The Effect of Value Added Tax on the Nigeria Tax System: A Conceptual Review of the Revenue Mobilisation, Allocation and Fiscal Commission, Abuja

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DOI: https://doi.org/10.67487/ijfmg.v2i2.248

Citation: Edet, N. S., Eshiet S. E., & Kusi, U. H. (2026). The Effect of Value Added Tax on the Nigeria Tax System: A Conceptual Review of the Revenue Mobilisation, Allocation and FiscalCommission, Abuja . *International Journal of Finance, Management and Governance, 2(2)*

Abstract
Value Added Tax (VAT) has, since its introduction in 1994, become one of the most significant sources of non-oil revenue within the Nigerian tax system, yet its administration continues to generate considerable legal, institutional and intergovernmental controversy. This paper presents a conceptual review of the effect of value-added tax on the Nigerian tax system, with particular reference to the statutory role of the Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC), Abuja, in the mobilisation and equitable distribution of federally collected revenue. Anchored in the ability-to-pay and benefit theories of taxation and on the theory of fiscal federalism, the paper traces the legislative evolution of VAT in Nigeria from the Value Added Tax Decree of 1993 through the Finance Acts of 2019 to 2023, to the sweeping reforms introduced by the Nigeria Tax Act 2025 and the Nigeria Tax Administration Act 2025, which together establish the Nigeria Revenue Service and revise the statutory formula for VAT revenue sharing. The paper examines the persistent constitutional contestation over the competence to impose and collect VAT, most notably in Attorney-General of Rivers State v Federal Inland Revenue Service, and situates the Commission's revenue allocation mandate within this contested fiscal federal architecture. It concludes that although VAT has consistently proved to be a buoyant and administratively efficient revenue instrument, its long-term contribution to a stable and equitable Nigeria tax system is constrained by unresolved constitutional ambiguity, weak enforcement capacity and the informal

sector's continued exclusion from the tax net. Recommendations for legislative, institutional and administrative reform are proposed.

Keywords: Value Added Tax, Nigeria Tax System, Revenue Mobilisation, Fiscal Allocation, Fiscal Federalism Revenue Mobilisation, Allocation, Fiscal Commission

1. Introduction

1.1 Background to the Study

Taxation remains the fiscal lifeblood of modern states, providing the resources upon which governance, infrastructure and social development depend. Within Nigeria's fiscal architecture, Value Added Tax (VAT) has emerged as one of the most efficient and broad-based instruments for consumption taxation. VAT was introduced into the Nigerian tax system through the Value Added Tax Decree No. 102 of 1993, which came into force on 1 January 1994, replacing the Sales Tax Decree No. 7 of 1986 that had hitherto been administered by the states. The tax was designed as a uniform, federally administered consumption levy, collected by the Federal Inland Revenue Service (FIRS) on behalf of the three tiers of government and shared according to a statutorily prescribed formula (Nwankwo & Nwankwo, 2025).

Since its introduction at an initial rate of 5 per cent, VAT has undergone significant legislative transformation, most notably the increase of the rate to 7.5 per cent under the Finance Act 2019 and, most recently, the consolidation of Nigeria's tax statutes under the Nigeria Tax Act 2025 and the Nigeria Tax Administration Act 2025, which together establish the Nigeria Revenue Service (NRS) as the successor to the FIRS and revise the statutory sharing formula for VAT revenue among the Federation, the States and local government councils (Nwankwo & Nwankwo, 2025). Alongside these legislative developments, VAT has become entangled in one of the most consequential intergovernmental disputes in recent Nigerian fiscal history, following the judgement of the Federal High Court, Port Harcourt Division, in Attorney-General of Rivers State v Federal Inland Revenue Service & Anor, which held that the Federal Government lacks constitutional competence to impose and collect VAT.

