

# DUTIES OF CITIZENS AND RESIDENTS OF NIGERIA TO FILE TAX RETURNS AND PENALTY

## 1. INTRODUCTION

Section 2 and schedule 1 of Federal Inland Revenue Service Act, 2007 empowered Federal Inland Revenue Service to administer on the following taxes:

1. Company Income Tax (Amended) Act, 2007
2. Value Added Tax Act, 2007.
3. Personal Income Tax (Amended) Act, 2011
4. Capital Gains Tax Act Cap. C1 LFN, 2004
5. Petroleum Profits Tax (Amended) Act, 2007
6. Stamp Duty Act Cap.S8, LFN, 2004.
7. Taxes and Levies (Approved List for Collection) Act Cap T2, LFN 2004

## 2. COMPANY INCOME TAX

This tax is payable for each year of assessment of the profits of any company in Nigeria both foreign and local companies at a rate of 30%. These include profits accruing in, derived from, brought into or received from a trade, business or investment.

- **Applicable Law:** COMPANY INCOME TAX (AMENDED) ACT, 2007 ('CITA')
- **Relevant Tax Authority:** Federal Inland Revenue Service (section 1 of CITA).
- **Rate of tax deduction:** The corporate tax rate is 30% in Nigeria (see sections 19 and 33 of CITA).
- **Period of filing returns:** Within 6 months after the financial year end (section 13 of CITA).

- **Penalty for default:** N25,000 penalty in the first month of failure to file and N5,000 for each month default continues (section 13 of CITA).

### **3. VALUE ADDED TAX (VAT)**

It is a consumption tax payable on the goods and service consumed by any person, whether government agencies, business organizations or individuals. The target of VAT is consumption of goods and services and unless an item is specifically exempted by law, the consumer is liable to the tax. It can also be defined as a tax on spending/consumption levied at every stage of a transaction, but, eventually, this is borne by the final consumer of such goods or services.

Every taxable person or organization, upon registering with the Federal Board of Inland Revenue to charge and collect VAT at a flat rate of 5% of all invoiced amounts of taxable goods or services. For example when a radio is built by a company, the manufacturer is charged a value-added tax on all of the supplies they purchase for producing the radio. Once the radio gets to the shelf, the consumer who purchases it must pay the value-added tax that applies to him or her.

- **Applicable law:** VALUE ADDED TAX ACT, 2007 ('VAT ACT').
- **Rate of tax deduction:** 5% on the value of all goods and services (section 4 of VAT Act).
- **Relevant Tax Authority:** Federal Inland Revenue Service (Section 7 VAT Act)
- **Period of Filing Returns:** On or before the 21<sup>st</sup> day of the following month whether a transaction took place or not. (Section 15 of VAT Act).
- **Implications for default:** For non-remittance of the tax, penalty of 5% per annum (and interest at the commercial rate) of the amount of tax remittable shall be added to the tax (section 19 of VAT Act). Also failure to file attracts a fine of N5,000 in the first month of failure to file occurred and N5,000 for each month the default continues (section 35 of VAT Act).

### **4. PERSONAL INCOME TAX**

This tax is payable by every taxpayer in Nigeria on the aggregate amount of his income whether derived from, within or outside Nigeria. Personal Income Tax (PIT), is made up of direct assessment for self-employed enterprises and Pay As You Earn for employed staff.

- **Applicable law:** PERSONAL INCOME TAX (AMENDED) ACT, 2011 ('PITA').
- **Relevant Tax Authority:** Federal Inland Revenue Service (FIRS) for residents of FCT, and State Board of Internal Revenue for residents of respective states.
- **Tax rate for the P.I.T:** The minimum tax rate is 1% of gross income.
- **Period of filing of returns:** Within 90 days of commencement of every year (section 41 of PITA).
- **Penalty for default of payment:** 10% per annum of the tax payable shall be added there to (section 76 of PITA).

