

TAX223

BUSINESS TAXATION II



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TAX 223: Business Taxation II (3 Units C: LH 45)

Course Code: TAX 223

Course Title: Business Taxation II

Course Unit: 3 Units C

Series 1: Withholding Tax And Value Added Tax

Series 2: Output And Input Taxes In Nigeria

Series 3: Stamp Duties And Their Administration

Series 4: Customs And Excise Duties Procedures

Series 5: Taxation Of Goods And Services In Nigeria

Series1 Withholding Tax And Value Added Tax

- **Part 1.1: Concept And Determination Of Withholding Tax**
 - Definition and purpose of withholding tax
 - Determination of withholding tax liability
- **Part 1.2: Assessment And Collection Of Withholding Tax**
 - Procedures for assessment
 - Methods of collection and remittance
- **Part 1.3: Concept And Determination Of Value Added Tax (VAT)**
 - Definition and characteristics of VAT
 - Determination of VAT liability
- **Part 1.4: Assessment And Collection Of Value Added Tax**
 - Procedures for assessment
 - Collection, remittance, and compliance requirements

Introduction

Taxation is a vital tool for generating revenue and ensuring the smooth functioning of government services. Among the different forms of taxation in Nigeria, withholding tax and value added tax are particularly significant because they directly affect both individuals and



businesses. Withholding tax ensures that taxes are collected at the source of income, while VAT applies to the consumption of goods and services. Together, they form the backbone of Nigeria's indirect tax system.

The aim of this Series is to equip you with the knowledge and skills to define, explain, and apply the concepts of withholding tax and value added tax, including their determination, assessment, and collection procedures.

We shall commence this Series by examining the concept and determination of withholding tax. Next, we will explore the procedures for assessment and collection of withholding tax. Following that, we will study the concept and determination of value added tax, focusing on its characteristics and liability. Finally, we will conclude with the assessment and collection of VAT, highlighting compliance requirements and remittance procedures.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 1.1** define withholding tax and explain its purpose,
- **SLO 1.2** demonstrate how withholding tax liability is determined,
- **SLO 1.3** describe the procedures for assessment and collection of withholding tax,
- **SLO 1.4** define value added tax and explain its characteristics,
- **SLO 1.5** analyse how VAT liability is determined, and
- **SLO 1.6** explain the procedures for assessment, collection, and remittance of VAT.

1.1 Concept And Determination Of Withholding Tax

1.1.1 Definition and purpose of withholding tax

Withholding tax is a tax deducted at source from payments made to individuals or companies for goods, services, contracts, or investments. It is collected by the payer on behalf of the government and remitted to the relevant tax authority. The purpose of withholding tax is to ensure early collection of revenue, reduce tax evasion, and spread the tax burden fairly across taxpayers. It also serves as an advance payment of income tax, which is later credited against the taxpayer's final liability.

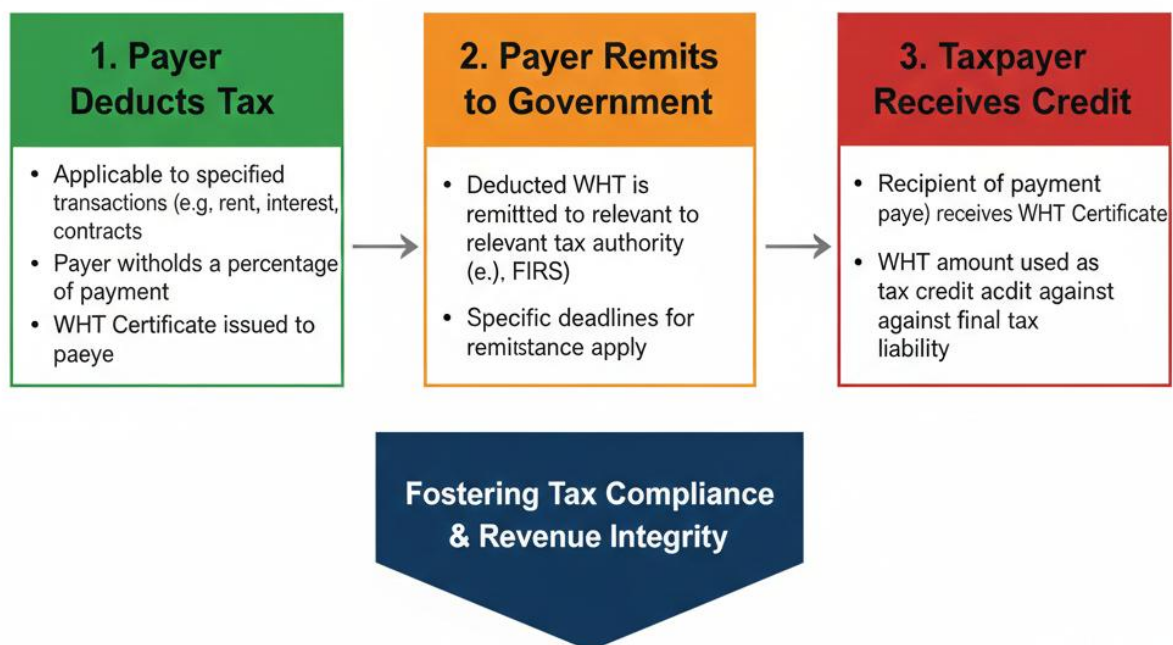
Fill in the blank: Withholding tax is deducted at _____ from payments made to individuals or companies.



Figure 1.1: *Flow of withholding tax deduction and remittance*



Withholding Tax (WHT) Flow in Nigeria (2026: Simplified Simplified Process from Payer to Government to Taxpayer Credit



Source: Nigerian Tax Laws & OER Project



1.1.2 Determination of withholding tax liability

The liability for withholding tax depends on the type of transaction and the applicable rate. Different categories of payments attract different rates, such as contracts, rent, dividends, interest, and professional fees. For example, contracts may attract a rate of 5 percent, while dividends may be taxed at 10 percent. The payer is responsible for deducting the correct amount before making payment to the recipient.

Fill in the blank: The liability for withholding tax depends on the type of _____ and the applicable rate.



Table 1.1: Common withholding tax rates in Nigeria

Transaction Category	Individuals (%)	Companies (%)
All aspects of Contracts & Agency	5%	5%
Professional / Technical / Management Fees	5%	10%
Consultancy Fees	5%	10%
Rent	10%	10%
Dividends	10%	10%
Interest	10%	10%
Director's Fees	10%	10%
Commissions	5%	10%
Construction (All aspects)	5%	5%

Pilot questions 1.1

1. What is withholding tax?
2. Why is withholding tax deducted at source?
3. Who is responsible for remitting withholding tax to the authority?
4. Name two types of payments that attract withholding tax.
5. What determines the liability for withholding tax?



1.2 Assessment And Collection Of Withholding Tax

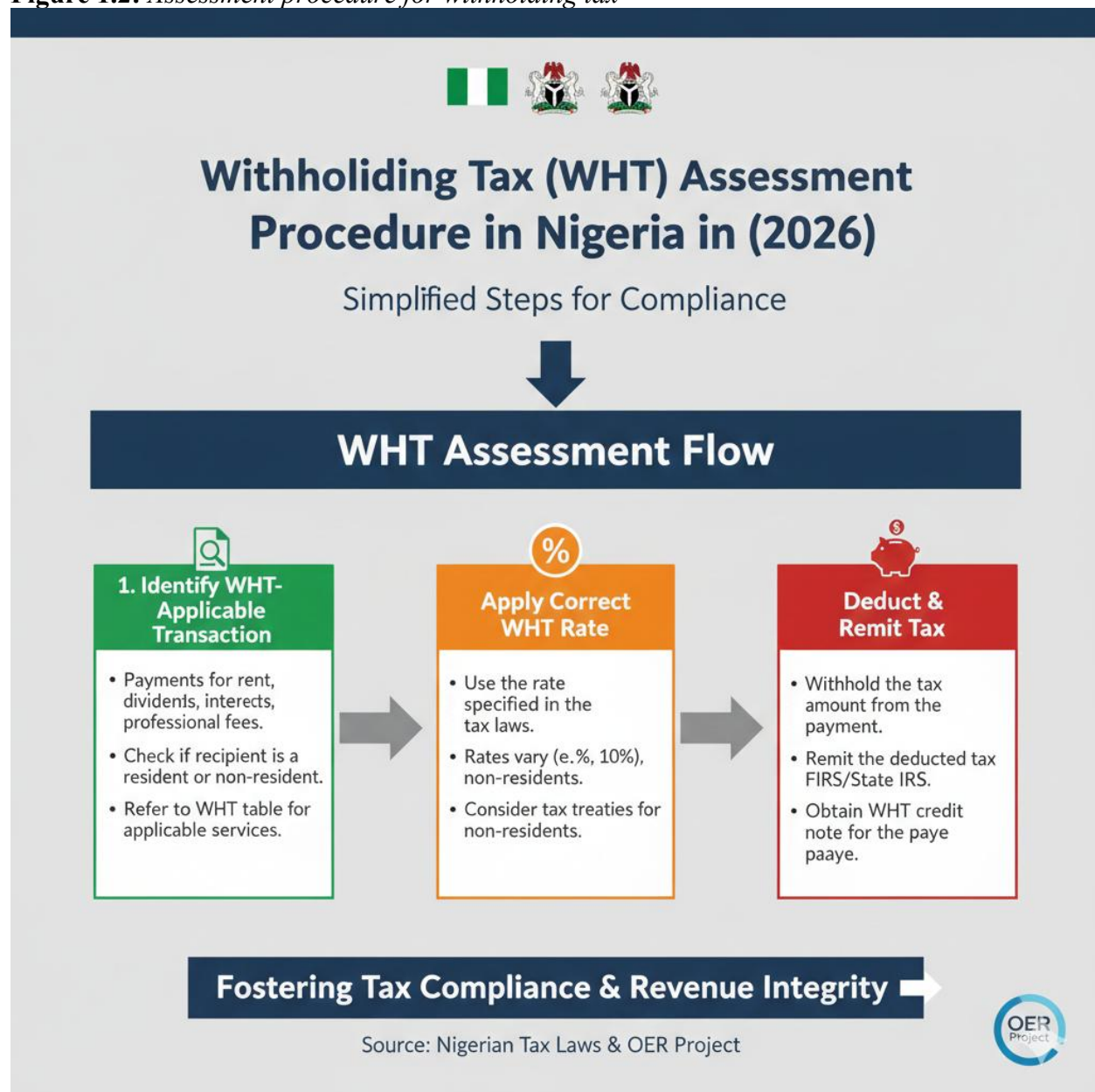
1.2.1 Procedures for assessment

The **assessment** of withholding tax refers to the process of determining the amount of tax to be deducted from a payment. This is based on the nature of the transaction and the applicable rate set by law. For example, professional fees may attract a different rate compared to dividends or rent. The payer must carefully assess the payment to ensure that the correct percentage is deducted before remittance. This assessment is crucial because errors can lead to penalties for either under-deduction or over-deduction.

Fill in the blank: The assessment of withholding tax is based on the nature of the _____ and the applicable rate.



Figure 1.2: *Assessment procedure for withholding tax*



1.2.2 Methods of collection and remittance

The **collection** of withholding tax is carried out by the payer, who deducts the tax at source before making payment to the recipient. The deducted amount must then be **remitted** to the relevant tax authority, such as the Federal Inland Revenue Service (FIRS) or the State Board of Internal Revenue (SBIR), depending on the type of transaction. Remittance is usually done monthly, accompanied by schedules that list the names of taxpayers, the amounts deducted, and the nature of the transactions. Proper collection and remittance ensure compliance and help government agencies track revenue effectively.



Fill in the blank: Withholding tax deducted at source must be remitted to the relevant _____ authority.

Table 1.2: Collection and remittance process for withholding tax



Pilot questions 1.2

1. What does assessment of withholding tax involve?
2. Why is correct assessment important?
3. Who is responsible for collecting withholding tax?
4. To which authorities are withholding taxes remitted?
5. How often is withholding tax usually remitted?



