



FEDERAL INLAND REVENUE SERVICES

INFORMATION CIRCULAR

NO: 9502
Date: 20th February, 1995

SUBJECT: GUIDELINES ON THE COLLECTION PROCEDURE FOR WITHHOLDING TAX (WHT) AND VALUE ADDED TAX (VAT) BY MINISTRIES, PARASTATALS AND OTHER AGENSICIES OF GOVERNMENT

The purpose of this to draw the attention of the general public and especially ministries, parastatals and other agencies of government at federal, state and local levels to the news government policy on the collection procedures on for withholding Tax (WHT) and the values added tax (VAT) by government and related establishment. The circular aims to clear some doubt and misgiving about the status, scope, nature and objective of the two tax concept. It also spells out the guideline on the collection procedures for the two tax regimes

Highlights

The following fact is emphasized in this circular about collecting of VAT and WT from ministries, parastatals and other agencies of government:

- (i) Withholding tax is not a separate type of tax but a payment on account of income tax and it is available as set-off against tax assessment of relevant period;
- (ii) Ministries, parastatas and agencies of government do not bear the burden of WHT but they merely act as a agents of collection of the tax;
- (iii) Value Added Tax is a tax on consumption of VAT able good and services;
- (iv) As consumers of goods and services, ministries, parastatals and other agencies of Government pay VAT on their consumption in addition to the contract price of the item consumed by them and the contractor render monthly return, Government pay Agencies must obtain receipt from FIRS for the VAT paid on behalf of the contractors;
- (v) The VAT receipt is used by the4 contractor make his monthly output and input tax return.
- (vi) **Applicable rates**
 - (a) For Withholding Tax:

	<u>WHT Rate for Companies</u>	<u>WHT Rate for Individuals</u>
• Dividend, interest & Rent	10%	10%
• Royalties	15%	15%
• Commissions, Consultancy, Technical & Management	10%	5%
• Construction	5%	5%
• Contract of Supplies	5%	5%
• Director' Fees	10%	10%

- (b) **For VAT:**
5% for all VAT able items of good and services, except where the are specifically exempted by the VAT Decree.

2. **Withholding Tax and Values added Tax**

There is need to draw attention to the fundamental differences between Withholding Tax and Values Added Tax so that the mechanics of the two tax concepts can be clearly understood.

Withholding Tax is an advance payment of income tax and the purpose to bring the prospective taxpayer to the tax-net, thereby widening the income tax base. In other Word, the not be reported by them.

When the income on which withholding tax is deducted at source is finally brought to the notice of the tax authority and appropriate tax is computed, credit is give for the (**Credit Notes**). The taxpayer will be required to pay only the balance of the tax due after the final determination of the tax liability and the grant of credit for the withholding machinery to curb tax evasion. It is not a separate tax on its own.

In contrast, Value Added Tax is separate type of tax. VAT is a consumption tax payable on the goods and services consumed by any person whether government agencies, business organization or individual. The target of VAT is consumption of good and services and unless an item is specifically exempted by law, the consumer is liable to the tax.

Therefore, all agencies of government, religious and other organization and similar person that are normally exempted from income tax are expected to pay Vat on the goods and services consumed by them.

3. **Collection arrangement by Government agencies.**

a) **Withholding Tax.**

- (i) The rate at which tax is to be withheld on payment for contract of supplies, construction and allied services has been increased from 2.5% to 5% with effect from 1st January, 1995.
- (ii) The withholding tax on consultancy fees; technical fees. Management fees; director fees and all services fees other than those mentioned in subparagraph (i) above remains at 10% when payable to limited liability companies. The applicable rate for such types of payment to individuals and non-corporate bodies is 5%.
- (iii) Withholding tax rate fore dividend, interest and rent whether paid to companies or individual is 10%. The applicable rate on royalties remains at 15%.
- (iv) Withholding taxes on individuals who are non-resident in Nigeria, residents of Federal capital Territory of Abuja, members of the police & Armed Forces and Foreign Officers to are payable the FIRS. Withholding taxes on other individuals are payable to the tax authority of the state (State Internal Revenue Services) where the individuals reside.
- (v) The term “contract of supplies” covers all form of supplies, deliveries or the like through competitive bidding, tender, LPOs or other similar arrangements whether oral or written them does not cover across-the counter cash sales or supplies in the ordinary course of sales.

