



# SIMPLIFYING TAX COMPLIANCE:

STREAMLINING REPORTING AND COMPLIANCE REQUIREMENTS UNDER THE NIGERIAN FINANCE ACT OF 2023

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## Introduction

There are different interpretations of the term "Tax," a few of which encompass the following: Tax is an obligatory payment or fee imposed by local, state, and national governments on individuals or businesses. Its purpose is to fund the expenses associated with general government services, goods, and activities.

Tax is a compulsory levy imposed by the government on the incomes of taxpayers to pay the expenses of governance.

The National Tax Policy of Nigeria has defined tax as "any compulsory payment to government imposed by law without direct benefit or return of value or a service whether it is called a tax or not."

It is a compulsory levy, backed up by statute, that is imposed on the income of individuals and organizations as contained in Section 4 & 150 item D of part II of the second schedule of the Nigerian 1999 Constitution.

Taxation is one of the highest-generating sectors of the Nigerian economy. Thus, it also embeds strict compliance requirements for individuals, organizations and other stakeholders in the tax sector.

## Evolution of Taxation in Nigeria

The history of taxation in Nigeria can be traced to pre-colonial administration. It is reported that an effective tax system was already in operation in indigenous kingdoms and communities. In 1904, a notable tax legislation called the Land Revenue Proclamation Law of 1904 was enacted by the British colonial government to harmonize the various traditional taxes.

The current Nigerian tax system is a three-tier system comprising the Federal, State, and Local Governments. Each tier of government has an approved list of taxes and levies it can collect to prevent duplication of taxes, double taxation, or conflict between the three tiers of government.

Various tax bodies govern tax administration in Nigeria, and these bodies are backed by their enabling Acts. For example, Federal Government taxes are administered by the Federal Inland Revenue Service (FIRS), while those payable to the State Government and Local Government are administered by the various State Boards of Internal Revenue (SBIRS) and local government councils, respectively.

The relevant tax authority in order to ascertain the tax payable by a taxpayer will have to carry out an assessment to determine the taxpayer's liability while the taxpayer is duty-bound to pay the tax liability within the specific time limit or exercise the right of objection.



## Taxation considerations and challenges

Every Government knows that businesses and organizations play a crucial role in economic development, and taxation is a significant consideration.

Therefore, businesses and organizations make the following tax considerations before investing in a particular economy:

- Whether the economy has a fair, stable, sustainable, and competitive tax system.
  - The Government should consider the plight of over-burdened taxpayers and businesses by doing away with introducing new taxes and increasing tax rates.
  - Small and Medium Enterprises (SMEs) are the backbone of economic growth in all countries. In Nigeria, most SMEs die or go extinct within their first ten (10) years as they cannot compete with larger companies. Thus, the Government should encourage their growth by creating an enabling environment through the provision of tax incentives for small businesses.
  - The current taxes and tax rates already in place should be reviewed, while obsolete taxes and rates are advised to be scrapped
- The compliance cost of paying taxes.
  - High compliance cost is not sustainable in the long run as it will likely discourage investors. Rather, the government should support businesses by reducing compliance costs which would, in the long run, increase the tax base and tax revenue, through increased compliance with tax returns filing.
- Corporate tax transparency.
  - This affects an organization's reputation and governance. The ability to contribute their fair share of taxes and take proactive steps to document their contributions and their impact on the society in which they operate will be attractive to many businesses as it would be an opportunity for them to engage in global best practices proactively.
  - A Government that allows organizations to publish their Environmental, Social, and Governance (ESG) contributions will be more attractive to investors.

## The Nigerian Tax System is also plagued with the following challenges:

- Fragmented database of taxpayers and weak structure for the exchange of information by and with tax authorities, resulting in



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revenue leakage.

- Insufficient information available to taxpayers on tax compliance requirements, thus creating uncertainty and a strong culture of non-compliance.
- Poor accountability for tax revenue.
- Failure by tax authorities to honor refund obligations to taxpayers.
- Lack of clarity on taxation powers of each level of government and encroachment on the powers of one level of government by another.

### **Addressing Taxation Challenges and Resolving Key Issues**

The enactment of the Nigerian Finance Act of 2023 marks a significant achievement in Nigeria's endeavors to tackle tax-related issues and establish a more advantageous business environment, leading to increased opportunities. This Act introduces essential tax reforms to facilitate business operations and encourage investments. These reforms enable Nigeria to attract both domestic and foreign investments, foster economic growth, and enhance the overall business landscape within the country. This article explores the role of tax reforms within the Finance Act and their potential impact on the Nigerian business landscape.

The Nigerian Finance Act of 2023 introduced a series of pioneering measures that tackle taxation challenges and address crucial issues. These groundbreaking measures signify notable progress within Nigeria's fiscal landscape, which have been identified as follows:

#### **Refining Tax Processes:**

One of the primary objectives of the Finance Act is to simplify tax processes and alleviate administrative burdens for businesses. The Act has amended various tax-related legislation, including the Capital Gain Tax Act, Companies Income Tax Act, Customs and Excise Tariffs Etc. (Consolidated) Act, Personal Income Tax Act, Petroleum Profit Tax Act, Stamp Duties Act, Value Added Tax Act, Corrupt Practices and other related Offences Act, Tertiary Education Trust Fund (Establishment) Act, Public Procurement Act, and Ministry of Finance (Incorporated) Act. These amendments, detailed in the respective Parts, aim to refine and improve the existing legislation.

The main objective of optimizing procedures through the act is to facilitate efficient tax compliance, significantly reducing the administrative burden on businesses. Streamlining the Tax processes has enabled firms to focus more on their core operations, enhancing productivity and competitiveness. Furthermore, this simplified approach to tax compliance encourages





voluntary adherence, effectively combatting tax evasion and ultimately improving the government's revenue collection.

