



FEDERAL INLAND REVENUE SERVICE

INFORMATION
CIRCULAR

NO: 9901

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SUBJECT: VALUE ADDED TAX (VAT)

This circular aims primarily at providing the basic information on Value Added Tax to enlighten members of the public, the professionals, and the operators of the new tax. It is a review of the information circular No. 9304 of 20th August, 1993 and it is meant to update the knowledge of the public in view of new developments and changes in the legislation that have taken place since the introduction of the tax in 1994. Other information circulars and pamphlets on VAT had been published to guide the operators of the tax and the general public on specific areas relevant to the operation of VAT.

HIGHLIGHTS:

Here are 10 key facts which will help you understand the implementation of VAT in Nigeria.

- (i) VAT is a tax on spending. The tax is borne by the final consumer of goods and services because it is included in the price paid, although the VAT-element is to be separately indicated in the tax invoice.
- (ii) The tax is presently at a flat rate of 5%.
- (iii) The tax is collected on behalf of the Government by businesses and organisations which have registered with the FIRS-Local VAT Offices for VAT purposes.
- (iv) All businesses and organisations are to register for VAT in the local VAT Office nearest to their offices or operating bases. Branches of such businesses and organisations are to register independently in their own areas of operation. A business or organisation which has registered for VAT is classified as "registered person".
- (v) A registered person will pay 5% on goods and services purchased but can claim credit for this tax (called input tax) when sold. 5% VAT (called output tax) is included in the price of all goods and services supplied by the registered persons.
- (vi) The registered person has to make regular VAT returns and either pays to, or receives from the FIRS (VAT Directorate), the difference of the input tax and output tax. To claim a credit for input tax, a registered person must hold a "Tax Invoice". Paragraph 10 shows you how to complete the VAT returns.
- (vii) VAT returns (and payments) are normally made monthly to the local VAT office on or before the 30th day of the month following that in which the supply was made.
- (viii) Records and accounts have to be kept on all business transactions.
- (ix) No individual, business organisation or government agency is exempted from the tax. Only goods and services and specially specified activities are exempted.
- (x) FIRS (VAT Directorate) provides a free information and advisory service to help you with VAT. Contact your local VAT office (see Appendix vii).

This guide is based on the provisions of the Value Added Tax Decree, 1993 as amended.

Nigeria

Published under the authority of the
Chairman/Chief Executive of the
Federal Inland Revenue Service

1. Introduction:

The idea of introducing VAT in Nigeria came from the Report of the Study Group set up by the Federal Government in 1991 to review the entire Tax System. VAT was proposed and a Committee was set up to carry out feasibility studies on the implementation. In January 1993, Government agreed to introduce VAT by the middle of the year. It was later shifted to 1st September, 1993 by which time the relevant legislation would have been made and proper ground work done.

VAT is a replacement of the existing Sales Tax which has been in operation under Federal Government legislated Decree No.7 of 1986 but is operated on the basis of residence.

2. VAT as Replacement To Sales Tax:

The rationale behind replacing Sales Tax with the Value Added Tax is informed by a number of factors' and considerations, notably:

- (i) The base of the Sales Tax in Nigeria as operated under Decree No.7 of 1986 is narrow. It covers only nine categories of goods plus sales and services in registered hotels, motels and similar establishments. The narrow base of the tax negates the fundamental principle of consumption tax which by nature is expected to cut across all consumable goods and services. VAT base is broader and includes most professional services and banking transactions which are high profit-generating sectors.
- (ii) Only locally manufactured goods were targeted by the Sales Tax Decree of 1986, although this might not have been the intention of the law. VAT is neutral in this regard. Under VAT, a considerable part of the tax to be realised is from imported goods. This means that under the new VAT, locally manufactured goods will not be placed at a disadvantage relative to imports.
- (iii) Since VAT is based on the general consumption behavior of the people, the expected high yield from it will boost the fortunes of the state governments with minimum resistance from the payers of the tax

**Sale Price
(Before VAT)**

Payment to Government

Supplies Price = N1000

**RAW MATERIALS
SUPPLIER**
Sales Price = N1050
(Inclusive VAT)

By Suppliers
VAT Collected = N50
Less: VAT paid = N—
VAT payable = N50

**Manufacturer Price =
N1500**

MANUFACTURER
Sales Price = N1575
(Inclusive VAT)

By manufacturer
VAT Collected = N75
Less: VAT paid = N50
VAT payable = N25

Wholesaler Price = N2000

WHOLESALER
Sales Price = N2100

By Wholesaler
VAT Collected = N100
Less: VAT paid = N75
VAT payable = N25

Retailer Price = N2500

RETAILER
Sales Price = N2625

By Retailer
VAT Collected = N125
Less: VAT paid = N100
VAT payable = N25

CONSUMER
Payment to retailer =
N2625

**Total VAT paid = N125
(I.e. 5% of N2500)**

3. The Nature of VAT

Value Added Tax is a consumption tax that has been embraced by many countries worldwide. Because it is a consumption tax, it is relatively easy to administer and difficult to evade.

