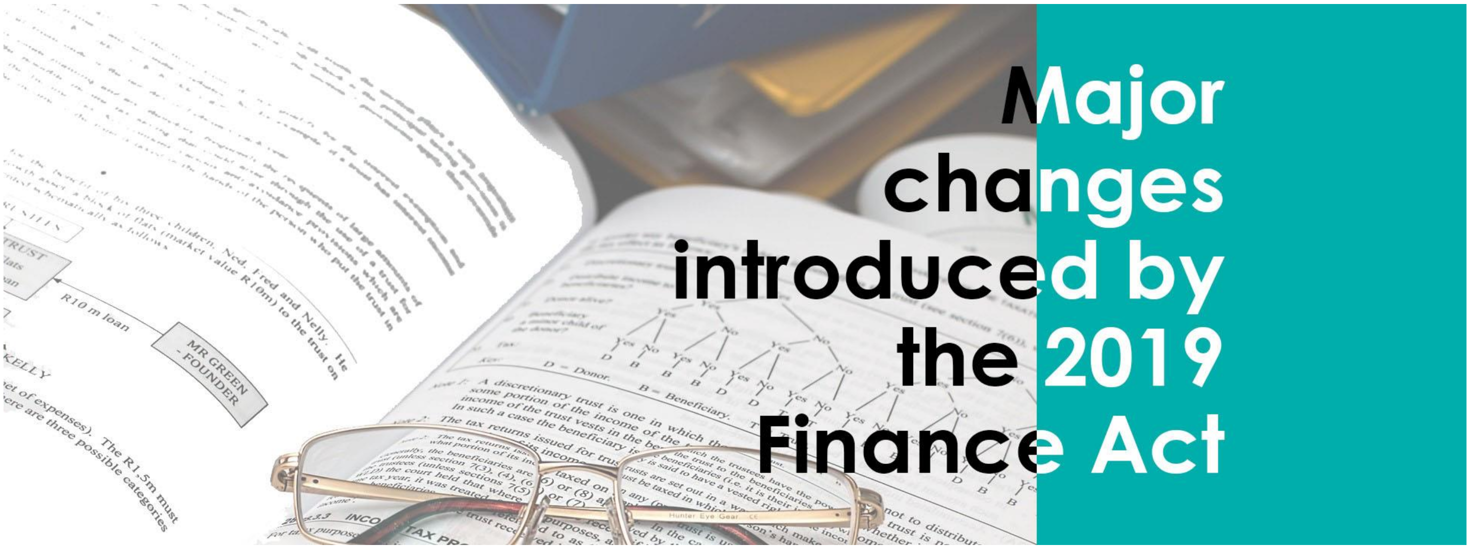

The Finance Act 2019 recently signed into law by the President of the Federal Republic of Nigeria came into effect on 1 February 2020. The Act introduced the much needed changes to Nigeria's tax and fiscal laws for various strategic purposes, particularly to enable enough funding of the 2020 budget. Other objectives include:

- Promote fiscal equity by mitigating instances of regressive taxation;
- Reform domestic tax laws to align with global best practices;
- Introduce tax incentives for investments in infrastructure and capital markets;
- Support small business in line with the on-going ease of doing business reforms; and
- Raise revenue for the three tiers of government, by various fiscal measures, including increase in VAT rate from 5% to 7.5%.

Affected Areas

Requirement	**Relevant section**	**Tax implication**
Cancellation of double taxation on overlapping income	Section 29(3)(4)	Tax is no longer chargeable where the same income overlaps. Hence, a new business may pay little or no tax at all in the third year of commencement of business
Introduction of Tax Identification Number	Section 10 (2)	Tax identification number (TIN) is now a mandatory requirement for opening a business bank account. Consequently, no company will be able to operate a bank account without tax identification number.
Expansion of services	Section 13(2)(c)	Digital services have been included among income chargeable to tax.

