



SOW PROFESSIONAL SERVICES LTD

...WE CREATE EDGE FOR BUSINESSES

**TAX/AUDIT/MANAGEMENT CONSULTING/
DIGITAL OPTIMISATION/TRAINING**

SMALL BUSINESS TAXATION IN NIGERIA

When starting a business, one of the things that most small businesses in Nigeria do not really think about is paying taxes. While some may seem to be unaware of taxes, many voluntarily omit the payment of taxes in their operations and budgets.

WHAT IS TAXATION? Taxation is the practice of collecting taxes (money) from citizens based on their earnings and property. It is when a Government imposes a financial obligation or levies on its citizens or residents. However, studies show that close to 80 per cent of small and micro businesses in Nigeria shy away from paying taxes, a situation the government has over the years tried to rectify. While business owners often struggle to understand why they should contribute to an administration which appears to throw frequent obstacles in their way, taxation is a certainty with penalties that hurt businesses when they are caught evading tax.

Business taxation is essentially the tax businesses pay to the government as part of their obligations. It is important that every business pay taxes, whether it falls under Sole Proprietorship, Partnership, Limited Liability or a Corporation. Your business is responsible for abiding by the tax regulations as provided by the country.

In Nigeria, all persons in employment, individuals in business, non-residents who derive income from Nigeria, and companies that operate in Nigeria are mandated to pay tax. The tax regime in Nigeria is administered by the three tiers of government – Federal, State and Local government taxes.

Federal Government Taxes include- Companies Income Tax (CIT), Value Added Tax (VAT), Capital Gain Tax, Stamp Duty Tax, Education Tax, and Petroleum Profit Tax amongst others.

State Government Taxes include:- Personal Income Tax, Business Premises Tax, Development levy.

Local Government Taxes include:- levies and rates. Businesses, whether small or micro have to figure out which taxes is applicable to the business that they are involved so as to enable them calculate the correct taxes to pay.

Each tax comes with its percentages thus, how much a business makes a year can also determine how much to remit to the government. Also with the new Finance act which excludes some micro businesses from some taxes, you need to know the taxes to pay, how much, and the penalties when the taxes aren't paid on time.

Why does my business have to pay tax?

Taxes are essentials to the government because they are the primary source of revenue to fund the activities of the government at the Federal, State and Local levels. As long as your business is registered or your company have significant presence in a country, you are expected to remit a certain percentage of profit to the government of that country. Besides helping the government perform its duties properly, it also benefit businesses to pay taxes promptly and on time, due to the following reasons:

TO AVOID PENALTIES

If you miss filing taxes on time, then it attracts the monetary penalty. This can also be hefty depending on the laws prevailing in the country and then there is accrued interest on the amount, which keeps piling up until the return is finally filed.

GET GOOD CREDIT RATINGS

If, as an organization, you plan to take loans for expansion, you require a good credit rating. Paying taxes on time and having no default helps in improving this rating. The credit rating also depend on the tax paid, the higher the better as it signals better revenue and profits.

INCREASED INVESTOR'S CONFIDENCE

If some investors is looking forward to investing in your business, then he or she will look into the financial and tax records first. The figures for tax paid provide them the confidence that you know how to do business and investing in your company will be beneficial to them. Having the right, truthful and up to date financial records always works towards boosting the investors' confidence in the company. On the contrary, investors stay away from companies and businesses that falter on their tax payments.

Types of taxes for small business in Nigeria

Business taxes are not just about income taxes, just like people in general, businesses must pay several different kinds of taxes. If you are just starting your business, you need to know what taxes you are subjected to be paying.

Self-Employment Tax

Self-employment tax is a type of tax primarily for individuals who work for themselves. Self-employment taxes are paid by sole proprietors and partners based on the income of the business. Because business owners are not employees, there is no pay to withhold these taxes from, so self-employment tax is the alternative.

Sales Tax (Value Added Tax)

Sales tax also known as Value Added Tax (VAT) is required to be collected by merchants in most states and paid to the state department of revenue. Specific products and services are sales-tax eligible and money must be collected and paid, and reports must be completed on a regular basis.

