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Vat Administration and the Concept of Fiscal Federalism in Nigeria

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Abstract: Most Nigerian States' internally generated income (IGR) cannot cover their operational costs without federal allocations. The administration of Value-Added Tax (VAT), a consumption tax, is vested in the Federal Government. This paper, therefore, examined how the over-concentration of taxing powers in the federal government affects States' ability to expand their tax base. The research design adopted for the study was an Ex Post Facto Design. The data generated for the study is secondary, and trend and descriptive techniques were employed for the analysis. The study is guided by the theories of optimal taxation and fiscal federalism. The theory of optimal taxation assumes that the government implement tax policies that improve the well-being of the citizenry, while the theory of fiscal federalism assumes that powers and responsibilities are shared among the tiers of government. The study revealed that the taxing power to administer VAT by the Federal Government has a significant effect on the ability of States to expand their tax base, thereby limiting their ability to improve their revenue. The implication is that the States will be overburdened with debts and unable to reduce unemployment crises. To enable States to explore other alternative means of improving their revenue generation, it is recommended that true fiscal federalism should be encouraged and given the powers to collect VAT, which is a consumption tax, to the States.

Keyword: VAT Administration, States, Subnational Governments, Federal Government, Fiscal Federalism

1. INTRODUCTION

Value Added Tax (VAT) has become the centrepiece of tax policy in developing countries (Keen & Lockwood, 2010). The long-term, unsustainable budget deficit

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financing has led politicians to now propose a VAT to improve federal allocation (Nunns & Toder, 2017). Some six decades ago, VAT was not heard outside of France, but it is now embraced because of its contribution to revenue generation and improvement in tax administration and compliance (Keen & Lockwood, 2010). VAT contributes to economic growth, hence the increment of VAT rate from 5 per cent to 7.5 per cent to reduce federal deficits in Nigeria (Section 42, Finance Act 2020).

VAT is a consumption tax and is charged at every stage of production (Lukpata, 2013). The sales tax, which came into existence in Nigeria through Decree No.7 of 1986, was replaced by VAT because of the narrow tax base (FIRS, 2021). It is noted that the change from sales tax to VAT in Nigeria is to improve tax administration and increase revenue allocation to the States and the Local Governments (LGs) (Oyedokun, 2016). The author opines that VAT is administered rather than sales tax because of the latter's cascading effect, while the former has value added at each stage of production. Furthermore, the introduction of VAT in Nigeria was to diversify from an oil-dependent economy and also to replace the sales tax, which had only 9 categories of goods and only targeted manufactured goods (Omokwe, 2021).

In the implementation of VAT in Nigeria, little attention was paid to which tier of government was saddled with the administration of the VAT; however, the policy was that where the incidence of tax is high should benefit more from the revenue allocation (Ajaja, 2021). This implies, in federalism, the part of the federation that contributes more to the federation pool should have more allocation.

Federalism is a system of government whereby power is shared between the central government and the subnational governments (Ukachikara & Okoroafor, 2019). Also, federalism is a government with levels of decision-making between the central government and the subnational governments (Okwesili *et al*., 2013). Therefore, fiscal decentralisation is the transfer of the expenditure functions of the central government to the subnational governments (Ukachikara & Okoroafor, 2019). There is growing interest in fiscal federalism because of the development going on in the European Union (Jha, 2012). This growth of interest in fiscal federalism is caused by the World Bank, International Monetary Fund (IMF), and Inter-American Development Bank (IADB), which encouraged research on decentralisation and persuaded the developing countries to embrace the idea (Jha, 2012).