However, for effective implementation of the Personal Income Tax, the Act (PITA) in Sections 81 and 69-75 respectively provided a medium to which this can be done. The medium are as follows:-

- (i) Pay as you earn (PAYE) and
- (ii) Withholding tax (WHT)

#### **5. PAY AS YOU EARN (PAYE)**

It is a tax system derived from the Personal Income Tax Act in Nigeria which is a method of tax calculation on the income salary earners. Income tax chargeable on an employee by an assessment whether or not the assessment has been made, shall be deducted from any emolument paid, or from any payment made on account of the emolument, by the employer to the employee, if the relevant tax authority so directs.

- **Applicable law:** SECTION 81 OF PERSONAL INCOME TAX (AMENDED) ACT, 2011 (PITA).
- **Relevant Tax Authority:** Federal Inland Revenue Service for residents of FCT for:
  - (i) Persons employed in the Nigerian Army, the Nigerian Navy, the Nigerian Air Force, the Nigerian Police Force other than in a civilian capacity;
  - (ii) Officers of the Nigerian Foreign Service;
  - (iii) Every resident of the Federal Capital Territory, Abuja;
  - (iv) A person resident outside Nigeria who derives income or profit from Nigeria.

And State Board of Internal Revenue Service for respective states.

- **Due Date for Remitting PAYE Tax:** The due date for remitting the PAYE is on or before the 10<sup>th</sup> day of every month, following the month of deduction. Also in determining the proper place to remit this tax, the

state in which the employee resides, is the proper place to remit the tax, notwithstanding the place he or she works.

- **Period of filing of returns:** An employer must file the PAYE return not later than 31<sup>st</sup> January of every year in respect of all employees in its employment in the preceding year (section 81 (2) of PITA).
- **Penalty for default:** Any employer who contravenes the provisions of this section shall be liable on conviction to a penalty of N500,000 in the case of a body corporate, and N50,000 in the case of an individual (section 81(3) of PITA).

(ii) WITHHOLDING TAX (WHT)

A withholding tax is the tax required by Law to be withheld by a party from each payment made to another contracting party from the income or services rendered. This tax, when deducted and withheld, is required to be remitted periodically to the Government Inland Revenue Service.

- **Applicable law:** SECTIONS 69-75 OF THE PERSONAL INCOME TAX (AMENDED) ACT, 2011 AND SECTIONS 78 OF THE COMPANY INCOME TAX (AMENDED) ACT, 2007

**WITHHOLDING TAX RATE TABLE** (Section 69(2) of PITA).

	Companies	Individuals
Director's Fee	10%	5%
Royalties	15%	15%
Commissions, Consultancy, Professional, Technical & Management Fees	10%	5%
Building, Construction & related activities	5%	5%
Contract of Supplies & Agency arrangements	5%	5%
Dividend, Interest, Rent	10%	10%

- **Relevant Tax Authority** (Section 69(4) of PITA): Federal Inland Revenue Service for:

- (v) Persons employed in the Nigerian Army, the Nigerian Navy, the Nigerian Air Force, the Nigerian Police Force other than in a civilian capacity;
- (vi) Officers of the Nigerian Foreign Service;
- (vii) Every resident of the Federal Capital Territory, Abuja;
- (viii) A person resident outside Nigeria who derives income or profit from Nigeria.

And State Board of Internal Revenue Service for residents of respective state.

- **Period of remitting tax:** Within 30 days of the day the amount was deducted or the time the duty to deduct arose (section 74(1) of PITA).
- **Penalty for default:** 10% of the tax not deducted or remitted plus interest at the prevailing monetary policy rate of the Central Bank of Nigeria (section 74(1) of PITA).

For More Information:

Contact:

Director of Centre,

International Centre for Tax & Research Development (ICTRD)

[wole.o@ictrd.org.ng](mailto:wole.o@ictrd.org.ng)

<https://www.facebook.com/International-Center-for-Tax-Research-and-Development-ICTRD-538666426667956/>

<https://twitter.com/>

<https://linkedin.com/>

<https://www.ictrd.org.ng/>