countries, with no exception of Nigeria, have adopted it. Value-added tax is a type of tax, levied indirectly on the value added by manufacturers and providers of service at each point in a supply chain, where the consumer bears the cost (ActionAid International, 2018). VAT is usually added to the products or services before marketing. The introduction of VAT was provoked in Nigeria by the need to generate more income for the government apart from oil inputs.

Its acknowledged merits as an additional source of generating revenues for the government notwithstanding, VAT in Nigeria is fraught with difficulties. For instance, VAT collection and disbursement have become controversial issues in Nigeria. While it is true that the Federal Government takes just 15 percent of the VAT revenue and the States and the Local Governments get 50 percent and 35 percent in that order, the sharing formula adopted for each of the states of the federation is contentious. This is because, only a few of these States are contributing more than 10 percent to the VAT account, while others contribute next to nothing, because of their hard stance against some consumer products that are alcoholic. It will be recalled that in some parts of Northern Nigeria alcoholic products are banned, but VAT is collected for such products in some southern States, while all the States of the federation benefit from the VAT. Allocating a fair share of VAT to these states without considering their contribution to the VAT account appears unfair and unjust to those few states with higher contributions to the VAT account. Beyond this is the question of whether the Federal Government of Nigeria has any constitutional right to collect the VAT accumulated from business locations and operations within the States. It was on account of the foregoing that the study examines the associated issues with Nigeria's governance system and value-added tax administration in Nigeria.

VALUE ADDED TAX: A REVIEW OF LITERATURE

In recent years, several countries of the world have adopted a new tax, referred to as, the value-added tax. The rate at which countries across the world are embracing the value-added tax into their tax systems is unprecedented, and perhaps at the peak of development in taxation in the twentieth century. The value-added tax which was unpopular beyond theoretical debates and discourses some forty years ago has continued to gain wide acceptance even in the twenty-first century. As of today, it has turned out to be a key part of the tax systems in over 120 countries, from where they are realizing almost one-fourth of the tax revenue of the world (Ebrill, Keen, Bodin & Summers, 2002). Value-added tax is usually levied on products and services where the end users



are indirectly responsible for the payment of the levy, which is collected at each point of the manufacturing and delivery order (Omodero, 2020).

Cnossen (1998) in his study, comprehensively captured the importance of the value-added tax to governments across the globe. According to him, value-added tax has been universally introduced, and no doubt, it is the most important advancement to have emerged in tax structures in the last half of the 20th century. Cnossen further declares, that ever since the late 1960s, the VAT has come to be the core consumption tax in over 105 industrialized and emerging countries. Even though there are different reasons for the adoption of the VAT from one country to another, however, one reason that is central to most of the countries that have adopted the tax is that a well-designed VAT can generate higher revenue with a relatively lower administrative and economic costs when compared with other broadly based consumption taxes. Cnossen further avows, that a well-structured and administered VAT, unlike the income tax, does not interfere with the approaches of carrying out business, nor influence international trade, as such, these tax attributes are imperative in an interdependent, but competitive world (Cnossen, 1998).

In a similar vein to Cnossen (1998) is The Financial Times London (1988), which states that VAT has continued to be adopted by many countries in the world. The adoption of VAT according to the Financial Times London is partly due to the country's self-decision, or on the advice of the International Monetary Fund (IMF) because the form of tax has been universally adjudged a national sales tax which is difficult to evade. The Financial Times London further states that there is a likelihood that VAT will displace the income tax, and become the worthiest single source of income for governments across the globe by the end of the century (The Financial Times London, 1988, cited in Gurumurthi, 1993).

Concerning the relations of VAT to certain direct and indirect taxes, Gurumurthi (1993), states that VAT is a flexible and elastic source of revenue that has yielded unparalleled incomes in the history of taxation to different countries of the world within 30 years. It was not surprising that Tait (1988) maintains concerning value-added tax that, never in the history of taxation has any tax swept the world, be it; from the perspective of theory to that of practice. The unprecedented feat of value-added tax has further put some scholars into confusion, especially those scholars who were dismissive of the prospect of value-added tax. Likewise, those governments of countries that agreed with these scholars' ideas, and once rejected VAT, were equally baffled as to the success and development of the value-added tax (Tait, 1988).