1.3 Concept And Determination Of Value Added Tax (VAT)

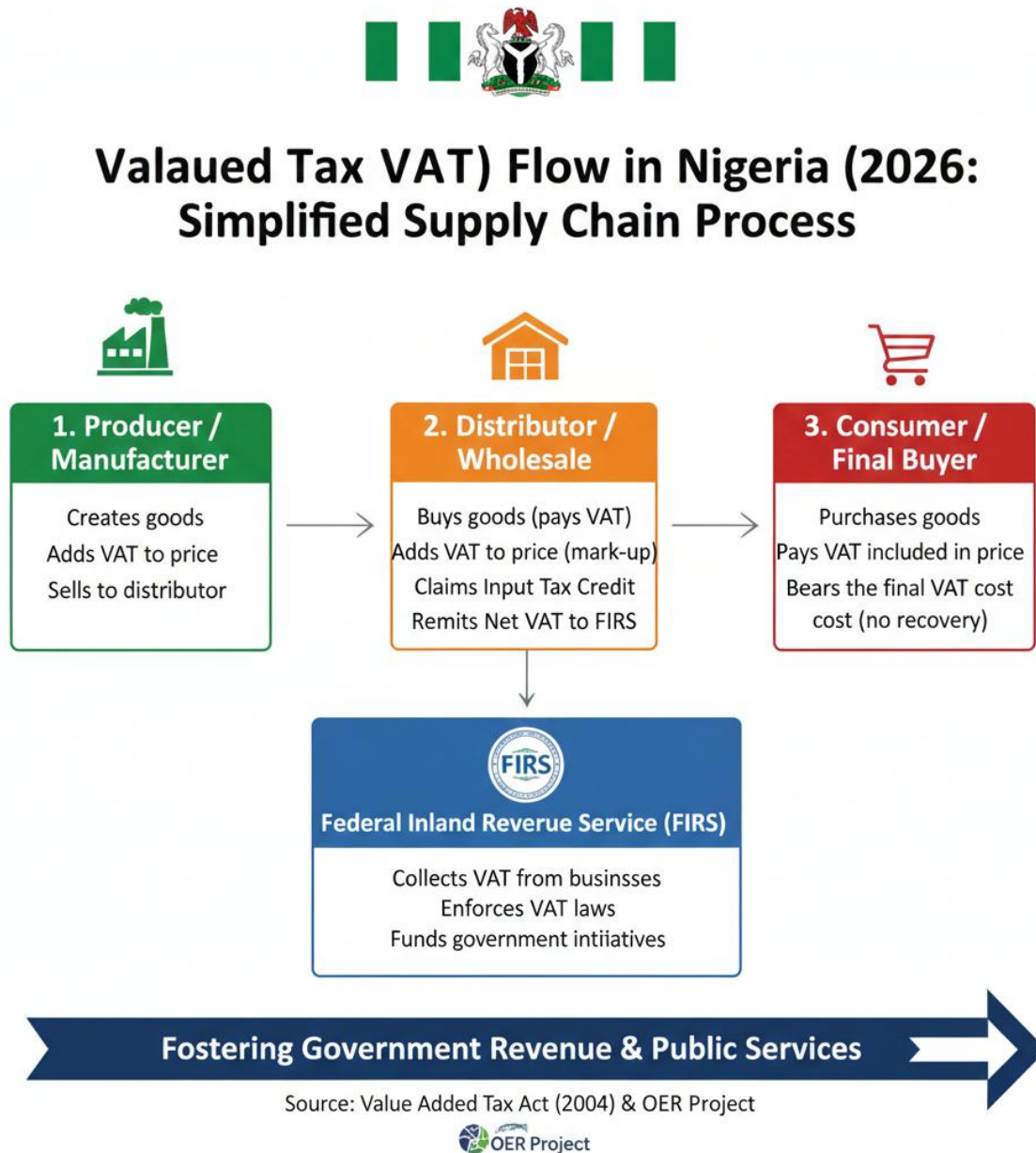
1.3.1 Definition and characteristics of VAT

Value Added Tax (VAT) is a consumption tax levied on goods and services at each stage of production and distribution. It is collected by businesses on behalf of the government and remitted to the Federal Inland Revenue Service (FIRS). VAT is designed to be broad-based, ensuring that revenue is generated from a wide range of transactions. Its key characteristics include being charged at a standard rate, currently 7.5 percent in Nigeria, and being borne ultimately by the final consumer. Businesses act as intermediaries, collecting VAT from customers and remitting it to the authorities.

Fill in the blank: VAT is a _____ tax levied on goods and services at each stage of production and distribution.



Figure 1.3: Flow of VAT in Nigeria



1.3.2 Determination of VAT liability

The **VAT liability** of a business is determined by calculating the difference between **output tax** and **input tax**. Output tax is the VAT charged on sales to customers, while input tax is the VAT paid on purchases from suppliers. Businesses remit the net amount (output tax minus input tax) to FIRS. If output tax exceeds input tax, the business pays the difference. If input tax is higher, the business may claim a refund or carry it forward. Accurate record-keeping is essential to ensure correct determination of VAT liability.



Fill in the blank: VAT liability is determined by calculating the difference between output tax and _____ tax.

Table 1.3: Example of VAT liability determination

Item / Transaction Component	Description	Formula / Rate	Amount (₦)
Total Taxable Sales (Output)	Value of goods/services sold	—	1,000,000
Output VAT	Tax collected from customers	7.5% of Sales	75,000
Eligible Purchases (Input)	Cost of raw materials/stock-in-trade	—	600,000
Input VAT	Tax paid to suppliers	7.5% of Purchases	(45,000)
Net VAT Payable	Amount to remit to FIRS	Output – Input	30,000

Pilot questions 1.3

1. What is VAT and who administers it in Nigeria?
2. At what rate is VAT currently charged in Nigeria?
3. Who ultimately bears the cost of VAT?
4. What is the difference between output tax and input tax?
5. How is VAT liability determined?

1.4 Assessment And Collection Of Value Added Tax

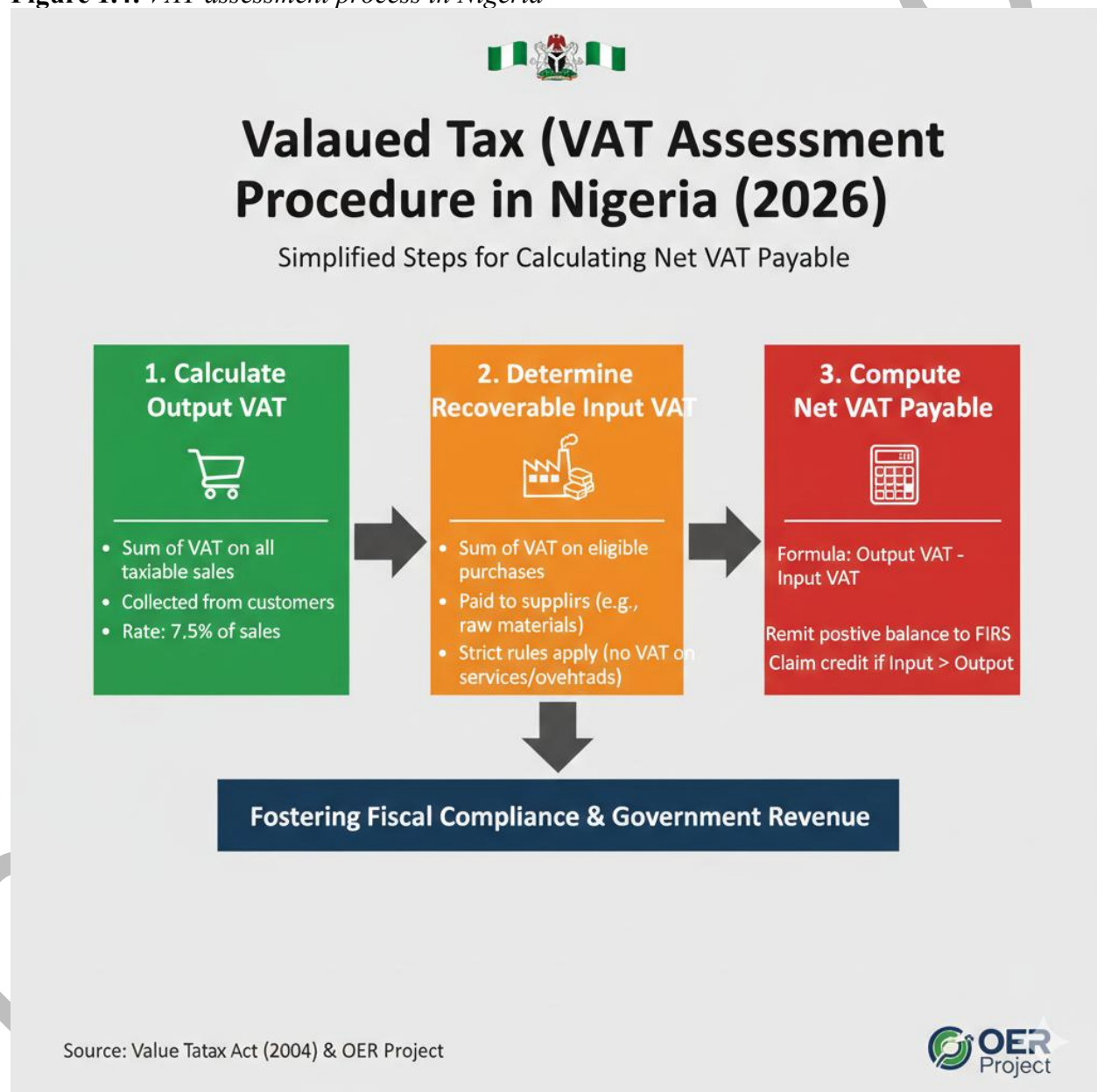
1.4.1 Procedures for assessment



The **assessment** of Value Added Tax (VAT) involves determining the amount of tax payable by a business based on its transactions. Businesses must calculate VAT on sales (output tax) and deduct VAT paid on purchases (input tax). The net VAT payable is then assessed as output tax minus input tax. This process ensures that VAT is charged fairly and only on the value added at each stage of production and distribution. Accurate assessment requires businesses to maintain proper records of invoices, receipts, and transactions.

Fill in the blank: The net VAT payable is assessed as output tax minus _____ tax.

Figure 1.4: *VAT assessment process in Nigeria*



1.4.2 Collection, remittance, and compliance requirements



The **collection** of VAT is carried out by businesses when they sell goods or services. VAT is added to the selling price and collected from customers. The business then has the responsibility to **remit** the collected VAT to the Federal Inland Revenue Service (FIRS), usually on a monthly basis. Compliance requires businesses to file VAT returns, submit schedules of transactions, and remit payments promptly. Failure to comply may result in penalties, interest charges, or legal action. Proper compliance not only avoids sanctions but also strengthens trust between businesses and tax authorities.

Fill in the blank: VAT collected from customers must be remitted to the _____ Inland Revenue Service.

Table 1.4: VAT collection and remittance process

Stage	Activity	Description	Deadline / Requirement
1. Collection	Charging at Source	The business (VAT Agent) adds 7.5% to the price of taxable goods or services and collects it from the customer.	At the time of sale or issuance of invoice.
2. Documentation	E-Invoicing	Businesses must issue a structured tax invoice (via the NRS Merchant-Buyer platform) showing the VAT amount and the business's TIN.	Real-time or at the point of transaction.
3. Aggregation	Monthly Accounting	The business totals all Output VAT (collected) and subtracts Recoverable Input VAT (paid on stock/raw materials).	End of each calendar month.
4. Filing	Online Submission	Monthly returns are filed electronically through the TaxPro-Max portal (or current NRS equivalent).	No later than the 21st day of the following month.



Stage	Activity	Description	Deadline / Requirement
5. Remittance	Payment to NRS	The net VAT payable is paid into designated government accounts via the online portal or authorized banks.	No later than the 21st day of the following month.

Pilot questions 1.4

1. What does VAT assessment involve?
2. How is net VAT payable calculated?
3. Who collects VAT from customers?
4. To which authority is VAT remitted in Nigeria?
5. What are the consequences of failing to comply with VAT requirements?

Series Summary

This Series has explored the concepts and procedures surrounding withholding tax and value added tax, which are two of the most important forms of taxation in Nigeria. We began by defining withholding tax, explaining its purpose, and showing how liability is determined based on the type of transaction and applicable rates. We then examined the procedures for assessment and collection, highlighting the responsibilities of payers and the importance of remittance to the relevant tax authorities.

Following that, we studied value added tax, focusing on its definition, characteristics, and how liability is determined through the relationship between output tax and input tax. We concluded with the assessment and collection of VAT, emphasising compliance requirements and the consequences of non-remittance. By completing this Series, you should now be able to define and explain withholding tax and VAT (SLO 1.1, SLO 1.4), demonstrate how liabilities are determined (SLO 1.2, SLO 1.5), and describe the procedures for assessment, collection, and remittance (SLO 1.3, SLO 1.6).

Glossary of Terms

- **Assessment:** The process of determining the amount of tax payable based on transactions and applicable rates.
- **Federal Inland Revenue Service (FIRS):** The federal authority responsible for administering taxes such as VAT and company income tax.
- **Input tax:** VAT paid on purchases from suppliers, which can be deducted from output tax.
- **Output tax:** VAT charged on sales to customers.



- **Remittance:** The act of paying collected taxes to the relevant authority.
- **State Board of Internal Revenue (SBIR):** The state authority responsible for administering taxes such as personal income tax and withholding tax.
- **Value Added Tax (VAT):** A consumption tax levied on goods and services at each stage of production and distribution.
- **Withholding tax:** A tax deducted at source from payments made to individuals or companies, serving as an advance payment of income tax.

Concept Check Questions 1

Objective Questions

1. (Linked to SLO 1.1) Withholding tax is deducted at:
 1. Source
 2. Destination
 3. Remittance
 4. Assessment
2. (Linked to SLO 1.4) VAT in Nigeria is currently charged at:
 1. 5 percent
 2. 7.5 percent
 3. 10 percent
 4. 15 percent

Short-Answer Questions

3. (Linked to SLO 1.2) What determines the liability for withholding tax?
4. (Linked to SLO 1.3) Who is responsible for remitting withholding tax to the authorities?
5. (Linked to SLO 1.5) How is VAT liability calculated?
6. (Linked to SLO 1.6) What are the consequences of failing to comply with VAT requirements?

Long-Answer Questions

7. (Linked to SLO 1.3) Explain the procedures for assessment and collection of withholding tax.
8. (Linked to SLO 1.6) Analyse the procedures for assessment, collection, and remittance of VAT, including compliance requirements.