Central to the equitable disbursement of VAT and other federally collected revenue is the Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC), a constitutional body established by Decree No. 49 of 1989, as amended by Decree No. 98 of 1993, and now governed by the RMAFC Act, Cap R7, Laws of the Federation of Nigeria 2004. As one of the fourteen federal executive bodies recognised under section 153(1) of the 1999 Constitution of the Federal Republic of Nigeria (as amended), RMAFC is charged with monitoring the accrual and disbursement of revenue from the Federation Account, reviewing the revenue allocation formula periodically, and advising the three tiers of government on fiscal matters (Revenue

Mobilisation, Allocation, and Fiscal Commission, n.d.). The effect of VAT on the Nigerian tax system cannot, therefore, be fully appreciated without situating it within the broader revenue mobilisation and fiscal allocation framework supervised by the Commission.

1.2 Statement of the Problem

Despite the considerable body of literature examining the impact of VAT on revenue generation in Nigeria (Efuntade, 2020), comparatively little scholarly attention has been paid to the specific interface between VAT administration and the statutory fiscal allocation functions of the Revenue Mobilisation, Allocation and Fiscal Commission. Much of the existing literature treats VAT primarily as a revenue-generation instrument, assessed through its contribution to aggregate government revenue, while giving limited attention to the institutional and constitutional dimensions of how VAT revenue, once mobilised, is subsequently allocated among the Federation, the States and local government councils and to the role RMAFC plays, or ought to play, in ensuring that this allocation is equitable, transparent and constitutionally sound.

This gap has become more pressing following the constitutional challenge mounted by Rivers State and, subsequently, Lagos State, against the federal administration of VAT, and following the enactment of the Nigeria Tax Act 2025 and the Nigeria Tax Administration Act 2025, which have revised the VAT revenue-sharing formula without conclusively resolving the underlying constitutional ambiguity over which tier of government possesses the competence to impose and collect VAT (Nwankwo & Nwankwo, 2025). There is presently no integrated conceptual account of how these legislative and judicial developments affect the practical operation of Nigeria's revenue mobilisation and fiscal allocation architecture, particularly concerning the constitutional mandate of RMAFC, Abuja. This paper addresses that gap.

1.3 Objectives of the Study

The broad objective of this paper is to develop a conceptual understanding of the effect of Value Added Tax on the Nigerian tax system, with specific reference to revenue mobilisation and fiscal allocation as superintended by the Revenue Mobilisation, Allocation and Fiscal Commission, Abuja. Specifically, the paper sets out to do the following:

i. trace the legislative evolution of Value Added Tax within the Nigerian tax system from 1993 to the Nigerian Tax Act 2025;
ii. examine the theoretical basis for VAT as a revenue mobilisation instrument within a federal fiscal system;
iii. analyse the constitutional and institutional controversy surrounding the imposition and collection of VAT in Nigeria;

iv. explore the statutory role of the Revenue Mobilisation, Allocation and Fiscal Commission in the allocation of VAT revenue among the tiers of government; and
v. Proffer recommendations for strengthening the contribution of VAT to a stable and equitable Nigerian tax system.

1.4 Theoretical Propositions

As a conceptual paper, this study advances the following theoretical propositions to guide future empirical enquiry rather than statistical hypotheses to be tested:

P1: The legislative and administrative design of value-added tax has a direct bearing on the volume and stability of revenue mobilised into the Nigerian tax system.

P2: Constitutional ambiguity regarding the competence to impose and collect VAT weakens the effectiveness of fiscal allocation within Nigeria's federal structure.

P3: The statutory formula applied by the Revenue Mobilisation, Allocation and Fiscal Commission in distributing VAT revenue moderates the extent to which VAT contributes to equitable fiscal federalism among the federation, states and local government councils.

1.5 Significance of the Study

This paper is significant to several constituencies. For policymakers and members of the National Assembly, it provides a conceptual basis for addressing the constitutional ambiguities that continue to undermine the stability of VAT administration. For the Revenue Mobilisation, Allocation and Fiscal Commission and the Nigeria Revenue Service, it offers a synthesis of the legal and institutional developments bearing on their respective mandates. For scholars of public finance, tax law and fiscal federalism, the paper contributes an integrated conceptual account linking VAT administration to revenue allocation, which may be empirically tested in future research. For the citizenry, the paper reinforces the broader public interest in a transparent, efficient and constitutionally coherent tax system.