The yield from VAT is a fairly accurate measurement of the growth of an economy since purchasing power (which determines yield) increases with economic growth. VAT is a self-assessment tax that is paid when returns are being rendered. In-built in the new tax is the refund or credit mechanism which eliminates the cascading effect that is a feature of the retail sales tax. The input-output tax mechanism in VAT also makes it self-policing because of the need to obtain receipts at each stage of the transaction.

In essence, it is the Output Tax less input Tax that constitutes the VAT payable. It is the equivalent of the VAT paid by the final consumer of the product that will be collected by the government.

Although VAT is a multiple stage tax, it has a single effect and does not add more than the specified rate to the consumer price no matter the number of stages at which the tax is paid.

Illustration:

If a product moves from Raw Materials Producer (A) to Manufacturer (B) at N1,000.00 then to wholesaler (C) at N1,500.00; then to Retailer (D) at N2,000.00; and finally to the consumer who pays N2,500.00 to the Retailer, VAT payable to government at 5% rate of VAT on the product is as follows:

VATable Person	Sales Price (Before VAT)	VAT Collected (Output Tax)	VAT on (Input Tax)	VAT Paid to government
	N	N	N	N
A	1000	50	~	50
B	1500	75	50	25
C	2000	100	75	25
D	<u>2500</u>	<u>125</u>	<u>100</u>	<u>25</u>
		<u>350</u>	<u>225</u>	<u>125</u>

Thus, the total VAT paid to government in the four transactions is N 125 which is 5% of the final consumer price of N2,500.00 (see figure I).

4. Administration and Policy

The VAT system in Nigeria is administered by the Federal Inland Revenue Service (FIRS), through the VAT Directorate which is located at the Head Office in Abuja with a network of Zonal and Local VAT offices throughout the Federation.

Although VAT is administered centrally by the Federal Government using the existing tax machinery of the FIRS in close co-operation with the Nigeria Customs Service (NCS) and the State Internal Revenue Services (SIRS), the net proceeds from the new tax accrue largely to the State and Local Governments after making a relatively small percentage to the Federal Government to cover the cost of administration. In effect, the State and Local Governments will benefit more out of the entire VAT collection.

Time-Table

The implementation of VAT officially commenced on the 1st September, 1993 although actual operation did not begin until 1st January 1994. In this regard, registered persons were allowed up to the last quarter of 1993 to adjust their accounts, particularly the incorporation of VAT information in their general ledgers, in order to comply with the requirements of the tax. That means, all registered persons were to start issuing VAT invoices to their customers as from 1st January, 1994.

5. **Registration**

- (i) All existing manufacturers, distributors, importers and suppliers of goods and services are to register for VAT on or before 1st January, 1994 at the nearest local VAT offices (see Appendix VII)
- (ii) All manufacturers, distributors, importers and suppliers of goods and services who commences business after 1st January, 1994 are to register for VAT payment within six months of such commencement of business.
- (iii) the prospective VAT payer will obtain and complete VAT form 001 (Appendix I) and return to the nearest Local VAT office. A permanent VAT registration number is to be given to each registered payer.

6. **Supplies.**

- (i) **Definition:** Supplies means any transactions whether it is the sale of goods or the performance of a service for a consideration, that is, for-money or money's worth.
- (ii) **Place of Supply:** The supply of goods under Nigerian VAT has to be in Nigeria. Supplies made outside Nigeria are outside the scope of Nigerian VAT.
- (iii) . **Imported Goods:** VAT will be charged on all taxable goods imported into Nigeria irrespective of whether or not:
 - * the goods have to attract customs duties; and
 - * the person importing the goods is registered for VAT.

The VAT chargeable is in addition to customs duties and other charges that may be due. The value of such imported goods include all the duties and charges that may be made.

