



FEDERAL INLAND REVENUE SERVICES

INFORMATION CIRCULAR

NO: 9502

Date: 20th February, 1995

SUBJECT: GUIDELINES ON THE COLLECTION PROCEDURE FOR WITHHOLDING TAX (WHT) AND VALUE ADDED TAX (VAT) BY MINISTRIES, PARASTATALS AND OTHER AGENCIES OF GOVERNMENT

The purpose of this circular is to draw the attention of the general public and especially Ministries, Departments and Agencies of government at federal, state and local levels to the government policy on the collection procedures of Withholding Tax (WHT) and the Value Added Tax (VAT) by government and related establishment. The circular aims to clear some doubt and misgiving about the status, scope, nature and objective of the two tax concept. It also spells out the guideline on the collection procedures for the two tax regimes

Highlights

The following salient points may be noted:

- (i) Withholding tax is not a separate type of tax but a payment on account of income tax and it is available as set-off against future income tax assessments;
- (ii) Ministries, departments and agencies of government do not bear the burden of WHT but they merely act as agents of collection of the tax;
- (iii) Value Added Tax is a tax on consumption of goods and services;
- (iv) As consumers of goods and services, ministries, departments and other agencies of Government pay VAT on their consumption in addition to the contract price of the item consumed by them and the contractor render monthly return, Government Agencies must obtain receipt from FIRS for the VAT paid on behalf of the contractors;
- (v) The VAT receipt is used by the contractor to make his monthly output and input VAT return.
- (vi) **Applicable rates**

- (a) For Withholding Tax:

	<u>WHT Rate for Companies</u>	<u>WHT Rate for Individuals</u>
• Dividend, interest & Rent	10%	10%
• Royalties	10%	5%
• Commissions, Consultancy, Technical & Management	10%	5%
• Construction	5%	5%
• Contract of Supplies	5%	5%
• Director's Fees	10%	10%

- (b) **For VAT:**
5% for all Vatable items of good and services, except where they are specifically exempted by the VAT Act.

2. Withholding Tax and Value Added Tax

There is need to draw attention to the fundamental differences between Withholding Tax and Value Added Tax so that the two tax concepts can be clearly understood.

Withholding Tax is an advance payment of income tax and the purpose is to bring the prospective taxpayer to the tax net, thereby widening the income tax base.

When the income, which suffered withholding tax as deduction at source, is finally brought to the notice of the tax authority and appropriate tax is computed, credit is given for the **tax deducted**. The taxpayer will be required to pay only the balance of the tax due (if any). WHT is meant to curb income tax evasion and it is not a separate tax on its own.

In contrast, Value Added Tax is a separate type of tax. VAT is a consumption tax payable on the goods and services consumed by any person whether government agencies, business organization or individual. The target of VAT is consumption of good and services and unless an item is specifically exempted by law, the consumer is liable to the tax.

Therefore, all agencies of government, religious and other organization and similar person that are normally exempted from income tax are expected to pay VAT on the goods and services consumed by them.

3. **Collection arrangement by Government agencies.**

a) **Withholding Tax.**

- (i) The rate at which tax is to be withheld on payment for contract of supplies, construction and allied services has been increased from 2.5% to 5% with effect from 1st January, 1995;
- (ii) The withholding tax on consultancy fees, technical fees, management fees, director's fees and fees for services other than those mentioned in subparagraph (i) above remains at 10% when payable to limited liability companies. The applicable rate for such types of payment to individuals and non-corporate bodies is 5%.
- (iii) Withholding tax rate for dividend, interest and rent whether paid to companies or individual is 10%. The applicable rate on royalties is 10% for companies and 5% for individuals.
- (iv) Withholding taxes on individuals who are non-resident in Nigeria, residents of Federal capital Territory of Abuja, members of the Police & Armed Forces and Foreign Affairs Officers are payable to the FIRS. Withholding taxes on other individuals are payable to the tax authority of the State (State Internal Revenue Service) where the individuals reside.
- (v) The term "contract of supplies" covers all form of supplies, deliveries or the like through competitive bidding, tender, LPOs or other similar arrangements whether oral or written but does not cover across-the counter cash sales or supplies in the ordinary course of business.
- (vi) The currency in which the tax is to be paid is the currency of transaction.
- (vii) Withholding taxes are to be paid to FIRS designated collecting banks.

The payment should be accompanied with a schedule showing the following details:

- name of each contractor;
- Taxpayer Identification Number of each contractor;
- the gross value of the contract; and
- the amount of tax withheld.

