FEDERAL INLAND REVENUE SERVICE

INFORMATION CIRCULAR **NO: 9304**

DATE: 20th August, 1993

SUBJECT: VALUE ADDED TAX (VAT)

This circular aims primarily at providing the basic information to enlighten members of the public, the press and all operators of Value Added Tax. This is to facilitate the successful implementation of the new scheme. This general information circular is merely a forerunner of other relevant publications to follow. There will be other guide, pamphlets, leaflets, and bulletin to address specific areas of relevance to the operation of VAT.

HIGHLIGHTS

Here are 10 key facts which will help you to 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.

(ii) The tax is charged at rates of 5% and 0%.

(iii) The tax is collected on behalf of the Government by businesses and organizations which have registered with the Federal Inland Revenue Services (FIRS) for tax purposes,

(iv) A business or organization which has registered for tax is classified as a "registered person". Such persons will pay 5% VAT on goods and services purchased but can claim credit for this tax (called input tax) when sold.

(v) 5% VAT (called output tax) is included in the price of all goods and services supplied by registered persons.

(vi) The registered person has to make regular VAT returns and either pays to, or receives from the FIRS, the difference of the input tax and the output tax.

(vii) VAT returns and payments are normally made monthly to the FIRS relevant tax office on or before 21st day of the month next following that in which the supply was made.

(viii) To claim a credit for input tax, a registered person must hold a "Tax Invoice".

(ix) Records and accounts have to be kept.

(x) FIRS relevant Tax Offices provides a free Information and advisory services to help you with VAT. Contact any FIRS tax officenearest to you.

This guide is based on the provisions of the Value Added Tax (VAT) Act, Cap. V1 LFN 2004 (as amended to date) and other tax legislations.

1. Introduction.

The idea of introducing VAT in Nigeria came from 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 its 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 Sales Tax which had 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.

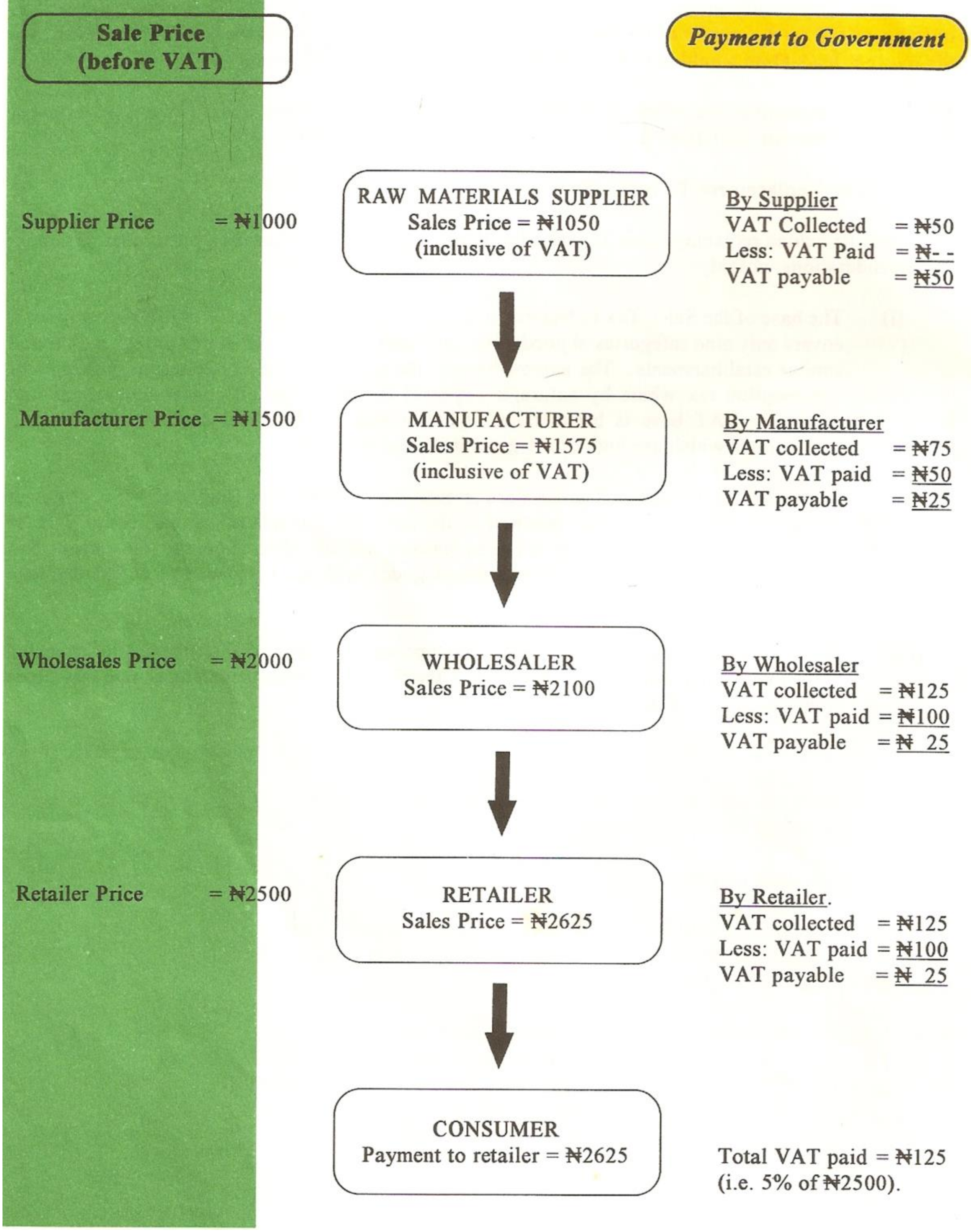
The rationale behind replacing Sales Tax with Value Added Tax was informed by a number of factors and considerations, notably:

