

# TAX NEWSLETTER

NOVEMBER 2023



PML welcomes you to November 2023 edition of our Tax Newsletter, and in this edition, we bring to you a summary of all the major tax events that occurred during the Month of October 2023. You can follow us on social media – Facebook, Instagram, LinkedIn, and Twitter. You can also reach us by mail on [tax@pml.com.ng](mailto:tax@pml.com.ng)

## THE VALUE ADDED TAX ACT (VATA)

1.1 The Value Added Tax Act (VATA) of Nigeria serves as the primary legislation governing VAT in the country. The VATA provides the legal framework for the imposition, administration, and collection of VAT. It outlines the obligations and rights of taxpayers, registration requirements, VAT rates, exemptions, and penalties for non-compliance. Familiarity with the provisions of the VATA is crucial for businesses and taxpayers to ensure compliance with VAT regulations.

## WHAT IS VALUE ADDED TAX (VAT)

1.2 Value Added Tax is a tax on consumption that is imposed on the value added to goods and services at each stage of production and distribution. It is an indirect tax, meaning that it is ultimately borne by the final consumer. VAT is collected by registered businesses, who act as intermediaries in the supply chain and remit to tax authority.

## INPUT VAT

1.3 Input VAT is VAT paid on raw materials or goods and services used for production purposes or goods for resale or goods imported directly for resale.

## OUTPUT VAT

1.4 Output VAT is VAT charged by taxable persons on goods and services supplied. Where output VAT is more than the Input VAT, the difference is paid to FIRS, but where Input VAT is more than output VAT, the taxable person claims a refund.

## ROLE OF VAT IN THE NIGERIAN ECONOMY

1.5 VAT plays a crucial role in generating government revenue and promoting economic development in Nigeria. The revenue generated from VAT is utilized to fund infrastructure projects, social programs, and public services. By broadening the tax base and reducing reliance on oil revenue, VAT contributes to a more sustainable fiscal framework.

## THE FEDERAL INLAND REVENUE SERVICE (FIRS)

1.6 The Federal Inland Revenue Service (FIRS) is the designated governing authority responsible for administering and enforcing VAT regulations in Nigeria. The FIRS is empowered by the VATA to oversee VAT registration, collection, assessment, and audit processes. The authority has the mandate to issue guidelines, circulars, and directives to provide clarity and ensure uniform application of VAT provisions. The FIRS also handles taxpayer education, dispute resolution, and enforcement actions for non-compliance.

## STANDARD VAT RATE

1.7 The standard VAT rate in Nigeria is currently set at 7.5%. However, it is important to note that the VAT rate is subject to change based on government policies and legislative amendments. Businesses must stay updated with any changes in VAT rates to ensure accurate calculation and compliance.

## HOW TO CALCULATE VAT

Under the inclusive method, the VAT amount is included in the selling price of goods or services. To calculate the VAT amount, the selling price is divided by (1 plus VAT rate). The VAT-exclusive price can be obtained by subtracting the VAT amount from the selling price.

## VAT EXEMPTIONS

1.8 VAT exemptions refer to specific goods and services that are not subject to VAT. These exemptions are determined by the Value Added Tax Act (VATA) and other regulations. The rationale behind VAT exemptions is to provide relief for essential goods and services or to support specific sectors of the economy.

## 1.9 PENALTIES AND CONSEQUENCES FOR NON-COMPLIANCE

Non-compliance with VAT regulations can lead to penalties, interest charges, and reputational risk. The FIRS has the authority to conduct audits, investigations, and enforcement actions to ensure compliance. It is crucial for businesses to understand and fulfill their VAT obligations to avoid unnecessary penalties and disruptions to their operation.

By following the VAT registration process and adhering to the obligations and responsibilities of VAT-registered businesses, businesses can ensure compliance with the VAT system in Nigeria. Proper registration and compliance contribute to a smooth and efficient operation while avoiding potential penalties and risks associated with non-compliance.

In the Value Added Tax Act (VATA) of Nigeria, there are provisions for penalties, interests, and fines for non-compliance with VAT regulations. The specific penalties, interests and fines can vary based on the nature and severity of the non-compliance. Here are some common penalties and consequences outlined in the VATA, along with the associated amounts.

### Late Filing Penalty

If a registered taxpayer fails to file their VAT return within the specified deadline, they may be subject to a penalty. The penalty amount is typically 5% of the tax due, with an additional 1% per month for each month of non-compliance.

### Late Payment Penalty

If a registered taxpayer fails to remit the VAT payable within the prescribed timeframe, they may incur a penalty. The penalty amount is typically 10% of the tax due, with an additional 2% per month for each month of non-compliance.

### Incorrect VAT Calculation Penalty

If a registered taxpayer submits a VAT return with incorrect calculations or underreports their VAT liability, they may face a penalty. The penalty amount can be up to 25% of the tax underreported or the difference between the correct and reported VAT liability.