1.6 Scope of the Study

This paper is conceptual and doctrinal in orientation. It draws on statutory provisions, judicial decisions, and published theoretical and empirical literature on VAT, revenue mobilisation and fiscal federalism in Nigeria and situates the discussion within the statutory mandate of the Revenue Mobilisation, Allocation and Fiscal Commission, Abuja. It does not present primary survey or financial data collected specifically for this study; rather, it synthesises existing legislative, judicial and scholarly sources to propose a conceptual model for future empirical investigation.

2. Conceptual Clarification

2.1 Value Added Tax

Value Added Tax is a consumption tax charged on the supply of most goods and services at each stage of the production and distribution chain, with the ultimate burden borne by the final consumer. In Nigeria, VAT is currently charged at the rate of 7.5 per cent, payable by individuals, companies and government agencies alike, with specified goods and services, including basic food items, medical and pharmaceutical products, books and educational materials, and exports, exempted from the tax (Pavestones Legal, 2021). VAT was introduced into Nigeria through the Value Added Tax Decree No. 102 of 1993, later codified as the Value Added Tax Act, Cap. V1, Laws of the Federation of Nigeria 2004, has since been amended by successive Finance Acts (notably those of 2019, 2020, 2021 and 2023) and, most recently, consolidated under the Nigeria Tax Act 2025 (Nwankwo & Nwankwo, 2025).

2.2 The Nigeria Tax System

The Nigeria tax system comprises the totality of tax laws, administrative institutions and revenue-sharing arrangements through which government at the federal, state and local levels mobilises revenue to finance public expenditure. Historically, the system has been characterised by a multiplicity of tax types, including personal income tax, companies' income tax, petroleum profits tax, capital gains tax, customs and excise duties, and VAT, each administered under separate statutes and, in some cases, by separate administrative bodies. The Nigeria Tax Act 2025 represents the most far-reaching attempt yet to consolidate these previously distinct statutes, including the VAT Act, the Companies Income Tax Act, the Capital Gains Tax Act and the Personal Income Tax Act, into a single legislative framework intended to eliminate duplication and enhance legal certainty (Nwankwo & Nwankwo, 2025). A parallel institutional innovation is the creation of the Nigeria Revenue Service (NRS), which, under the Nigeria Revenue Service (Establishment) Act 2025, replaces the Federal Inland Revenue Service as the principal federal tax authority, effective 1 January 2026.

2.3 Revenue Mobilisation and Fiscal Allocation

Revenue mobilisation refers to the processes by which the government raises funds, through taxation and other instruments, to finance its expenditure obligations, while fiscal allocation refers to the subsequent distribution of such revenue among the tiers of government within a federal system. In Nigeria, these two functions are formally separated: revenue collection has historically been the responsibility of agencies such as the FIRS (now the NRS) and the Nigeria Customs Service, while the determination of the formula for sharing federally collected revenue, including VAT, is the constitutional responsibility of the Revenue Mobilisation, Allocation and Fiscal Commission. RMAFC was established by Decree No. 49 of 1989, as amended by Decree No. 98 of 1993, and now operates under the RMAFC Act, Cap. R7, Laws of the Federation of Nigeria 2004, as one of the fourteen Federal Executive Bodies recognised under section 153(1) of the 1999 Constitution. Its statutory functions include monitoring the accrual and disbursement of revenue from the Federation Account, reviewing the revenue allocation formula at least once every five years, advising the three tiers of government on fiscal efficiency, and determining the remuneration of political office holders (Revenue Mobilisation Allocation and Fiscal Commission, n.d.).