While commenting on the period before the introduction of the value-added tax in Nigeria, Adegami (2013); Ordu & Nkwoji (2021) assert that different levels of government heavily relied on what they got from the federally allocated revenue which is accrued mainly from crude oil. One of the challenges the government was facing then was low or inadequate revenues and the consequence problem of poor delivery of services. According to Ohiomu & Oluyemi (2019), the issue of inadequate revenue generation forced some State Governments to institute tax contractors who introduced different kinds of levies in their territories to improve their revenue generation. The proceeds realized from VAT, following its introduction according to Ordu & Nkwoji (2021), have relatively brought a sort of financial relief to the tiers of government in Nigeria. Consequently, the allocation to the federating units increased, and to a certain extent paved the way for the growth and development of the country.

Value-added tax has, therefore, become an indubitable means of generating revenue for the government for onward allocation to the tiers for development in Nigeria. In his study, Omodero (2022), reveals that VAT transfer to the States Government has a positive correlation with social development at the state level, while it has not had much effect on social development at the local level.

Despite the certainty of value added tax, Asomba & Etalong (2021) argue that the tax has created a platform for controversy in Nigeria, especially with contentions surrounding who gets what, and when of the tax, as well as, who has the constitutional mandate to be in charge of the VAT collection. These are issues currently generating heat in the Nigerian political scene. The two States of Rivers and Lagos remain prominent in the procuring of war of resistance against an undue collection of VAT by the Federal Government of Nigeria. Asomba



& Etalong (2021), while supporting each State to collect VAT within its territory, to reflect true fiscal federalism argue that, some States have become lazy because they receive freely from the federation account. Such States cannot explore other sources of revenue available in their domains, but only wait to collect their share from the VAT proceeds, even without contributing anything to the VAT account, as a result of their hard stance against selected products that yield high taxes. In a similar vein, Ogunmupe (2021), states the only way out of the continuous imbroglio is for the country and its national resources to be reviewed, restructured, and rescued from its existing command economy to reflect true fiscal federalism.

Value Added Tax in Nigeria: Emerging Issues

The value-added tax is typically "levied on consumption of goods and services" (Federal Inland Revenue Service, 2022), it is a consumption tax payable whenever goods are bought and services are provided (Federal Inland Revenue Service, 2022). The value-added tax was introduced in 1993 with the enactment of the Federal Government Decree 102 of 1993, (under the VAT Act No. 102 of 1993), to replace the Sales Tax, which had been in operation since 1986 through the Federal Government Decree No. 7 of 1986. Then, the Sales tax was under the control of the States Government and was measured to be poorly managed with attendance marginal revenue contribution. The deficiency noticed from the review of the Sale Tax resulted in the introduction of VAT. According to the Federal Inland Revenue Service:

The idea of introducing VAT in Nigeria came from the Study Group set up by the Federal Government in 1991 to review the entire Tax system. VAT was proposed and a Committee was set up to carry out feasibility studies on its implementation. In January 1993, the Government agreed to introduce VAT by the middle of the year. It was later shifted to 1st September 1993 by which time the relevant legislation would have been made and proper groundwork is done (Federal Inland Revenue Service, 1993, p.2).

Since the introduction of VAT, it has become the fastest-growing tax proceeds head in Nigeria. VAT used to charge 5 percent, it was, however, with the amendment of the Act and under Section 42 of the Finance Act 2020, signed by President Muhammadu Buhari on 13 January 2020, the VAT rate was increased to 7.5 percent. According to section 7 of the Value Added Tax Act, the Federal Board of Inland Revenue of Nigeria is in charge of the valuation and collection of VAT. And so, the 7.5 percent charge was expected to be collected by suppliers of goods and services, on or before the 21st day of the following month for onward remittance to the Federal Inland Revenue Service, which acts as the tax administrator.

