

Covenant Capital- Tax Seminar

Tax and Tax Management Techniques

Being Paper presented by Oyin Immanuel and Godwin Emmanuel Oyedokun at Tax Seminar organized by the Covenant Capital, Covenant Christian Centre, held on September 6, 2014 at 400, Herbert Macaulay Road, Jibowu, Yaba

Protocol

This presentation would serve as a follow up on the already well prepared and delivered presentations by the Tax Guru from Tax & Advisory Service Department of Akintola Williams Deloitte who is also collaborating with the Covenant Capital on this Tax Seminar.

This presentation would touch on the following sub topics among others on Tax and Tax Management Techniques as we thought it wise to share with you Sons and Daughters of God:

1. Tax and tax management. (everything about tax)
2. Keeping up to date tax records.
3. A tax informative video
4. Registration of Business for Tax Purposes
5. Personal Taxation
6. Full time house wife and other jobless persons
7. Self-Assessment
8. Religious Organisations & Payment of taxes
9. High Net Worth Individual
10. Documents needed to file tax returns
11. Electronic Tax Clearance Certificate
12. Hotel Occupancy and Restaurant Consumption Tax Law

Covenant Capital- Tax Seminar

1.0. Tax and Tax Management

What is Tax?

- It is a mandatory payment to the government.
- It is not directly related to a service and it does not have direct return of value.
- It is levied by the government to fund public spending.
- In summary, it is a compulsory contribution levied by the government on a tax payer (individual or legal entity) or added to the cost of some goods, services, and transactions to support the government and failure to pay is punishable by law.

Types of Taxes

- Companies Income Tax
- Value Added Tax
- Personal Income Tax and Other contributions.
- Petroleum Profits Tax
- Withholding Tax
- Capital Gains Tax
- Customs and Excise Duties
- Stamp Duty

Administration of Taxes.

The main bodies responsible for tax administration in Nigeria are:

1. The Federal Inland Revenue Service (FIRS)
2. The State Board of Internal Revenue Service (SBIRS)

2.0. Keeping up to date records

Financial record keeping:

Covenant Capital- Tax Seminar

For any transaction that has a financial element keep:

- copies of invoices and receipts you provide for goods sold or services rendered
- invoices for goods or services you purchase or bills you pay such as rent, rates, insurance, license fees etc
- payments to employees and to other organisations on behalf of employees e.g. PAYE tax
- financial statements including profit and loss statement and balance sheet
- tax returns information

Business record keeping

In addition to your financial records requirements and you are required to keep records relating to your business and employees.

When setting up your record keeping system, keep:

- contracts, insurance agreements and other legal documents
- your lease if you're renting
- licenses and permits
- employee records including time sheets, copies of pay slips etc
- safety records e.g. risk assessment for occupational health and safety
- any other records which are 'business activity' specific and required by law for the operation of your business

Covenant Capital- Tax Seminar

2.1. Registration of Companies for Tax Purposes

1. If your is Limited Liability Company
2. Within the 6 month of your Company's registration with CAC
3. Go to the nearest FIRS Office close to your Company's Register address
4. Apply TIN
5. Apply for Value Added Tax (VAT) Registration
6. Ensure you file VAT return every Month (be sure you do this with 10 day preceding the month in question)
7. Though the due date for filing VAT is 21st day of every month following month of transaction
8. Failure or refusal to register with the Board within the specified time. The taxpayer shall be liable to a penalty of N10,000 for the first month in which the failure occurs and N5,000 for each subsequent month in which the failure continues. If this persists, the premises where the business is carried on shall be sealed up.
9. Non deduction or failure to collect tax by a taxable person attracts a penalty of 150% of the uncollected tax plus 5% interest above the CBN's discount rate.
10. Failure to remit tax shall attract a penalty of a sum equal to 5% per annum plus interest at a commercial rate payable within 30 days of notification by the Tax Authority
11. Note that you will be asked to pay fine if you default (#5000 is key)
12. Your Company must file annual return after the fiscal year of the company
13. Take for example, you are expected to file on or before June ending in case of December Accounting year end
14. Payment of #25,000.00 for the first month of default and #5,000.00 for every subsequent months
15. There are also available fine for failure to file WHT and VAT

3.0. Personal Income Tax

3.1. Personal Income Tax

It is a tax levied on all incomes of an individual in employment or business. All employers of labour are expected to deduct taxes from their employees and remit same to the tax authority on a monthly basis, while persons in business are expected to file their annual returns and pay accordingly.