Also, in Nigeria, the agitation for fiscal federalism became pronounced when the public sector performance became poor (Ewetan, 2012). The public sector can only attain efficiency through the implementation of fiscal decentralisation (Salami, 2011). Therefore, nations now practice devolution of power to ensure development (Ukachikara & Okoroafor, 2019). In addition, for efficiency in the economy and to achieve better public policy, fiscal federalism shares responsibilities, including finances, among all tiers of government (Driessen & Hughes, 2020). The power to collect VAT should be with the States, but in Nigeria, the power is vested in the Federal Government (Section 3a, Nigeria Tax Administration Act, 2025). It is on this basis that this paper aims to investigate the effect the federal government's VAT collection has on the federating units' ability to improve revenue in Nigeria.

1.1. Statement of the Problem

International financial bodies such as the IMF have advocated for fiscal federalism (Jha, 2012), and this is done to ensure the federal and sub nationals achieve their goals (Adedeji, 2023). One of the goals is to ensure there is economic development, and the federating units should be given the opportunities to enable them discharge their constitutional responsibilities (Ekpo & Englama, 2008).

Most of the States in Nigeria have the problem of meeting their operational costs (See Table 1). This is due to the structure of the Nigerian tax system, which uses tax laws to limit the ability of the States to expand their tax base. In federalism, the subnational governments have the autonomy to govern, generate revenue for the sustenance of the economy and the growth of the region (Ukachikara & Okoroafor, 2019). Although in Nigeria, the constitution allows the States to legislate on capital gain tax, stamp duties, incomes or profits of a person other than companies (Part II (7)(a), Second Schedule, 1999 Constitution). There is an omission of VAT from the exclusive list; however, Section 3(1a) of the Nigeria Tax Administration Act, 2025 vested the power to administer VAT in the Nigeria Revenue Service. There is, therefore, a constitutional conflict in Nigeria because the non-inclusion of VAT in the exclusive list has caused some States to challenge this in court. In August 2021, the Federal High Court (FHC) gave the power of VAT collection to the States (Deloitte, 2021). However, the judgement was appealed, and the Appeal Court gave a Status Quo order (King, 2021). This shows that little attention is given to the States and Local Government in the administration of VAT (Ajaja, 2021). This, therefore, affects the capacity of the States to expand their tax base and consequently limits their revenue generation. How does only legality, rather than economic substance, affect State revenue generation? This paper, therefore, examines how the administration of VAT by the federal government affects the revenue generation efforts of the States in Nigeria, where fiscal federalism is practised.

2. LITERATURE REVIEW

This section reviews publications that are of interest to this study. It is discussed under conceptual review, theoretical framework and the review of related literature.

2.1. Conceptual Review

2.1.1 Value Added Tax

VAT is an acronym for value-added tax, which is a consumption tax and is charged at every stage of production (Lukpata, 2013). Sales tax was introduced to the Nigerian tax system in 1986 through Decree No.7 of 1986 (Agbo & Nwadiolor, 2020). The authors state that a committee was set up to address the challenges of sales tax in 1991, and it was recommended that the sales tax should be replaced with VAT. In January 1994, VAT implementation commenced in Nigeria through the enactment of Decree No.102 of 1993. There have been several amendments to the VAT Decree and subsequently consolidated into the VAT Act Cap V1 Law of the Federation of Nigeria, 2004 (Oyedokun, 2016), and by this, the Sales Tax Act has been repealed (Section 45, VAT 2004).

There shall be the imposition of VAT per the provision of the Act (Section144, Nigeria Tax Act, 2025). To reduce the incidence of VAT on the taxpayers, some basic food items, some medical items and some goods and services are exempt from VAT (Part IV, Nigeria Tax Act, 2025). The VAT rate is 7.5 per cent (Section148, Nigeria Tax Act, 2025). VAT might be a consumption tax widely seen as a local tax; however, in Nigeria, VAT is administered by the federal government (Section155(4), Nigeria Tax Act, 2025). The Act also provides for the revenue-sharing formula for revenue accruing under the operation of this Act. The federal government is allocated 10 per cent; the State Governments and the federal capital territory, Abuja, are allocated 55 per cent; and LGs are allocated 35 per cent (Section 81(1), Nigeria Tax Administration Act, 2025). The revenue to the States and the LGs is distributed equally (50%), population (20%), and consumption (30%).