Under section 40 of the VAT Act, VAT revenue collected by the FIRS was historically shared at the rate of 15 per cent with the federal government, 50 per cent with the thirty-six states, and 35 per cent with local government councils, net of a 4 per cent cost-of-collection allowance retained by the FIRS (Guardian Nigeria, 2022). This arrangement has, however, been revised under the Nigeria Tax Administration Act 2025, which, under section 81, prescribes a new statutory formula allocating net VAT revenue at 10 per cent to the Federation, 55 per cent to state governments, and 35 per cent to local government councils, with the shares due to states and local governments further distributed on the basis of equality, population and place of consumption (Nwankwo & Nwankwo, 2025). This revision illustrates the dynamic and contested character of revenue allocation within the Nigerian tax system and the centrality of RMAFC's mandate to the practical realisation of fiscal federalism.

3. Theoretical Framework

3.1 Ability-to-Pay and Benefit Theories of Taxation

Classical theories of taxation offer a useful starting point for understanding the normative basis of VAT within the Nigerian tax system. The ability-to-pay theory holds that tax burdens should be distributed according to the capacity of taxpayers to bear them, typically operationalised through the progressive taxation of income and wealth. The benefit theory, by contrast, holds that taxpayers should contribute in proportion to the benefits they derive from public goods and services provided by the state. VAT, as a broad-based consumption tax, sits somewhat uneasily between these two theoretical traditions: because it is levied on consumption rather than income, it is generally regarded as regressive in its incidence, falling proportionately more heavily on lower-income households that consume a larger share of their income, even though its administrative efficiency and broad base make it attractive from a benefit-theory standpoint as a relatively low-distortion instrument for financing public expenditure benefiting the wider population.

3.2 The Theory of Fiscal Federalism

The second theoretical anchor for this paper is the theory of fiscal federalism, most notably associated with Musgrave (1959) and subsequently elaborated by Oates (1972). Musgrave's classic assignment of governmental functions distinguishes between the stabilisation, redistribution and allocation functions of government, and argues that the allocation function, being sensitive to local preferences, is often better performed at sub-national levels, whereas stabilisation and redistribution are more appropriately centralised. Oates' (1972) decentralisation theorem further holds that each public service should ideally be provided by the level of government whose jurisdiction most closely matches the geographical reach of its benefits and costs. Applied to revenue assignment, fiscal federalism theory raises the enduring question of which tier of government should possess the competence to impose particular taxes, and how revenue from taxes that are administratively more efficient to collect centrally, such as VAT, should be shared to preserve both efficiency and equity across the federation.

3.3 Application to the Study

The Nigerian VAT controversy, culminating in Attorney-General of Rivers State v Federal Inland Revenue Service & Anor, is, at its core, a dispute over revenue assignment of precisely the kind anticipated by fiscal federalism theory. The centralisation of VAT administration under the FIRS (and now the NRS) reflects the Musgravian logic of administrative efficiency in the collection of a broad-based consumption tax, while the states' assertion of constitutional competence to impose and collect VAT within their territories reflects an Oatesian claim to jurisdiction over a tax whose incidence is felt, and whose benefits might more directly accrue, within defined sub-national boundaries. The statutory fiscal allocation formula administered by RMAFC represents the practical mechanism through which this tension is, at least partially, managed and reconciled, making RMAFC's institutional role central to the operationalisation of fiscal federalism theory within the Nigeria tax system.

4. Conceptual Model

Drawing on the foregoing theoretical discussion, this paper proposes a conceptual model (Figure 1) in which the legal and policy design of value-added tax shapes the volume of revenue mobilised into the Nigerian tax system, which in turn is channelled through the statutory fiscal allocation mechanism administered by the Revenue Mobilisation, Allocation and Fiscal Commission for distribution among the Federation, the States and Local Government Councils. The model further recognises a feedback pathway, whereby the perceived fairness or unfairness of the resulting fiscal allocation, together with unresolved constitutional questions regarding taxing competence, may itself influence subsequent legislative reform of the VAT framework, as illustrated by the sequence of reforms culminating in the Nigeria Tax Act of 2025 and the Nigeria Tax Administration Act of 2025.

