

Value added tax in Nigeria: A beginner's guide

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If you purchase goods from a departmental store in Nigeria, you will notice a certain amount, Value Added Tax, on your sales receipt. Typically, this is rarely an issue since the price is inclusive of Value Added Tax (VAT). The Finance Act 2019 introduced significant changes to the VAT regime in Nigeria on the rate, obligation, penalty, and self-charge.

As a foreign company or local business, it is good to know the new provisions that affect revenue and purchases for proper planning. This guide has been updated to address the twenty-one (21) frequently asked questions on changes to the value added tax.

The VAT article has six sections.

I: Definition, rate, and scope

II: Persons exempt and threshold

III: Registration, deregistration, and relevant tax authority

IV: Input and output VAT, deduction at source

V: Returns and filing requirements

VI: Two examples of how to calculate Nigerian VAT

Section 1: Definition, rate and scope

1. What is Value Added Tax (VAT)?

VAT is a tax levied on the supply of taxable goods and services except those items listed in the First Schedule of the VAT Act. It is a multi-stage levy on value-added on each production or distribution stage of a good or service. In the case of a manufacturing company, the value added begins from the first stage (the purchase of raw materials) until the final stage (sale to the final consumers). Even though a taxable person is accountable for VAT, it is an 'indirect tax' because the tax burden passes to the final consumers.

The Value Added Tax (VAT) Act, 2004 as amended, governs the administration of VAT in Nigeria.

2. What is the definition of taxable supply?

A taxable supply is any sale of goods or for the performance of services for a consideration in money or money's worth. Goods mean a(n) tangible and intangible product, asset, or property while services are anything other than goods, money, security supplied except employment services.

3. What is the value added tax rate in Nigeria?

The rate of VAT in Nigeria is 7.5%. Nonetheless, there are two other rates that you should know, such as the rate for zero-rated and exempt items.

4. What is the meaning of zero-rated and exempt goods (services)?

Zero-rated VAT is the rate of tax on non-oil exports, goods, and services bought by diplomats and goods and services bought by humanitarian donor-funded projects. Even though no VAT is chargeable, a company still needs to record the supply of zero-rated goods and services on a VAT return. Second, goods or services exempt are not subject to VAT.

Examples of **goods exempt** include:

- A. Medical and pharmaceutical products;
- B. Basic food items;
- C. Books and educational materials;
- D. Baby products;
- E. Fertilizer (locally manufactured), agricultural and veterinary medicine, farming machinery and farming transportation equipment;
- F. Plant and machinery imported for use in the export processing zone or free trade zone; provided that entire produce from such company is for export;
- G. All commercial aircraft and aircraft spare parts imported for use in Nigeria;
- H. Amorphous pet chips
- I. Locally manufactured sanitary towels, pads or tampons
- J. All exports
- K. Plant, machinery, and equipment purchased for utilization of gas in downstream operations
- L. Petroleum products
- M. Renewable energy equipment
- N. Raw materials for the production of baby diapers and sanitary towels

Others goods exempt are

- A. Fiscal Policy Measures and Tariff Amendments (2007): Plant, machinery, and equipment (including steel structures) for the manufacture of cement and allied products as well as motorcycle (CKD) / bicycle (SKDs) and their spare parts
- B. VAT Modification Order 2011: Corporate bonds and government securities (valid till 2022)

On the other hand, **services exempt** are

- A. Medical services
- B. Services rendered by Community Banks, People's Banks, and Mortgage Institutions
- C. Plays and performance conducted by the educational institutions as part of learning
- D. All exported services. Exported service is a service rendered within or outside Nigeria by a person resident in Nigeria to a non-resident person (NRP) outside Nigeria. However, a service provided to a fixed base or permanent establishment of a company of an NRP is not an exported service.
- E. Lease or rent on a residential accommodation
- F. Public road transportation service
- G. Tuition of a nursery, primary, secondary, and tertiary education

Section 2: Persons exempt and threshold

5. Apart from goods and services, does the new law exempt any business from VAT?

Yes. Small businesses with an annual turnover of below NGN25 million are exempt from accounting for VAT. It also means that a small company can issue an invoice without including the (output) VAT. However, the company will be required to pay (input) VAT on the purchase of taxable goods and services.