2.1.2 Fiscal Federalism

Fiscal federalism is a system where powers of revenue and expenditure functions are shared. According to Jha (2012), fiscal federalism is the principle that necessitates the division of power of revenue generation to the vertical levels of government to achieve the objectives of equity and efficiency (Jha, 2012).

2.2. Theoretical Framework

2.2.1. Theory of Optimal Taxation

The theory of optimal taxation is mostly based on the foundational work of Ramsey (1927) and the work of Mirrlees (1971), where it is stated that the success of the theory of optimal taxation lies in the directives under some assumptions of rules which the tax system must apply to attain maximum welfare for the citizens (Boskin, 1976). Slemrod (1990) states that the theory of optimal taxation is a normative approach to taxation in the past two decades. This theory is meant to address the Ramsey problem, where it is asked if a uniform tax rate on commodities is an optimal tax. Therefore, the theory of optimal taxation is meant for the government to choose tax policies that better the welfare of its citizens, and this can be achieved according to Ramsey (1927) by raising revenue through adjustments to tax rates on goods consumed by the rich, and this makes the tax progressive. Boskin (1976) further explains the theory of optimal taxation by stating that it has two disparate paths: the theory of optimal commodity, which is indirect taxation, and the theory of optimal income, which is direct taxation.

In its applicability to this study, the theory emphasises good tax policies, and good tax policies mean the federal government should give power to generate revenue to the sub nationals to enable them carry out their constitutional responsibilities. This theory serves as the underpinning theory of this study.

2.2.2. Theory of Fiscal Federalism

This study is also guided by the theory of fiscal federalism. In fiscal federalism, it is assumed that, whether in a unitary system, the expenditure and tax distribution power is shared between different vertical levels of government (Jha, 2012). The author further states that in theoretical terms, fiscal federalism helps in understanding: First, the factors that help in achieving the optimal level of fiscal decentralisation; Second, the principles that necessitate the division of power of revenue generation to the vertical levels of government; and finally, achieving the objectives of equity and efficiency by developing appropriate schemes for intergovernmental transfers.

The theory of fiscal federalism was initially laid by Kenneth Arrow, Richard Musgrave and Paul Sadweh Samuelson (Ewetan, 2012). The theory of fiscal federalism is classified into two: the first-generation theory (FGT) and the second-generation theory (SGT) (Jha, 2012). The author further expatriates that the FGT advocates for decentralisation of expenditure responsibilities, but revenue responsibilities are centralised, while SGT, on the other hand, is in favour of decentralisation of both revenue and expenditure responsibilities. SGT, therefore, does not support intergovernmental transfer to mitigate vertical and horizontal imbalances. The purpose of fiscal federalism is for the government to provide maximum services and collective well-being of the residents (Driessen & Hughes, 2020). The maximum services provided by the government are done under two assumption models: the basic assumption model and the extended basic assumption model.

Under the basic model, it is assumed that there are three economic actors – government, individuals and firms. The objective of providing maximum well-being to the residents can only be achieved when the assumptions of all three economic actors are met.

Government Assumptions: The spending programme and tax collection of the government are equal, and there are no differences in administrative costs. The financial statement of the government is balanced, that is, the receipts and spending are equal. The government aims to achieve the collective well-being of all residents, and it has information about other economic actors.

The Assumptions of Individuals and Firms: All preferences (utility functions) of individuals and firms are identical. Individuals can only change their consumption, and firms can change their production in response to changes in government policies. In addition, public services and tax assumptions state that all residents have access to the services provided by the government, and taxes are non-distorting so as not to affect individual choices; Taxes should only benefit those that paid them. The basic model assumption is not realistic, and therefore, the model is extended to take care of the different preferences of residents.