Excess dividend paid by a Nigerian company	Section 19(2)(a)(b)(c)(d)	The exclusion from withholding tax of dividends paid out of retained profits or income. Consequently, the excessive tax on dividend that discourages corporate saving/retention of profit has been eliminated to improve investors' confidence and foreign direct investment.
Exemption of small companies from corporation tax	Section 23(1)(o)	The exemption of all small companies with turnover lower than ₦25 million from payment of company income tax in any tax year. It also emphasizes deduction of WHT on dividends distributed by small companies during the period for which their profits are below the tax paying threshold
Exemption of dividend received by Real Estate Investment Company from WHT	Section 23(1)(t)	The dividend and rental income received by a Real Estate Investment Company on behalf of its shareholders are now exempted from WHT provided that: (i) a minimum of 75% of the dividend and rental income is distributed and (ii) such distribution is made within 12 months of the end of the financial year in which the dividend or rental income was earned.
Prevent the shifting of profit and cost to related companies	Section 24(b)(c)	The prevention of companies from deriving exempt incomes and shifting operating cost to other parts of their business to produce lower taxable profit.
Inclusion of related parties expenses among non-allowable expenses	Section 27(1)(g)	Any expense whatsoever incurred within or outside Nigeria involving related parties, that it is not consistent with the Transfer Pricing Regulations is not allowed for deduction as expenses.
Amendment to commencement rule	Section 29(3)	The profits of any company for each year of assessment from each source of its profit shall be the profits of the accounting period immediately preceding the year of assessment from such source.
Cancellation of cessation rule	Section 29(4)	Where a company permanently ceases to carry on business in Nigeria in an accounting period, its assessable profit shall be the amount of the profit from the beginning of the accounting period to the date of cessation and the tax thereof shall be payable within six months.
Closing of loophole in tax revenue	Section 29(9)	Where related companies dispose assets to each other and the acquiring company dispose the asset acquired within 365 days after the transaction, the tax authority will make sure it lose all tax concessions granted under the provision
Removal of limitation in losses	Section 31(2)(a)(ii)	Companies can now carry forward losses incurred in the course of their business in a fair and equitable manner perpetually. This implies that insurance companies are now allowed to carry forward losses indefinitely.
Minimum tax computation rule	Section 33(2)	The minimum tax to be levied and paid shall be 0.5% of turnover of the company. This implies that minimum tax will now be based on revenue alone at the rate of 0.5%. Payment of minimum tax is now applicable to all companies with the exception of companies with turnover of less than ₦25m.

Restriction of amortization of capital expenditure for pioneer companies	Section 39(a)	Restriction of amortization of capital expenditure for pioneer companies (downstream operation) shall no longer commence amortization of qualifying capital expenditure after pioneer period.
Introduction of tax rate for small companies	Section 40(a)(b)(c)	Tax shall be levied and paid for each year of assessment in respect of total profits of every company as follows: (a) small companies whose turnovers are below the threshold of ₦25 million shall be exempted from company income tax (b) medium sized companies with turnovers of above ₦25 million but not more than ₦100 million shall be taxed at the rate of twenty kobo for every one naira or 20%, and (c) large companies with turnover above ₦100 million shall be taxed at the rate of thirty kobo for every one naira or 30%.
Increase in penalty for non-compliance with CIT filing	Section 55 (3)(a)(b)	The penalty for late filing of CIT is now: (a) ₦50,000 for the first month in which failure occurs and (b) ₦25,000 for each subsequent month in which failure continues.
Introduction of incentives for early payment of tax	Section 77(5)(a)(b)	The following bonus will be granted self-assessment filers: (a) 2% to medium sized companies that file and pay their taxes within 90 days before the due date, and (b) 1% to any other company. This implies that companies having turnover between ₦25 million to ₦100 million will pay CIT at effective rate of 18% and companies with turnover of above ₦100 million will pay CIT at an effective rate of 29%, provided they pay CIT within 90 days before the due date.

Requirement	Relevant section	Tax implication
WHT on dividends paid by petroleum companies	Section 60	Dividend paid out of petroleum profits are henceforth subjected to withholding tax.

Personal Income Tax

Requirement	Relevant section	Tax implication
Removal of personal, children and dependent relatives reliefs	Section 33(4), (5) and (6)	The granting of personal, children and dependent relatives' allowance to personal income taxpayers is no longer permissible. This implies that only the consolidated relief is henceforth available for claim by personal income tax payers.
Introduction of Tax Identification Number	Section 49(1)	Tax identification number (TIN) is a compulsory requirement by Bankers from every person intending to open a bank account or, continue operation of a bank account for the purpose of business transactions. This implies that TIN must be obtained from the relevant tax authorities by individuals to be able to open a new bank account or operate an existing bank account for purpose of business transactions only. Personal accounts do not require TIN.