- (viii) In the case of individuals, sole proprietorship, partnership and other business enterprises which fall within the tax jurisdiction of state Government, payments should be made to the relevant SIRS.
- (ix) The time within which the withholding tax is to be remitted to the FIRS is 30 days from the date the tax is withheld or the date the duty to deduct arises, whichever is earlier.
- (x) Any default in the implementation of the tax carries heavy penalties. Failure to deduct withholding taxes and failure to remit taxes withheld are punishable on conviction by a penalty of 10% per annum of the tax not withheld or remitted and interest at CBN rediscount rate plus spread to be determined by the Minister of Finance.
- (xi) Government will not condone any lapses in the implementation of these directives .It is important to clarify that statutory sanctions will be invoked where any agency of government fails to deduct or deducts at less than the applicable rate or, having deducted, fails to remit the withholding tax within statutory time. Such sanction include the imposition of penalty and interest at commercial rate on the amount not withheld, under –deducted or not remitted, as the case may be. The FIRS also has the statutory power to authorize the Accountant-General of the Federation to withhold such amount together with the accruing penalty and interest from any allocation due to such government ministry or agency.

b) Value Added Tax.

- (i) All government agencies are now to register as VAT agent. They are to make necessary provision for the payment of VAT in their award of contract. The VAT deducted should be remitted to the FIRS at the same time the contract payment is being made to the contractor.
- (ii) The submission of evidence of VAT registration by a contractor is now a requirement prior to being allowed to bid for a contract with Ministries, Departments and Agencies of government at all levels.
- (iii) VAT is to be paid at FIRS designated collecting banks.
The payment should be accompanied with a schedule showing the following details:
 - name, address and JTB TIN;
 - the number and amount on the invoice;
 - the month of transaction; and
 - the VAT payable.

- (iv) All contractors are still to render VAT returns to the FIRS on the contracts awarded to them by government agencies and necessary adjustment will be made for the output tax collected from the sources to arrive at a net payable or refund - see box 13 of the appendix (Form 002).

The agencies of government referred to in this circular include a ministry, department, parastatal, an institution or any other agency of the Federal, State or Local government.

4. **Dual Tax Role of Ministries, Departments and Agencies of Government**

For the avoidance of doubt, it is necessary to clarify that the new policy of government imposes dual tax roles on any agency awarding contracts. Such an agency is to act as:

- (i) agent of government for the deduction and remittance of withholding tax; and
- (ii) agent of government for the collection and remittance of VAT.

This implies that two (2) separate remittances - one for the payment of Withholding Tax and the other for the payment of Value Added Tax.

- 6. For any further information or clarifications please direct your enquiries to;
Executive Chairman,
Federal Inland Revenue Service,
Revenue House,
15 Sokode Crescent, Wuse Zone 5, Abuja.

Or

Visit our website: www.firs.gov.ng

Email: enquiries@firs.gov.ng

Telephones: 08159490002, 08159490001, 08159490000

APPENDIX

FORM VAT 002

IMPORTANT: Please read the attached explanatory notes before completing this return. If in doubt contact your Local VAT Office.

NIGERIA
FEDERAL INLAND REVENUE SERVICE
VALUE ADDED TAX RETURN

For Official Use Only

VAT Identification Number		1
Name: _____ Address: _____		Return to LOCAL VAT OFFICE FEDERAL INLAND REVENUE SERVICE
This return covers <input type="checkbox"/> Month	Start Month 	End Month
This return and payment are due latest by the last day of the month following the last day of the month signified.		
THIS RETURN MUST BE COMPLETED AND SENT TO LOCAL VAT OFFICE EVEN IF NO VATABLE SUPPLIES HAVE OCCURRED.		
(Sales/Income) Total VATable supplies made for the period (including VAT.)		
VAT ON SUPPLIES MADE BY YOU.		2
	Less: Zero - rated supplies included above.	3
	Total Supplies subject to VAT	4
	VAT charged by you	5
	Add: Adjustments	6
TOTAL OUTPUT TAX		7
(Purchases/Expenses) VAT on Domestic supplies received for which invoicing requirements have been met.		
DEDUCTION OF VALUE ADDED TAX ON PURCHASES MADE BY YOU	Add: VAT Adjustments	9
	VAT on Import	10
	Total VAT payable by you.	11
	Less: VAT on Purchases not wholly used in making vatable supplies	12
	Less: VAT taken at source	13
TOTAL DEDUCTIONS (INPUT TAX).		14
Amount payable/refundable (delete as applicable).		15
NOTE: LATE PAYMENTS SHALL BE PENALISED		
DECLARATION: I declare that the particulars in this return are true and correct.		
Signature _____	Full Name: _____ Title/Position: _____ Date: _____	
	FOR OFFICIAL USE ONLY.	
	Checked by..... Date..... Date..... Amount Received N Cash/Bank Draft Verified by.....	