Extended Basic Model: Under this model, more realistic assumptions are used. Government policies are influenced by economic conditions, which help in achieving the residents' well-being. To attain this, responsibilities must be split among tiers of government to provide for individuals' and firms' preferences. This theory applies to this study because the federal government and the States have different needs and preferences, and such should also share the power to administer VAT in the best way to improve the citizens' well-being.

2.3. Review of Related Literature

To determine the appropriate formula for revenue sharing in Nigeria, Salami (2011) found that the revenue allocation in Nigeria is disproportionately in favour of the central government. Similarly, in the analysis of the challenges of the tax system to fiscal federalism in Nigeria, Ewetan (2012) found that there is a concentration of taxing powers in the federal government, which has affected true fiscal federalism. Also, to find the effect of politics on revenue allocation in Nigeria, Lukpata (2013) concluded that the meddling of politics in the tax system has negatively affected the revenue-sharing formula in Nigeria.

Okwesili *et al* (2013) revealed that in Nigeria, there is a mismatch between responsibility functions and revenue functions among the levels of government. In a study to measure the effect of federal VAT on States and LGs, Nunns and Toder (2017) revealed that federal VAT significantly affects the State and LG budget balances through changes to tax bases and changes to public services because of compensation. The study, however, used hypothetical bases and, therefore, is limited.

Further, Ukachikara and Okoroafor (2019) in their study tried to determine factors that enhance nation-building, and they concluded that for better development, nationhood building and unity, the country must implement true fiscal federalism. Also, Richards (2019) found that the failure of fiscal federalism in tax collection, that is, the lack of a robust national tax policy, has significantly affected tax duplication in Nigeria. In the same vein, Tom and Ataide (2021), in their study, revealed that to resolve challenges faced by the VAT allocation to States, the power to collect the VAT should be shared between the federal government and the States.

To investigate the relationship between VAT and the tiers of government, the federal government, States and the LGs, Ordu and Omesi (2022) found that there is a positive and significant relationship among these tiers of government. The study adopted trend analysis, descriptive and regression techniques for analysis. The focus of this study is to investigate the effect that VAT administration has on States' revenue generation and not the relationship. In a study, Ilemona and Nwite (2022) investigate the effect of a decentralised VAT collection on States in Nigeria. The study revealed that a few States advocated for power sharing while the majority are averse to it. The study, therefore, recommended a partial power sharing between the federal government and the States. Also, Adedeji (2023) in a study highlighted challenges affecting true federalism in Nigeria and revealed that overconcentration of power at the federal level hampers the fiscal relation between the federal and the federating units. It is on these bases that this paper examines how the administration of VAT has affected the revenue generation efforts of the States in Nigeria. The literature reviewed showed that little is written on how the power to collect VAT, if shared between the federal government and the States, could improve fiscal federalism and equally reduce States' operational costs. It is on this basis that this study investigated how VAT administration by the federal government affects fiscal federalism in Nigeria.

METHODOLOGY

The research design for the study is Ex Post Facto Design, and the data for the study were generated through secondary; journals, periodicals, the internet, reports from some government agencies and some non-governmental organisations like Nigeria Revenue Service (NRS), National Bureau of Statistics (NBS) and Budgit. The techniques employed for the analysis were trend and descriptive. The study focuses on States in Nigeria with VAT as the unit of analysis.

DISCUSSION

This section analyses and discusses the data generated for this study.

4.1. VAT Revenue Generation and Distribution

In Nigeria, VAT collected is paid into a pool where it is distributed among the federal government, States and LGs. Table 1 shows an excerpt of VAT collected and distributed for the financial year 2024.

