

# TaxThursday

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## COVID-19 and its Tax Implications in Nigeria

**6** Nigeria's Common Reporting Standard -  
Crucial Things Your Financial Institution  
Should know and Implement

## COVID-19 and its Tax Implications in Nigeria

There is no doubt that COVID-19 hit all economies globally really hard. From the drastic decline in business activities to some organisations shutting down operations, the impact of the pandemic can hardly be ignored. To curb the rate at which the disease is rapidly spreading a number of countries have restricted movement with some implementing outright lockdowns.



I once heard that there are two things that are certain in this life; death and taxes. However, to mitigate the effects of the global pandemic, the governments of many countries have implemented monetary and fiscal measures; Nigeria is one of such countries and a number of palliative measures have been put in place, one of which is the proposed Emergency Economic Stimulus Bill 2020. Please read our thoughts on this Bill [here](#) in case you missed it. As it stands taxpayers still have to comply with their tax obligations either as it relates to tax filings or remittances.

In Nigeria, to ensure tax compliance with the Relevant Tax Authorities (RTA), you would need to make one or more trips taken to the RTA's office. Although in recent times, a number of technology measures have been put in place such as e-filing; but most often than not the general tax compliance process is still largely manual.

COVID-19 definitely hit us unawares and now we have to implement other measures to ensure that taxes are paid. I cannot help but wonder what would happen post-COVID-19 to the tax system in Nigeria. Would we go back to our old ways and continue to take trips to the RTAs office or step up and fully digitalise our tax processes?

I believe we should take a cue from some of our West African countries, one of which is our neighbouring country Togo. Togo stepped up its game in its tax administration processes. According to the World Bank's Paying Taxes Report, within a year of Togo adopting technology into its tax processes there was a reduction in tax compliance time by 57 hours. I believe we can follow suit and even do better.

Lack of enforcing digitalization of tax payment creates bottle necks for a country's tax administration and compliance rate to move forward. Nigeria is still lagging behind with a poor tax to GDP ratio of about 5.6%.

Another thought that keeps lingering in my head is the drastic rate at which the nation's foreign reserves are depleting. I cannot help but think of what we would have to fall back on when things get tougher. The 'diversify the economy' gospel has been touted for as far back as I can remember but I still don't think it sank in well enough. How are we to survive now? 'Tax to the rescue' we may say, but do we have sufficient tax revenue as it stands?

The health care system is in dire need for revamp at this time and we cannot turn a blind eye to that especially in this crucial COVID-19 times. This is just one amongst other sectors that needed to be funded by 'oil revenue'. At the risk of sounding insensitive, I think this may just be the wakeup call we needed. However, I wonder if it had to get to the stage of a global pandemic and depleting foreign reserves before we woke up. These are the thoughts that would keep me up for more days ahead.

## Nigeria's Common Reporting Standard – 6 Crucial Things Your Financial Institution Should know and Implement

### Overview

Tax Authorities in Nigeria have been and will always be looking for means to avoid or reduce profit shifting, base erosion and to also get information on the financial accounts of individuals and corporate entities in different jurisdiction, which is not a surprise that Nigeria signed a Common Reporting Standards (CRS) Multilateral Competent Authority Agreement (MCAA) a few months after the Voluntary Asset and Income Declaration Scheme (VAIDS) back in 2017.

The Common Reporting Standard is the means by which the tax authorities locate and tax any offshore taxable income or gains which is suspected to have been hidden in over 100 jurisdictions which are party to the CRS MCAA. The CRS is seen as a "weapon" against tax evasion and a possible increase of revenue generation.

Financial Institutions in Nigeria such as Banks, Investment houses, Insurance companies, Asset managers among others might be faced with compliance and reporting obligations set out in the CRS.

#### 1. **What is the Common Reporting Standard?**

Common Reporting Standard sets out the information required for Automatic Exchange of Financial account Information on a global level between the tax authorities of different jurisdictions (Countries) that have agreed to be a party of such exchanges. Nigeria, being the 94th jurisdiction (Country) to join the CRS MCAA can either receive or deliver CRS information between more than 100 jurisdictions.

## 2. What is the Legal Backing?

In exercise of the powers conferred by Section 61 of the Federal Inland Revenue Service (FIRS) (Establishment) Act, the FIRS issued the Income Tax (Common Reporting Standard) Regulations (CRS Regulation) to provide legal backing for CRS Implementation in Nigeria.

## 3. Who Does the CRS Apply to?

Financial Institutions in Nigeria such as Banks, Financial institutions, Investment entities (Asset/portfolio managers) and Insurance companies could have additional statutory obligations under the CRS. For the CRS to apply, the institution must be;

- A Company, Partnership or a Trust, CRS does not apply to Sole-proprietorships and Individuals
- A Nigerian company or Nigerian branch of a foreign resident company
- Be a financial institution that performs key financial function and the CRS regulations categorized them as:
  - Custodial Institutions - Businesses that hold financial assets (equity and debt) for customers for example, asset managers etc. 20% or more of the gross income of the business for the last three years or as at year end should be attributable to custodial services
  - Depository Institutions - Institutions that accept deposits in the ordinary course of business
  - Investment Entities - Businesses that provide portfolio management, trade in money market or manage financial assets or monies on behalf of client
  - Specified Insurance Companies - This is an Insurance company (or the holding company of an Insurance company) obligated to make payments under an insurance contracts with a cash value or under an annuity contract.

## 4. As a Financial Institution What Steps Do We Need to take to ensure compliance with CRS Regulation?

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Steps to be taken by Financial Institutions to ensure compliance would include the following;

- Current onboarding forms should indicate the required information needed to file the CRS report
- A KYC update should be done on already onboarded Clients (Reportable Persons)
- Review the Financial Accounts with the Financial Institutions i.e. review the financial account managed by the financial institutions on behalf of clients
- Identify the Reportable accounts, i.e. accounts held by individuals or corporates other than Financial Institutions, Central Banks, International Organisation, Government Entity etc.
- Apply the Due Diligence rule after the Reportable accounts have been identified
- Report Relevant information at the Federal Inland Revenue Service (FIRS) before the due date, kindly note that in absence of a Reportable Account(s), reports should still be filed which would then imply a nil report

**5. What is the Deadline for Filing Information Returns?**

Information Returns on all Reportable Accounts maintained in your Financial Institution in 2019 is due to be submitted to FIRS on May 31, 2020.

**6. What are the Penalties for Non-Compliance with the CRS Regulation?**

Any Reportable Financial Institution (RFI) that does not meet its obligation for filing when due as stipulated in the Regulation, the following penalties for non-compliance would apply;

- Failure to comply with duty or obligation imposed by the regulation, N10million for each failure + N1 million for subsequent month in which default/failure continues
- Failure by RFI to file information return; N10million in the first month of default + N1million for subsequent month in which defaults continues
- Providing false or incorrect information - N5million
- Failure by RFI or any person to comply with the FIRS' requirement in the exercise of its powers under the Regulation, N1million in the first instance + N100,000 for subsequent day the failure occurs

Failure by RFI to keep records, N10million in the first month which failure occurs + N1m for subsequent month in which failure occurs

**In the event that you or your financial institution require assistance with Filing Information Returns and compliance with CRS Regulation, Taxaide's Professional Personnel can assist in ensuring that all the steps required to comply under the Regulation are duly performed. Taxaide's technology flagship, Taxaide Technologies Limited (Taxtech) are also able to deploy easy to use technology for the automation of your CRS compliance process.**