6. How is the threshold determined?

A taxable person who;

- made taxable supplies of NGN25 million before the exemption will continue to account for VAT, even if the person has taxable supplies below NGN25 million in the current year;

- did not attain NGN25 million taxable supplies before February 1, 2020, must account for VAT immediately it reaches threshold within the year;
- has an annual turnover below NGN25 million but expects to reach the threshold at a future date within the calendar year shall immediately commence accounting for VAT;
- makes taxable supplies of NGN25 million and above within a calendar year will file monthly VAT returns even if a part or the entire supplies are exempt.

A calendar year is 12 months beginning on the first day of that year.

Section 3: Registration, deregistration, and relevant tax authority

7. Who is the relevant agency for VAT administration?

The Federal Inland Revenue Service (FIRS) is the sole agency for administering value added tax in Nigeria.

8. When should a taxable person register for VAT?

A taxable person shall register for VAT upon commencement of business in Nigeria. Under the new law, a taxpayer will start operations on the earliest date it-

- (i) advertises its products or services for sale or
- (ii) obtains an operating license in Nigeria or
- (iii) makes its first sale or purchase or
- (iv) performs its first trading contract after incorporation or

- (v) sends or receives its first invoice or set of goods or
- (vii) first renders services to its customers.

9. How do I register a business or an individual for VAT?

A taxable person can register for VAT by submitting a duly completed Taxpayer Registration Form and other documents at the designated FIRS office.

10. Are non-resident persons exempt from registration?

Where a non-resident person (NRP) makes taxable supplies to a person in Nigeria or a Nigerian resident, the NRP is required to register for VAT. For tax correspondence with the NRP, the applicant will state the address of the person to whom it is making the supply as its Nigerian address.

11. Are small businesses also required to register for VAT?

A small business may voluntarily register, charge, collect, remit the tax and file monthly returns to the FIRS. However, such a person must notify the FIRS first and will comply with the provisions on VAT for non-exempt persons.

12. Is there a requirement for deregistration?

Yes. A taxable person who permanently ceases operations in Nigeria shall deregister with FIRS within 90 days of cessation. FIRS has a dedicated office for non-resident tax payers in Nigeria.

Section 4: Input and output VAT, and deduction at source

13. What is the difference between input VAT output VAT?

Input VAT is payable on raw materials or goods and services used for production purposes or resale or imported directly for resale. Furthermore, a taxable person cannot use input VAT that can be expended through income statement or capitalized with an asset to reduce output VAT. On the other hand, output VAT is payable on goods and services supplied. Where output VAT is higher than the input VAT, the balance will be payable to FIRS. However, where input VAT is more than output VAT, the taxable person claims a refund.

14. Is a recipient of good or service allowed to withhold VAT?

The answer depends on the parties involved.

When a company or an individual issues VAT invoices to their customers, such customers are required to pay the contract sum as well as the VAT amount. For instance, Company ABC renders service to XYZ Plc. for NGN645,000 (Fee – 600k, VAT – 45k). XYZ Plc. will be required to pay the sum of NGN645,000. However, the payment pattern will differ;

- if Company ABC issues a tax invoice to specific organizations

Under the VAT Act, companies operating in the oil and gas sector and government agencies, ministries, or parastatals will withhold the VAT at source. It implies that this type of organization should pay its contractors the cost of the goods/services and withhold the VAT portion. Next, the taxpayer will remit VAT to FIRS. We shall consider another illustration using Company ABC's details above but

with a new customer, that is, a Government agency. The Government agency will be required to pay NGN600,000 to Company ABC and withhold VAT of NGN45k. The Government agency will remit the VAT withheld to FIRS. Therefore, the Government agency is the collection agent of FIRS.