The Nigerian Finance Act, 2021, however, confers on the Federal Inland Revenue Service of Nigeria, powers to appoint agents to collect value-added tax on its behalf and remit the same to them. To this extent, the Federal Inland Revenue Service has issued a public notice of appointment of some telecommunications service providers including - MTN and Airtel, as well as money deposit banks, as its agents; with the mandate to collect and withhold the VAT paid to them.

According to the First Schedule to the Value Added Act, more than five hundred good items were exempted from the payment of VAT. The good items include - basic food items, all medical and pharmaceutical products, books and educational materials, baby products, locally produced agricultural and veterinary medicine, fertilizer, farming machinery and farming transportation equipment, tractors, ploughs, and agricultural equipment and implements purchased for agricultural purposes. Other items included exempted services such as - medical services, plays and performances conducted by educational institutions as part of learning, and services rendered by community banks, People's Bank, and mortgage institutions (Federal Government of Nigeria, 1993), among other services.



Concerning the sharing formula or pattern of disbursement of the proceed from the value-added tax, Part VI, S.40 of the VAT Act states: Irrespective of any formula prescribed by other laws, the revenue generated through the implementation of this Act will be allocated as follows:

- (a) 15% to the Federal Government;
- (b) 50% to the State Governments and the Federal Capital Territory, Abuja; and
- (c) 35% to the Local Governments: Provided that the principle of derivation, not less than 20%, shall be incorporated in the distribution of the allocation among States and Local Governments, as outlined in paragraphs (b) and (c) of this section (Federal Government of Nigeria, 1993).

Areas of Contention

In line with Part VI, S.40 of the VAT Act as stated above, it is clear, that the principle of the derivation of not less than 20% is not provided for, in the VAT Act. The omission has made the section of the Act appear ambiguous in terms of interpretation.

The constitutionality of the Federal Government of Nigeria to be in charge of the collection of VAT has equally elicited arguments and counterarguments. For instance, the 1999 Constitution of the Federal Republic of Nigeria (as amended) fails to mention anything concerning VAT, even though the introduction of the VAT Act preexists the 1999 Country's constitution. For that reason, it appears that the omission has automatically transferred the power to legislate on VAT to the residual list, in which the State Governments equally have power. In support of this argument, under "Part II: Powers of the Federal Republic of Nigeria", Section 4(7) (a-c), of the 1999 Constitution of the Federal Republic of Nigeria (as amended), states: The House of Assembly of a State shall have the power to make laws for the peace, order, and good government of the State or any part thereof with respect to the following matters, that is to say:-

- a. any matter not included in the Exclusive Legislative List set out in Part I of the Second Schedule to this Constitution;
- b. any matter included in the Concurrent Legislative List set out in the first column of Part II of the Second Schedule to this Constitution to the extent prescribed in the second column opposite thereto; and
- c. any other matter with respect to which it is empowered to make laws in accordance with the provisions of this Constitution (Federal Republic of Nigeria, 1999, *emphasis added).

With these anomalies that fraught the VAT administration in Nigeria, it is not surprising that it has continued to breed contentious issues, especially among the State Governors questioning the constitutionality power of the Federal Government in the area of VAT collections.

Similarly, with reference to the proceed accrued through VAT from each of the 36 states, and Abuja Federal Capital Territory, compared with the shares some of these states eventually received as their shares of VAT, it shows that those states that contributed less are benefiting more, while those few states that contributed more are benefitting less. For instance, 32 out of the 36 states in Nigeria in 2021, got a higher share of the revenues generated from the value-added tax, than what they brought to the VAT purse from their different States. It must also be noted that some Governments of these 32 states banned some products, including alcohol from being consumed in their states, but are benefiting from the VAT proceeds from the same products they banned which yielded more income as VAT to other states.