Table 1: VAT Generated and Allocated in Nigeria, 2024

	STATE	*GENERATION*	*ALLOCATION*	*ALLOCATION TO GENERATION*
		₦	₦	%
1	LAGOS	2,748,665,069,782.76	460,114,236,434.33	16.74
2	RIVERS	832,688,064,654.31	186,656,071,024.28	22.42
3	ZAMFARA	17,827,344,518.62	67,871,376,495.76	380.72
4	KATSINA	22,080,740,524.48	85,587,835,727.97	387.61
5	BAUCHI	19,597,766,555.00	77,472,243,211.90	395.31
6	ENUGU	15,396,554,017.72	67,538,962,223.54	438.66
7	OSUN	14,794,902,567.80	68,619,532,407.63	463.81
8	ONDO	13,802,062,592.84	68,570,293,215.49	496.81
9	CROSS RIVER	9,358,220,471.69	64,248,333,841.31	686.54
10	ABIA	8,680,963,229.26	63,783,987,557.73	734.76
11	KEBBI	8,773,869,718.68	66,553,295,316.50	758.54
12	IMO	4,383,557,406.46	70,700,422,604.48	1,612.85

Source: The Cable (2025)

Table 1 shows that Lagos and Rivers States collected 16.74% and 22.42%, respectively, of what was generated from their States. Table 1 also shows that only Lagos and Rivers States generated more VAT than allocated in the period under review. Conversely, other States such as Zamfara, Katsina, Bauchi, and Imo States collected more percentages of what they contributed to the pool.

If the reasons put forward to justify this system of VAT allocation to States are equity and balance, then there is, however, no justice to some States that put in the efforts to improve and create a conducive environment for ease of doing business in their States to attract businesses and, as a result, generate more VAT revenue. What this system encourages is laziness, where the Governors fail to harness the resources in their States.

This is why Olumede (2021) advised States to make an effort to develop their environment by enacting tax laws to improve revenue generation rather than remain dependent on the federal government. States should make VAT laws and structure them according to the commercial activities of the States (Omojoye, 2021). Failure to put this into consideration puts the States in a difficult position. The States' ability to expand their tax base and improve revenue generation is hindered. Therefore, the internally generated revenue (IGR) of most of the States do not match the operational expenses. This has caused many States difficulties to conveniently cover their operational expenses without the Federation Account Allocation Committee (FAAC) allocation.

4.2. IGR and Operational Expenses

Table 2 shows that the operating expenses of the States are not the same, nor is the IGR. The different States have different preferences, and therefore, the realistic

Table 2: 2025 Revenue and Expenses of States in Nigeria

SN	*State*	*IGR*		*Operating Expenses*		*Surplus/Deficit*	
		2023	*2024*	*2023*	*2024*	*2023*	*2024*
		₦'BN	*₦'BN*	*₦'BN*	*₦'BN*	*₦'BN*	*₦'BN*
1	Lagos	840.45	1262.43	709.89	1044.44	130.56	217.99
2	Imo	18.23	20.23	97.7	119.89	-79.47	-99.66
3	Kogi	23.59	27.76	113.08	176.03	-89.49	-148.27
4	Jigawa	11.68	19.01	159.5	142.23	-147.82	-123.22
5	Benue	19.2	20.92	85.3	197.74	-66.1	-176.82
6	Yobe	11.2	11.08	89.24	122.32	-78.04	-111.24

Source: Budgit (2025)

option should be for the government to split the taxing power to enable the States use VAT revenue from their regions to charter for the different needs of the residents.

From Table 2, without FAAC, except Lagos State, the remaining States cannot cover their operating expenses. Most governments that practice federalism cede the powers to administer and collect VAT to the States because the States have varying responsibility functions from one another. To correct this anomaly, proper tax administration is important.

4.3. Administration of VAT in Nigeria

VAT, being a consumption tax, is widely seen as a local tax; however, in Nigeria, VAT is administered by the federal government (Section 3a, Nigeria Tax Administration Act, 2025), even though there is no clarity in the constitution as to the tier of government with the jurisdiction to administer VAT. The constitution is supreme, and any other law that is contrary to its provisions is void (Section 1(3), 1999 Constitution). Vesting the power to administer VAT in the then Federal Board of Inland Revenue (FBIR) was because of doubts on the competence and sufficient expertise to effectively administer VAT; and the subnational governments' overreaching power of enacting laws beyond their powers, and to reduce tax collection costs (Joseph, 2023).