Value Added Tax

Requirement	Relevant section	Tax implication
Expansion of VAT scope	Section 2(a)(b)	The scope of VAT coverage has been widened to include: (a) Goods: (i) physically present in Nigeria at the time of supply, imported into Nigeria for use by a person, assembled in Nigeria, or installed in Nigeria; or the beneficial owner of the right in or over the goods is a taxable person in Nigeria and the goods or right thereof is situated, registered or exercisable in Nigeria. (b) Services: (i) that are rendered in Nigeria by a person physically present in Nigeria at the time of service provision, or (ii) that are provided to a person in

		Nigeria, regardless of whether the services are rendered within or outside Nigeria.
Increase VAT rate	Section 4	The current VAT rate of 5% has been increased to 7.5% for applicable goods and services. This implies that taxpayers whose income is within the approved benchmark shall henceforth charge 7.5% on all invoices raised with respect to vatable goods and services.
VAT registration penalty	Section 8(2)(a)(c)	Persons who fail or refuse to register with the tax authority within 6 months of commencement of business are now required to pay a penalty of (i) ₦50,000 for the 1st month in which failure occurs and (ii) ₦25,000 for each subsequent month in which the failure continues.
Requirement to deregister a company	Section 8(3)	It is now a requirement that registered taxpayers that permanently cease to carry on a trade or business in Nigeria must notify the tax authority of the intention to deregister within 90 days of such cessation of trade or business.
VAT obligation of non-resident companies (NRCs)	Section 10(a)(b)(c)	VAT obligation of the services provided by non-resident companies (NRCs) are as follows: (a) NRCs to include VAT on all invoices for supply of vatable services in Nigeria (b) the person to whom the services are supplied in Nigeria to withhold and remit the VAT directly to the tax authority in the currency of payment (c) where a taxable person to whom taxable supplies is made in Nigeria is issued an invoice on which no tax is charged, such a person is expected to self-account for the tax payable and remit the output tax to the tax authority on or before the 30th day of the month following the transaction.
Exemption of small companies from value added tax	Section 15(1)	The Act provides that a taxable person who in the course of a business has made taxable supplies or expect to make taxable supplies, the value of which, either singularly or cumulatively in any calendar year, is twenty-five million Naira (N25,000,000) or more shall render return to the tax authority on or before the 21st day of the month in which this threshold is achieved and on or before the same day in successive months thereafter. This implies that (i) small companies with annual turnovers of N25 million and below are exempted from charging VAT on their invoices and rendering VAT returns.
Penalty for failure to notify FIRS of change of address	Section 28(a)(b)	The penalty for failure to notify the tax authority within 30 days of change of address is (a) N50,000 for the first month in which failure occurs and (b) N25,000 for each subsequent month in which failure continues
Increase in penalty for non-compliance with VAT filing	Section 35	The penalty for failure to render monthly VAT returns to the tax authority on or before the 21st day of the month in which the ₦25 million turnover threshold is achieved is: (i) ₦50,000 for the first month in which failure occurs and (ii) ₦25,000 for each subsequent month in which the failure continues.

Capital Gains Tax

Requirement	Relevant section	Tax implication
Abuse of related party reorganization transaction	Section 32	The inclusion of a new condition that prevents related companies that dispose assets acquired within 365 days after the transaction, from enjoying all tax concessions granted under the provision. This implies that the acquiring company shall lose any capital gain on the assets bought if it is sold within 356 days after the transaction.
Compensation for loss of employment	Section 36	The amounts of compensation for loss of employment not exceeding ₦10,000,000 shall be excluded from capital gain tax. This implies that only amounts in excess of ₦10,000,000 is chargeable to tax.

There are still some grey areas in the Act which we believe the FIRS will issue guidelines for more clarity. In the meantime, we advise companies to make adjustments to their mode of operations to ease implementation to avoid penalties that may be imposed for non-compliance. One of the objectives of the Act is to raise revenue to finance the 2020 budget, we therefore expect aggressive implementation by the FIRS. Consequently, and following recent pronouncements by FIRS we expect the service to commence its routine audit of the records of companies in earnest. This write up should not be taken in place of specific advice on matters covered in the Act, as it is intended only as highlight of areas that we consider important for a proper understanding of the changes introduced by the Act.

If you require specific advice or seek further clarification, please contact us.

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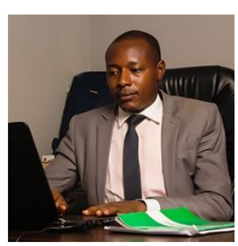

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