In line with this, the Governor of Rivers State, Nyesom Wike, stated that in June 2021, Rivers State generated around ₦15 billion to the VAT account, but received a sum of ₦4.7 billion only, and that, Lagos State generated over ₦46 billion in June as VAT, and got just over ₦9 billion as its share, while Kano State that generated the sum of ₦2.8 billion also got ₦2.8 billion as its share (Omorogbe, 2021).

To this extent, some of the States that are at the receiving end are calling for fairness and equity in the allocation of collected VAT money. Beyond this, the Rivers State Governor, Nyesom Wike declared that the Federal Government has no right to collect value-added tax at the State level. The Rivers State Government has approached a Nigeria High Court on this matter. Consequently, with its August 10, 2021 ruling, the Federal High



Court in Port Harcourt, Rivers State, had declared that the collection of VAT and personal income tax in Rivers State by the Federal Government, through the Federal Inland Revenue Service was unconstitutional. From his analysis of the judgement, Oyekan came out with the following summary:

(1) The power of the National Assembly to make tax laws is limited to taxation of profit, income and capital gains only as contained in items 7 (a) & (b) of Part II of the Second Schedule to the Constitution and (2) the Federal Inland Revenue Service (Establishment) Act, Personal Income Tax Act, Value Added Tax Act, Taxes and Levies (Approved List for collection) Act among others are null and void being tax laws not specifically mentioned in items 58 and 59 of the Exclusive Legislative List (Oyekan, 2021, para. 3.)

Given the above judgement, Rivers State, through its House of Assembly has passed the bills empowering the state government to collect the value-added tax in its jurisdiction. Lagos State Government has also toed the path of the Rivers State and has equally passed a similar bill through its House of Assembly.

The VAT issue is one of the areas where the federal system of government has been misinterpreted, in Nigeria. Initially, VAT was an issue for the States, and not for the Federal. However, under the military regime, it was said that the States could not collect VAT. The Federal Government, therefore, was collecting VAT on behalf of the States. It must be emphasized, that because of the peculiarity of the military, all governors were selected, and posted by the Head of State. There is, therefore, no way any of the governors could have challenged the Commander-in-Chief who deemed fit to have made him a governor.

The step taken during the military regime was an error and unconstitutional, given the fact that subletting in politics is wrong, and tantamount to launching the wrong signals in politics. The right is, if true, the States cannot carry out their assignment at a point in time, the onus lies on the Federal Government to empower the States, for them to appropriately collect what is theirs. Now that this unconstitutional practice has gone on for some years, the Federal Government is now claiming what it is representing the States to do.

The anomalies in the collection and administration though have gone on for many years, and the contentions it has generated have been partly ethnicized and politicized. This notwithstanding, the decision of Rivers State to test the case of VAT in court was in line with the constitution. The courts are there to interpret, as a third party, those grey areas in the Constitution. The Rivers State Government did the right thing by instituting a court action, and the court has decided that VAT properly belongs to the States. This is the best way true federalism can be attained.

Beyond this, the judgement is a forewarning and a caution light for those States that handle the issue of Internally Generated Revenue with levity. And those states that are selective in the products being consumed in their States, especially those products that yield more VAT, to have a rethink. A circumstance where many of the States of the federation rely on over 70 percent of revenue from the Federation Allocation Account (FAAC) for the passage of their annual budgets is an impairment on quality governance.

GOVERNANCE AND FISCAL FEDERALISM IMBROGLIO IN NIGERIA

Discourse on value-added tax, one of the taxes being collected by the government has continued to gain momentum among scholars, politicians, policymakers, professionals, and other stakeholders. This is after the suit instituted by the River State Government against the Federal Government of Nigeria challenging the constitutionality of the Federal Government to collect the VAT on behalf of the States Government. The controversy currently generated by the collection of value-added tax is pointing to the fact, that all are not well with Nigeria's fiscal federalism (Adegbami & Osungboye, 2019). And the matter must be quickly nipped in the bud to avert polarization of the country along different divides (Asomba & Etalong, 2021), which is not good enough given some other challenges confronting the country.