- (iv) . **Imported Service:** VAT payable on services received from outside Nigeria if such services are supplied to a Nigerian customer.
- (iv) **Exported Goods:** All exported goods are to enjoy exemption status. This means that no VAT is collected from the foreign buyer although any input tax incurred will be borne by the business or the seller.

7. **Goods and Services Covered by VAT**

At the moment, all goods and services with the exception of exempted items, are taxable under the VAT Decree. The goods and services exempted are as follows:

- (i) **Goods Exempted**
 - (a) Medical and pharmaceutical products;
 - (b) Basic food items;
 - (c) Books and educational materials;
 - (d) Baby products;
 - (e) Agricultural equipments and products and veterinary medicine;
 - (f) Fertilizers;
 - (g) Agricultural chemicals
 - (h) Exported goods
- (ii) . **Services Exempted**
 - (a) Medical Services;
 - (b) Services by Community Banks, Peoples Banks and Mortgage Institutions;
 - (c) Plays and performances conducted by educational institutions as part of learning;
 - (d) Religious services;
 - (e) Exported services.

No individual, organisation or government agency is exempted from the tax. Only goods and services are exempted. The list of exempted goods and services may be altered by the government periodically.

8. **Determination of Value.**

VAT is imposed on the value of the supply. The value of the supply will depend on the nature of consideration for supply. which can be:

(i) **Wholly in money:**

In this circumstances, the value will be the price payable by the customer plus the tax chargeable.
 $VATable\ Value + VAT = Consideration.$

(ii) **Not Wholly in money:**

That is, where payment is partly in money or without the use of money or transaction is not between related person. In all cases, the value is the open market value of the supply.

9. **VATable Person.**

VATable person is one who trades in vatable goods and services for a consideration. Every vatable person has an obligation to register for VAT operation. The registration is to cover all the business activities of the vatable person. The person can be a sole proprietor (e.g. a trader); a professional (e.g. a lawyer); a partnership (e.g. Ibrahim and Mike & Co.); a Limited Liability Company (e.g. E. Afe Consultancy Ltd or T. Ade Plc); a Club or Association or a Charity.

A resident of Nigeria, who performs services outside Nigeria, needs to register with the local VAT office.

Also, a non-resident who has a business, trade, profession or vocation in Nigeria, still needs to register using the address of the person with whom it has subsisting contract as its local address. Further clarifications are to be sought from the *local* VAT office.

10. **Returns.**

A manufacturer or supplier of taxable goods or services is to render a return to the VAT Directorate on or before one calendar month following that in which the supply was made.

Thus, every vatable person must keep records of all supplies made and received. He must also make a return on form VAT 002 (see Appendix II):

He has to fill in details of supplies made and received during the period and pay the net VAT due to the Local VAT office or claim a refund if tax is owed to him.

Every importer of goods into Nigeria is to render VAT returns on all imports into Nigeria to the Local VAT office. The VAT returns must reach the VAT office on the due date.

Importers are required to pay VAT on imports to government while compliance is to be enforced by the Nigeria Customs Service before releasing the imported goods.

11. Remittance of VAT.

Every vatable person is to remit to the relevant Local VAT office the net VAT payable which is the excess of the output tax over the input tax while filing the VAT return. Remittances for each month are supposed to be made through the FIRS designated banks to the Local VAT offices which can only issue receipts on confirmation of such payments.

Illustration:

Tax Period (i.e. period of Transaction)	Due Date of Filling VAT Returns including remittances
1/09/98 - 30/09/98	1/1 0/98 - 30/1
1/10/98 - 31/10/98	0/98 1/11/98 -
1/11/98 - 30/11/98	30/11/98 1/12/98 -
1/12/98 ~ 31/12/98	31/12/98 1/01/99 -
	31/0 I/99

12. Liability to VAT.

Liability of VAT arises when the output VAT is more than the input VAT. The net VAT in a tax period is the amount to be remitted to the Local VAT Office.

- (i) **Output VAT:** Output VAT is the VAT that is due on vatable supplies. It is derived by multiplying the tax value of the aggregate supply by the tax rate.
- (ii) **Input VAT:** The input VAT is what is charged on business purchases and expenses. These include goods and services supplied in Nigeria or imported. In this connection, it is to be emphasized that only input taxes paid on raw materials meant for production of goods meant for resale will qualify for set-off. For avoidance of doubt, input VAT incurred on capital items or other items not directly related to the goods and services meant for sale, will not qualify for set-off.
- (iii) **Computation of VAT:** Every vatable person is required to charge VAT on supplies. The exact amount of sales, the rate of VAT and the VAT payable would be stated separately on the invoice (see Tax Invoice).