Covenant Capital- Tax Seminar

Any person who earns income in the form of salary, wage, fee, allowance or other gain or profit from employment including compensations, bonuses, premiums, benefits or other perquisites allowed, given or granted by any person to any temporary or permanent employee other than so much of any sums as or expenses incurred by him in the performance of his duties, and from which it is not intended that the employee should make any profit or gain.

3.2. Temporary or casual worker and payment taxes

The Personal Income Tax (Amendment) Act, 2011 combined with the provisions of S.3 (1)(b) and S.3(1)(b)(i) particularly defining the taxpaying employee as either a temporary or permanent employee.

3.3. Consolidated Relief Allowance (CRA)

According to the new Personal Income Tax (Amendment) Act 2011, CRA is the Consolidated Relief Allowance, which combines all previous reliefs (Housing, Meal, Utility, Transport, Leave allowances, etc) consolidated into a single relief of N200, 000 subject to a minimum of 1% of gross income (whichever is higher) plus 20% of the gross income.

3.4. Tax-exempt from my emolument

In addition to the Consolidated Reliefs and Allowances (CRA) the following items in the Sixth Schedule table are still tax exempt;

- a. National Housing Fund Contribution
- b. National Health Insurance Scheme
- c. Life Assurance Premium
- d. National Pension Scheme

3.5. Rate to be used in computing my taxes

After the relief allowance and exemptions have been granted, the balance of income shall be taxed as specified in the following Sixth Schedule Table.

Covenant Capital- Tax Seminar

1. First N300,000 @7%
 2. Next N300,000 @ 11%
 3. Next N500,000 @ 15%
 4. Next N500,000 @19%
 5. Next N1,600,000 @ 21%
- Above N3, 200,000 @ 24%.

3.6. Type of taxes State Board (LIRS) collect

1. Personal Income Tax from all residents of Lagos State
2. Withholding Taxes on all business/economic activities involving a second party who is not a corporate entity
3. Business Premises levy from all businesses and companies operating within the state (N10, 000 registration and N5, 000 renewal annually)
4. Development Levy from all individuals (N100 per head/yearly)
5. Sales Tax
6. Consumption Tax.

3.7. Uniform Taxes across all states

Taxes payable in Lagos State is not different from that of other States as all States Internal Revenue operate under the same Constitutional Provisions and

Tax Laws. Current Law in use for Personal Income Tax is the Personal Income Tax Act CAP P8 LFN 2004 & (Amendment) at 2011.

You can officially obtain information on all taxes paid on your behalf through the Executive Chairman of each state board (LIRS).

3.8. Payment of taxes by Full time house wife and other jobless persons

Covenant Capital- Tax Seminar

The position of the law is that all adult from the age 18 and above must pay Personal Income Tax except those exempted by the law as stipulated in the Third Schedule of PITA 104 CAP P8 LFN 2004 & (Amendment) at 2011.

3.9. The difference between PAYE (Pay As You Earn) and Direct Assessment

PAYE and Direct Assessment are two ways of assessing individuals to tax. PAYE is for individuals under paid employment and Direct Assessment is for Self Employed individuals.

3.10. Withholding taxes & Personal Income Tax liability

Withholding Taxes is recognized as part of taxes paid and can be net off from liability assessed for the year and balance is paid.

4.0. Self-Assessment

This is refers to as ‘do it yourself’, which is easier and convenient approach recently introduced by LIRS and FIRS which enable a new tax payer to assess him/herself, make payment through any of the designated banks and obtain his/her e-TCC without visiting any tax office or officer.

For continuity and adequate record keeping, Tax payers who have tax records at any tax office should approach the same office for proper assessment on yearly basis. This is important for proper coordination.

4.1. Deadline for submitting annual returns

Every employer shall be required to file a return with the relevant tax authority of all emoluments paid to its employees, not later than 31st January of every year in respect of all employees in its employment in the preceding year.

4.2. Penalty for failing to file my returns

The penalty for failure to file returns according to the Personal Income Tax (Amendment) Act, 2011 is ₦500, 000 for corporate organisations and ₦50, 000 for individuals.

Covenant Capital- Tax Seminar

5.0. Religious Organisations & Payment of taxes

The third schedule (section 19 (1) 74) Item 12 to Personal Income Tax Act CAP P8 LFN 2004 as amended “exempts the income of any ecclesiastical, charitable or educational institution of a public character from taxation provided the income is not derived from a trade or business carried on by such institution”.

