



UNDERSTANDING THE BASICS OF CORPORATE TAXATION IN NIGERIA

JULY 2022



Our Learning Checklist

What we'll cover in this session



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- Scope
 - Residence
 - Rate
 - Profits exempt, expenses
 - Withholding tax
 - Minimum tax, excess dividends tax
 - Tax filing, Due date, Penalty

Companies Income Tax Act (CITA) Cap 60, 2004 as amended and Finance Acts 2019, 2020, 2021

Scope

Corporate tax is a tax on the profits of a company.

Incorporated entities are companies subject to Companies Income Tax on their profits from all sources.

Every company, resident or non-resident, is liable to companies' income tax (CIT) in Nigeria where the profits accrue in or are derived from, brought into, or received in Nigeria.

Section 13





Residence

Resident companies are liable to Companies Income Tax on their worldwide income subject to relief for taxes suffered overseas under the provisions of a relevant Double Taxation Treaty where eligible.

Non-resident entities are liable to Companies Income Tax on Nigerian-sourced income. A foreign company with a significant economic presence (SEP) in Nigeria will also be subject to income tax.

The SEP rule covers digital transactions and services rendered by an NRC. For companies with SEP, the Federal Inland Revenue Service may apply a deemed tax rate on the turnover that is attributable to the company's activities in Nigeria.

Rate



Profits exempt

- Small company
- Companies formed to promote sporting activities
- Cooperative societies
- Friendly societies
- Trade unions
- Companies operating in an export processing zone or free trade zone
- Pioneer status
- Export profits brought into Nigeria through government-approved channels and invested in raw materials, spare parts, plants, and machinery
- Other profits as specified in Section 23

Expenses

Allowable:

Expenses that are “wholly, reasonably, exclusively and necessarily” incurred for the company’s operations

Donations to approved charity bodies and the COVID-19 fund.

Non-deductible:

Depreciation and amortization, capital expenditure, reserves.

Section 24 - 27

Tax losses may be used to offset profits arising from the same trade in the subsequent year and the unutilized amount can be carried forward indefinitely.

Withholding Tax

Construction (roads, buildings, and bridges)

2.5%

Dividends, interest, rent, royalties

Hire of equipment, commission, consultancy, technical, management fees, service fees

10%

Contracts other than sales in the ordinary course of business

5%

Due date: 21 days following the month of the transaction
Penalty: 10% of the unpaid sum

Tax filing: How?

It's a self-assessment system.

Register with Federal Inland Revenue Service

Tax filing is fully automated. If tax is payable, make payment after submitting the online return to complete the process.

Companies operating in the upstream petroleum industry will file income returns on an actual year basis while other companies will follow a preceding year basis.



Tax filing: When?



Old companies: 6 months after the financial year-end

New companies: Earlier of eighteen (18) months from the date of incorporation or six (6) months after the end of its accounting period.

No profits? No problem!

Minimum Tax

The minimum tax rate is 0.5% of the total turnover minus franked investment income. Lower rate of 0.25% in any two years of assessment from 1 January 2019 to 31 December 2021.

Small companies, agricultural businesses, and companies in their first four calendar years of operations are exempt.

Excess Dividend Tax

Dividend is paid from profit on which tax is not payable or taxable profit is less than the dividend paid.

Dividend will be the taxable profit.

No EDT on dividends paid out of

- retained earnings, where the profits have been subjected to tax under CITA or other tax laws, tax-exempt profits
- franked investment income
- by a Real Estate Investment Company to shareholders

Penalty

01

Late filing

₦25,000 for the first month in which the failure occurs and ₦5,000 for the subsequent month of default. Upon conviction, the officer of the company may be liable to a fine of ₦100,000 or 2 years imprisonment or both

