

Legal Alert ? **The ABC of Value Added Tax in Nigeria**

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Legal Alert ? The ABC of Value Added Tax in Nigeria.

The administration of tax systems and the entronement of a tax payment culture nationally continue to challenge successive governments in Nigeria. One of the attempts to expand the tax net with minimum resistance and also to reduce tax evasion so that most of the tax income would get to the Nigerian government is the introduction of VALUE ADDED TAX in Nigeria in 1993. This Tax is a replacement for the old Sales Tax which had a very narrow field of goods to which this tax could be charged.

Many businesses however are unaware of how the VAT system in Nigeria operates. In some cases, upfront deductions for VAT are made from income due to suppliers of goods and services without proper remittances being made to the government. This Alert is our educational contribution to assist your business in this area of the Law.

What is Value Added Tax?

Value Added Tax (VAT) is a consumption tax on the supply of goods and services. It is an indirect tax designed in the manner of a final tax liability on the final consumer of goods or services.

How does VAT Work?

To arrive at the VAT rate that is payable by you on each transaction, you must determine what your out VAT is and what your input VAT is.

An input VAT is the VAT on goods or services purchased by you for which VAT was added and the VAT charge remitted to government. An output VAT on the other hand is VAT on goods or services that you supply to others for which you must equally add the VAT charge and remit this charge to the Government.

To arrive at the final VAT rate payable, you simply subtract your input VAT from your output VAT at the end of each calendar month. Where the input VAT - outside VAT payments by you - exceeds the output VAT - VAT payments collected and remitted by you to the government - you are entitled to apply for a VAT refund from the Federal Inland Revenue Service (FIRS). In practice, the refund may not be made in cash but can be transferred as a credit against your next VAT return.

What is the Rate of Charge as VAT?

The VAT rate is 5% on all taxable goods and services.

Any Goods or Services Exempted from VAT?

Not all goods or services are liable to pay VAT. The following are exempted from paying VAT: -

? All exports

? All medical and pharmaceutical products

? Basic food items

? Baby products

? Fertiliser, locally produced agricultural and veterinary medicine, farming machinery and farming transportation equipment.

? All plants, machinery or equipment purchased for utilization of gas in downstream petroleum operations

? Plant and machinery for use in the export processing zones.

What are the VAT offences and Penalties?

There are various offences and penalties for not complying with the provisions of the VAT Law.

The penalties vary from the payment of monetary fines to paying two times the amount that ought to have been paid as VAT.

The most severe offence appears to be the failure to collect tax by a taxable person. The penalty is a fine equivalent to 150% of the uncollected tax plus a 5% interest surcharge above the Central Bank of Nigeria rediscount rate. Terms of imprisonment include 3 years for tax evasion, 6 months imprisonment with a fine for resisting, hindering or obstructing the VAT administration, etc.

Acknowledgment for this Legal Alert.

For more information on VAT administration in Nigeria, please consult your Tax Adviser or FIRS General Tax Guide for Tax Administration & Practitioners or the nearest VAT office.

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