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PwC Tax Alert

Federal Inland Revenue Service release new updates to TaxPro Max VAT filing Procedures

Background

The Federal Inland Revenue Service (FIRS) has recently announced new updates to the Value Added Tax (VAT) filing procedures on the TaxPro Max portal. The aim is to increase the efficiency of the input VAT claim, sales adjustment entries and output VAT filing procedures, and it takes effect from the April 2023 filing.

The FIRS is seeking to seamlessly match Output VAT collection to the Input VAT claimed by businesses and promote transparency in VAT compliance. To educate the public on the process and the increased data requirements to file a complete VAT return, the FIRS released illustrative videos on YouTube (i.e VAT filing, Input VAT claim, Sales adjustment and Nil VAT filing), documented guides and also held a sensitisation event on 18 April 2023 targeted at various stakeholders.

The FIRS mentioned that the changes are in their pilot phase but there is absolute commitment from management towards full implementation and adoption by taxpayers.

Key Changes

We have highlighted the changes to the VAT filing module below:

1. **Output VAT arising from taxable supplies:** Taxpayers are now required to upload a sales schedule showing their Output VAT arising from taxable supplies. The template can be downloaded from TaxPro max. The sales schedule requires the names of the customers, their Tax Identification Numbers (TINs), the supplied item(s), item description, item cost and VAT status of the transaction. The VAT status should be qualified by codes i.e. number (0) represents Vatable sales, number (1) represents Zero-rated sales and number (2) represents VAT exempt sales.

   The template also requires that sales and Output VAT should be captured for collecting agents mandated to deduct VAT at source pursuant to the provisions of the VAT Act i.e. Deposit Money Banks, MTN, Airtel, Oil and Gas companies and Government Ministries, Departments and Agencies (MDA).

   Taxpayers are limited to a maximum of 1000 sales transactions per upload when preparing the VAT return.

2. **Input VAT claim:** Apart from VAT on imports that can be claimed manually, taxpayers can only claim Input VAT when the VAT paid to the collecting agent of the government (i.e. a tax registered vendor or an appointed collecting agent) has been remitted to the FIRS' account using the taxpayer's TIN. It is only after the vendor or appointed agent has remitted to the FIRS that the taxpayer's account on TaxPro Max will be credited with the Input VAT.

   Taxpayers are required to separately click on the "claim" tab for each available input VAT on TaxPro Max to make a successful input VAT claim. Where the input VAT for the month is more than the Output VAT, taxpayers are compelled to make an adjustment for purchases not used in making Vatable supplies, as they will be unable to complete the VAT filing process without such adjustment.

   Input VAT paid on imports will continue to be captured manually by taxpayers on TaxPro Max. We expect this to be automated in the near future.

3. **Sales adjustments:** Taxpayers will be able to adjust for any returned or cancelled sales by making corrections in subsequent sales schedules by specifying the item ID that the credit note relates to. Each sale in the uploaded sales schedule under point 1 will be issued an item ID.

4. **VAT withheld at Source:** Taxpayers that have "VAT deduction at source" obligations on their vendor invoices are required to use the appropriate digital forms for this purpose as the VAT would be credited to their vendors' accounts on TaxPro Max. The VAT amount credited to the vendors' accounts will be used to offset the Output VAT arising from the same transaction captured in the vendors' VAT returns as highlighted in point 1.

Analysis

The changes made and the modalities of implementing these changes raises the some concerns:

1. **Legal framework** - Under current legislation (section 15), the FIRS has the powers to prescribe the format for filing VAT returns. However, there is no specific provision enabling the FIRS to impose administrative restrictions to the right of taxpayers to claim Input VAT on eligible payments to their vendors or to reduce their Output VAT liability by sales made to a customer that has an obligation to deduct VAT at source.

   Section 14 of the VAT Act defines output tax as tax collected by a taxable person. This obviously does not include VAT that is not collected by the taxpayer in a "VAT deduction at source" scenario. Furthermore, the claim of input VAT only when the collecting agent of the government has remitted the VAT to the FIRS' account does not align with section 16 and 17 of the Act.

   This could lead to a situation where a taxpayer may have to pay more than its legally due VAT liability.

The FIRS has suggested that a taxpayer may file returns but not make the payment where this scenario arises.