02

Late payment or non-payment of tax

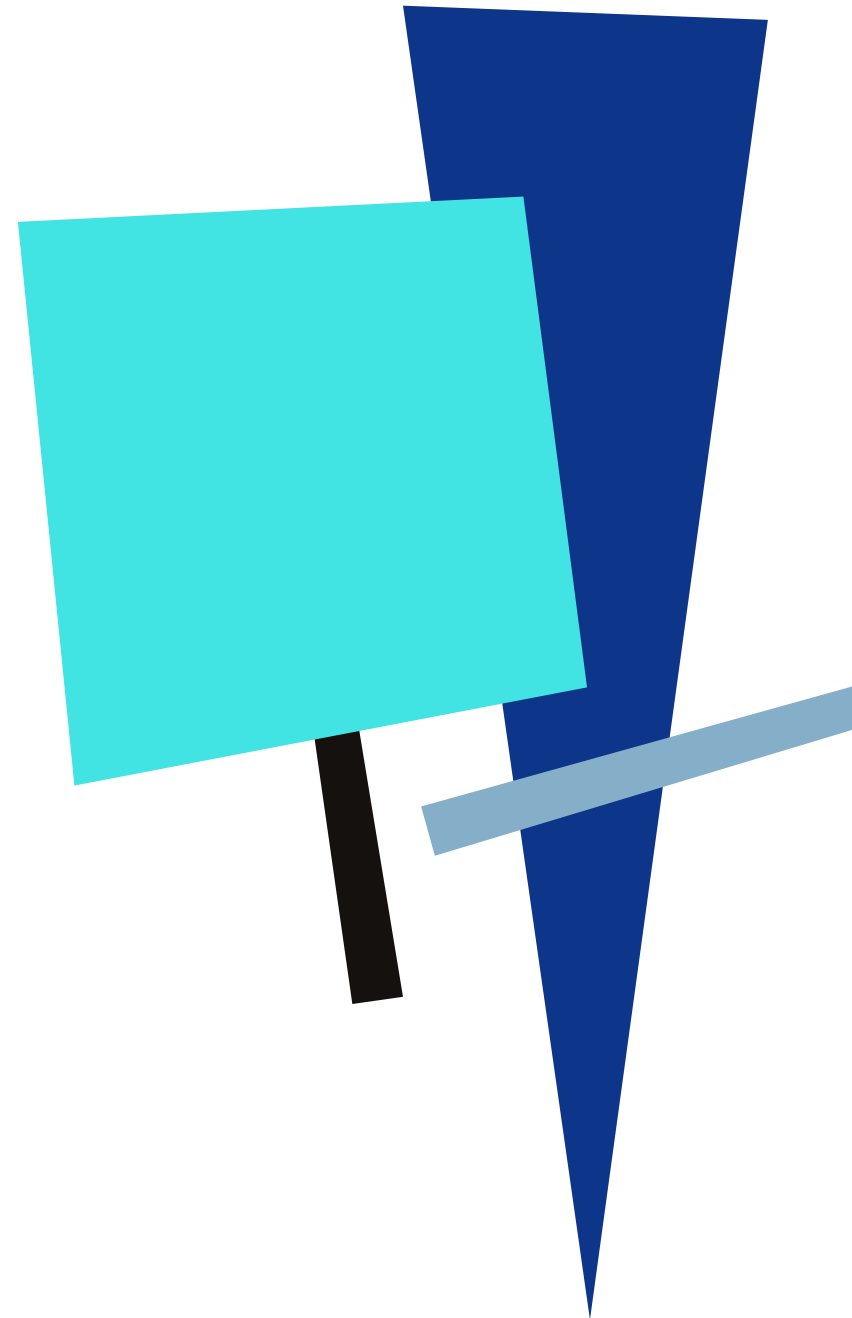
10% of the amount of tax payable and interest at the monetary policy rate (MPR) currently plus a spread

03

Incorrect returns

Penalty and Interest on any outstanding tax from the date the incorrect return was filed and payment made.

Thank you
for joining
this webinar!





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Website:

www.bomesresourcesconsulting.com

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