By virtue of 1999, Nigeria's constitution (as amended), the taxing powers division among the federating units does not reflect the federalism principle. In essence, it is an unfit design for the development of Nigeria, suffices to state, that Nigeria is a unitary system in a concealing outfit of federal (Oyekan, 2021).

The contentious issues attached to the fiscal federalism of Nigeria have dragged on for years, nonetheless, the power to collect VAT was almost not an issue until the Federal High Court in Port Harcourt, Rivers State, on August 10, 2021, ruled on the matter. The court had ruled in the favour of the Rivers State Government, and the right to collect the VAT was so accorded to the State, and not the Federal Inland Revenue Service. The judgement implies that every State has the right to collect VAT in its domain. The Federal Inland Revenue Service of Nigeria even though appealed the judgement at the Court of Appeal in Abuja, however, the court ruled that the status quo must be maintained by both parties.

The VAT matter as time went on, appears to be exaggerated out of proportion as the political landscape continued to be overwhelmed with arguments and counterarguments against Port Harcourt's ruling. Thus, the VAT collection right, which ordinarily should be an economic dispute has been given a political colouration and has snowballed into an inter-ethnic issue between the North and South (Ajaja, 2021).

The Southern Governors' Forum has met and supported the court's ruling that the States should be in charge of the collection of VAT. The Northern Governors' Forum had equally met on the same issues where they supported the continuous collection of the VAT by the Federal Inland Revenue Service. Their support for the Federal Inland Revenue Service might not be far-fetched from the fact that many of the northern States are benefiting more than their contribution to the VAT account, while most of the southern States were at the receiving end. It was on this account that Governor Rotimi Akeredolu, the Chairman of the Southern Governors Forum, unequivocally stands against the Federal Inland Revenue Service's move to press for the amendment of the 1999 Constitution of the Federal Republic of Nigeria to accommodate the collection of value added tax into the "Exclusive List". According to Akerdolu:

The issue of VAT, looking at the constitution, is under the purview of the States. Southern Governors have decided to pursue fiscal federalism. This is not a tax that is under the purview of the Federal Government. We, the southern Governors, clamour for true federalism, and true federalism include fiscal federalism. They know that the constitution did not give them the power to collect VAT and that is why they are clamouring for the amendment of the constitution. That amendment will be dead on arrival (Akeredolu, cited in Babalola, 2021, para. 12).

Summary, Conclusion, and The Way Forward

There is no doubt that the value-added tax imbroglio in Nigeria was to correct some of the anomalies attached to fiscal federalism in Nigeria. And since the existing administration process of the VAT appears unconstitutional, as there was no provision in the 1999 constitution of the Federal Republic of Nigeria (as amended) empowering the federal government to collect the VAT, it is then proper for the states to collect the tax. After all, it was the state that was in charge of the collection and administration of the "Sales Tax", a tax system that was reviewed and overhauled to become valued added tax. Allowing each state to collect VAT in its domain, can propel revenue drive, as well as, serves as means of compensating only those states that work assiduously in creating a conducive atmosphere for investments, as well as, an atmosphere for improved living condition.

Flowing from the foregoing, the study concluded that the question of value-added tax is a big one that revolves around governance and the socio-economic development of the country. And the controversy generated by the collections and disbursements of value-added tax is pointing to the fact, that all are not well with Nigeria's fiscal federalism. And the matter, if not well handled is capable of polarizing further, Nigeria along different divides, threatening its corporate peace and existence, as well as, impeding national development. Therefore, the way forward is to convoke a people-oriented constitutional conference to fashion out a new



people's constitution that will address several issues facing the country including - fiscal, political, and economic, among other issues, and more importantly, the issue of full restructuring of the country.

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