- (vi) The currency in which the tax is to be paid is the currency the currency the contract was awarded and in which the tax was deducted.
- (vii) Payments of withholding taxes are to be by CBN cheques or bank draft. The cheques must be made payable to:
“The Federal government of Nigeria - FIRS Withholding tax Account”
The payment should be accompanied with a schedule showing the following details:
 - name of each contractor;
 - the registration number or the FIRS file reference number of each contractor;
 - the value of the contract; and
 - the amount of tax withheld.
- (viii) In the case of individuals, sole proprietorship, partnership and other business enterprises which fall with the tax jurisdiction of state Government, payments should be made to the state concerned.
- (ix) The time within which the withholding tax is to be remitted to the FIRS is 30 days from the date the tax is withheld or the date the duty to deduct arises, whichever is earlier.
- (x) Any default in the implementation of the tax carries heavy penalties. Failure to deduct withholding taxes and failure to remit taxes withheld are punishable on conviction by a fine of 200% of the tax not withheld or remitted.
- (xi) Government will not condone any lapses in the implementation of these directives .It is important to clarify that statutory sanction will be invoked where any agency of government fails to deduct or deducts at less than the applicable rate or, having deducted, fails to remit the withholding tax within statutory time .such sanction include the imposition of penalty and interest at commercial rate on the amount not withheld, under –deducted or not remitted, as the case may be. The FIRS has the statutory power to authorize the Accountant-General of the federation to withhold such amount together with the accruing penalty and interest from any allocation due to such government ministry or agency.

b) Value Added Tax.

- (i) All government agencies are now to register as VAT agent. They are to make necessary provision for the payment of VAT in their award of contract .the amount of the VAT should be remitted to the FIRS at the same time the contract payment is being made to the contractor.
- (ii) The submission of evidence of VAT registration by a contractor is now a requirement for being allowed to bid for a contract with ministries, parastatals and agencies of government at all levels.

- (iii) Payment for VAT are to be by CBN cheques or bank drafts made payable to: **“The Federal Government of Nigeria-FIRS-VAT Account”**. The payment should be sent to the nearest Local VAT Office accompanied with a schedule showing the following detail:
- name, address and VAT registration number of each contractor;
 - the number and amount on the invoice;
 - the month of transaction; and
 - the VAT payable.
- (iv) All contractors are still to render VAT returns to the FIRS on the contracts awarded to them by government agencies and necessary adjustment will be made for the output tax collected from the sources to arrive will be at a net payable or refund - see box 13 of the appendix.

The agencies of government referred to in this circular include a ministry, a department, a parastatal an institution or any other agencies of the federal, state or local government

4. **Dual Tax Role of Ministries and Other Government agencies.**

For the avoidance of doubt, it is necessary to clarify that the new policy of government imposes dual tax roles on any agency awarding contracts. Such an agency is to act as:

- (i) agent of government for the deduction and remittance of withholding tax; and
- (ii) agent of government for the collection and remittance of VAT.

This implies that two (2) separate cheques - one for the payment of withholding tax and the other for the payment of withholding tax and contract payments. The FIRS is most grateful to each agency for the additional responsibility.

For administrative convenience, the cheques are to be forwarded to the offices of FIRS nearest to a particular agency latest by the last day of every month. Accredited official of the FIRS will also be going round to enforce compliance.

5. The FIRS is using this medium to solicit for your maximum co-operation in the new spirit of the drive of government for more buoyant revenue. All government agencies should ensure that they compel the heads of their accounts department, the offices of the Sub-Treasurers of the federation and federal pay offices to enforce compliance with the provisions of the Information Circular.

6. For any further information or clarifications please direct your enquiries to;
- Office of the Chairman,
Federal Inland Revenue Service,
Federal Ministry of Finance Complex,
Cadastral Zone A3,
Block 'B' 2nd Floor,
Garki, Abuja.
Tel: 09-2340939
09-2340603
Fax: 09-2340670.

APPENDIX

FORM VAT 002

IMPORTANT, Please read the attached explanatory notes before completing this return. If in doubt contact your Local VAT Office.

NIGERIA

**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 <input type="checkbox"/> Month	Start Month 	End Month
This return and payment are due latest by the last day of the month following the last day of the month signified.		
THIS RETURN MUST BE COMPLETED AND SENT TO LOCAL VAT OFFICE EVEN IF NO VATABLE SUPPLIES HAVE OCCURRED.		
(Sales/Income) Total VATable supplies made for the period (including VAT.)		
VAT ON SUPPLIES MADE BY YOU.	Less: Zero - rated supplies included above.	2
	Total Supplies subject to VAT	3
	VAT charged by you	4
	Add: Adjustments	5
	Add: Adjustments	6
TOTAL OUTPUT TAX		7
(Purchases/Expenses) VAT on Domestic supplies received for which invoicing requirements have been met.		
DEDUCTION OF VALUE ADDED TAX ON PURCHASES MADE BY YOU	Add: VAT Adjustments	8
	VAT on Import	9
	Total VAT payable by you.	10
	Less: VAT on Purchases not wholly used in making vatable supplies	11
	Less: VAT taken at source	12
TOTAL DEDUCTIONS (INPUT TAX).		13
TOTAL DEDUCTIONS (INPUT TAX).		14
Amount payable/refundable (delete as applicable).		15
NOTE: LATE PAYMENTS SHALL BE PENALISED		
DECLARATION: I declare that the particulars in this return are true and correct.		
Signature _____	Full Name: _____ Title/Position: _____ Date: _____	
FOR OFFICIAL USE ONLY.		
Checked by.....	Date.....	Date.....
Amount Received N	Cash/Bank Draft	Verified by.....