



Value Added Tax (VAT) Attribution under the 2025 Nigeria Tax Act

Introduction

Prior to the Nigerian tax reforms, Value Added Tax (VAT) was administered under the Value Added Tax Act, Cap V1, LFN 2004 (as amended). Under that regime, businesses were required to file VAT returns to the tax office of the Federal Inland Revenue Service (FIRS) where their head office was registered. Although VAT is a tax on consumption, the administrative practice of filing based on the head office meant that VAT revenue was mainly allocated to the states where corporate headquarters were situated, rather than where the actual consumption took place.

Over time, this approach resulted to an imbalance in VAT revenue attribution. States hosting a large number of corporate headquarters received a disproportionately larger share of VAT revenue, while other states with significant consumption levels but fewer corporate headquarters received a much smaller share.

In response, the new tax laws seek to realign VAT administration with the fundamental principle of consumption-based taxation. Section 22 (11) of the Nigeria Tax Administration Act (NTAA) introduces a provision that shifts VAT reporting and attribution from a head-office-location-based approach to a consumption-location-based system, with the objective of ensuring that VAT revenue is allocated to the jurisdictions where the underlying consumption takes place.

However, despite the reforms taking effect on 1 January 2026, the Nigeria Revenue Service (NRS) is yet to introduce the administrative mechanisms necessary to facilitate the transition. This has created uncertainty for taxpayers, as well as states and local governments whose VAT revenue allocations depend on effective attribution.

Why is attribution important?

Section 81 of the NTAA governs the distribution of VAT revenue among the tiers of government. Under the provision, 10% of VAT revenue collected is allocated to the Federal Government, 55% to States & FCT, and 35% to Local Governments. The portion allocated to states and local governments is further distributed based on the following:

- Equally – 50%
- Population – 20%
- Consumption – 30%

The presence of consumption as a basis for distribution means that accurately attributing where taxable supplies are consumed is vital for determining how VAT revenue is shared among states and local governments. Section 22 (11) of the NTAA therefore requires taxpayers to provide details of consumption of taxable supplies, regardless of where the return is filed. It is important to note that without reliable consumption data, the consumption-based component of the VAT revenue distribution formula cannot operate as intended.

Implications for taxpayers

Despite the clear legal framework, current administrative practices remain inconsistent with the requirements of the law. Three months into the implementation of the reforms, VAT filings still do not reflect the place of consumption. This is evident in the fact that the VAT sales schedule, usually uploaded to Taxpro Max (the official NRS tax filing portal), has not been updated to request information necessary for consumption-based attribution, such as the state of consumption and location of supply. In other words, while Section 22(11) requires taxpayers to provide consumption data, the current tax filing system neither requests nor captures this information.

The lack of implementation clarity also raises potential compliance concerns for taxpayers. Section 106 of the NTAA prescribes an administrative penalty of N1,000,000 for failure to attribute. However, taxpayers have already submitted VAT returns for January and February 2026 without any formal guidance from the NRS on how such attribution should be made. In light of this administrative gap, it is reasonable to expect that taxpayers should not be penalised for non-compliance resulting from the absence of the necessary reporting framework. how attribution should be made. In light of this administrative gap, it is reasonable to expect that taxpayers should not be penalised for

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Conclusion

Nigeria's VAT system is currently in a transitional phase. While the legal framework now demands transparency and fairness through consumption-based attribution, the administrative infrastructure required to support the framework is yet to be fully implemented.

The distribution formula under Section 81 of the NTAA cannot operate effectively without reliable data on the location of consumption. Until the TaxPro Max platform and other fiscalisation mechanisms are updated to capture this information, the legal provisions governing VAT attribution will remain clear in principle but difficult to enforce in practice.

Taxpayers are therefore advised to maintain internal records and documentation relating to the location of consumption of their taxable supplies, where feasible. Such documentation may become important once the NRS introduces the necessary reporting mechanisms to operationalise the consumption-based VAT attribution framework. of consumption of their taxable supplies where feasible. These records may become important once the NRS introduces the reporting mechanisms required to fully implement the consumption-based attribution framework.



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