Given the introduction of technology in collecting tax, Akinyemi (2021) stated that the cost of VAT collection at 4 per cent is high compared to the costs of tax collection in other jurisdictions. The author stated that between the 2013 and 2017 financial years, ₦146 billion out of the ₦171.7 billion costs of VAT collection were borne by the States, which represent 85 per cent of the costs of collection. With the huge VAT collection costs, the States can also administer the VAT themselves.

More so, the omission of sales tax in the exclusive list of the 1979 constitution meant the regions could legislate on it (Joseph, 2023). The study made this conclusion based on the 1959 constitution, which gave powers to the regions to legislate on sales tax despite the fact that it was omitted from the exclusive list. This omission is recommended by the 1979 Constitution Drafting Committee to enable the States collect consumption tax (Joseph, 2023). Therefore, the non-inclusion of VAT or sales tax in the 1979 and 1999 constitutions could not have been an omission; rather, the framers of the constitution never envisaged VAT to be a federal tax (Babalola, 2021; Omojoye, 2021; PwC Nigeria, 2021). Also, despite the widespread use of VAT in Europe and other parts of the world, National VAT has never been adopted in the US (Caspersen & Metcalf, 1994).

Interestingly, there are different preferences by individuals and firms residing in different States in Nigeria. State Governments produce goods and provide services based on varying preferences of the residents, for example, population and environmental pollution put pressure on States like Lagos and Rivers, while States like Borno and Yobe are faced with the challenges of desertification. Therefore, the importance of giving powers to the States to legislate cannot be overemphasised because shortly before the military takeover of 1984, the Supreme Court gave powers to legislate on sales tax to the States (Joseph, 2023). Also, the ruling by the FHC in favour of the States showed that VAT is important to the States. Furthermore, the judges considered the concept of fiscal federalism. It is in this light that it is stressed that the implementation of true fiscal federalism will make States in Nigeria more productive and that States, rather than fighting for a revenue-sharing formula, should discuss how to generate more revenue (Ukpe, 2021). The ultimate aim of any policy is to improve citizens' well-being.

To improve the well-being of the citizens as postulated by the theory of optimal taxation and in the principles of SGT of fiscal federalism, the revenue and responsibility functions are shared, so States should be given the taxing powers to collect VAT. This shows that some public activities are suited for States and LGs, regardless of the legality, while others are better left to the federal government to administer. States have varying needs and, therefore, need more funding to provide for the residents.

To determine the optimal allocation of responsibilities is difficult; policymakers should adopt theories of fiscal federalism (Driessen & Hughes, 2020). This is so because, to correct fiscal imbalances, the theory of fiscal federalism has a normative framework to assign both revenue and expenditure responsibilities to vertical levels of government (Jha, 2012). The centralised method of VAT collection in Nigeria has clearly hindered the States' ability to improve alternative means of improving their IGR. The federal government administering VAT implies that the States will explore other sources of revenue by borrowing more, hence expanding their debt portfolio and consequently affecting the delivery of welfare.

Table 3 represents the total debts of States between 2015 and 2024 owed to both domestic and foreign creditors. Table 3 also shows that, except for Delta State, which has a negative total debt growth, the remaining States all have high total debt growth between 2015 and 2024. Between 2015 and 2024, the subnational governments have accumulated huge debt, both domestic and foreign. This accumulation is a result of poor IGR to cover their operational costs. The States are faced with the challenge of