### **Double Taxation Avoidance:**

Double taxation can hinder cross-border investment and trade. To address this issue, the Finance Act incorporates provisions to prevent double taxation. By avoiding double taxation, the act promotes international business activities and enhances Nigeria's competitiveness in the global market. Businesses can operate without the fear of being taxed multiple times on the same income, fostering a more conducive business environment for domestic and foreign investors.

### **Strategies for Achieving Adherence to the Revised Reporting and Compliance Requirements**

- Introduction of a tax repository system where information on tax awareness and education, tax obligations, tax compliance, and revenue collected are stored. This system should be easily accessible to all tax stakeholders.
- Use technology to create a tax database to register all taxable persons effectively. This will help to streamline tax processes and, with time, be fully automated from start to finish.
- A review of the tax system should be periodically reported. This will help to measure the rate of compliance and direct the authorities to areas where gaps need to be filled.
- An effective system of recognizing compliant taxpayers should be established.
- An electronic system of record keeping, in line with global best practices should be entrenched to enhance the tax administration process.
- Tax authorities are enjoined to enforce civil and criminal sanctions as provided under the various tax laws. This will serve as a deterrent effect and encourage taxpayers to fulfill their obligations.



### **The Role of Tax Reforms in the Finance Act Towards Enhancing the Business Environment**

The Finance Act 2023 introduces several key changes that offer significant advantages for investors and businesses. These changes contribute to a more favorable business environment and create growth opportunities.

- **Clarity and Incentives for Digital Asset Investments:**

The Finance Act of 2023 introduces the taxation of gains on the disposal of digital assets, including cryptocurrency, at a rate of 10%. This clear taxation framework provides investors with clarity and certainty regarding the tax treatment of digital assets. It lets them plan their tax liabilities better and comply with tax regulations. Introducing this clear taxation policy fosters

confidence among investors and encourages them to explore investment opportunities in digital assets. It contributes to the growth and development of the digital asset market in Nigeria.

- **Flexibility in Managing Capital Gains Tax:**

The Finance Act allows for deducting capital losses on assets for capital gains tax purposes. Capital losses incurred on the same type of asset can be carried forward for up to 5 years. This provision allows businesses and investors to manage their capital gains tax liabilities. They can offset capital losses against capital gains, reducing their overall tax liability. The ability to carry forward capital losses over multiple years provides an extended period for utilizing these losses effectively, enhancing tax planning strategies.

- **Encouragement of Reinvestment and Capital Market Activity:**

The Finance Act introduces rollover relief on the sale of shares. Under this provision, businesses and investors can benefit from this relief where the proceeds from the sale of shares are reinvested within the same year of assessment. Rollover relief incentivizes reinvestment of capital gains, thereby stimulating capital market activity. It encourages investors to channel their sales proceeds into new shares, supporting the growth and liquidity of the capital markets. This provision fosters investment and facilitates the flow of funds into productive ventures, driving economic growth.

- **Support for Domestic Production:**

The Finance Act imposes a 0.5% levy on goods imported into Nigeria from outside Africa. This levy serves to generate revenue for the government. It also aims to promote domestic production and reduce reliance on imported goods. By imposing this levy, the Act creates a level playing field for local businesses, encouraging them to produce goods within Nigeria. It fosters a supportive environment for domestic industries, stimulates economic growth, and enhances self-sufficiency.

- **Broadened Tax Base and Revenue Generation:**

The Finance Act expands the tax base by applying excise tax to all services, including telecommunication services. This broadening of the tax base contributes to increased revenue generation for the government. While it may result in higher costs for service providers, it enables the government to mobilize additional resources to support infrastructure development, public services, and socio-economic initiatives. The increased revenue helps to create a more robust and sustainable fiscal environment.

- **Encouragement of Life Insurance Coverage:**



The Finance Act restores tax deductions for premiums paid regarding insurance on own life and spouse. This provision encourages individuals to obtain life insurance coverage, which promotes financial security and risk management. By offering tax deductions on insurance premiums, the Act incentivizes individuals to protect themselves and their families through life insurance. It contributes to a more resilient society and ensures the well-being of individuals and their dependents.

- **Revenue Sharing and Regional Development:**

The Finance Act introduces a sharing mechanism for the Electronic Money Transfer (EMT) levy. Under this mechanism, 15% of the levy is allocated to the Federal Government, 50% to State Governments, and 35% to Local Governments. This revenue-sharing arrangement supports regional development and enhances fiscal decentralization. It ensures that resources are distributed among different levels of government, enabling them to undertake development projects and provide essential services. This sharing mechanism fosters regional growth and creates a conducive business environment throughout Nigeria.

- **Fairness in Taxation of Related Transactions:**

The Finance Act applies transfer pricing rules to VAT on transactions between connected persons considered artificial or fictitious. This provision aims to prevent the abuse of transfer pricing arrangements and ensure fair taxation. The Act promotes fairness and transparency in the taxation system by addressing potential tax evasion through artificial transactions between related entities. It safeguards the integrity of the tax regime and ensures that businesses are taxed appropriately based on the arm's length principle.

**Conclusion:**

These changes, introduced by the Finance Act of 2023, provide significant advantages for investors and businesses in Nigeria. They offer clarity, incentives for investment, flexibility in managing taxes, support for domestic production, broadened revenue generation, encouragement of life insurance coverage, revenue sharing for regional development, and fairness in taxation. These provisions create a favorable business environment, encourage economic growth, and contribute to the overall development of the Nigerian economy. Businesses and investors should leverage these advantages and consult with tax professionals to optimize their tax planning strategies based on the changes introduced by the Nigerian Finance Act 2023.



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