

FIRS introduces electronic filing of tax returns and online payment of taxes

February 2015

In brief

The Federal Inland Revenue Service (FIRS) embarked on an Integrated Tax Administration System (ITAS) project in 2013. ITAS is aimed at enhancing tax administration and simplifying the tax compliance process in Nigeria through the use of technology.

When fully functional, taxpayers will be able to file their tax returns electronically, pay their taxes online, get instant credit for withholding taxes deducted on their income, generate tax clearance certificates and communicate with the FIRS local tax office through the “message centre”.

In detail

Background

The FIRS introduced ITAS in 2013 to improve tax administration in Nigeria and transform the tax compliance process away from the current manual system which is tedious and bureaucratic.

The aim of the project is to automate all core processes around registration, payment, assessment, debt and credit management, audit and investigation, case management, and returns filing.

Although the FIRS is working towards full implementation of the platform before the end of 2015, the system is already being used by a few taxpayers registered with the Large Tax Offices (LTOs) in Lagos and Abuja.

Key Features of ITAS

Some of the features of the e-filing system include the following:

- ***Online submission of tax returns:*** Taxpayers can submit their tax returns for different taxes such as Petroleum Profits Tax (PPT), Companies Income Tax (CIT), Value Added Tax (VAT), and Capital gains Tax (CGT) through the portal. Once registered, a taxpayer’s e-filing account will be created based on the type of taxes such company is liable to pay either for its own account or as the agent of government. A taxpayer will however only be able to file returns for the taxes it registered for.
- ***Electronic Tax Clearance Certificate (e-TCC) processing:*** Taxpayers can apply for a TCC online, which

will be generated by the system. Although hard copies will still be available for collection, a system generated TCC will be just as tenable as the hard copy. Either way, ITAS allows for TCC validation so that a TCC can be verified by third parties online using the TCC number. Restricted TCCs can also be generated online for temporary use where there is an unresolved dispute. This will ensure that the taxpayer does not suffer unduly pending the resolution of tax dispute after which a full TCC can then be obtained.

- ***Validation of Tax Identification Number (TIN):*** Third parties can verify the TIN of taxpayers on ITAS. This feature is particularly useful in verifying the TIN of a company’s vendors for Withholding Tax (WHT) purposes, among others.

- **Online correspondence with FIRS:** Taxpayers can communicate with FIRS via the “message centre” feature on the portal. FIRS can also issue assessments which taxpayers can object to using this feature as well. The tax account manager in the FIRS local tax office will be responsible for correspondence with the taxpayer.
- **Automatic imposition of late filing penalties and interests:** The system has been designed to automatically compute and impose interest and penalty for late submission of tax returns or late payment of taxes.
- **Automatic allocation of WHT credit to taxpayers:** Although this feature is not yet functional, it is designed to automatically credit taxpayers for WHT deductions they have suffered which have been remitted to FIRS by their customer(s).
- **Redesigned tax forms and unique filing numbers:** Various tax returns forms have been redesigned to adapt to the e-filing system. Different tax types have unique accounts numbers. Also each submitted return is assigned a unique document number with which tax payments can be made.
- **Electronic tax payment:** Taxpayers can pay their taxes online from their corporate bank accounts beginning from March 2015. This application which was developed in conjunction with the Nigeria Inter-Bank Settlement System (NIBBS) is hosted on the respective commercial bank’s internet-banking platform.

The process requires the TIN, unique document number generated on the e-filing platform and the necessary internet banking authentication. The system can generate electronic acknowledgement confirming that payment has been made successfully which can be presented to the FIRS. Taxpayers who have not migrated to the ITAS platform can also use this system to make their tax remittances.

Registration procedure

To access the ITAS, taxpayers are required to register with the FIRS by filling an application form which can be downloaded from the FIRS website (firs.gov.ng) or obtained from the tax office. Applicants will be issued a username and an initial password, with which to access the system.

A taxpayer can nominate an agent or consultant to act as its representative, who would be granted access rights and assigned roles as specified by the taxpayer. The default access role is the “view only” option, which only permits the viewing of taxpayer’s information, whereas the “declaration” access role allows for viewing, editing and submission of tax returns.

Taxpayers or agents can access the online system through the e-filing website link and log in using the username and password issued to them. At the moment, password recovery is not yet fully automated and can only be done by contacting the FIRS.

If a tax filing or payment due date falls on a public holiday or weekend, the system automatically adjusts the deadline to the next working day

before imposing penalty and interest.

Benefits

With this development, taxpayers can easily file their tax returns from the comfort of their offices at anytime and anywhere within the required filing period, thereby reducing the complexity, time and cost of paying taxes.

With effective management and full adoption, compliance should increase while the cost of tax administration should reduce significantly resulting in more revenue for government. Time and resources spent in visiting the tax offices can be better used by taxpayers to ensure that their tax returns are up to date, while tax officers will be able to carry out timely review of tax returns.

Potential challenges and Recommendations

Our observation of the issues present in the system that need to be addressed and the challenges that may be encountered include:

- Once a tax return has been submitted, it cannot be amended by the taxpayers. Amended returns must be filed physically if it becomes necessary to do so. This could make the transition to e-filing less attractive given that many of the forms are new and a lot of the information and analyses required will be done for the first time.
- The system in its current form does not facilitate the submission of WHT returns and obtaining instant credits. It is not clear how a cut-off date for the transition from the current physical credit

notes regime will be determined and managed.

- ITAS does not currently provide for the filing of Transfer Pricing (TP) returns (the declaration and disclosure forms). Effective from 2014 tax year, filing of TP returns become an integral part of tax filing. FIRS should therefore make efforts to add this module to ITAS or accept scanning of the documents as a temporary measure.
- Given the general challenges with technology in Nigeria, measures must be put in place to address system downtime in order to prevent taxpayer apathy or parallel filing of online and manual returns.
- However, it may be necessary during the transition phase for taxpayers to have a backup plan for manual filing in the event of glitches in the system.
- As the system automatically computes interest and penalty for late filing of returns and payment of taxes, situations where a default is as result of system downtime or other

technical hitches which are beyond the control of the taxpayer would have to be addressed.

- The system brings forward tax balances from previously filed returns (where applicable). Taxpayers will therefore have to reconcile their opening tax positions with the FIRS before migration to the platform.
- Adequate security measures should be implemented to guarantee the protection of taxpayers account information and funds and allay concerns around uploading sensitive information to the web.

The Takeaway

We expect that there will be teething problems but overall we welcome this development which will significantly improve the ease of paying taxes in Nigeria if properly implemented.

According to the 2015 Paying Taxes Report (a joint study by PwC and the World Bank),

Nigeria ranks 170 out of 189 economies on the ease of paying taxes. On the average, it takes a medium size company about 909 hours to comply with its tax obligations annually.

We encourage taxpayers to embrace ITAS and raise any issues they encounter promptly with the FIRS or their tax consultants to ensure timely resolution. Unresolved issues or major challenges should be communicated in writing to serve as evidence of taxpayer's efforts to comply and prevent imposition of penalty and interest.

As with new technology especially those that redefine processes and behaviours, full acceptance may take a while and will depend on how responsive and adaptive the FIRS is in addressing challenges encountered by both its staff and taxpayers who use the system.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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