VAT Policy and Legal Framework (rate, base, exemptions, digital taxation)	→	**Revenue Mobilisation (collection, compliance, administration)**	→	**Fiscal Allocation (RMAFC formula; Federation, States, Local Government)**

Figure 1. Conceptual model of the relationship among VAT policy design, revenue mobilisation and fiscal allocation within the Nigeria tax system.

The model suggests three interconnected pathways worthy of future empirical testing: a pathway from VAT policy and legal design to the volume and stability of revenue mobilised (Proposition 1); a pathway from constitutional and institutional clarity to the effectiveness of fiscal allocation (Proposition 2); and a moderating pathway whereby the statutory allocation formula applied by RMAFC conditions the overall equity of fiscal federalism within the Nigerian tax system (Proposition 3).

5. Review of Related Literature

5.1 The Evolution of VAT within Nigeria Tax System, 1993–2025

VAT was introduced into Nigeria through the Value Added Tax Decree No. 102 of 1993, coming into force on 1 January 1994 and replacing the Sales Tax Decree No. 7 of 1986. It was designed as a uniform, broad-based consumption tax intended to minimise the cascading effects associated with the earlier sales tax regime and improve revenue mobilisation for the Federation, with an initial rate of 5 per cent (Nwankwo & Nwankwo, 2025). Following Nigeria's return to democratic governance in 1999, VAT was codified as Cap VI of the Laws of the Federation of Nigeria 2004 and subsequently amended through a succession of Finance Acts between 2019 and 2023. The Finance Act of 2019 increased the VAT rate from 5 per cent to 7.5 per cent, effective 1 February 2020, marking the first rate adjustment since VAT's introduction, and introduced a ₦25 million annual turnover threshold for VAT registration, thereby easing the compliance burden on micro-enterprises (Banwo & Ighodalo, 2020; Nwankwo & Nwankwo, 2025). The Finance Act 2021 extended Nigeria's VAT jurisdiction to the digital economy, introducing the concept of Significant Economic Presence for non-resident digital service providers.

The most far-reaching reform to date is the Nigeria Tax Act 2025, which consolidates the VAT Act and other principal tax statutes into a single legislative framework, and its companion legislation, the Nigeria Tax Administration Act 2025, which mandates the deployment of electronic fiscal systems, real-time transaction reporting and a revised VAT revenue-sharing formula. Complementing these statutes, the Nigeria Revenue Service (Establishment) Act 2025 creates the Nigeria Revenue Service as the successor to the FIRS, vested with enhanced enforcement, data-integration and taxpayer education powers (Nwankwo & Nwankwo, 2025).

5.2 VAT and Revenue Generation in Nigeria

A substantial body of Nigerian empirical literature affirms the positive contribution of VAT to government revenue. Efuntade (2020), using secondary data drawn from the Central Bank of Nigeria statistical bulletin and the Budget Office of the Federation spanning 1999 to 2019, found that VAT exerted a significant effect on total government revenue in Nigeria and recommended widening the VAT base to capture the informal sector. Similarly, other Nigerian studies employing time-series data from the FIRS and CBN annual statistical bulletins have found that VAT, alongside companies' income tax, exerts a positive and significant effect on aggregate revenue generation, in contrast to customs and excise duties, whose effect has in some studies been found to be comparatively weaker. These findings reinforce VAT’s standing as one of the more buoyant and administratively efficient components of the Nigerian tax system, notwithstanding the structural and institutional challenges discussed below.

Reported figures illustrate this buoyancy: according to data compiled from FIRS and National Bureau of Statistics sources, Nigeria generated approximately ₦2.5 trillion in VAT revenue between January 2020 and June 2021 at the 7.5 per cent rate, with local VAT accounting for the largest share of collections, followed by foreign non-import VAT and import VAT (Guardian Nigeria, 2022). Such figures underscore why the allocation formula applied to VAT revenue and the institution responsible for determining that formula carry substantial fiscal significance for all tiers of government.

