Commission on stock market transactions is now exempted from VAT

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In brief

The list of “Services Exempt” from Value Added Tax has been amended to include commissions on transactions in the Nigeria Capital Market. The Exemption Order is effective from 25 July 2014 and available for a period of five years from commencement.

In detail

Background

The Value Added Tax Act (“VAT Act”) has been amended to exempt commissions on capital market transactions from VAT through the Value Added Tax (Exemption of Commissions on Stock Exchange Transactions) Order 2014 (Order). The Order was published in a gazette dated 30 July 2014 and signed by the Coordinating Minister for the Economy and Honourable Minister of Finance.

This is in line with the VAT Act which empowers the Minister to amend, vary or modify the VAT exemption list in the First Schedule to the VAT Act.

Commissions exempt

The Order introduces a new category of services exempt from VAT described as “Commissions” and specifically in respect of the following:

1. commissions earned on traded value of the shares,
2. commissions payable to the Securities and Exchange Commission (SEC),
3. commissions payable to the Nigerian Stock Exchange (NSE); and
4. commissions payable to the Central Securities Clearing System (CSCS)

Commencement date and duration

The commencement date of the Order is 25 July 2014 and would be in force for five years from the date of commencement. This means that the exemption would expire on 24 July 2019 unless it is further extended by the Minister.

Given that the Exemption Order was not made public on time, any VAT already paid on the exempt transactions should be claimable via adjustments in subsequent VAT returns.

The effect of the exemption

VAT is an indirect tax and therefore it is borne by the final consumer. In relation to capital market transactions, any VAT charged on commissions was passed on to issuers and investors as the case may be. Given that VAT on services is not claimable, the cost is borne by the payer.

With this exemption, it is expected that capital market transaction costs will benefit investors. The exemption would also reduce compliance costs for operators such as stockbrokers and the regulators in accounting and remitting VAT to the

Federal Inland Revenue Service ("FIRS").

In practice however, the FIRS will still expect that nil VAT returns should be filed on a monthly basis by the operators.

The takeaway

The purpose of the VAT exemption is to encourage more trading in securities. However, it is not expected to last in perpetuity as it is only in force for five years. Investors can therefore take advantage of the exemption within this window.

It is also expected that in the near future stamp duties on sale or transfer of shares in the stock market will be reviewed. This would further encourage activities in the Nigeria capital market.

Let's talk

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

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