The import of this provision is that incomes of the religious bodies from religious activities e.g. tithe, offerings, donations, are not taxable. The following are however taxable:

- a. Income derived from business activities e.g. letting of properties, transportation, production and sales of Journals, Periodicals, Audio & Video CDs etc, where these activities are carried out in the name of a separate entity or for profit.
- b. Where religious organisations’ funds are used to acquire assets i.e. motor vehicles, landed property etc. in a name different from that of the religious organisation or in the name of an individual who is associated with the religious organisation, funds so expended become income in the hand of the entity/individual and as such taxable.

5.1. Other tax obligations of Religious Organizations

A. Pay as You Earn (PAYE): As employers of Labour, they are required to deduct appropriate tax from the income of their employees and pay same to the relevant (Lagos) State Internal Revenue Service on or before 10th of the following month through any designated Lagos State revenue collecting bank.

B. Withholding Tax: Whenever a Religious body pays an individual or an unincorporated entity Rent, Royalty, Management Fees, Consultancy Fees, Technical Service Fees, Agency Fees, Supplies and Contracts, appropriate withholding tax must be deducted and remitted to Lagos Internal Revenue Service through any of the designated Lagos State revenue collecting bank.

Section 24(f) of the Constitution of the Federal Republic of Nigeria 1999 provides that “It shall be the duty of every citizen to declare his income honestly to the appropriate and lawful agencies and pay his tax promptly” In addition, you are required by section 41(3) of Personal Income Tax Act 1993 (as amended) to file annual returns of your income for assessment with the Lagos State

Covenant Capital- Tax Seminar

Internal Revenue Service (LIRS) and pay your tax on or before 31st of March of each year. Your assessable income includes **salaries from the religious organisation, income from private businesses and income from other sources.**

You will be assessed and taxed on the financial income received from the above sources.

This is not a new law or a Lagos State law. The Constitution of the Federal Republic of Nigeria 1999 and Personal Income Tax Act cited above mandate the above tax obligations on religious organisation and their leaders.

6.0. High Net Worth Individual

If you are a professional or/ and entrepreneur, owner, or manager of establishment(s), and or owns investment assets from which you derive substantial income and your assets exceed liability. Also a person of considerable influence within the society can also be classified as High Net Worth Individual (HNWI).

Their income is subjected to tax like other individuals in line with provisions of the Personal Income Tax Act. However because of the peculiarity and complex of HNWI income and tax profile and to ensure administrative efficiency in dealing with this category of tax payers and their consultants, Lagos State Internal Revenue Service (LIRS) has dedicated a unit that manages the tax return and assessment of HNWI.

HNWI must file returns of from all sources and claims for reliefs and allowances relating to the preceding year with LIRS within 90 days from the beginning of every year (i.e on or before the 31st of March).

LIRS will assume your income as HNWI based on appropriate economic and social variables applicable to you, and ascertain your tax liability in accordance with Section 54(3) of the Personal Income Tax Act, as amended i.e raise Best of Judgement Assessment on you.

Covenant Capital- Tax Seminar

7.0. Documents needed to file tax returns

Duly completed and signed Income Tax Form for Return of Income and claims for allowances and reliefs (Tax Form “A”) are;

1. Financial Statements (where applicable).
2. Your own Tax Computation/Position.
3. Evidence of payment/contribution to Pension, Life Assurance Premium, National Health Insurance Scheme.
4. Evidence of tax paid at source (PAYE, Direct Assessment, Withholding Taxes)

7.1. Filing of Returns and Payment of Tax Under Self-Assessment

All you need to do is fill self-assessment form and pay your tax at any branch of Lagos State Government designated revenue collecting bank. However, LIRS will subject such returns to review to ascertain the correctness of information provided therein and tax paid.

An Individual in paid employment whose PAYE is deducted by his/her employer from salary income can still be assessed as a High Net Worth Individual If he/she earn income from other sources other than the employment income. Such income includes Director’s Fees, Rental Income, Sitting Allowances, Bonus, Benefits in kind.

You need to declare your income from Dividend and Interest even as you are aware that withholding taxes on these sources of income deducted at source are final tax because Sections 41(3) & 36 of the Personal Income Tax Act (as amended) make it mandatory for you to declare income from all sources. However in doing this, all relevant documents relating to such income with the relevant withholding tax credit notes should be submitted along with tax returns.

8.0. eTTC - Electronic Tax Clearance Certificate

This is the Electronic Tax Clearance Certificate, which acknowledges the payment of tax.

Covenant Capital- Tax Seminar

eTCC is issued only to individuals who have fulfilled the requirement of the Personal Income Tax Act. Every taxpayer is entitled to a single eTCC which would be updated annually.