Answers to Concept Check Questions 1

Objective Questions

1. Source
1. 7.5 percent

Short-Answer Questions

3. The type of transaction and the applicable rate.
4. The payer who deducts tax at source.



5. By subtracting input tax from output tax.
6. Penalties, interest charges, or legal action.

Long-Answer Questions

7. **Basic response:** Withholding tax is assessed based on the transaction type and rate, deducted at source, and remitted to the relevant authority.

Value-added response: The payer must maintain records, submit schedules, and remit monthly to FIRS or SBIR, ensuring compliance and avoiding penalties.

1. **Basic response:** VAT is assessed by calculating net VAT payable, collected from customers, and remitted to FIRS.
Value-added response: Businesses must file monthly returns, submit transaction schedules, and comply with regulations. Non-compliance attracts penalties, while proper compliance builds trust and transparency.

Answers to Pilot Questions 1

- **Part 1.1**

1. Withholding tax is a tax deducted at source from payments.
2. It ensures early collection of revenue and reduces evasion.
3. The payer is responsible for remitting withholding tax.
4. Contracts and dividends.
5. The type of transaction and applicable rate.

- **Part 1.2**

1. Assessment involves determining the amount of tax payable.
2. Correct assessment prevents penalties.
3. The payer collects withholding tax.
4. FIRS or SBIR.
5. Monthly.

- **Part 1.3**

1. VAT is a consumption tax administered by FIRS.
2. 7.5 percent.
3. The final consumer.
4. Output tax is VAT on sales, input tax is VAT on purchases.
5. By subtracting input tax from output tax.

- **Part 1.4**

1. VAT assessment involves calculating net VAT payable.
2. Output tax minus input tax.
3. Businesses collect VAT from customers.



4. FIRS.
5. Penalties, interest, or legal action.

References and Attributions 1

- Federal Inland Revenue Service (FIRS). *Guidelines on Withholding Tax and Value Added Tax in Nigeria*.
- Personal Income Tax Act, Cap P8, Laws of the Federation of Nigeria.
- Value Added Tax Act, Cap V1, Laws of the Federation of Nigeria.
- Constitution of the Federal Republic of Nigeria (1999, as amended).

Illustrations (AI-generated or OER suggested)

- *Figure 1.1:* Flow of withholding tax deduction and remittance. Prompt: “Generate a diagram showing withholding tax flow: payer deducts tax, remits to authority, credited to taxpayer.”
- *Table 1.1:* Common withholding tax rates in Nigeria. Prompt: “Create a table showing common withholding tax rates in Nigeria.”
- *Figure 1.2:* Assessment procedure for withholding tax. Prompt: “Generate a diagram showing assessment procedure for withholding tax.”
- *Table 1.2:* Collection and remittance process for withholding tax. Prompt: “Create a table showing collection and remittance process.”
- *Figure 1.3:* Flow of VAT in Nigeria. Prompt: “Generate a diagram showing VAT flow from producer to consumer.”
- *Table 1.3:* Example of VAT liability determination. Prompt: “Create a table showing VAT liability calculation.”
- *Figure 1.4:* VAT assessment process in Nigeria. Prompt: “Generate a diagram showing VAT assessment process.”
- *Table 1.4:* VAT collection and remittance process. Prompt: “Create a table showing VAT collection and remittance process.”

TAX 223 Series 2 Output And Input Taxes In Nigeria

- **Part 2.1: Concept Of Output Tax**
 - Definition and purpose of output tax
 - Examples of output tax in practice
- **Part 2.2: Concept Of Input Tax**
 - Definition and purpose of input tax
 - Examples of input tax in practice
- **Part 2.3: Relationship Between Output And Input Taxes**
 - Net VAT payable (output minus input)
 - Importance of accurate record-keeping
 - Implications for compliance and refunds



- **Part 2.4: Practical Applications And Compliance Issues**

- Real-world scenarios of VAT administration
- Common compliance challenges
- Strategies for effective VAT management

Introduction

In the previous Series, we examined withholding tax and value added tax, focusing on their determination, assessment, and collection. This Series builds on that foundation by exploring output and input taxes, which are the core elements of VAT administration in Nigeria. Understanding these concepts is essential for businesses, as they directly influence how much VAT is payable or refundable.

The aim of this Series is to equip you with the ability to define, explain, and apply the concepts of output and input taxes, analyse their relationship, and evaluate practical compliance issues in VAT administration.

We shall commence this Series by studying the concept of output tax, including its definition and practical examples. Next, we will move on to input tax, examining how it is incurred and its role in VAT administration. Following that, we will analyse the relationship between output and input taxes, showing how they interact to determine net VAT payable. Finally, we will conclude by considering practical applications and compliance issues, highlighting real-world scenarios and strategies for effective VAT management.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 2.1** define output tax and explain its purpose,
- **SLO 2.2** demonstrate examples of output tax in practice,
- **SLO 2.3** define input tax and explain its purpose,
- **SLO 2.4** demonstrate examples of input tax in practice,
- **SLO 2.5** analyse the relationship between output and input taxes in determining VAT liability,
- **SLO 2.6** evaluate the importance of accurate record-keeping and compliance in VAT administration, and
- **SLO 2.7** apply knowledge of output and input taxes to practical scenarios and compliance challenges.

2.1 Concept Of Output Tax



2.1.1 Definition and purpose of output tax

Output tax is the Value Added Tax (VAT) charged by a business on the goods and services it sells. It represents the tax collected from customers at the point of sale and is payable to the Federal Inland Revenue Service (FIRS). The purpose of output tax is to ensure that VAT is collected progressively at each stage of production and distribution, with the final burden resting on the consumer. Businesses act as agents of the government by collecting this tax and remitting it accordingly.

Fill in the blank: Output tax is the VAT charged by a _____ on the goods and services it sells.

Figure 2.1: *Flow of output tax from business to customer*



2.1.2 Examples of output tax in practice

Output tax applies to a wide range of transactions, including the sale of manufactured goods, provision of professional services, and retail sales. For instance, when a company sells furniture, it adds VAT to the selling price, which the customer pays. Similarly, a consultancy firm charges VAT on its service fees. These amounts collected as output tax must be recorded and remitted to FIRS. Proper documentation ensures transparency and helps businesses avoid penalties.

Fill in the blank: Output tax collected on sales must be recorded and remitted to the _____.

Table 2.1: Examples of output tax in practice

Sector	Example Transaction	Description of Output Tax	VAT Rate (%)
Retail & General Goods	Sale of a Laptop or Mobile Phone	The retailer adds VAT to the selling price and collects it from the buyer at the point of sale.	7.5%
Professional Services	Legal, Audit, or Consultancy Fees	A law firm or accounting firm includes VAT on their professional fee invoice to a client.	7.5%
Telecommunications	Airtime and Data Subscriptions	Network providers (e.g., MTN, Airtel) charge VAT on their airtime or data bundle purchase.	7.5%
Financial Services	Bank Commission and Service Fees	Banks charge VAT on "fee-based" transactions such as account maintenance, transfers, and SMS alerts.	7.5%
Hospitality	Hotel Accommodation and Bar Services	A hotel charges VAT on the room rate and any drinks or meals served to the guest.	7.5%



Sector	Example Transaction	Description of Output Tax	VAT Rate (%)
Construction	Contract for Building or Road Repairs	A construction company adds VAT to the certificate of work done submitted to the client for payment.	7.5%

Pilot questions 2.1

1. What is output tax?
2. Who ultimately bears the burden of output tax?
3. Who is responsible for remitting output tax to FIRS?
4. Give two examples of transactions that attract output tax.
5. Why is proper documentation of output tax important?

2.2 Concept Of Input Tax

2.2.1 Definition and purpose of input tax

Input tax is the Value Added Tax (VAT) paid by a business on goods and services it purchases from suppliers. Unlike output tax, which is charged on sales, input tax represents the VAT incurred during the acquisition of materials, stock, or services needed for business operations. The purpose of input tax is to ensure that businesses are not unfairly burdened by VAT on their purchases, since they can offset this against the VAT they collect on sales. This mechanism helps maintain fairness and prevents double taxation within the VAT system.

Fill in the blank: Input tax is the VAT paid by a business on goods and services it _____ from suppliers.



Figure 2.2: *Flow of input tax from supplier to business*



Source: Value Added Tax Act (2004) & OER Project



2.2.2 Examples of input tax in practice

Input tax applies to a variety of business expenses, such as raw materials, office supplies, and professional services. For example, if a manufacturing company purchases raw materials, the supplier adds VAT to the invoice, which the company pays. Similarly, when a business hires a consultancy firm, VAT is charged on the service fee. These amounts are recorded as input tax and can be deducted from output tax when calculating net VAT payable. Proper documentation of invoices and receipts is essential to claim input tax deductions.

Fill in the blank: Input tax can be deducted from _____ tax when calculating net VAT payable.



Table 2.2: Examples of input tax in practice

Category	Example Items	Recoverability Status	Treatment
Stock-in-Trade	Raw materials, semi-finished goods, or stock for direct resale.	Recoverable	Deduct from Output VAT (Net VAT = Output - Input).
Overhead Expenses	Electricity bills, phone/internet, office rent, and insurance.	Non-Recoverable*	Charge to the Profit and Loss (P&L) account as an expense.
Professional Services	Legal fees, audit fees, and consultancy services.	Non-Recoverable*	Charge to the Profit and Loss (P&L) account as an expense.
Office Supplies	Stationery, printer ink, and general office maintenance.	Non-Recoverable	Charge to the Profit and Loss (P&L) account as an expense.
Capital Assets	Machinery, motor vehicles, furniture, and office equipment.	Non-Recoverable	Capitalize (add to the cost of the asset) and claim Capital Allowance.

Pilot questions 2.2

1. What is input tax?
2. How does input tax differ from output tax?
3. Give two examples of expenses that attract input tax.
4. Why is proper documentation important for input tax deductions?
5. Who charges VAT that becomes input tax for businesses?

2.3 Relationship Between Output And Input Taxes



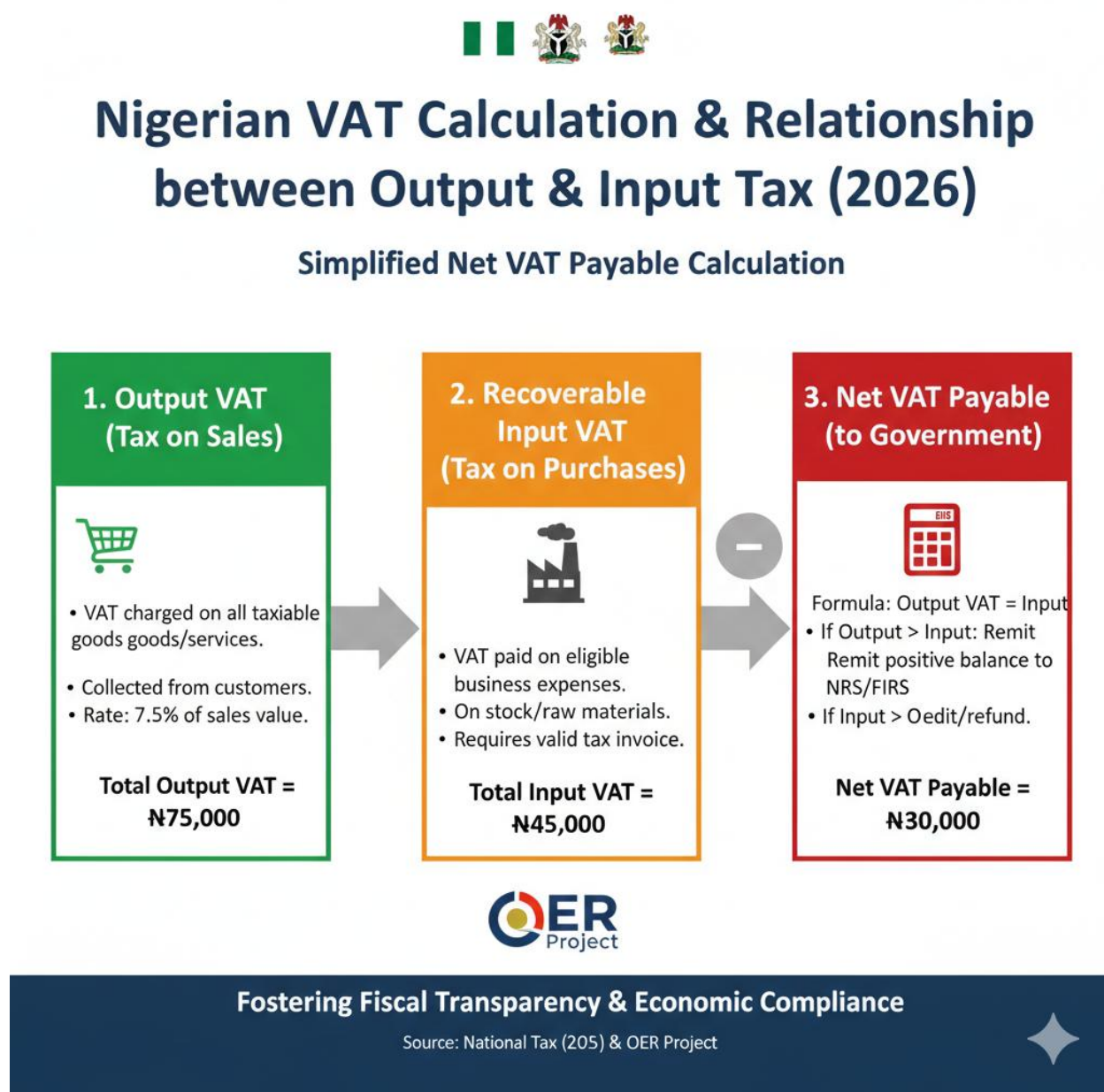
2.3.1 Net VAT payable (output minus input)

The **relationship between output and input taxes** is central to the administration of Value Added Tax (VAT). Businesses calculate their VAT liability by subtracting input tax (VAT paid on purchases) from output tax (VAT charged on sales). The resulting figure is known as **net VAT payable**. If output tax exceeds input tax, the business remits the difference to the Federal Inland Revenue Service (FIRS). If input tax is greater, the business may claim a refund or carry the balance forward. This system ensures that VAT is only charged on the value added at each stage of production and distribution.