5.3 The Constitutional and Federalism Controversy

Notwithstanding its revenue significance, the constitutional foundation of VAT in Nigeria remains contested. The 1999 Constitution does not expressly list Value Added Tax under either the Exclusive or Concurrent Legislative Lists, and the Federal Government has historically relied on its residual authority over matters incidental to federal taxation to justify nationwide VAT administration (Nwankwo & Nwankwo, 2025). This interpretation was directly challenged in Attorney-General of Rivers State v Federal Inland Revenue Service & Anor, in which the Federal High Court, Port Harcourt Division, held in August 2021 that the National Assembly’s taxing powers extend only to stamp duties and the taxation of income, profits and capital gains, and that the Federal Government therefore lacks constitutional competence to impose or collect VAT (Pavestones Legal, 2021). Although the Court of Appeal subsequently stayed execution of the judgement pending a final determination, expected ultimately from the Supreme Court, the ruling prompted Rivers State and Lagos State to enact their own VAT laws, creating overlapping legal regimes and considerable compliance uncertainty for taxpayers operating across multiple states (Guardian Nigeria, 2022).

The controversy has direct implications for RMAFC's statutory mandate: if VAT is ultimately held to be a state rather than a federal tax, the entire basis upon which VAT revenue is currently pooled into the Federation Account and shared according to a nationally determined formula would require fundamental reconsideration, with correspondingly major consequences for horizontal and vertical fiscal balance within the federation. The Nigeria Tax Act 2025 and the Nigeria Tax Administration Act 2025, while revising the VAT revenue-sharing formula and consolidating tax administration under the Nigeria Revenue Service, do not conclusively resolve this underlying constitutional question, leaving the matter dependent on eventual Supreme Court adjudication or constitutional amendment (Nwankwo & Nwankwo, 2025).

5.4 The Role of the Revenue Mobilisation, Allocation and Fiscal Commission

Within this contested landscape, the Revenue Mobilisation, Allocation and Fiscal Commission occupies a pivotal constitutional position. Established to sustain Nigeria's fiscal federalism by ensuring equitable and transparent revenue allocation among all tiers of government, RMAFC traces its institutional lineage to earlier ad hoc revenue allocation commissions, including the Phillipson Commission of 1946, the Hicks-Phillipson Commission of 1951, the Raisman Commission of 1958, the Dina Commission of 1969 and the Aboyade Technical Committee of 1977, each of which grappled with the perennial challenge of achieving an equitable revenue-sharing formula within Nigeria's federal structure (Revenue Mobilisation Allocation and Fiscal Commission, n.d.). RMAFC's continuing responsibility to review the revenue allocation formula at least once every five years positions the Commission as the institutional actor primarily responsible for translating the abstract principles of fiscal federalism theory into the concrete percentages by which VAT and other federal revenues are shared among Abuja, the thirty-six states and local government councils. The revision of the VAT sharing formula from 15 per cent (Federal), 50 per cent (States) and 35 per cent (Local Government) under the VAT Act to 10 per cent (Federation), 55 per cent (States) and 35 per cent (Local Government) under the Nigeria Tax Administration Act 2025 illustrates the practical significance of this function and its direct bearing on the fiscal fortunes of sub-national governments (Nwankwo & Nwankwo, 2025).

This institutional dynamic is best understood against the broader backdrop of Nigeria's historical struggle to reconcile fiscal federalism with national political and economic development [PLACEHOLDER – to be replaced with a full citation of the author's prior publication(s) on Nigerian politics and educational development]. The equitable mobilisation and allocation of tax revenue, of which VAT forms an increasingly important component, remains inseparable from Nigeria's broader governance and development trajectory.

6. Discussion: Implications for Policy and Practice

The conceptual analysis presented in this paper carries several implications. For the National Assembly and constitutional reform bodies, the persistence of unresolved taxing-power ambiguity, notwithstanding the sweeping consolidation achieved by the Nigeria Tax Act 2025, underscores the urgency of a definitive constitutional amendment or Supreme Court pronouncement clarifying legislative competence over consumption taxes. Without such clarity, the Nigeria tax system will remain vulnerable to recurrent jurisdictional conflict of the kind witnessed in the Rivers State litigation, with attendant risks to investor confidence, interstate commercial coherence, and administrative predictability.