- under the self-account provision

The FIRS Circular on Finance Act 2019 (changes to VAT Act) contains a new self-account provision for all supplies that are not subject to VAT. A taxable person who receives goods or services in Nigeria will withhold and remit tax in the prescribed format where the supplier is exempt from (or fails to charge) VAT. The form for self-accounting is the withholding VAT 006 return. Persons exempt include businesses with annual turnover below ₦25 million as well as NRPs without a PE in Nigeria.

15. What is the basis of accounting for VAT - Cash or accrual basis?

The accrual basis of accounting for VAT means that VAT will be payable when a taxable person issues an invoice to a customer. It does not consider whether the supplier has received payment. On the other hand, the cash basis of accounting for VAT means that VAT will be payable when a taxable person receives (cash) payment rather than issuing an invoice.

The Finance Act 2019 supports the cash basis of accounting for VAT in Nigeria.

Section 5: Returns and filing requirements

16. How do I remit VAT?

FIRS uses designated banks as collection agents for payments into the VAT Pool Account. Two popular means of payment are FIRS pay-in-slip at the bank and online bank transfer.

17. What are the documents required for filing VAT returns?

1. Evidence of payment from FIRS designated revenue collecting bank.
2. Completed VAT Returns Form 002 and 006 (if applicable).
3. Schedule of VAT collected showing the name, taxpayer identification number (TIN) and the amount.

Returns can be filed either at the designated tax office or on FIRS online portal.

18. I have no supply of goods and services in a month. Am I still required to file?

Except for exempt businesses, FIRS requires a taxpayer to file VAT returns for a month with no revenue. It is a NIL return as the amount on the form will be zero.

19. What is the due date of filing VAT returns?

The deadline is the 21st day of the month following the month of transaction.

20. Can a taxpayer still file returns after the deadline?

Yes. Returns after the due date is usually called late returns and attracts a fine.

21. Is there any consequence for:

- Non-registration? A penalty of NGN50,000 for the first month in which the failure occurs and N25,000 for each subsequent month.

- Non-remittance? The unpaid sum plus a penalty of 10% and interest at minimum rediscount rate (CBN).
- Late filing? A penalty of NGN50,000 for the first month and NGN25,000 for each subsequent month of default.

Section 6: Examples of how to calculate value added tax in Nigeria

Illustration 1: Transaction between two large companies

Company ABC, a large company, bought raw materials at NGN2,150,000 (VAT inclusive) in June 2020. Later, Company ABC converted the raw materials into finished goods at a selling price of NGN3,063,750 (VAT inclusive) in August 2020. How much VAT is payable?

Solution 1:

NGN63,750 that is output VAT ($NGN213,750 = 3,063,750 / 107.5 * 7.5$) less input VAT ($NGN150,000 = 2,150,000 / 107.5 * 7.5$). The return is due in September 2020. As the invoice is VAT inclusive, the denominator is 100 percent plus VAT rate.

Illustration 2: Professional service firm

TeeMee Firm & Co. has an annual turnover of above NGN25 million. The Firm bought a printer at NGN268,750 (VAT inclusive) in May 2020. TeeMee Firm & Co. used the printer to print a professional report for a client at NGN860,000 (VAT inclusive) in July 2020. Assuming the invoice of Tee Firm & Co. contains only fee and VAT, how much VAT is payable?

Solution 2:

NGN60,000 which is $(7.5/107.5 * \text{NGN}860,000)$. Recall our explanation of input VAT in Section 3 above. The VAT paid on the purchase of a printer can be expensed or capitalized with the asset. Hence, the amount cannot reduce output VAT. The return is due in August 2020.

To read this article online or download VAT forms, laws or other related articles, go to [VAT Article on BRC Blog](#).

The content of this article is intended to provide a general guide to value added tax in Nigeria. Specialist advice should be sought about your specific circumstances.



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