Fill in the blank: Net VAT payable is calculated as output tax minus _____ tax.



Figure 2.3: Relationship between output and input taxes



2.3.2 Importance of accurate record-keeping

Accurate record-keeping is essential for businesses to correctly determine VAT liability. Businesses must maintain invoices, receipts, and transaction schedules to support claims for input tax deductions and to prove the amount of output tax collected. Without proper documentation, businesses risk penalties, disallowed deductions, or disputes with tax authorities. Record-keeping also helps businesses track their financial performance and ensures transparency in tax compliance.



Fill in the blank: Accurate record-keeping is essential to support claims for _____ tax deductions.

Table 2.3: Key records required for VAT compliance

Record Type	Key Information Required	Purpose
Tax Invoices (Issued)	Business TIN, customer name, date, unique invoice number, 7.5% VAT breakdown.	To track Output VAT collected from sales.
Tax Invoices (Received)	Supplier's TIN, valid VAT charge, date, and description of goods/services.	To justify Input VAT claims (direct stock/raw materials).
Transaction Schedules	Excel-based listing of all sales and purchases (client names, TINs, amounts).	Mandatory upload for monthly filings on TaxPro-Max .
VAT Account	A ledger showing a monthly summary of Input tax, Output tax, and Net balance.	For internal reconciliation and quick reference during audits.
Payment Receipts	E-tickets from TaxPro-Max, bank tellers, or electronic payment confirmations.	Evidence of timely monthly remittance (by the 21st day).
Import/Export Docs	Customs entries (Form M, SGD), bills of lading, and proof of non-oil export.	To support Zero-Rated (0%) or Exempt transaction claims.
Credit & Debit Notes	Reference to the original invoice, adjustment amount, and reason for change.	For sales reversals, discounts, or returns affecting VAT liability.

2.3.3 Implications for compliance and refunds



The interaction between output and input taxes has significant compliance implications. Businesses must file VAT returns regularly, showing both output and input tax figures. Where input tax exceeds output tax, businesses may apply for a refund from FIRS, although this process requires strict documentation and may be subject to verification. Compliance ensures that businesses avoid penalties and maintain good standing with tax authorities. It also promotes fairness, as businesses are not unduly burdened by VAT on their purchases.

Fill in the blank: When input tax exceeds output tax, businesses may apply for a _____ from FIRS.

Box 2.3: Compliance implications of output and input tax relationship

Record Type	Key Information Required	Purpose
NRS E-Invoices	Supplier/Buyer TIN, Cryptographic Stamp Identifier (CSID) , QR Code, and 55 mandatory data fields.	To track Output VAT collected and validate Input VAT claims in real-time.
Transaction Schedules	Excel-based listing of all sales and purchases including client names and TINs.	Mandatory for the monthly reconciliation process on the TaxPro-Max portal.
E-Receipts (B2C)	Transaction details with a QR code, reported to NRS within 24 hours of issuance.	To capture retail sales data and ensure consumer-paid VAT is recorded.
VAT Ledger/Account	A digital summary of monthly Output tax, Input tax, and the resulting net balance.	For internal accounting and as a reference during NRS desk reviews or audits.
Payment Evidence	Document Identity Number (DIN) and payment confirmations from the TaxPro-Max portal.	Evidence of timely monthly remittance (due by the 21st of the following month).



Record Type	Key Information Required	Purpose
Import/Export Docs	SGD (Single Goods Declaration), Customs entries (Form M), and proof of non-oil export.	Necessary to justify Zero-Rated (0%) status or exempt import transactions.

Pilot questions 2.3

1. How is net VAT payable calculated?
2. What happens if input tax is greater than output tax?
3. Why is accurate record-keeping important in VAT administration?
4. Name two types of records required for VAT compliance.
5. What are the compliance implications of the relationship between output and input taxes?

2.4 Practical Applications And Compliance Issues

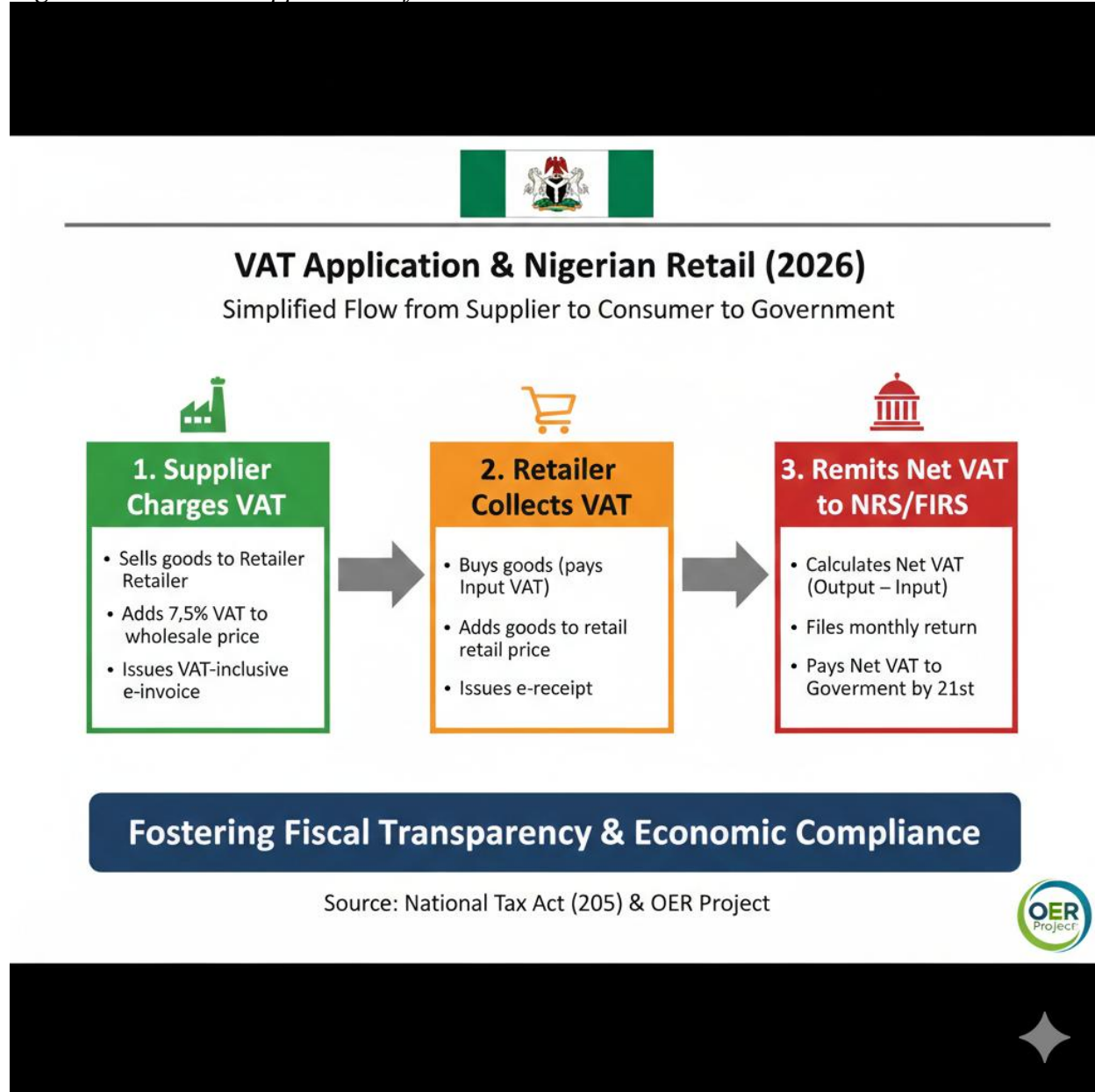
2.4.1 Real-world scenarios of VAT administration

In practice, businesses encounter various situations where the correct application of output and input taxes is critical. For example, a retailer selling electronics must charge VAT on each sale, while also recording VAT paid on stock purchased from suppliers. Similarly, a consultancy firm charges VAT on its service fees but can deduct VAT paid on office supplies. These scenarios show how VAT administration operates in everyday business transactions, ensuring that tax is collected fairly and consistently.

Fill in the blank: A consultancy firm charges VAT on its service fees but can deduct VAT paid on _____ supplies.



Figure 2.4: *Practical application of VAT in business transactions*



2.4.2 Common compliance challenges

Compliance with VAT regulations can be challenging for businesses. Issues often arise from poor record-keeping, late remittance, or misunderstanding of VAT rules. Small businesses, in particular, may struggle with maintaining proper documentation or filing returns on time. These challenges can lead to penalties, interest charges, or disputes with tax authorities. Recognising these common pitfalls helps businesses take proactive steps to improve compliance.

Fill in the blank: Poor _____-keeping is one of the most common compliance challenges in VAT administration.



Box 2.4: Common compliance challenges in VAT administration

Challenge	Impact on Business	2026 Consequence / Penalty
Poor Record-Keeping	Inability to prove Input VAT claims or justify sales figures during an NRS desk review.	Disallowance of credits and possible estimated tax assessments by the NRS.
Late Filing / Remittance	Disruption of cash flow and damage to the company's "Tax Health Score" on TaxPro-Max.	₦100,000 fine (1st month) + ₦50,000 for each subsequent month.
Misunderstanding Rules	Incorrectly charging VAT on exempt items (e.g., basic food) or failing to charge on taxable digital services.	₦200,000 penalty per instance or 100% of the tax due.
Manual Invoicing	Failure to use the mandatory Merchant-Buyer Solution (MBS) e-invoicing platform.	₦200,000 penalty ; invoices without a QR code are legally invalid for customers.
Threshold Confusion	Small businesses crossing the ₦100M turnover mark without registering for VAT.	Back-dated tax liability plus 10% interest and late filing penalties.
Personal vs. Business	Mixing owner finances with business transactions, leading to unclear VAT trails.	Aggressive disallowance of expenses and higher risk of a full field audit.

2.4.3 Strategies for effective VAT management

To overcome compliance challenges, businesses can adopt strategies such as maintaining accurate records, using accounting software, and training staff on VAT regulations. Timely filing of VAT returns and remittance of payments are also essential. Larger businesses may establish dedicated tax compliance units, while smaller businesses can seek professional advice to ensure



they meet their obligations. Effective VAT management not only avoids penalties but also enhances transparency and builds trust with tax authorities.

Fill in the blank: Timely filing of VAT returns and remittance of payments are essential for effective _____ management.

Table 2.4: Strategies for effective VAT management

Strategy	Key Actions & Components	Impact on Compliance
Accurate Record-Keeping	Maintaining original source documents such as invoices, vouchers, and receipts . Utilizing traditional and electronic registers for assets and transactions.	Provides the necessary feedback for accurate financial reporting and audit readiness.
Accounting Software Adoption	Shifting from traditional "desk" accounting to Cloud Accounting and ERP platforms (e.g., SAGE, QuickBooks, Oracle, SAP). Using spreadsheets for data analysis.	Reduces manual errors, facilitates real-time reporting, and accommodates disruptive technologies.
Staff Training & Development	Continuous training and retraining of academic and professional staff to master the latest tax curriculum and disruptive technologies.	Ensures personnel are updated on emerging concepts and can effectively use modern teaching/management aids.
Timely Filing & Remittance	Adhering to strict tax procedures for assessments, collections, and filing of returns. Submitting high-quality continuous assessments.	Avoids penalties and ensures the business remains in good standing with relevant tax authorities.



Strategy	Key Actions & Components	Impact on Compliance
Digital Literacy	Developing 21st-century skills in technology, information literacy, and digital communication.	Equips the workforce to handle "Field" and "Cloud" accounting environments prevalent in the globalized economy.

Pilot questions 2.4

1. Give one example of a real-world scenario where VAT is applied.
2. What is one common compliance challenge faced by businesses?
3. Why is poor record-keeping a problem in VAT administration?
4. Mention two strategies businesses can adopt for effective VAT management.
5. How does effective VAT management benefit businesses?

Series Summary

This Series has focused on output and input taxes, which are fundamental to the administration of Value Added Tax (VAT) in Nigeria. We began by defining output tax, explaining its purpose, and illustrating how businesses charge VAT on sales. We then examined input tax, showing how businesses incur VAT on purchases and can offset this against output tax. Following that, we analysed the relationship between output and input taxes, highlighting how net VAT payable is calculated and the importance of accurate record-keeping. Finally, we considered practical applications and compliance issues, discussing real-world scenarios, common challenges, and strategies for effective VAT management.

By completing this Series, you should now be able to define and explain output and input taxes (SLO 2.1, SLO 2.3), demonstrate examples of both in practice (SLO 2.2, SLO 2.4), analyse their relationship in determining VAT liability (SLO 2.5), and evaluate compliance issues while applying strategies for effective VAT management (SLO 2.6, SLO 2.7).