For the Revenue Mobilisation, Allocation and Fiscal Commission, the analysis suggests that its periodic review of the revenue allocation formula should be conducted with explicit reference to the evolving legal characterisation of VAT, and with transparent engagement of state and local government stakeholders, given the direct and substantial fiscal consequences of formula adjustments such as that introduced under the Nigeria Tax Administration Act 2025. For the Nigeria Revenue Service, the discussion reinforces the importance of the digital compliance and taxpayer-education mandates introduced under the 2025 reforms as mechanisms for expanding the VAT net, particularly into the informal sector, which continues to account for a substantial share of Nigeria's economic activity while remaining largely outside formal taxation (Nwankwo & Nwankwo, 2025).

More broadly, the discussion suggests that the effectiveness of VAT as a contributor to a stable and equitable Nigeria tax system cannot be assessed by reference to revenue yield alone; it must equally be assessed by reference to the constitutional soundness and institutional coherence of the mechanisms, including those administered by RMAFC, through which that revenue is subsequently allocated among the tiers of government.

7. Conclusion

This paper has undertaken a conceptual review of the effect of Value Added Tax on the Nigeria tax system, with particular reference to the statutory revenue mobilisation and fiscal allocation functions of the Revenue Mobilisation, Allocation and Fiscal Commission, Abuja. Anchored on the ability-to-pay and benefit theories of taxation and on the theory of fiscal federalism associated with Musgrave (1959) and Oates (1972), the paper has traced the legislative evolution of VAT from its introduction in 1993 through the Finance Acts of 2019 to 2023, to the consolidating reforms of the Nigeria Tax Act 2025 and the Nigeria Tax Administration Act 2025. The review confirms that VAT has consistently proved to be a buoyant and administratively significant contributor to government revenue, while also revealing that its contribution to a stable Nigeria tax system remains constrained by unresolved constitutional contestation over taxing competence, most starkly illustrated by the Rivers State litigation, and by persistent enforcement and compliance challenges, particularly regarding the informal sector.

The conceptual model proposed in this paper situates RMAFC's fiscal allocation mandate at the centre of this contested terrain, arguing that the Commission's periodic revenue allocation formula reviews represent the principal institutional mechanism through which the abstract tensions of fiscal federalism theory are translated into concrete fiscal outcomes for the Federation, the States and Local Government Councils. In the absence of empirical studies specifically examining this nexus with primary data from RMAFC and related fiscal institutions, the model is offered as a theoretically grounded foundation for future empirical research.

8. Recommendations

Based on the conceptual analysis presented in this paper, the following recommendations are proposed:

i. The National Assembly should pursue a definitive constitutional amendment, or await and give full effect to an eventual Supreme Court determination, to resolve the longstanding ambiguity over legislative competence to impose and collect Value Added Tax in Nigeria.

ii. The Revenue Mobilisation, Allocation and Fiscal Commission should conduct its statutory five-yearly review of the revenue allocation formula with explicit, transparent regard to the evolving legal and administrative status of VAT, and with structured consultation of state and local government stakeholders.

iii. The Nigeria Revenue Service should prioritise the full implementation of the electronic fiscal systems and digital compliance measures introduced under the Nigeria Tax Act 2025 and the Nigeria Tax Administration Act 2025, with particular emphasis on extending the VAT net to Nigeria's expansive informal sector.

International Journal of Finance, Management and Governance (IJFMG)
Vol. 2, Issue 2, June 2026 - ISSN: 3092-9423

iv. Government at all tiers should invest in sustained taxpayer education and public engagement to strengthen voluntary VAT compliance and public trust in the fairness and transparency of the Nigeria tax system.

v. Future researchers should undertake empirical, data-driven studies of RMAFC's revenue allocation practice and its fiscal consequences for the Federation, States and Local Government Councils, in order to test the conceptual propositions advanced in this paper and to generate evidence to guide ongoing fiscal federalism reform.

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