Invoice-based method, sales transactions are taxed, with the customer informed of the 7.5% VAT on the transaction, and businesses may receive a credit for VAT paid on input materials and services. The invoice-based method is the most widely employed

Employment Taxes

When you have employees, you as the employer have a responsibility to charge PAYE on each of the staff in your employment and same should be remitted to the State of residence of your staff. Same deduction is expected to be remitted monthly and an annual return done to file the tax deducted within the year. Employment tax are responsibilities that you must pay and forms you must file.

Filing for Tax

The first thing a business has to do is to prepare your company's accounts for the financial year and get an audited financial statement. With the automation of the tax filing system, it has over time become easier to file taxes as businesses can now log onto the websites of the Federal or in some cases the State Revenue Agencies to file in their taxes. Businesses have to provide all documents needed to file their tax returns, i.e. CAC document, director's statement and a complete Type C form. After filing in the required documentation, the next process is to pay the amount to any banks designated for tax collection. Here Are Some Taxes That Businesses Are Expected To File:

Companies Income Tax

This is a tax chargeable on all companies, other than Companies engaged in petroleum operations registered in Nigeria. It is an annual tax on the profits of registered companies, which profits must accrue in, be derived from, brought into, or received in Nigeria. However, for companies whose annual gross turnover of not more than N25 million would be completely exempted from paying CIT subject to timely filing of companies income tax returns.

Capital Gains Tax

This is a 10 per cent tax imposed on Capital Gains arising from a sale, exchange or other disposition of properties known as chargeable assets. Capital gains are the profits that an investor realizes when he or she sells the capital asset for a price that is higher than the purchase price. Capital gains taxes are only triggered when an asset is realized/sold.

Education Tax:

This is a tax chargeable on all companies registered in Nigeria at chargeable profits as contribution to the Education Tax Fund. All registered companies in Nigeria are required to pay a percentage of their assessable profit into an Education Tax Fund. The tax is charged at two per cent.

Value Added Tax:

This is a tax payable by the consumer at 7.5 per cent. It is a tax imposed on the supply of goods and services. Although companies do not pay VAT, they are mandated by the government to collect the VAT from consumers and then remit to the relevant tax body. So in essence the business is an agent for the government for the purposes of collecting VAT.

Personal Income Tax:

This is a tax payable by all individuals and registered businesses and partnerships except those registered under Part A of Companies and Allied Matters Act 1990 (incorporated companies). The State Inland Revenue Service administers the tax. This tax is however relevant to your business even if you are a registered company, because one of the obligations of companies is to collect what is known as Pay as You Earn (PAYE) from their employees' salaries and then remit to the state tax body.

Development Levy

Development levy (individuals Only) not more than N 100 per annum on all taxable individuals is expected to be paid on each of the staff under the employment of an organisation

Business Premises Levy

Business premises registration fee in respect of urban areas as defined by each State, maximum of N 10,000 for registration, and N5,000 per annum for renewal of registration; and rural areas N2,000 for registration, and N1,000 per annum for renewal of registration.

Withholding Tax

This is an advanced payment of income tax deducted at source of specific transactions. The recipient of the income is entitled to utilise the withheld tax credit note or receipt, against the final tax obligations. For instance, when paying dividends withholding tax is charged on the amount. When you make money with your own small business you have to pay income taxes just as if you worked for another company. In some cases, you may also have to pay additional taxes that are specifically associated with small business operations.

Conclusion

The money received by the government is known as tax revenue and may be utilised for a broad spectrum of purposes such as infrastructure development in the form of roads, railways, bridges, dams, public healthcare, education defence and civil services. However, as a business owner several aspects of your company will require taxation, as enforced by the government.

Does this tax stuff have you totally confused? Most people are mystified by their own personal tax returns, let alone the more complex returns required of businesses. If you're not confident in your ability to understand the requirements and correctly prepare returns and calculate tax payments; we can guide and help you with the processes at SOW Professional Services Ltd.

For more help, query or feedback, you may be in touch at

▶ **Office Address**

- **17, Olumoroti Jaiyesinmi Street, Gbagada Phase II, Lagos, Nigeria.**
- **21, Lord Emmanuel Drive, Off Jogunomi Street, Akpasak Estate, Uyo, Akwa Ibom, Nigeria**

▶ **Online Address**



07038254989



08152451523



@sowprofessional.com



@sowprofessionalltd



www.sowprofessional.com



care@sowprofessional.com

THANK YOU!