Glossary of Terms

- **Compliance:** The act of following tax laws and regulations, including filing returns and remitting payments.
- **Input tax:** VAT paid by a business on goods and services purchased from suppliers.
- **Net VAT payable:** The difference between output tax and input tax, representing the amount remitted to FIRS.
- **Output tax:** VAT charged by a business on the goods and services it sells.



- **Record-keeping:** The process of maintaining invoices, receipts, and transaction schedules to support VAT compliance.
- **Refund:** A repayment made by FIRS when input tax exceeds output tax.
- **Value Added Tax (VAT):** A consumption tax levied on goods and services at each stage of production and distribution.

Concept Check Questions 2

Objective Questions

1. (Linked to SLO 2.1) Output tax is VAT charged on:
 1. Purchases
 2. Sales
 3. Imports
 4. Exports
2. (Linked to SLO 2.3) Input tax is VAT paid on:
 1. Goods sold
 2. Services rendered
 3. Goods and services purchased
 4. Profits earned

Short-Answer Questions

3. (Linked to SLO 2.2) Give two examples of transactions that attract output tax.
4. (Linked to SLO 2.4) Mention two examples of expenses that attract input tax.
5. (Linked to SLO 2.5) How is net VAT payable calculated?
6. (Linked to SLO 2.6) Why is accurate record-keeping important in VAT administration?

Long-Answer Questions

7. (Linked to SLO 2.5) Analyse the relationship between output and input taxes in determining VAT liability.
8. (Linked to SLO 2.7) Evaluate common compliance challenges in VAT administration and propose strategies for effective VAT management.

Answers to Concept Check Questions 2

Objective Questions

1. Sales
1. Goods and services purchased

Short-Answer Questions

3. Sale of manufactured goods, provision of professional services.
4. Raw materials, office supplies.



5. By subtracting input tax from output tax.
6. It supports claims for input tax deductions, ensures transparency, and prevents penalties.

Long-Answer Questions

7. **Basic response:** VAT liability is determined by subtracting input tax from output tax, ensuring fairness in taxation.

Value-added response: This relationship prevents double taxation, allows refunds when input tax exceeds output tax, and requires accurate documentation to maintain compliance.

1. **Basic response:** Common challenges include poor record-keeping and late remittance. Strategies include accurate documentation and timely filing.
Value-added response: Businesses can adopt accounting software, train staff, and seek professional advice to strengthen compliance. Larger firms may establish dedicated tax units, while smaller firms can outsource tax management to experts.

Answers to Pilot Questions 2

- **Part 2.1**

1. Output tax is VAT charged on sales.
2. The final consumer bears the burden.
3. Businesses remit output tax to FIRS.
4. Sale of goods and provision of services.
5. Documentation ensures transparency and avoids penalties.

- **Part 2.2**

1. Input tax is VAT paid on purchases.
2. Output tax is charged on sales, input tax on purchases.
3. Raw materials and professional services.
4. Documentation supports deductions.
5. Suppliers charge VAT that becomes input tax.

- **Part 2.3**

1. Net VAT payable is output tax minus input tax.
2. The business may claim a refund or carry forward.
3. Record-keeping supports compliance.
4. Invoices and receipts.
5. Compliance requires filing returns and remitting payments.

- **Part 2.4**

1. A retailer selling electronics charges VAT on sales.
2. Poor record-keeping.
3. It prevents deductions and leads to penalties.



4. Accurate records and timely filing.
5. It avoids penalties and builds trust with authorities.

References and Attributions 2

- Federal Inland Revenue Service (FIRS). *Guidelines on Value Added Tax in Nigeria*.
- Value Added Tax Act, Cap V1, Laws of the Federation of Nigeria.
- Constitution of the Federal Republic of Nigeria (1999, as amended).

Illustrations (AI-generated or OER suggested)

- *Figure 2.1*: Flow of output tax from business to customer. Prompt: “Generate a diagram showing output tax flow: business charges VAT on sales, customer pays, business remits to FIRS.”
- *Table 2.1*: Examples of output tax in practice. Prompt: “Create a table showing examples of output tax.”
- *Figure 2.2*: Flow of input tax from supplier to business. Prompt: “Generate a diagram showing input tax flow.”
- *Table 2.2*: Examples of input tax in practice. Prompt: “Create a table showing examples of input tax.”
- *Figure 2.3*: Relationship between output and input taxes. Prompt: “Generate a diagram showing VAT calculation.”
- *Table 2.3*: Key records required for VAT compliance. Prompt: “Create a table showing key records for VAT compliance.”
- *Box 2.3*: Compliance implications of output and input tax relationship. Prompt: “Generate a box summarising compliance implications.”
- *Figure 2.4*: Practical application of VAT in business transactions. Prompt: “Generate a diagram showing VAT application in retail.”
- *Box 2.4*: Common compliance challenges in VAT administration. Prompt: “Generate a box summarising compliance challenges.”
- *Table 2.4*: Strategies for effective VAT management. Prompt: “Create a table showing strategies for VAT management.”

TAX223 Series 3 Stamp Duties And Their Administration

- **Part 3.1: Concept And Scope Of Stamp Duties**
 - Definition and purpose of stamp duties
 - Transactions liable to stamp duties
- **Part 3.2: Constitutional Distribution Of Jurisdiction**
 - Roles of federal and state governments
 - Legal framework for administration
- **Part 3.3: Administration, Assessment, And Collection Procedures**
 - Methods of assessment and collection
 - Objections and appeal procedures



- **Part 3.4: Offences, Penalties, And Compliance Issues**

- Common offences under stamp duty law
- Penalties and enforcement measures
- Compliance challenges and solutions

Introduction

Stamp duties are charges imposed on certain legal and commercial documents, ensuring that transactions are properly recorded and that government revenue is generated from a wide range of activities. They are particularly relevant in business and property dealings, where contracts, agreements, and transfers often attract stamp duty. For learners of taxation, understanding stamp duties is crucial because they highlight the intersection between law and taxation.

The aim of this Series is to equip you with the ability to define, explain, and apply the principles of stamp duties, including their scope, jurisdictional distribution, administration, and compliance requirements.

We shall commence this Series by examining the concept and scope of stamp duties, focusing on their definition and the types of transactions that attract them. Next, we will explore the constitutional distribution of jurisdiction, highlighting the roles of federal and state governments. Following that, we will study the administration, assessment, and collection procedures, including objections and appeal processes. Finally, we will conclude by analysing offences, penalties, and compliance issues, showing how businesses and individuals can avoid sanctions and maintain proper compliance.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 3.1** define stamp duties and explain their purpose,
- **SLO 3.2** identify transactions liable to stamp duties,
- **SLO 3.3** analyse the constitutional distribution of jurisdiction between federal and state governments,
- **SLO 3.4** describe the procedures for administration, assessment, and collection of stamp duties,
- **SLO 3.5** explain the objections and appeal procedures in stamp duty administration, and
- **SLO 3.6** evaluate offences, penalties, and compliance issues related to stamp duties.

3.1 Concept And Scope Of Stamp Duties



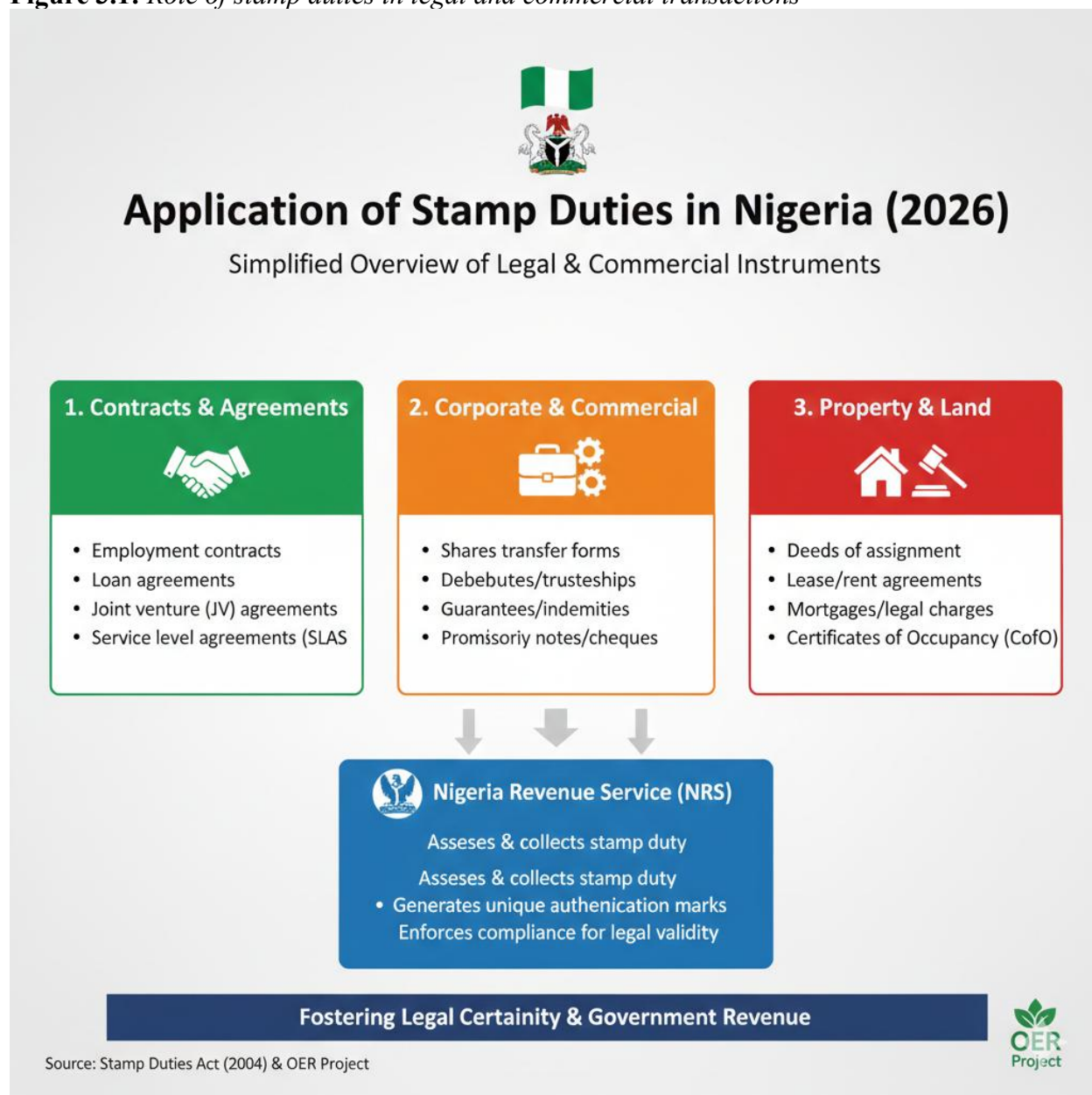
3.1.1 Definition and purpose of stamp duties

Stamp duties are charges imposed on certain legal, commercial, and financial documents to make them legally valid and enforceable. They serve as a form of taxation that ensures transactions are properly recorded and recognised by law. The purpose of stamp duties is twofold: to generate revenue for government and to provide legal authenticity to documents such as contracts, agreements, and property transfers. Without stamp duty, many documents may not be admissible in court or recognised by regulatory authorities.

Fill in the blank: Stamp duties are charges imposed on certain _____, commercial, and financial documents to make them valid.



Figure 3.1: *Role of stamp duties in legal and commercial transactions*



3.1.2 Transactions liable to stamp duties

Stamp duties apply to a wide range of transactions, including property transfers, tenancy agreements, contracts, share certificates, and bank instruments such as cheques. For example, when a property is sold, the buyer must pay stamp duty on the deed of transfer. Similarly, tenancy agreements attract stamp duty charges depending on the duration and value of the lease. These duties ensure that the government earns revenue from everyday transactions while also safeguarding the legality of such documents.



Fill in the blank: Tenancy agreements attract stamp duty charges depending on the _____ and value of the lease.

Table 3.1: Examples of transactions liable to stamp duties

Transaction / Instrument	Duty Type	Current Rate / Charge (2026)	Responsible Party
Property Transfers (Deed of Assignment)	Ad Valorem	1.5% of property value	Transferee (Buyer)
Tenancy Agreements (1–3 years)	Ad Valorem	0.78% of total rent	Tenant
Tenancy Agreements (Over 3 years)	Ad Valorem	3% to 6% of total rent	Tenant
Contract Agreements	Ad Valorem	1% of contract value	Beneficiary
Share Certificates (Increase/Transfer)	Ad Valorem	0.75% of value	Transferee
Electronic Money Transfers ($\geq$ ₦10,000)	Flat Rate	₦50 per transaction	Sender
Bank Cheque Per Leaflet	Flat Rate	₦1 (often bundled in booklet cost)	Account Holder
Power of Attorney (Land related)	Flat Rate	₦1,500 – ₦10,000 (Fixed)	Donee

Pilot questions 3.1



1. What are stamp duties?
2. Why are stamp duties important for legal documents?
3. Give two examples of transactions that attract stamp duties.
4. Who benefits from the revenue generated by stamp duties?
5. What happens to documents that are not stamped?

