

FIRS Drives Nationwide VAT & WHT Verification Exercise

In brief

The Federal Inland Revenue Service (“FIRS” or “the Revenue”) has announced its intention to commence a nationwide verification exercise to ensure full compliance with Value Added Tax (“VAT”) and Withholding Tax (“WHT”) requirements.

This exercise is scheduled to take place from 12 March to 11 April 2014 as stated in the public notice published in some national newspapers dated 12 March 2014.

In detail

The FIRS will deploy four (4) tax auditors to each organisation selected for the exercise within this period to verify relevant records of transactions over the last six (6) years, covering the period January 2008 to date. Taxpayers are expected to have the following documents readily available and presented in an organized manner in anticipation of the audit:

- a. Relevant remittance schedule of VAT and WHT, with evidence of bank tellers and FIRS receipts (where obtained);
- b. Audited accounts, cash books and general ledgers printed out;
- c. Year-end trial balances;
- d. Evidence of input taxes paid on raw materials and fixed assets;
- e. Sales/purchases documents and related import documents; and
- f. Relevant bank statements.

Power of Inspection and Time of Notice

Under section 35(1) of the VAT Act, an authorised officer of the FIRS can at any time enter without warrant, a taxpayer’s premises to determine the company’s compliance with respect to VAT and can if necessary, carry out such inspections or make such requests as the Revenue may deem fit.

Section 26 of the FIRS Establishment Act also empowers the FIRS the right to examine a company’s books, documents and any other information at a place and time stated in notice for a period deemed necessary. The time of inspection indicated in the notice shall not be less than seven (7) days from the date of service of such notice. However, where an officer of the FIRS not below the rank of a Chief Inspector of Taxes or its equivalent requests for such information for the purpose of inspection, then he can do so without prior notification.

The official publication in some National newspapers serves as a notice to taxpayers and would therefore take effect from the date of publication – 12 March 2014.

Period covered

The verification exercise will cover the period January 2008 to date which is within the six (6) years statutory period permitted for the FIRS to raise additional assessment for non remittance of tax or underpayment. This limit does not apply where fraud, neglect or willful default is established.

Takeaway

The notice given and the one month timeline slated for the exercise is rather short, raising questions about the depth of review that will be carried out and the Revenue's capability to start and conclude the exercise diligently within the stated time. There are over a million companies registered with the Corporate Affairs Commission ("CAC"), as well as unincorporated entities who are taxable persons for VAT purposes. Even if one takes into account that many companies registered with the CAC are dormant, there is still a significant number of active taxpayers and given the 6-year period to be covered the Revenue may be faced with manpower constraints. The notice makes no reference to how the inspection would be done and the selection criteria.

Where the taxpayer is unable to meet the timeline specified, he has the right to apply for an extension of time if there is good cause for his inability. To make the exercise more manageable and meaningful, the review should focus on organisations that are either not registered with the FIRS or have not been filing their tax returns as at when due.

We expect the tax audit to also identify and flag non compliance in other tax areas such as withholding tax, companies' income tax and so on for subsequent follow up. For companies that have been audited for parts of the period in view, we would expect that such periods are excluded from the verification exercise. In any event it is advisable for all taxpayers to be prepared for this verification exercise and expect the completion to possibly extend beyond the specified period.

Let's talk

For a deeper discussion, please contact your PwC team:

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