

TAKEAWAYS AND THE THINGS YOU NEVER NOTICED IN THE NEW FINANCE ACT 2019

On 13th January 2020, President Muhammadu Buhari might have just altered the fate of businesses and income earners in Nigeria as he signed the Finance Bill 2019 into law.

The question on the lips of many business owners and tax analysts is whether these changes would be for better or for worse.

However, it is first essential for stakeholders to understand the shape-shifting alterations that were made on the existing tax laws in Nigeria. Stakeholders would include large companies, SME's, partnerships, franchises, business owners, income earners, tax consultants, accountants, and others.

Find out important updates from the Finance Act 2019 and how it affects doing business in Nigeria in 2020 and beyond.

The Companies Income Tax (CIT) Act:

Dividends	<p>Previously, a dividend paid by a company which is in excess of its taxable profit was subject to CIT at 30%. This was regardless of whether the income from which the dividend was paid had been taxed previously or exempted.</p> <p>Now, dividends distributed in the above manner are exempted from CIT forthwith. Particularly, dividends paid out of - retained earnings, exempt income, frank Income earnings and income of a Real Estate Investment Company.</p>
Foreign Digital Services	<p>Foreign companies offering consultancy, professional or digital services in Nigeria have been included in the tax net. Such businesses must have significant economic presence (even though not physically situated in Nigeria) and their income attributed to activities carried out in Nigeria.</p>

<p>Corporate Bank Accounts</p>	<p>Companies are mandated to obtain Tax Identification Number (TIN) for the purpose of opening or maintaining existing corporate bank accounts.</p>
<p>Exemptions for Small Scale Businesses</p>	<p>In a year of assessment, companies with turnover of less than ₦25,000,000 (Twenty-Five Million Naira) are exempted from minimum tax. The minimum tax rate is 0.5% of a company's turnover.</p>
<p>Tax Reduction for Medium Scale Businesses</p>	<p>Companies whose turnover range between ₦25,000,000 (Twenty-Five Million Naira) and ₦100,000,000 (One Hundred Million Naira). The income of companies in this category would now be taxed at 20% (Twenty per cent) in the year of assessment. Previously, all companies were liable to pay 30% of their income as CIT.</p>
<p>Increased Penalties</p>	<p>Companies will be liable to increase increased penalties if they fail to file returns within the approved period. The first month of default will attract a penalty of ₦50,000 [Fifty Thousand Naira (previously ₦25,000)] while subsequent months each attract ₦25,000 [Twenty-Five Thousand Naira (previously ₦5,000)].</p>
<p>Tax Credit</p>	<p>Small and large companies enjoy bonus tax credits at 1% and 2% of tax payable respectively. However, companies must defray their tax liability within 90 days before the due date</p>
<p>Tax on Foreign Loans</p>	<p>Income derivable from Interests on foreign loans no longer enjoy full tax exemption. The Act introduced a maximum exemption ceiling of 70%.</p>
<p>Assessable Income for Certain Businesses</p>	<p>The computation of the assessable income for new businesses and those ceasing to exist now be calculated on the actual year basis.</p>
<p>Related Party Transactions</p>	<p>Expenses associated with related party transaction (within or outside Nigeria) are now deductible for tax purpose if they were incurred in a way that violates transfer pricing regulations.</p>

Value Added Tax (VAT) Act:

VAT in Nigeria has taken a new shape with the following key changes:

New VAT rate	<p>VAT rate payable in Nigeria on products and services has been increased from 5% to 7.5%.</p> <p>The new Finance Act properly captures services in this regard.</p>
Removal of Certain Requirements	<p>Mandatory registration for VAT will be inapplicable to companies with annual turnover that is less than ₦25,000,000 (Twenty-Five Million Naira). Hence, such companies are exempt from filing VAT returns.</p>
Taxable Services	<p>VAT shall be charged and payable on the supply of all services in Nigeria (except those exempted) where they are supplied by a person physically present in Nigeria at the time of service provision or the services are provided to a person in Nigeria, regardless of whether the services are rendered within Nigeria or outside Nigeria.</p> <p>Conversely, services provided from Nigeria and received by a person who is outside Nigeria are classified as export services which are not chargeable under VAT.</p>
Intellectual Property	<p>Intangible items, such as intellectual property, are included in the broad definition of goods and services.</p>
Goods and Services Exempted from VAT	<p>Items further exempted from VAT in Nigeria include tuition fees and specific locally manufactured products.</p>

Personal Income Tax (PIT) Act:

Often missed, the PITA was also amended to reflect these new positions:

<p style="text-align: center;">Removal of Tax Reliefs</p>	<p>The Act expunges the tax reliefs' provision regarding dependent relatives while retaining the child tax relief.</p>
<p style="text-align: center;">Allowable Deductions</p>	<p>Contributions to pension related funds currently form part of allowable deductions for tax purposes.</p>
<p style="text-align: center;">Service of Objections</p>	<p>Tax authorities are deemed to be properly served with notice of objections against tax assessment via electronic mails and courier services.</p>

The Finance Act 2019 has already overseen several changes in the business landscape in Nigeria and the overall tax administration.

Safe to say, that the tax net is wider and based on the recent attitude of the tax agencies to tax collection, it is important for businesses and taxable persons to ensure compliance and avoid being found in default.

Furthermore, in the light of the changes introduced by the Finance Act, it is prudent for companies to analyse their positions and take steps to address any possible exposure on account of default or non-compliance with the Act.

To follow more trends on the tax administration and laws in Nigeria, join the discussions on our social media pages - #FinanceAct.

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