3.2 Constitutional Distribution Of Jurisdiction

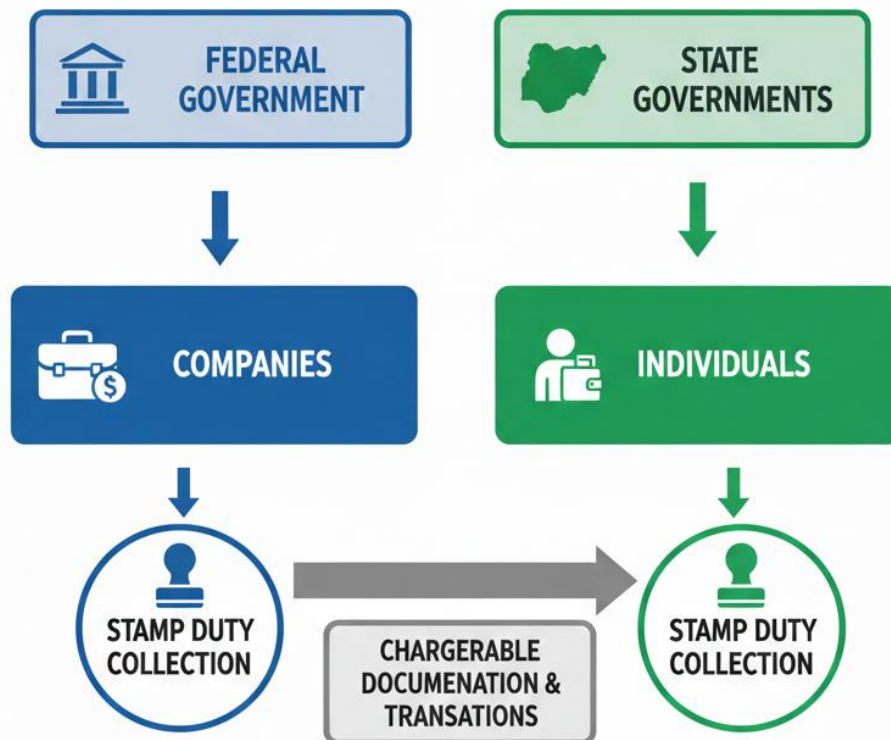
3.2.1 Roles of federal and state governments

The **constitutional distribution of jurisdiction** in stamp duty administration refers to how authority is shared between the federal and state governments in Nigeria. The Federal Government, through the Federal Inland Revenue Service (FIRS), is responsible for collecting stamp duties on transactions involving corporate bodies and inter-state dealings. On the other hand, State Governments, through their Internal Revenue Services, administer stamp duties on transactions involving individuals within their respective states. This division ensures that both levels of government benefit from revenue generated through stamp duties.

Fill in the blank: The Federal Government collects stamp duties on transactions involving _____ bodies and inter-state dealings.



Figure 3.2: *Constitutional distribution of jurisdiction in stamp duty administration*



STAMP DUTY JURISDISTION IN NIGERIA

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3.2.2 Legal framework for administration

The administration of stamp duties is guided by the **Stamp Duties Act**, which provides the legal basis for imposing and collecting these charges. The Act specifies the types of documents liable to stamp duties, the rates applicable, and the authorities responsible for collection. It also outlines the constitutional roles of federal and state governments, ensuring clarity in jurisdiction. This legal framework helps prevent disputes and provides taxpayers with a clear understanding of their obligations.



Fill in the blank: The administration of stamp duties in Nigeria is guided by the _____ Duties Act.

Box 3.2: Key provisions of the Stamp Duties Act

Authority	Jurisdiction
Federal Inland Revenue Service (FIRS)	Instruments executed between Companies and any other person (individual or corporate).
State Internal Revenue Service (SIRS)	Instruments executed between Individuals or unincorporated entities.

Pilot questions 3.2

1. Who collects stamp duties on transactions involving corporate bodies?
2. Which authority administers stamp duties on transactions involving individuals?
3. What law provides the legal basis for stamp duty administration in Nigeria?
4. Why is constitutional distribution of jurisdiction important in stamp duty administration?
5. Name one key provision of the Stamp Duties Act.

3.3 Administration, Assessment, And Collection Procedures

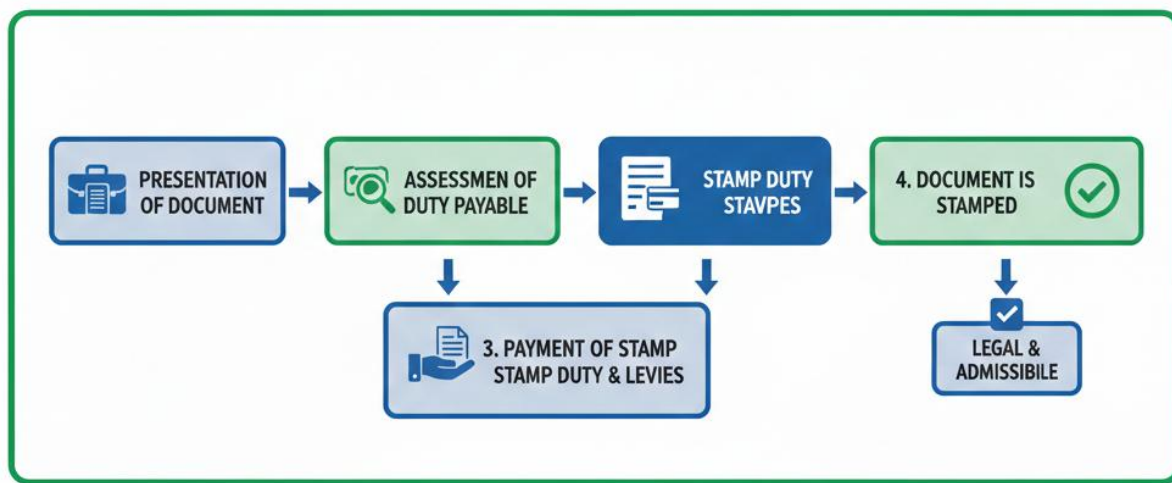
3.3.1 Methods of assessment and collection

The **administration of stamp duties** involves determining the amount payable on documents and ensuring that payment is made to the appropriate authority. **Assessment** refers to the process of calculating the duty based on the type and value of the document. For example, a property transfer deed may attract a higher duty than a tenancy agreement. Once assessed, the duty is collected either through physical stamping of the document or electronically via designated platforms. This ensures that the document is legally valid and enforceable.

Fill in the blank: Assessment of stamp duties is based on the type and _____ of the document.



Figure 3.3: *Assessment and collection process of stamp duties*



STAMP DUTY ASSESSMENT & COLLECTION IN NIGERIA

OPEN EDUCATIONAL RESOURCE (OER)

3.3.2 Objections and appeal procedures

Taxpayers who disagree with the assessment of stamp duties have the right to raise an **objection**. This involves submitting a formal complaint to the relevant tax authority, stating why the duty assessed is considered excessive or incorrect. If the objection is not resolved, the taxpayer may proceed to an **appeal**, which is handled by a tax tribunal or court. These procedures ensure fairness and transparency in the administration of stamp duties, allowing taxpayers to seek redress when necessary.



Fill in the blank: Taxpayers who disagree with stamp duty assessment may submit an _____ to the relevant authority.

Box 3.3: Steps in objection and appeal procedures

Level	Body	Description
First Tier	Tax Appeal Tribunal (TAT)	A specialized quasi-judicial body. Appeals must typically be filed within 30 days of the NORA.
Second Tier	Federal High Court	If either party is dissatisfied with the TAT's decision, they can appeal here on points of law.
Third Tier	Court of Appeal	Further appeal from the Federal High Court.
Final Tier	Supreme Court	The final authority on tax disputes in Nigeria.

Pilot questions 3.3

1. What does assessment of stamp duties involve?
2. How are stamp duties collected?
3. What can taxpayers do if they disagree with an assessment?
4. Who handles appeals in stamp duty administration?
5. Why are objection and appeal procedures important?

3.4 Offences, Penalties, And Compliance Issues

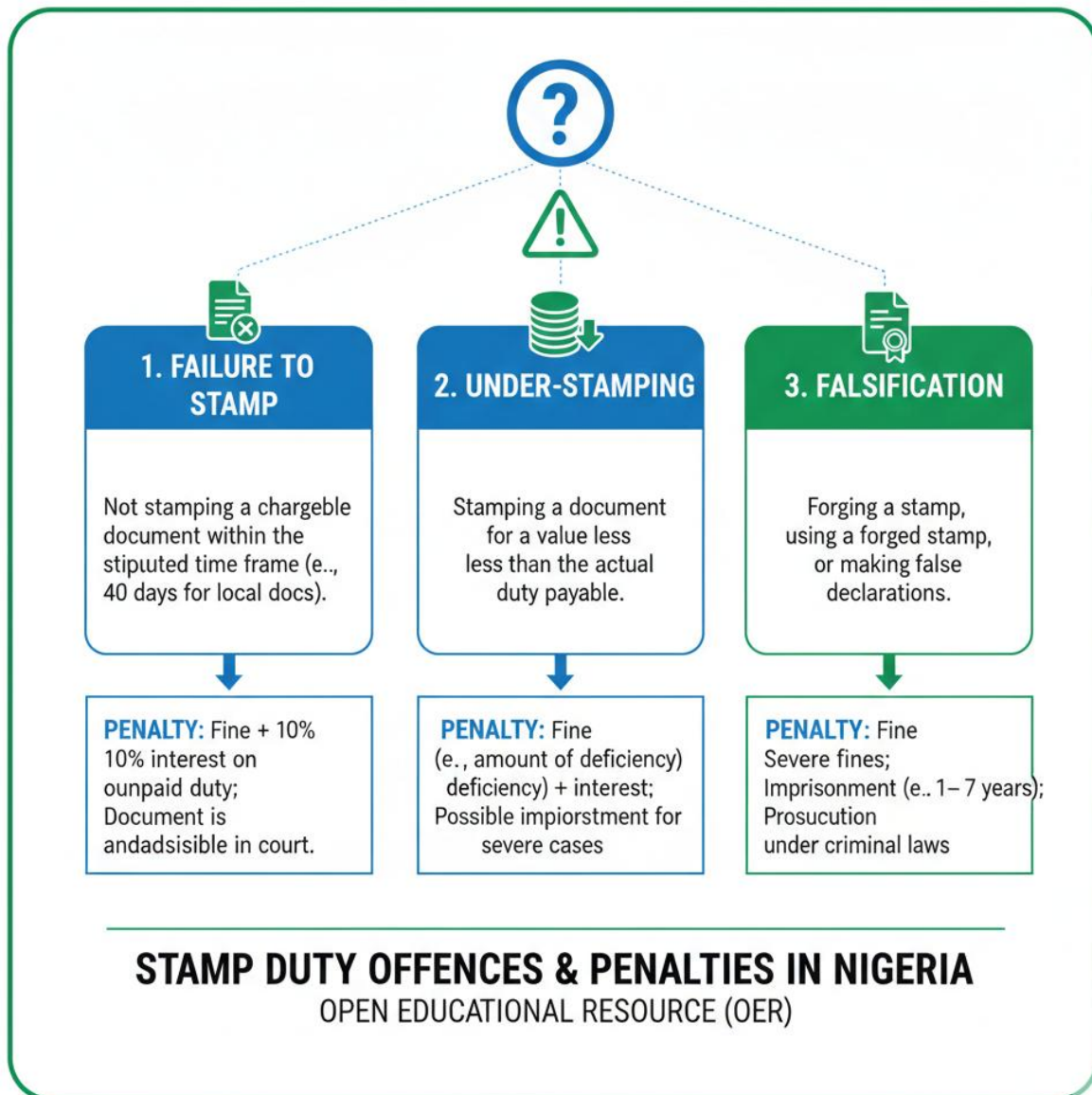
3.4.1 Common offences under stamp duty law

Stamp duty law identifies several offences that taxpayers may commit, either intentionally or unintentionally. Common offences include failure to stamp liable documents, under-stamping (paying less duty than required), and falsifying documents to avoid duty. These offences undermine the integrity of the tax system and may render documents legally invalid. For example, a tenancy agreement that is not stamped may not be admissible in court during disputes.



Fill in the blank: Failure to stamp liable documents is considered an _____ under stamp duty law.

Figure 3.4: *Common offences in stamp duty administration*



3.4.2 Penalties and enforcement measures

Penalties are imposed to discourage offences and ensure compliance. These may include fines, interest charges, or legal sanctions. For instance, a document that is not stamped within the required period may attract a penalty fee in addition to the original duty. Enforcement measures are carried out by tax authorities, who have the power to demand payment, impose penalties, and prosecute offenders. These measures ensure that taxpayers take stamp duty obligations seriously.



Fill in the blank: Documents not stamped within the required period may attract a penalty fee in addition to the original _____.

Table 3.4: Examples of penalties for stamp duty offences

Offence	Statutory Penalty (SDA)	Modern Practice / FIRSEA
Late Stamping (Exceeding 30/40 days)	₦20 flat fee + 10% interest per annum on the unpaid duty.	10% penalty on the duty amount + interest at the prevailing CBN MRR + 5% .
Under-stamping (Insufficient duty paid)	Payment of the deficiency + ₦20 penalty + 10% interest.	Treated as a tax default: 10% penalty and interest on the shortfall.
Falsification / Forgery (Stamps or Documents)	Fines ranging from ₦100 to ₦200 or criminal prosecution.	100% penalty of the tax liability + possible imprisonment under the Criminal Code.
Failure to Remit (By banks/collectors)	Variable fines per instrument (often ₦20–₦100).	10% penalty + interest + potential prosecution of principal officers.