All payments (cash and cheques) must be paid directly to any of the designated banks, while you can obtain your e-TCC through the same bank or any LIRS office.



8.1. Evidence of Tax Payment

Tax payment evidences are;

1. You can obtain an Electronic Tax Clearance Certificate issued by LIRS
2. Receipt of payment issued by LIRS through Alpha Beta Consulting Ltd.

It **will take** 72 hours after payment **to obtain e-TCC**

There is no need to pay any amount of money as processing fee before obtaining your Electronic Tax Clearance Certificate. It is free. However, if you lost your e-TCC:

Covenant Capital- Tax Seminar

1. You must pay # 2,500.00 to LSBIR dedicated A/C a Bank branch nearest to you.
2. Apply for a reissuance of the lost e-TCC to the LSBIR enclosing sworn affidavit and police report.

Please note that under Self-Assessment, you don't have to pay any charge to process your e-TCC at any bank. The banks' commission is paid by the State Government through LIRS.

9.0. Hotel Occupancy and Restaurant Consumption Law

This is a law enacted by Lagos State House of Assembly which imposes tax on goods and service consumed in hotels, restaurants and events centres within the territory of Lagos State.

9.1. Who pays the hotel occupancy and restaurant consumption Tax

Any person, corporate or otherwise who:

- a. Pays for the use or possession or for the right to the use or possession of any hotel, facility or event centre; or
- b. Purchases consumable goods or services in any restaurant whether or not located within a hotel in Lagos State.

9.2. Registration

Any Hotel, Restaurant or other business affected by this law shall, **within 30 days of the commencement of this law (22nd of June 2009)** or upon commencement of business whichever is earlier, register with the Lagos State Internal Revenue Service (LIRS) for the purpose of this Law.

9.3. Consumption and Services Taxable

The amount to which this tax applies is the total cost of facilities, consumable or personal services supplied the customer in, by or on behalf of the hotel, restaurant or event centre.

9.4. Tax Rate

The rate of tax impose by the law is **5% of the total bill** issued to the customer excluding Valued Added Tax and Service Charge.

Covenant Capital- Tax Seminar

9.5. Collecting Agents

A person owning, managing or controlling any business or supplying any goods or services chargeable under section 1 of the Law shall collect this for and on behalf of the State, the tax imposed by the law based on the total amount charged or payable by the customer in accordance with the provision of Section 2 of this Law.

9.6. Effective Date of payment and collection of Taxes

1st of August 2009

9.7. Remittance

Tax collected during a particular month must be paid to a Lagos State Government designated revenue collecting bank on or before the 20th day of the following month into the following revenue codes as applicable:

Tax on food	425-4010041
Tax on Drinks in bar	425-4010042
Tax on Accommodation/Rentals	425-4010043
Tax on other Transactions	425-4010044

9.8. Monthly Returns

Evidence of remittance must be forwarded to the office of the Executive Chairman LIRS and must include:

- i. The total amount of payments made for all chargeable transactions during preceding month.
- ii. The amount of tax collected by the agent during the preceding month.

Covenant Capital- Tax Seminar

9.9. Penalties for Non Remittance

If a collecting Agent fails to file report and remit taxes collected within the time allowed by Section 6 (2) of the law, that agent shall, in addition to penalty of 10% of the amount of tax due pay interest at the rate of **5% per annum** above the prevailing Central Bank of Nigeria Minimum rediscount Rate as determined at the time of actual remittance.

Furthermore, any Director, Manager, Officer, Agent or Employee of the collecting agent who fails to comply with the provisions of the law, shall be guilty of an offence and liable on conviction to a penalty of six (6) months imprisonment or a fine of Two Million Naira (=N2,000,000) or both

9.10. Exemption from Sales Tax

As from the commencement of the tax law, Sales Tax Law, Cap. S.3. Law of Lagos State 2003 shall not apply to any facilities or transactions covered by this law.

9.11. Definition of terms

9.11.1. Consumer: Includes a hotel guest or any person who makes use of a hotel, restaurant, and event Centre or hotel facility for a fee.

9.11.2. Event centres: Include hall, auditoriums, fields and places designed for public use at a fee.

9.11.3. Hotel Facility: Includes a room, suite, hall, open space or other facility or resource centre or which may be let out for a fee within a hotel or other facility covered by this law under a lease, concession, permit, right of license, contract or other agreement.

9.11.4. Restaurant: includes any food sale outlet, bar, tavern, inn or café whether or not located within a hotel.

References

Personal Income Tax Act

Covenant Capital- Tax Seminar

<http://www.irs.lg.gov.ng>