

TAX UPDATES FOR BUSINESSES IN 2020

The year 2020 has heralded quite a lot of unprecedented activities in Nigeria. From our update on the Finance Act 2019 to the outbreak of the pandemic codenamed “COVID-19”.

In the midst of the crisis notwithstanding, businesses transacting in Nigeria are required to fulfill their obligations to tax collectors as the pandemic is not a “safe haven” to excuse tax non-compliance. However, recognizing the impact of the prevailing circumstance, tax authorities have afforded tax subjects palliatives to ease compliance under relevant tax laws.

The year has also witnessed the intervention of tax authorities in clarifying the implications of tax laws on transactions and businesses.

On this basis, this article sets out to highlight some tax developments that should interest businesses.

1. EXTENSION BY FEDERAL INLAND REVENUE SERVICE OF DEADLINE FOR FILING OF REPORTS UNDER AEOI-CRS

In a [public notice issued on May 19th, 2020, the Federal Inland Revenue Service \('FIRS'\)](#), recognizing the difficulties experienced by financial institutions in filing 2019 financial accounts reports under the Automatic Exchange of Information Common Reporting Standard (AEOI-CRS) Regulation due to the COVID-19 pandemic, extended the deadline for submission of those reports from 31st May 2020 till 30th September 2020.

Relevant financial institutions are expected, during the elongated 4 month extension period, to ensure the accuracy and finalize the preparation of their submission before the filing deadline.

2. EXPANSION AND CLARIFICATION BY THE MINISTRY OF FINANCE OF VAT EXEMPT ITEMS UNDER THE FINANCE ACT 2019

Further to the [enactment of the Finance Act 2019 which brought about changes to Tax legislation in Nigeria](#), including the Value Added Tax ('VAT') Act, in exercising its

supervisory power, the Ministry of Finance issued a [Value Added Tax \(Modification\) Order, 2020 \('the Order'\)](#).

This Order, which became effective on 3rd February 2020, sets out to ensure clarity in the interpretation of the list of VAT exempt items as contained in the first schedule of the VAT Act. The Order was also made for the purpose of clarifying some ambiguities under the exemption list. For instance:

- Basic food items are defined as agro and aqua based staple food as stipulated in the Order. The Order however excludes, for exemption, basic food items sold in restaurants, hotels, eateries, lounges and other similar premises; or by contractors, caterers and other similar vendors.
- Baby products are defined as products (as described in the Order) made for the use of babies from birth to 3 years of age.
- Downstream Gas Utilization is described as the marketing and distribution of natural gas for commercial purposes and includes power plant, liquefied natural gas, had for liquid plant, fertilizer plant, had transmission and distribution pipelines.
- Exemption for educational materials now extends to electronic books. The exemption further covers booklets, brochures, pamphlets, music, maps, charts, covers amongst others.
- The scope of interpretation of Equipment, Fertilizers, Farming machinery and farming transportation are clarified.
- Medical and Veterinary products, equipment and services are exempted and described in the Order. The exemption is not however applicable to cosmetology or fitness devices and any other similar devices.
- The Order allows the exemption of lease and rental of residential accommodation by individuals only. By implication, the rent or lease of such facility by corporate entities will not be VAT exempt.
- Shared public transport is VAT exempt. This does not however apply to hired or rented vehicles or transportation apparatus for private use.

It is hoped that the order, having listed exempt items under the VAT Act, will go a long way to obviate interpretational challenges that may surface in future.

3. THE FEDERAL INLAND REVENUE SERVICE'S CIRCULAR ON TAXATION OF INSURANCE COMPANIES

On 29th April 2020, [the Federal Inland Revenue Service](#) published a circular to clarify the amendments introduced by the Finance Act, 2019 regarding the taxation of life and non-life insurance businesses. The circular stipulates that:

Non-Life Insurance Business

- Reserve for unexpired risk will be determined on a time apportionment basis of the risk accepted in the year.
- The estimated amount of outstanding claims and outgoings, including verified but unpaid claims and an estimate for unverified claims received in a given year are deductible for that year and constitute part of the assessable profits of the immediate following year.
- The minimum tax payable is fixed at 0.5% of gross premium. Gross premium is the total premium (before any deduction) received and receivable (excluding premium returned to the Insured);

Life Insurance Business

- Investment incomes subject to taxation are income derived from investment of shareholders' funds. As such, other income derivable from investment are exempt.
- Minimum tax payable is fixed at 0.5% of gross income. Gross income includes all investment income, fees, commissions and income from other sources or assets.

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