Federal Executive Council approves increase in VAT rate

The Federal Executive Council (FEC) on Wednesday, 11 September 2019 approved an increase in the Value Added Tax (VAT) rate from 5% to 7.2%. This was announced by the Special Assistant to the President of the Federal Republic of Nigeria on Digital and New Media, Mr. Tolu Ogunlesi, via his twitter handle, and confirmed by the Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed, at the end of the FEC meeting in Abuja today.

According to the announcement, the process of increasing the VAT rate will involve extensive consultations with State Governments and Local Government Authorities, and relevant stakeholders in the private and public sectors of Nigeria. The process will ultimately result in amendment of the VAT Act, Cap. V1, Laws of the Federation 2004 following which the new VAT rate will take effect in 2020.

Comments

The proposed increase in VAT rate has been on the fiscal agenda of the Federal Government for some time now. One of the arguments of the Government in support of the increase is that Nigeria’s 5% VAT rate is the lowest in Africa. However, the argument does not acknowledge the difference between the VAT regime in the other countries and Nigeria, where the VAT regime is a variant of sales tax.

It will be recalled that the Government once increased the VAT rate to 10% in 2007 but had to revert to the status quo following opposition by the organized labour. The current approach of engaging with relevant stakeholders before seeking amendment of the VAT Act to implement the proposed increase in the VAT rate is, therefore, a commendable initiative. Stakeholders are encouraged to use the opportunity of the proposed consultation to express their views on the Government proposal. The Government should also use the opportunity for a wider VAT reform in Nigeria beyond merely increasing the VAT rate.

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