(i) The base of the Sales Tax in Nigeria as operated under Decree No. 7 of 1986 was 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 realized 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 behaviour 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.

Figure 1. Collection of multi - stage VAT at 5%



3. The Nature of VAT.

Value Added Tax is a consumption tax that has been embraced by many countries world-wide. 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 determine yield) increases with economic growth. VAT is a self-assessment tax that is paid when returns are being rendered. In-built in the 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.

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 wholesale (C) at N1,500.00, then to Retailer (D) at N2,000.00; and finally to the consumer who pays N2,500 to the Retailer, VAT payable to government at 5% rate of VAT on the product is as follows:

VATable Person	Sales Price	VAT Collected (Output VAT)	VAT on Inputs (Input Tax)	VAT paid to government
	₦			
A	1,000	50	-	50
B	1,500	75	50	25
C	2,000	100	75	25
D	2,500	125	100	25
		350	225	125

Thus, the VAT paid to government in the four transactions is N125 which is 5% of the final consumer price of N2,500 (see figure 1).

4. Administration and Policy

The VAT system in Nigeria is administered by the Federal Inland Revenue Service (FIRS). The FIRS Tax Offices are located throughout the Federation.

Although VAT is administered centrally by the Federal Government by using the existing tax machinery of the FIRS in close cooperation with the **Nigeria Customs Service (NCS) and the State Internal Revenue Services (SIRS),** the net proceeds from the tax is shared amongst the three (3) tiers of government in line with the approved sharing formula.

Time - Table

The implementation of VAT officially commenced on 1st September, 1993. However, registered persons were given up to December 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 were to register for VAT on or before 31st December, 1993 at the nearest tax offices.

(ii) All manufacturers, distributors, importers and suppliers of goods and services who commence business after 1st September, 1993 were required to register for VAT payment within three months of commencement of business.

(iii) The prospective VAT payer would obtain and complete Taxpayer Registration Input Form (TRIF 001) and return it to the nearest tax office. A Taxpayer Identification Number (TIN) is to be given to each registered payer.

6. **Supplies.**

(i) **Definition:** Supplies means any transaction 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 non-exempted imported goods into Nigeria irrespective of whether or not:-

- the goods have to attract customs duties; and
- the person importing the goods is registered for tax purposes

The VAT chargeable is in addition to customs duties and other charges. The value of such imported goods includes all the duties and charges.

(iv) **Imported Service:** VAT is payable on services received from outside Nigeria if such services are supplied to a Nigerian customer.

(v) **Exported Goods:** All exported goods are zero-rated, that is, such goods are vatable but at zero percent. This means that no VAT is collected from the foreign buyer and at the same time any input tax is refundable.

7. Goods and Services Covered by VAT.

At the moment, all goods and services are Vatable except those specifically listed in the First Schedule attached to the Act. The goods and services exempted are as follows:

(i) **Goods Exempted**

a. All medical and pharmaceutical products;
b. Basic food items;
c. Books and educational materials;
d. Baby products;
e. Fertilizer, locally produced agricultural and veterinary medicine, farming machinery and farming transportation equipment;
f. All Exports;
g. Plant and machinery imported for use in the Export Processing Zone;
h. Plant, machinery and equipment purchased for utilization of gas in down-stream petroleum operations;
i. Tractors, ploughs and agricultural equipment and implements purchased for agricultural purposes

(ii) **Services Exempted**

a. Medical Services;
b. Services rendered by Community Banks, Peoples Banks and Mortgage Institutions; and
c. Plays and performances conducted by educational institutions as part of learning.
d. All exported services

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 circumstance, 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 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 tax purpose. 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,an Association or a Charity.

A resident of Nigeria who performs services outside Nigeria, needs to register with the relevant tax office

10. **Returns**

A manufacturer or supplier of taxable goods or services is to render a return to the relevant tax office on or before 21st day of the month next 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 relevant tax 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 relevant tax office. The VAT returns must reach the tax office on the due date.