13. Rate of VAT.

Presently, the VAT carries a single rate of 5% on all vatable goods and services except where a good or service has been described in the law as exempted. Exported goods and services are exempted under the VAT Decree. The input VAT incurred in course of production of exempted good or service is to be borne by the seller.

14. Records and Accounts.

- (j) Every vatable person is required to keep proper records and books of all transactions, operations, imports and other activities sufficient enough to calculate the correct amount of VAT payable. These include cash book, sales and purchases day book, ledger accounts, balance sheet, among others. Specifically for VAT purposes, Tax invoices are to be issued for all supplies and VAT Account are also to be kept.
- (ii) **Tax Invoices:** Whenever a person supplies vatable goods or service to another person, he must issue Tax invoice in support of the transaction and retain a copy for himself. The customer also needs the Tax invoice to support his claim for input tax.

Tax invoices are to contain the following information:-

- * Tax payer's Identification Number (TIN);
- * Name, address and VAT registration number; *
- Customer's name and address;
- * Type of supply;
- * A description of the goods and service supplied; *
- Quality of goods and services supplied;
- * The rate of VAT;
- * The rate of any cash discount offered; and ;
- The total VAT payable.

- (iii) **VAT Account:** The VAT account is the summary of the output and input tax in a normal ledger account form. That is, VAT on purchases, VAT on services, bad debt relief etc. are debited to the account while VAT charged on sales for the month or VAT charged on services etc. are credited.

Where there is credit balance, a draft is prepared and paid over to the Local VAT Office through the designated bank-so Conversely, a debit balance calls for refund and would be made by the FIRS after necessary verification by audit officials.

15. **VAT Inspection.**

- (i) **VAT Visits:** From time to time, the premises of every vatiable person will be visited by authorised VAT Inspectors from the Local Office. Such visits are:

- * To ensure compliance with the VAT legislation and regulations in all its ramifications; *
- To ensure that full amount of VAT deducted are promptly accounted for;
- * To examine method of recording transactions and offer suggestions where necessary;
- * To afford the VAT payer the opportunity to ask any questions and seek clarifications as may be necessary; and ;
- * To educate VAT payers on new developments in the system.

- (ii) **Tax Drive:** VAT tax drives are to take place periodically at the instance of the Zonal Co-Ordinators. Such tax drives are to stimulate the collection of VAT from defaulters and enforce prompt remittance of VAT payable.

- (iii) **VAT Audit and Investigation:** This is to be instituted on a regular basis by the headquarters. It involves checking both VAT officers and the VAT payers' records to ensure strict compliance with the law and accountability of the VAT collected.

16. **Accounting for VAT Proceeds:** This will be by the process of returns and reconciliation. The following forms are used at the various stages for rendition of VAT returns:-

- (i) **VAT Form 003:** This is the VAT form to be completed by the Local VAT Office and sent to the Zonal Office monthly. It is a summary of all information contained in the VAT Form 002 received during a month by the Local Office.
- (ii) **VAT Form 004:** This is the ~pal Office return of VAT collection to the Headquarters. It is a summation of the various returns from the Local VAT Offices in the Zone.
- (iii) **VAT FORM 005:** This form is used to render returns of VAT collection made to the Federation Account in a given period.

17. **Offences and Penalties:** :There are various offences with very stiff penalties under the VAT system. Some of the offences are:

- (i) failure to register;
- (ii) failure to furnish required information;
- (iii) making false claims;
- (iv) obstructing VAT inspectors; and
- (v) failure to submit returns.
- (vi) Connivance of Tax Officials with VAT payers

These offences carry penalties ranging from fines of up to N10,000 to various terms of imprisonment. In some cases the fines or penalties depend on the amount of evasion involved.

The law is even more strict in dealing with officers of the Board. Any officer of the Board who aids or abets the commission of any of the offences under the VAT law will be liable to a fine of N50,000.00 and/or imprisonment for five years.

18. **Any further information or clarification should be addressed to:**

The Chairman
Federal Inland Revenue Service
Headquarters
·Revenue House
522 Sokode Crescent
Off Dalaba Street Wuse
Zone 5
Abuja
Tel: 09 - 5236601