3.4.3 Compliance challenges and solutions

Compliance with stamp duty law can be challenging for individuals and businesses. Common challenges include lack of awareness of liable transactions, poor record-keeping, and delays in stamping documents. To address these issues, tax authorities provide guidelines, awareness campaigns, and electronic platforms for easier payment. Businesses can also adopt strategies such as training staff, maintaining accurate records, and consulting professionals to ensure compliance. These solutions help reduce offences and promote transparency in stamp duty administration.

Fill in the blank: Compliance challenges often arise due to lack of _____ of liable transactions.

Box 3.4: Strategies for improving compliance with stamp duty law



Category	Details	
Principal Law	Stamp Duties Act (Cap S8, LFN 2004) as amended by Finance Acts (2019–2025).	
Regulatory Body	Federal Inland Revenue Service (FIRS) for Companies; State Internal Revenue Service (SIRS) for Individuals.	
Chargeable Basis	Instruments (written or electronic documents), not transactions themselves.	
Key Deadline	30 Days (Ad Valorem) or 40 Days (Fixed Rate) from execution.	
Item	Rate / Penalty	Applicability
Electronic Money Transfer Levy (EMTL)	₦50	On electronic transfers of ₦10,000 or more.
Deed of Assignment	1.5%	Based on the consideration/value of the property.
Tenancy/Lease Agreements	0.78% – 6%	Scaled based on the duration of the lease term.
Contract Agreements	1%	Ad Valorem rate on the total contract sum.
Late Stamping Penalty	10% + Interest	Applies to the unpaid duty amount after the grace period.
Unstamped Documents	Inadmissible	Cannot be used as evidence in civil court proceedings.

Pilot questions 3.4

1. Name one common offence under stamp duty law.
2. What penalties may be imposed for late stamping of documents?
3. Who enforces stamp duty penalties?
4. Mention two compliance challenges faced by taxpayers.
5. Suggest one solution to improve compliance with stamp duty law.

Series Summary



This Series has examined stamp duties, which are charges imposed on certain legal and commercial documents to ensure validity and generate government revenue. We began by exploring the concept and scope of stamp duties, identifying the types of transactions that attract them. We then considered the constitutional distribution of jurisdiction, highlighting the roles of both federal and state governments and the legal framework provided by the Stamp Duties Act. Following that, we studied the administration, assessment, and collection procedures, including how objections and appeals are handled. Finally, we analysed offences, penalties, and compliance issues, focusing on common challenges and strategies for maintaining compliance.

By completing this Series, you should now be able to define and explain stamp duties (SLO 3.1), identify liable transactions (SLO 3.2), analyse jurisdictional distribution (SLO 3.3), describe administration and collection procedures (SLO 3.4), explain objection and appeal processes (SLO 3.5), and evaluate offences, penalties, and compliance issues (SLO 3.6).

Glossary of Terms

- **Assessment:** The process of calculating the amount of stamp duty payable on a document.
- **Compliance:** Adhering to laws and regulations governing stamp duties, including timely payment and documentation.
- **Jurisdiction:** The authority of federal or state governments to administer and collect stamp duties.
- **Objection:** A formal complaint raised by a taxpayer against an assessed stamp duty.
- **Penalty:** A fine or sanction imposed for failing to comply with stamp duty requirements.
- **Stamp Duties Act:** The law that provides the legal framework for imposing and collecting stamp duties in Nigeria.
- **Stamp duty:** A charge imposed on certain legal, commercial, and financial documents to make them valid and enforceable.

Concept Check Questions 3

Objective Questions

1. (Linked to SLO 3.1) Stamp duties are charges imposed on:
 1. Goods
 2. Services
 3. Documents
 4. Imports
2. (Linked to SLO 3.3) Who collects stamp duties on transactions involving corporate bodies?
 1. State governments
 2. Local governments
 3. Federal Government
 4. Individuals



Short-Answer Questions

3. (Linked to SLO 3.2) Give two examples of transactions that attract stamp duties.
4. (Linked to SLO 3.4) What does assessment of stamp duties involve?
5. (Linked to SLO 3.5) What can taxpayers do if they disagree with a stamp duty assessment?
6. (Linked to SLO 3.6) Mention one common offence under stamp duty law.

Long-Answer Questions

7. (Linked to SLO 3.4) Describe the procedures for administration, assessment, and collection of stamp duties.
8. (Linked to SLO 3.6) Evaluate compliance challenges in stamp duty administration and suggest strategies for improvement.

Answers to Concept Check Questions 3

Objective Questions

1. Documents
1. Federal Government

Short-Answer Questions

3. Property transfers and tenancy agreements.
4. Calculating the duty payable based on the type and value of the document.
5. Submit an objection to the relevant authority and, if unresolved, proceed to appeal.
6. Failure to stamp liable documents.

Long-Answer Questions

7. **Basic response:** Administration involves assessing documents, collecting duties, and stamping them to make them valid.

Value-added response: Duties are assessed based on type and value, collected physically or electronically, and taxpayers may object or appeal if they disagree. This ensures fairness and transparency.

1. **Basic response:** Challenges include lack of awareness and poor record-keeping. Solutions include awareness campaigns and better documentation.

Value-added response: Compliance can be improved through electronic platforms, staff training, professional consultation, and stricter enforcement by authorities. These measures reduce offences and promote transparency.

Answers to Pilot Questions 3

• Part 3.1

1. Stamp duties are charges imposed on documents.
2. They make documents legally valid and enforceable.
3. Property transfers and tenancy agreements.



4. Government benefits from the revenue.
 5. They may not be admissible in court.
- **Part 3.2**
 1. The Federal Government.
 2. State Internal Revenue Services.
 3. The Stamp Duties Act.
 4. It ensures clarity and fairness in administration.
 5. Liable documents, rates, and authorities.
 - **Part 3.3**
 1. Calculating duty based on type and value of documents.
 2. Through physical stamping or electronic platforms.
 3. Submit an objection.
 4. Tax tribunals or courts.
 5. They ensure fairness and transparency.
 - **Part 3.4**
 1. Failure to stamp liable documents.
 2. Fines and penalty fees.
 3. Tax authorities.
 4. Lack of awareness and poor record-keeping.
 5. Awareness campaigns and electronic platforms.

References and Attributions 3

- Federal Inland Revenue Service (FIRS). *Guidelines on Stamp Duties in Nigeria*.
- Stamp Duties Act, Cap S8, Laws of the Federation of Nigeria.
- Constitution of the Federal Republic of Nigeria (1999, as amended).

Illustrations (AI-generated or OER suggested)

- *Figure 3.1*: Role of stamp duties in legal and commercial transactions. Prompt: “Generate a diagram showing stamp duties applied to contracts, agreements, and property transfers.”
- *Table 3.1*: Examples of transactions liable to stamp duties. Prompt: “Create a table showing transactions liable to stamp duties.”
- *Figure 3.2*: Constitutional distribution of jurisdiction in stamp duty administration. Prompt: “Generate a diagram showing federal government collecting stamp duties from companies, state governments from individuals.”
- *Box 3.2*: Key provisions of the Stamp Duties Act. Prompt: “Generate a box summarising key provisions of the Stamp Duties Act.”
- *Figure 3.3*: Assessment and collection process of stamp duties. Prompt: “Generate a diagram showing assessment and collection of stamp duties.”



- *Box 3.3:* Steps in objection and appeal procedures. Prompt: “Generate a box summarising objection and appeal procedures.”
- *Figure 3.4:* Common offences in stamp duty administration. Prompt: “Generate a diagram showing offences: failure to stamp, under-stamping, falsifying documents.”
- *Table 3.4:* Examples of penalties for stamp duty offences. Prompt: “Create a table showing penalties for stamp duty offences.”
- *Box 3.4:* Strategies for improving compliance with stamp duty law. Prompt: “Generate a box summarising compliance strategies.”

TAX223 Series 4 Customs And Excise Duties Procedures

- **Part 4.1: Concept And Scope Of Customs And Excise Duties**
 - Definition and purpose of customs duties
 - Definition and purpose of excise duties
 - Transactions liable to customs and excise duties
- **Part 4.2: Legal And Institutional Framework**
 - Laws governing customs and excise duties in Nigeria
 - Roles of the Nigeria Customs Service and other agencies
- **Part 4.3: Procedures For Assessment And Collection**
 - Customs duty assessment and collection process
 - Excise duty assessment and collection process
 - Documentation and compliance requirements
- **Part 4.4: Offences, Penalties, And Compliance Challenges**
 - Common offences under customs and excise laws
 - Penalties and enforcement measures
 - Compliance challenges and solutions

Introduction

Customs and excise duties are among the oldest forms of taxation, designed to regulate trade and generate revenue for government. Customs duties are imposed on goods imported into or exported out of a country, while excise duties are levied on goods produced locally, often on items such as alcohol, tobacco, and petroleum products. These duties not only serve fiscal purposes but also help protect local industries and regulate consumption of certain goods.

The aim of this Series is to provide you with a clear understanding of customs and excise duties, their legal framework, assessment procedures, and compliance requirements.

We shall commence this Series by exploring the concept and scope of customs and excise duties, focusing on their definitions and the types of transactions that attract them. Next, we will examine the legal and institutional framework, highlighting the laws and agencies responsible for



administration. Following that, we will study the procedures for assessment and collection, including documentation and compliance requirements. Finally, we will conclude by analysing offences, penalties, and compliance challenges, showing how businesses and individuals can avoid sanctions and maintain proper compliance.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 4.1** define customs duties and explain their purpose,
- **SLO 4.2** define excise duties and explain their purpose,
- **SLO 4.3** identify transactions liable to customs and excise duties,
- **SLO 4.4** analyse the legal and institutional framework for customs and excise duties in Nigeria,
- **SLO 4.5** describe the procedures for assessment and collection of customs duties,
- **SLO 4.6** describe the procedures for assessment and collection of excise duties,
- **SLO 4.7** evaluate offences, penalties, and compliance challenges under customs and excise laws.

4.1 Concept And Scope Of Customs And Excise Duties

4.1.1 Definition and purpose of customs duties

Customs duties are taxes imposed on goods imported into or exported out of a country. They serve both fiscal and regulatory purposes. From a fiscal perspective, customs duties generate revenue for government. From a regulatory perspective, they help protect local industries by making imported goods more expensive, thereby encouraging consumption of locally produced alternatives. Customs duties also play a role in controlling the flow of restricted or prohibited goods across borders.

Fill in the blank: Customs duties are taxes imposed on goods _____ into or exported out of a country.



Figure 4.1: *Flow of customs duties in international trade*



4.1.2 Definition and purpose of excise duties

Excise duties are taxes levied on goods produced locally, often on items considered luxury or harmful, such as alcohol, tobacco, and petroleum products. The purpose of excise duties is to raise revenue and regulate consumption. By imposing higher duties on certain goods, government discourages excessive use while generating funds for public expenditure. Excise duties also help ensure that producers contribute fairly to national revenue.

Fill in the blank: Excise duties are taxes levied on goods _____ within a country, often on luxury or harmful items.



Table 4.1: Examples of goods liable to excise duties

Category	Specific Goods	Current Rate / Basis
Alcoholic Beverages	Beer, Stout, Wines, and Spirits.	₦50 – ₦75 per litre (Specific) + 20% (Ad Valorem for Wines/Spirits).
Tobacco Products	Cigarettes, Cigars, and Homogenized Tobacco.	₦5.2 per stick (₦104 per pack) + 30% Ad Valorem.
Sweetened Beverages	Carbonated drinks, fruit juices, and energy drinks.	₦10 per litre.
Petroleum Products	Petrol (PMS) and Diesel (AGO).	5% Surcharge (Fossil Fuel Levy) or 15% Import Tax to protect local refining.
Telecom Services	Voice calls, SMS, and Data services.	5% on the total service value.
Environmentally Harmful	Single-use plastics and non-biodegradable items.	Variable rates based on weight or volume.

4.1.3 Transactions liable to customs and excise duties

Transactions that attract customs duties include the importation of vehicles, electronics, textiles, and other consumer goods. Export duties may also apply to certain raw materials. Excise duties, on the other hand, apply to locally manufactured goods such as beer, cigarettes, and refined petroleum. These duties are assessed based on the value, quantity, or specific rates prescribed by law. Proper documentation is required to ensure compliance and avoid penalties.

Fill in the blank: Transactions that attract excise duties include the local manufacture of _____, cigarettes, and petroleum products.

Box 4.1: Transactions liable to customs and excise duties



Transaction Type	Description	Key Requirements
Imports	Goods brought into Nigeria from other countries.	Duty is calculated on the CIF (Cost, Insurance, and Freight) value.
Exports	Goods sent from Nigeria to foreign markets.	Most exports are Duty-Free to encourage trade, but administrative fees apply.
Transit Goods	Goods passing through Nigeria to landlocked neighbors (e.g., Chad, Niger).	Subject to technological tracking to prevent "leakage" into the local market.

Pilot questions 4.1

1. What are customs duties?
2. What are excise duties?
3. Give two examples of goods liable to excise duties.
4. Why are customs duties important for local industries?
5. Mention one transaction that attracts customs duties.