However, it is not clear whether penalties and interest will accrue automatically on TaxPro Max. The FIRS stated that the resulting liability will be cleared once the collecting agents pay to the FIRS. The pending output VAT balance could lead to complications like difficulty in obtaining Tax Clearance Certificates particularly where the collecting agents does not remit the VAT deducted on a timely basis.

2. **Transition arrangements** - The new VAT filing system does not account for input VAT paid but not yet claimed prior to the effective date of this change. This also applies to adjustments that relate to prior vatable sales.

   The FIRS has suggested that taxpayers reconcile these balances with their local tax offices. In practice this could lead to delays in clearing outstanding penalties on TaxPro Max, as the FIRS may resist any reduction in VAT or seek to carry out a tax audit prior to granting the relevant claim or adjustment.

3. **Effective date of the updates** - Implementing the change in the same month of initial communication to taxpayers and other relevant stakeholders does not allow for proper consultation for effective implementation in line with best practices. Even though the FIRS may have good intentions, the abrupt implementation could lead to negative outcomes, especially delays in filing and payment due of lack of clarity.

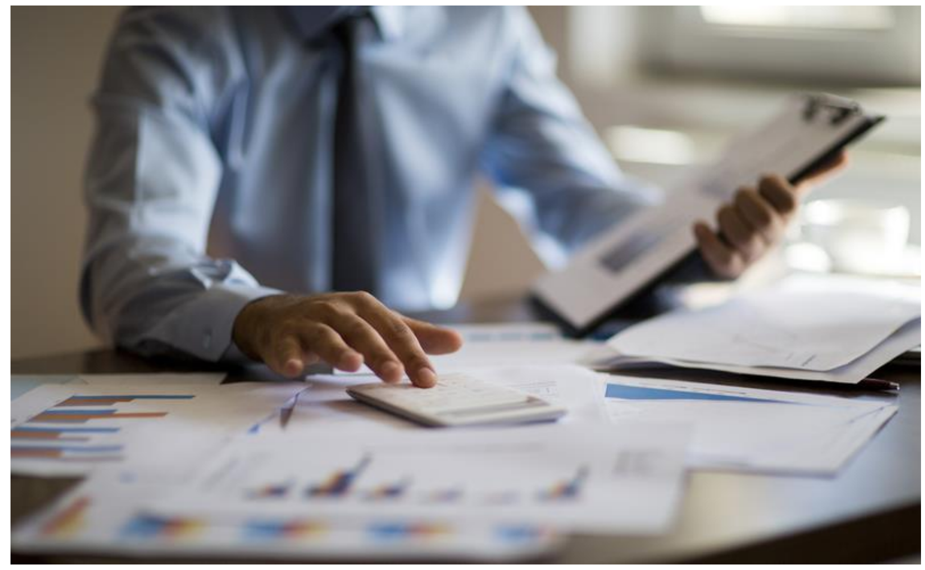
   Such changes require engagement with customers to obtain TINs, accounting systems reconfigurations, training and in certain circumstances engaging additional human resources to comply. This approach may also pose challenges for the FIRS in terms of increasing its technology capacity to manage the traffic that will arise from uploading the sales schedules multiple times given the restriction to 1000 transactions per upload. The taxpayers should be accorded the opportunity to prepare for adoption.

Takeaway

When it comes to redefining processes, it is common for full acceptance to take some time. Ultimately, the ease of acceptance will depend on how responsive the FIRS is in addressing the resulting issues.

There is an urgent need to reassess the new process and ensure there is an appropriate legal framework to support the changes in order to prevent potential legal challenge by taxpayers.

On the bright side, the objective underlying these proposed changes seeks to expand the tax net, and provide additional data to the FIRS which could enhance revenue generation.



For taxpayers, the tax function needs to stay abreast of changes and must be agile to adapt where necessary while helping their organisations minimise disruptions and ensuring compliance as much as possible. This will reduce exposure to additional costs in the form of penalties.

In the immediate term, each taxpayer would have to decide the best way to file their returns that is due on 21 April 2023 (or soon after the public holiday) and continue to engage with the FIRS to provide additional supporting documentation, which would be largely a manual process.

In line with the FIRS' direction, taxpayers can seek for additional clarification by email to ltononoilfinancial@firs.gov.ng

For a deeper discussion, please contact

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