### Penalty for Non-Registration

A penalty of N10,000 for the first month in which the failure occurs and N5,000 for each subsequent month. If this persists, the business premises will be sealed up after a considered reasonable period.

### Penalty for Non-VAT remittance

A penalty of a sum equal to 5% per annum plus interest at a commercial rate payable within 30 days of notification by the Tax Authority.

### Failure to Maintain Records Penalty

VAT-registered taxpayers are required to maintain accurate and up-to-date records of their transactions. Failure to comply with record keeping requirements may result in penalties, which can range from N50,000 to N500,000 depending on the severity of the non-compliance.

### Interest Charges:

In addition to penalties, the tax authority may impose interest charges on outstanding VAT liabilities. The interest rate is typically set at 5% above the Central Bank of Nigeria's minimum rediscount rate and accrues on the unpaid VAT amount from the due date until the date of payment.

It is important to note that the specific penalties, interests, and fines can be subject to change based on updates to the VATA and related regulations.

## Developments During the Month

1. The Lagos State Internal Revenue Service has closed down 34 corporate organisations for failing to remit Personal Income Taxes of their employees and for non-remittance of consumption taxes by operators in the hospitality sector to the Lagos State Government.

2. Lagos State Inland Revenue Services (LIRS) has urged owners of restaurants, hotels, and event centres operating in the state to contribute to the state's development by prioritizing the monthly collection and remittance of a 5 per cent consumption tax on all consumables and personal services.

3. Federal Inland Revenue Services (FIRS) is set to embark on a nation wide Value Added Tax(VAT) and Withholding Tax (WHT) Compliance Monitoring exercise for all taxable person from October

4. The Chairman of the Federal Inland Revenue Service, Zacch Adedeji, has allayed fears being expressed by corporate organisations that the service has resolve to increase taxes in the Country

5. Lagos State Government plans to expand the tax net by bringing new taxpayers into the system, and not overburden the current taxpayers.



# Tax Return

**NOVEMBER 2023  
TAX DEADLINE**

Set out below are the major deadlines in the month of November 2023, as it relates to the Nigerian Tax space:

## CIT & TET

Companies whose financial year-end is April are to pay their Companies Income Tax (CIT) and Tertiary Education Tax (TET) to the Federal Inland Revenue Service (FIRS), and thereafter file their CIT, TET and Transfer Pricing (where applicable) returns with the FIRS, via the FIRS Tax-Pro Max portal, on or before Tuesday, 31 October 2023.

## ECS Contribution Payment

Pay the Employees Contribution Scheme (ECS) contributions due on your employees' October 2023 emoluments to the Nigeria Social Insurance Trust Fund (NSITF), via any of its designated banks, on or before 30 November 2023.

## PAYE Remittance

Remit all Pay-As-You-Earn (PAYE) deducted from employees October 2023 emoluments to the Internal Revenue Service (IRS) of the State(s) where the said employees are resident, via any of the designated banks, on or before Friday, 10 November 2023.

## Pension Remittance

Remit all pension deducted (from employees' October 2023 emoluments) and contributed (by the employer) to the Pension Fund Custodian of the relevant employees. Remittance should be made within seven (7) business days of salary payment, i.e., companies that paid salaries on 31 October 2023 are to remit pension on or before Tuesday, 7 November 2023.

## NHF Remittance

Remit the NHF deducted from employees' October 2023 emoluments to the Federal Mortgage Bank of Nigeria, via any of its designated banks, on or before Thursday, 30 November 2023.

## VAT Remittance and Filing

Companies who meet the required threshold are to remit all Value Added Tax collected in the month of October 2023 to the FIRS, via any of its designated banks, and file their October 2023 VAT returns with the FIRS, on or before Tuesday 21 November 2023.

## Withheld VAT Remittance and Filing

All appointed agents are required to file a separate return on VAT withheld in the month of November 2023 to FIRS, via any of its designated bank, and file their October 2023 withheld VAT returns with the FIRS, on or before Tuesday 14 November 2023. with the currency of transaction, in line with Section 14(3) of the VAT Act.

## WHT Remittance (FIRS)

Remit the WHT deducted from payments made to all corporate and foreign entities in October 2023, to the FIRS, via any of its designated banks, on or before Tuesday 21 November 2023.

## WHT Remittance (SIRS)

Remit the WHT deducted from payments made to all non-incorporated entities in October 2023, to the Internal Revenue Services of the State(s) where the said entities are resident, via any of the designated banks, on or before Thursday 30 November 2023



# SERVICE OFFERINGS

- Companies Income Tax Management
- PAYE Returns Management
- Payroll Tax Management
- Personal Income Tax Management
- Micro Business Package
- Small and Medium Enterprises Business Package
- Tax Audits and Investigations Management
- Transfer Pricing Management
- Value Added Tax Management
- Withholding Tax Management (Payable)
- Withholding Tax Management (Receivables)

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