



FEDERAL INLAND REVENUE SERVICE
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INFORMATION CIRCULAR

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SUBJECT: VALUE ADDED TAX (VAT) ON SERVICES OF FINANCIAL INSTITUTIONS

This circular is issued for the information and guidance of the general public, taxpayers and tax practitioners in line with the provisions of the relevant tax laws. The circular amends, updates or replaces contents of any circular, notice or other publication previously issued by the Service that is inconsistent with its contents to the extent of such inconsistency.

1.0 Introduction

Section 2 of the Value Added Tax Act, Cap. V1, LFN 2004 (as amended) imposes tax on the supply of all goods and services in Nigeria other than those goods and services listed in the First Schedule to the Act. Part 2 of the First Schedule to the Act exempts services rendered by microfinance banks, peoples' banks and mortgage institutions from VAT. Accordingly, all other financial institutions are required to charge VAT on their services. This circular provides clarification for the chargeability of Value Added Tax (VAT) on services rendered by financial institutions.

2.0 Definition of Financial Institutions

Financial institutions means any bank, individual, body, association or group of persons, whether corporate or unincorporated, licensed under Banks and Other Financial Institutions Act (BOFIA) and any other related Act which carries on the business of a discount house, finance company, money brokerage and those whose principal objects include factoring, project financing, equipment leasing, debt administration, fund management, private ledger services, investment management, local purchases, order financing, export finance, project consultancy, financial consultancy, pension fund management and such other business as the Central Bank of Nigeria, Nigeria Deposit Insurance Corporation, Pension Commission and other regulatory body may, from time to time, designate.

2.1 Types of Financial Institutions:

These include but not limited to the following;

2.1.1 Banks: These are companies licensed under BOFIA to carry on the business of receiving deposits on current account, savings account or other similar account, paying or collecting cheques, drawn or paid in by customers, provision of finance or such other businesses as the Governor of Central Bank may, by order published in the federal gazette, designate as banking business.

2.1.2 Insurance Companies: These are financial institutions engaged in the business of underwriting the risk of loss or damage to personal, business, assets, life and bodily injuries in return for regular payments of a premium. They are regulated by National Insurance Commission (NAICOM) and include insurance, assurance, reinsurance, brokerage services etc.

2.1.3 Pension Funds Administrators: These are companies licensed under the Pension Reforms Act to invest and manage pension fund assets, payment of retirement benefits and accounting for all transactions relating to the funds under their management.

2.1.4 Discount Houses: A discount house is a company that specialise in trading, discounting, and negotiating of short-term securities such as bills of exchange, promissory notes, government bonds and treasury bills.

2.1.5 Brokerage Firms: These firms act as middlemen that connect buyers and sellers to facilitate transactions for a fee or commission. They are regulated by the Securities and Exchange Commission (SEC).

3.0 Liability of the services of Financial Institutions to VAT

Financial institutions charge commissions, fees, or other charges for services rendered to their customers which are liable to VAT.

The provision of loans and advances does not, in itself, constitute a transaction liable to VAT. The interest chargeable on the loans and advances is not liable to VAT. However, ancillary services such as documentation and perfection of loan or overdraft agreements are subject to VAT.

Fees or commission earned by insurance companies' brokers, agents, loss adjusters, surveyors, and other service providers in the insurance industry (including staff of the financial institution) for services rendered to insurance companies are liable to VAT. The burden of the VAT will be borne by the

insurance company itself. However, the premium received on policies is not liable to VAT.

4.0 Vatable Services Rendered by Financial Institutions

In arriving at what constitutes vatable financial services, a distinction should be made between activities that constitute return on investment and consumption of services rendered by financial institutions. All charges arising from the services of financial institutions will ordinarily attract VAT and they include and not limited to the following:

- a. Commissions charged on forex trading or remittance;
- b. Commissions on sale of Bank drafts/certified cheques;
- c. Commissions paid to brokers, reinsurers, underwriters and other insurance agents by an insurer
- d. Commission on asset trading;
- e. Account Maintenance Fees, ledger fees etc.;
- f. Legal and other fees chargeable on lease arrangements;
- g. Fees charged for advisory services e.g. mergers and acquisition, financial strategy counseling etc.;
- h. Fees chargeable on public/private issues;
- i. Debt conversion fees;
- j. Fees on asset trading;
- k. Fees earned on fund management;
- l. Fees earned on letters of credit/documentary collection to finance import/export;
- m. Fees chargeable on stock-brokerage and trust services;
- n. Fees charged on electronic banking, POS and ATM charges.
- o. Fees charged on electronic bill payments.
- p. Mobile money transactions and other like transactions.

5.0 Income of Financial Institutions Not Liable to VAT

A simple criterion for determining whether an activity is vatable or not is the identification of those that result to return on investment or consideration for risk, etc. as distinct from those that constitute supply of services. The income of Financial Institutions that will not attract VAT include:

- a. Interest on loans and advances, including overdraft facilities;
- b. Interest on savings accounts;
- c. Interest on bank deposits;
- d. Interest on interbank placements;
- e. Premium on insurance policies;

- f. Dividends; and
- g. Profit or Gain on disposal of securities.

6.0 VAT Registration and Rendition of Returns

Financial Institutions are taxable persons within the provisions of the VAT Act and all services rendered by them are taxable with the exception of the services of Mortgage Institutions and other institutions mentioned in Part II of the First Schedule to the VAT Act. These financial institutions are to register for tax and obtain TIN. VAT returns are to be made to the relevant tax office within 21 (twenty-one) days of the month following that of transaction.

7.0 Input Tax

Input tax claimable by financial institutions shall be in accordance with the provision of Section 17 of Value Added Tax Act.

Accordingly, all input VAT payable in respect of assets purchased for use by the financial institutions should be added to the cost of the assets on which capital allowances may be claimed. Similarly, all VAT payable in respect of services consumed by financial institutions should be regarded as part of normal operational expenses chargeable to Statement of Profit or Loss Account. Under no circumstance should input tax on such items be claimed or deducted from output tax collected. However, where financial institutions suffer input tax on goods supplied to customers, such input tax shall be allowed against the output tax on those goods.

8.0 Obligation to Account for VAT

The primary obligation to charge and remit the VAT on services falls on the person providing the service. However, this obligation may shift in certain instances:

- a. In case of agency or broker arrangements where they act as intermediaries between the service providers and the customers, the obligation to charge and remit VAT shall be that of the agent or broker;
- b. Where the agent or broker cannot charge VAT due to being either individuals (including staff of the financial institution), or being a person below the VAT threshold, the financial institution has the obligation to self-account and remit same to the Service;
- c. Where the agent or broker fails to charge VAT it shall be the obligation of the financial institution to self-account and remit the VAT to the Service.

- d. Where the broker or agent fails to charge and collect, or charges and collects but fails to remit the tax, the penalties prescribed in the relevant tax laws shall apply.

9.0 Amendment or Revision of the Circular

The Service may, at any time, withdraw or replace this Circular or publish an amended or updated version.

10.0 Enquiries

All Enquiries on any aspect of this publication should be directed to:

Executive Chairman

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Revenue House,

15 Sokode Crescent, Wuse Zone 5, Abuja.

Or

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