Table 3: Total Debts Owed by States

S. NO	*STATE*	*DOMESTIC DEBT*		*FOREIGN DEBT*		*TOTAL DEBT GROWTH*
		2015	*2024*	*2015*	*2024*	
		₦' B	₦' B	$'M	$'M	%
1	LAGOS	218.54	900.19	1207.9	1169..23	497
2	KADUNA	49.85	25.76	226.37	625.1	954
3	EDO	46.29	113	168.19	383.05	791
4	OGUN	75.92	211.86	103.33	192.9	430
5	BAUCHI	57.65	143.95	85.34	186.81	481
6	CROSS RIVER	115.52	118.13	136.4	202.46	202
7	DELTA	320.61	199.58	38.79	57.15	-12
8	EKITI	52.56	53.53	54.98	134.59	311
9	ENUGU	37.55	119.28	71.83	87.05	392
10	KANO	65.01	60.65	57.61	122.12	226

Source: Budgit (2025)

sustainable development as a result of poor revenue (Ogune et al., 2024), and this has caused huge debts for the States (Egboboh, 2022; James, 2025). It is inevitable to grant the subnational governments the power to collect VAT to enable them improve their revenue generation ability. However, VAT from companies that transact business across States and import tax collections may prove to be problematic to collect, and also, there will be duplication of duties.

4.4. Challenges of VAT Administration in Federalism

The important thing to look at in VAT administration is the components of VAT (VAT on intrastate/intra-LG transactions, VAT on interstate transactions and VAT

Table 4: Import VAT and Non-Import VAT from 2020 to 2024

Year	*VAT Pool*	*₦' B*	*% of Import to Non-Import*
2020	NCS-Import VAT	347.72	29
	Non-Import VAT	1183.45	
2021	NCS-Import VAT	1605.18	343
	Non-Import VAT	467.68	
2022	NCS-Import VAT	1990.01	382
	Non-Import VAT	521.5	
2023	NCS-Import VAT	2,924.81	409
	Non-Import VAT	714.51	
2024	NCS-Import VAT	5,131.03	323
	Non-Import VAT	1,590.32	

Source: FIRS (2025)

on international transactions) (Teriba, 2021). Though there is no classification of VAT generated into interstate and intrastate, the import VAT is, however, separated from the non-import VAT.

Table 4 shows import and non-import VAT collected from 2020 to 2024. In 2020, the percentage of import VAT to non-import VAT was 29. This could be a result of COVID-19 challenges that affected businesses. From 2021, there was a substantial increase in import VAT. The import VAT contribution, in addition to the VAT generated from federal government ministries and MDAs, will account for a substantial percentage of federal government VAT generation.

According to Jha (2012), factors that necessitate sharing taxing powers with States are, firstly, mobility: under the basic model, firms and individuals are assumed not to move across States. In reality, this is not possible because individuals move to benefit from jobs that suit their skills and firms move to States with ease of doing business, that is, low tax rates; and secondly, Spatial effects: the assumption that the federal government provide maximum well-being under the basic model is not feasible. The benefits enjoyed by residents can be affected by geographical location. This shows that if the States are granted the power to collect VAT from transactions from their geographical locations, the federal government will collect VAT revenue from the import VAT, interstate VAT, and this is a confirmation of a study by PwC Nigeria (2021).

CONCLUSION AND RECOMMENDATIONS

Most countries now embrace VAT because it improves the revenue generation of the government. The VAT administration is by the federal government, then shared among the federal, States and LGs. The vesting of taxing powers on the federal government over the States means the powers to share revenue and responsibility functions in terms of VAT are not implemented, and this has affected the concept of fiscal federalism. This has made the States not harness their resources, hence affecting their ability to expand the tax base. This is a confirmation of earlier publications by Okwesili *et al* (2013); Nunns and Toder (2017); Ukachikara and Okoroafor (2019).

It is, therefore, recommended that the federal government ensure that the responsibility functions of States are matched with equal revenue functions by giving them the powers to administer VAT and then adopt an equitable revenue sharing formula to share the interstate VAT and VAT from import and international transactions. To achieve this, there must be a robust framework that will take care of

VAT from interstate transactions like the telecommunication and banking sectors, the problem of duplication of tax, and ensure qualified personnel are employed to administer tax.

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