Importers are required to pay VAT on imports to the VAT office while compliance is to be enforced by the Nigeria Customs Service.

11. **Remittance of VAT**

Every Vatable person is to remit VAT through the designated collecting banks while the VAT returns are to be filed with the relevant tax office.

Illustration

Tax Period (i.e. period of Transaction)		**Due Date of Filing VAT Returns including remittances**
1/09/93 – 30/09/93	-	1/10/93 – 21/10/93
1/10/93 – 31/10/93	-	1/11/93 - 21/11/93
1/11/93 – 30/11/93	-	1/12/93 – 21/12/93
1/12/93 – 31/12/93	-	1/01/94 – 21/01/94

12. **Liability to VAT**

Liability to 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 relevant tax 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 supplied in Nigeria or imported

(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 on the invoice (see Tax invoice as Appendix III).

13. Rate of VAT

The VAT carries a single rate of 5% on all vatable goods and services. Zero rate is assumed for non-oil exports, goods and services purchased by diplomats, and goods purchased for use in humanitarian donor funded projects while there are goods and service exempted from the tax.

14. Records and Accounts

(i) Every vatable person is required to keep proper records and books of all transactions, operations, imports and 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 invoice 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 services to another person he must issue a Tax invoice in support of the transaction and retain a copy. The customer also needs the Tax invoice to support his claim for input tax.

The invoices are to contain the following information:-

- Taxpayers' Identification Number (TIN);
- Supplier's name and address;
- Customer's name and address;
- Invoice number
- Type of supply;
- A description of the goods and services supplied;
- Quantity of goods or extent of services;
- 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 attributable to bad debt relief etc. are debited to the account while VAT charged on sales for the month, VAT charged on service etc are credited.

Where there is a credit balance, VAT payable is remitted through the designated collecting bank. Conversely, a debit balance calls for refund and would be made promptly by the FIRS after necessary verification.

15. **Tax Verification.**

(i) Monitoring: From time to time, the premises of every vatable person will be visited by authorized tax officers from FIRS. Such visits are:

- To ensure compliance with the VAT legislation and registrations 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:** tax drives are to take place periodically at the instance of the Tax Controllers/State Monitors.

Such tax drives are to stimulate the collection of VAT from defaulters and enforce prompt remittance of VAT payable.

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

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 tax officers; and

(v) failure to submit returns.

These offences carry penalties ranging from fines of up to ₦10,000 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 Service. Any officer of the Service who aids or abets the commission of any of the offences under the VAT law will be liable to a fine of ₦50,000.00 and/or imprisonment for five years.

18. Any further information or clarifications should be addressed 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 II

FORM VAT 002

NIGERIA

IMPORTANT, Please read the "VAT Information" circular before completing this return. If in doubt contact local VAT office.

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 Month	Start Month	End Month	This return and payment due on or before 14th day of month following the month specified.

THIS RETURN MUST BE COMPLETED AND SENT TO LOCAL VAT OFFICE EVEN IF NO VATABLE SUPPLIES HAVE OCCURRED.

(Sales/Income)

VAT ON SUPPLIES MADE BY YOU.

	Box
Total VATable supplies made for the period (including VAT.)	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)

DEDUCTION OF VALUE ADDED TAX ON PURCHASES MADE BY YOU

	Box
VAT on total vatable supplies received for which invoicing requirements have been met.	8
Add: VAT Adjustments	9
------------------------	10
Total VAT payable by you.	11
Less: VAT on Purchases not wholly used in making vatable supplies	12
TOTAL DEDUCTIONS (INPUT TAX).	13
Amount to pay/refund due (delete as applicable).	14

SUBSTRACT BOX 13 FROM BOX 7

NOTE: LATE PAYMENT ARE PENALISED

DECLARATION: I declare that the particulars in this return are true and correct.

Full Name:

Title/Position:

____
Signature

Date:

FOR OFFICIAL USE ONLY.

Checked by.. Date.............................. Verified by.................................

Amount Received ₦ ____________ Cash/Bank Draft Date..............................

APPENDIX III

Proforma

TAX INVOICE

ABC Limited

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____

____

Inv. 014258 Shop 10
Area 7, Zone 2
Garki - Abuja.
Tel: 09 – 2340040
TIN: 564499

Date: …………………

Qty	Description	Rate	Amount
		₦	₦
		Sub-Total	
		VAT @5%	
		Total	

Explanatory notes.

Generally Tax Invoices must show

- an identifying number;
- name, address and TIN; time of supply;
- customer's name (or trading name) and address;
- a description which identifies the goods or services supplied for each description;
  - the quantity of goods or extent of the services,
  - the charge made, excluding VAT,
  - the rate of VAT
- the total charge made. excluding VAT;
- the rate of any cash discount offered;
- the total VAT payable.