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TAX/AUDIT/MANAGEMENT CONSULTING/ DIGITAL OPTIMISATION/TRAINING

WEEKLY ARTICLE:

TYPES OF TAXES IN NIGERIA AND HOW THEY ARE ADMINISTERED

INTRODUCTION

Ideally, a Nigerian is expected to know the types of taxes in Nigeria and how they are administered. However, not so many people are familiar with their tax obligations. As you know, tax payment is an important aspect of business which can neither be ignored nor misunderstood. So, in this article, we will be expounding on the various types of taxes in Nigeria and how they are levied.

TYPES OF TAXES IN NIGERIA

1. Companies Income Taxes (CIT):

CIT is one of the major types of taxes collected by FIRS. It is a tax charged on profits made by companies resident in Nigeria. The CIT rate is 30% for large companies (i.e. companies with gross turnover greater than NGN 100 million), The CIT rate of 20% is applicable to companies with gross turnover greater than NGN 25 million and less than NGN 100 million.

While small company CIT rate is 0% for companies with gross turnover of NGN 25 million or less.

CIT is assessed on a preceding year basis (i.e. tax is charged on profits for the accounting year ending in the year preceding assessment).

According to the CITA, CIT must be paid to FIRS not later than 6 months from the beginning of each year of assessment.

New companies are expected to file returns within eighteen (18) months from the date of incorporation or not later than six (6) months after the end of its accounting period, whichever is earlier. In like fashion, existing companies must file returns within six (6) months from the end of the accounting year.

A company is charged minimum tax when they makes loss, have no tax payable or the tax payable is less than minimum tax.

2. Value Added Taxes (VAT)

Value Added Tax (VAT) is a consumption tax paid on purchased products or rendered services. Actually, the burden of VAT is borne by the final consumer. Unlike CIT, VAT is chargeable on goods produced both within and outside Nigeria. However, there are goods that are specifically exempted from VAT payment by the VAT Act, E:g non-oil exports. Usually, the standard rate for VAT is 7.5%. Every taxable business owner is expected to file for their VAT monthly returns not later than 21st day following the month of transaction.

3. Withholding Taxes (WHT):

A withholding tax is an income tax paid to the government by the payer of the income rather than by the receiver of the income. WHT deductions are most times referred to as advance income payment. The rate for WHT ranges from 5% to 10% depending on the nature transaction. WHT returns must be filed on the 21st day of every subsequent month.

4. Petroleum Profits Taxes (PPT):

PPT is governed by Petroleum Profit Tax Act, Cap P13 LFN 2004 (as amended). It is levied on the income of companies involved in upstream petroleum operations. Another thing to note is that, companies that pays
Petroleum income tax are exempted from paying Companies Income Tax on the same income.
The rate is 65.75% for joint ventures in the first five years of operation. But, joint ventures in operation for more than five years is liable to 85% of chargeable profit. Also, companies under production sharing contract is liable to 50% of chargeable profit.
The returns for each accounting period are to be submitted not later than two months after the commencement of the accounting period. Furthermore, final returns for each accounting period are expected to be filed within five months after the expiration of the accounting period.

5. Personal Income Taxes (PIT):

PIT is governed by the Personal Income Tax Act Cap P8 LFN 2004 (as amended). It is levied on the income of individuals, sole proprietors, families, trustees and communities. The rate ranges from 7% to 24% depending on the amount of chargeable income. In a situation where an individual's income is less than N300,000 per annum, such individual is subject to minimum tax of 1% gross income.
In addition, Personal Income Tax returns must be filed on 31st March of every year while PAYE (Pay As You Earn) should be remitted every 10th day of subsequent month.
For employers, taxes deducted from employees income in the preceding year must be remitted not later than 31st January of

every year.

For an individual, failure to file PIT as at when due attracts a fine of N5,000 and a sum of N100 for every day the default continues or six(6) months imprisonment or both. In like manner, a corporate body that fails to file a return on the due date is liable to a fine of N500,000.

6. Stamp Duties (SD):

SD is governed by Stamp Duties Act, Cap S8, LFN 2004 (as amended). It is administered by both FIRS, FCT and State Internal Revenue Service. Also note that stamp duty is administered on written documents only.

In addition, Personal Income Tax returns must be filed on 31st March of every year while PAYE (Pay As You Earn) should be remitted every 10th day of subsequent month.

For employers, taxes deducted from employees income in the preceding year must be remitted not later than 31st January of every year.

For an individual, failure to file PIT as at when due attracts a fine of N5,000 and a sum of N100 for every day the default continues or six(6) months imprisonment or both. In like manner, a corporate body that fails to file a return on the due date is liable to a fine of N500,000.

Forms of Stamp Duties

Ad-Valorem:

This is charged in proportion to the value of the consideration, e.g. deed of assignment, duties on shared capital, debenture, bills of exchange etc.

Fixed Duties:

This applies to duties that do not vary with consideration, e.g. duties on proxy forms, payment receipt, guarantor forms, etc.

7. Capital Gains Taxes (CGT):

CGT is governed by Capital Gains Tax Act, Cap C1 LFN 2004 (as amended). It is a levy charged on the positive difference between the sales price of an asset and the original purchase price. Capital Gains Tax is charged on any chargeable assets excluding those specifically exempted by the act and it has a flat rate of 10% of chargeable gains.

8. National Information Technology Development Levy (NITDL):

Companies that are liable to pay NITDL includes: GSM Service Providers, Telecommunication Companies, Internet Providers, Banks, and other companies with turnover of N100 million and above.

NITDL is governed by National Information Technology Development Agency Act, CAP N156 LFN 2004 (as amended). It is 1% of profit before tax.

The filing procedure for NITDL is the same as that of Companies Income Tax. Failure to pay as at when due attract a 10% penalty.

8. Tertiary Education Taxes (EDT)

EDT is governed by Tertiary Education Trust Fund Act, 2011. All companies registered in Nigeria are liable to pay the tax. It is 2% of assessable profit. The funds gathered are used for rehabilitation, restoration and consolidation of tertiary institution in Nigeria by the Tertiary Education Trust Fund (TETFUND).

The first recorded offence against EDT attracts a fine of N1,000,000 or 6 months jail time or both. The second and subsequent offence attracts a fine of N2,000,000 or 12 months jail term or both.

For More Information On Type Of Taxes And Their Administration In Nigeria:

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THANK YOU!