4.2 Legal And Institutional Framework

4.2.1 Laws governing customs and excise duties in Nigeria

The administration of **customs and excise duties** in Nigeria is guided by several laws and regulations. The most important is the **Customs and Excise Management Act (CEMA)**, which provides the legal foundation for imposing, assessing, and collecting these duties. This Act outlines the procedures for importation, exportation, and local production of goods, as well as the penalties for non-compliance. Other relevant laws include the Finance Acts, which periodically update duty rates and procedures to reflect current economic realities. These laws ensure that customs and excise duties are applied fairly and consistently across all transactions.

Fill in the blank: The Customs and Excise Management Act provides the legal foundation for imposing and _____ customs and excise duties.

Box 4.2: Key provisions of the Customs and Excise Management Act



Offence	Penalty Under NCSA 2023
Smuggling	Forfeiture of goods/vehicles + Imprisonment (up to 5 years).
False Declaration	Heavy fines (often multiples of the duty evaded) + Seizure.
Duty Evasion	Recovery of the full duty + Penalty + Interest.
Obstruction of Officers	Fines and potential imprisonment for interfering with duty.

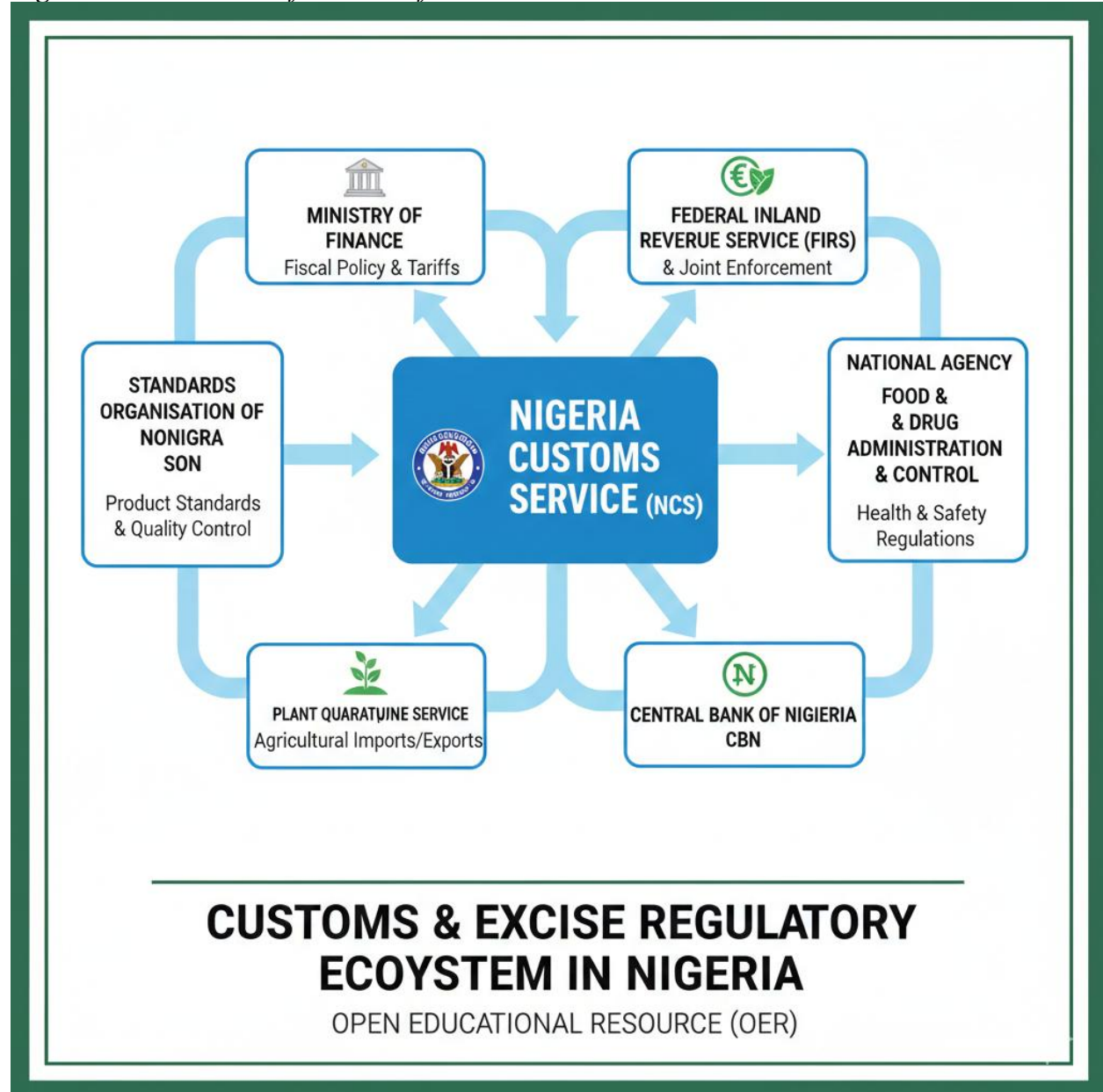
4.2.2 Roles of the Nigeria Customs Service and other agencies

The **Nigeria Customs Service (NCS)** is the primary agency responsible for administering customs and excise duties. Its functions include assessing duties, collecting payments, preventing smuggling, and enforcing compliance with trade regulations. The NCS also plays a role in facilitating international trade by ensuring that goods entering or leaving Nigeria meet legal requirements. Other agencies, such as the Ministry of Finance and the Standards Organisation of Nigeria, collaborate with the NCS to regulate duty rates, maintain quality standards, and ensure proper documentation. Together, these institutions form the backbone of customs and excise administration in Nigeria.

Fill in the blank: The Nigeria Customs Service is the primary agency responsible for administering _____ and excise duties.



Figure 4.2: *Institutional framework for customs and excise duties administration*



Pilot questions 4.2

1. What law provides the legal foundation for customs and excise duties in Nigeria?
2. Name one other law that updates duty rates and procedures.
3. What is the primary agency responsible for administering customs and excise duties?
4. Mention two functions of the Nigeria Customs Service.
5. Which other agencies collaborate with the Nigeria Customs Service in customs and excise administration?



4.3 Procedures For Assessment And Collection

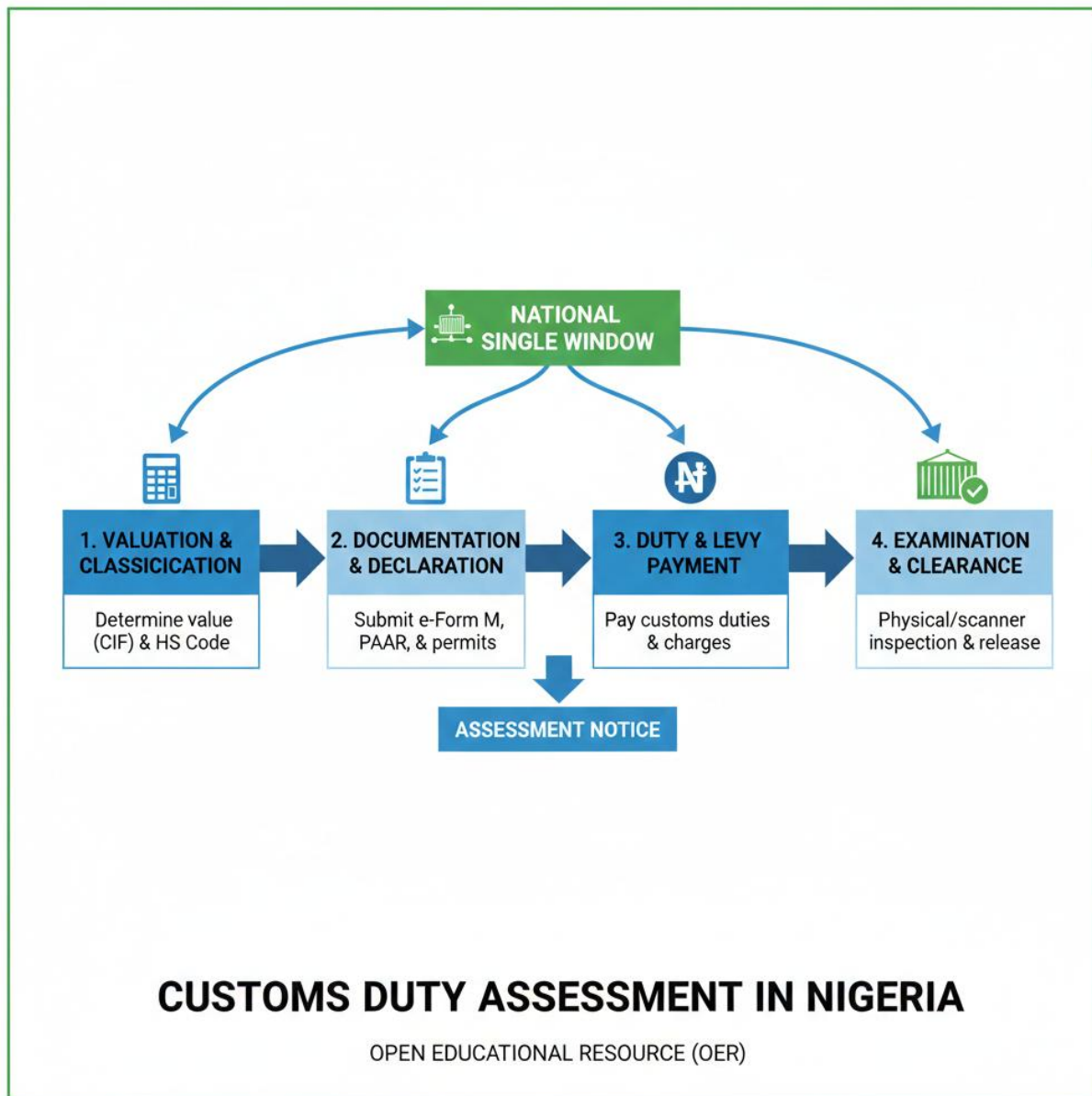
4.3.1 Customs duty assessment and collection process

Customs duty assessment refers to the calculation of the amount payable on imported or exported goods. This is usually based on the **Customs Valuation System**, which considers the transaction value, freight, insurance, and other charges. Once assessed, the duty is collected at designated ports or border posts by the Nigeria Customs Service (NCS). Payment may be made electronically through approved platforms or physically at customs offices. Proper documentation, such as invoices, bills of lading, and import permits, is required to complete the process.

Fill in the blank: Customs duty assessment is based on the transaction value, freight, insurance, and other _____.



Figure 4.3: Customs duty assessment and collection flow



4.3.2 Excise duty assessment and collection process

Excise duty assessment applies to locally manufactured goods such as alcohol, tobacco, and petroleum products. The duty is calculated based on either the quantity produced or the value of the goods, depending on the prescribed rate. Manufacturers are required to register with the Nigeria Customs Service and submit periodic returns showing production volumes. Duties are then collected either monthly or quarterly, depending on the regulations. This ensures that excise duties contribute consistently to government revenue.



Fill in the blank: Excise duty is calculated based on either the _____ produced or the value of the goods.

Table 4.3: Examples of excise duty assessment methods

Assessment Method	Description	Key Examples (Current Rates)
Quantity-Based (Specific Duty)	A fixed monetary amount charged per unit of volume, weight, or quantity. This remains stable regardless of the product's price.	* Beer & Stout: ₦75 per litre. * Tobacco: ₦8.20 per stick (₦164 per pack). * Sugar Drinks: ₦10 per litre.
Value-Based (Ad Valorem Duty)	A percentage tax based on the value of the goods (usually the Ex-Factory price or Retail Price).	* Wines & Spirits: 20% of value. * Telecom Services: 5% of service value. * Tobacco: 30% additional ad valorem.



Assessment Method	Description	Key Examples (Current Rates)
Hybrid / Mixed	A combination of both Specific and Ad Valorem rates on the same product to capture maximum revenue.	* Cigarettes: Attract both a fixed rate per stick AND a percentage of the retail price to combat inflation.

4.3.3 Documentation and compliance requirements

Documentation is critical in customs and excise administration. For customs duties, importers must provide invoices, bills of lading, packing lists, and permits. For excise duties, manufacturers must maintain production records, submit returns, and keep receipts of duty payments. Compliance ensures transparency and prevents disputes with tax authorities. Non-compliance, such as falsifying documents or failing to submit returns, attracts penalties and may lead to prosecution.

Fill in the blank: Importers must provide invoices, bills of lading, packing lists, and _____ to complete customs duty documentation.

Box 4.3: Key documentation required for customs and excise compliance

Document Type	Key Examples	Purpose in 2026
Financial/Permit	e-Form M (Imports) / Form NXP (Exports)	Mandatory digital "permission slip" via the Central Bank (CBN) to track foreign exchange and trade volume.
Shipping	Bill of Lading (Sea) / Air Waybill (Air)	Contract of carriage; proves ownership and arrival of goods at the port.
Valuation	Commercial Invoice & Packing List	Establishes the final price and physical breakdown for duty assessment.
Assessment	PAAR (Pre-Arrival Assessment Report)	Issued by Customs to confirm the HS Code classification and duty amount before the ship docks.



Document Type	Key Examples	Purpose in 2026
Regulatory	SONCAP (Standards) / NAFDAC (Food/Drugs)	Certificates of conformity ensuring goods meet Nigerian health and safety standards.

Pilot questions 4.3

1. What does customs duty assessment involve?
2. How are excise duties calculated?
3. Mention two documents required for customs duty compliance.
4. How often are excise duties collected from manufacturers?
5. Why is documentation important in customs and excise administration?

4.4 Offences, Penalties, And Compliance Challenges

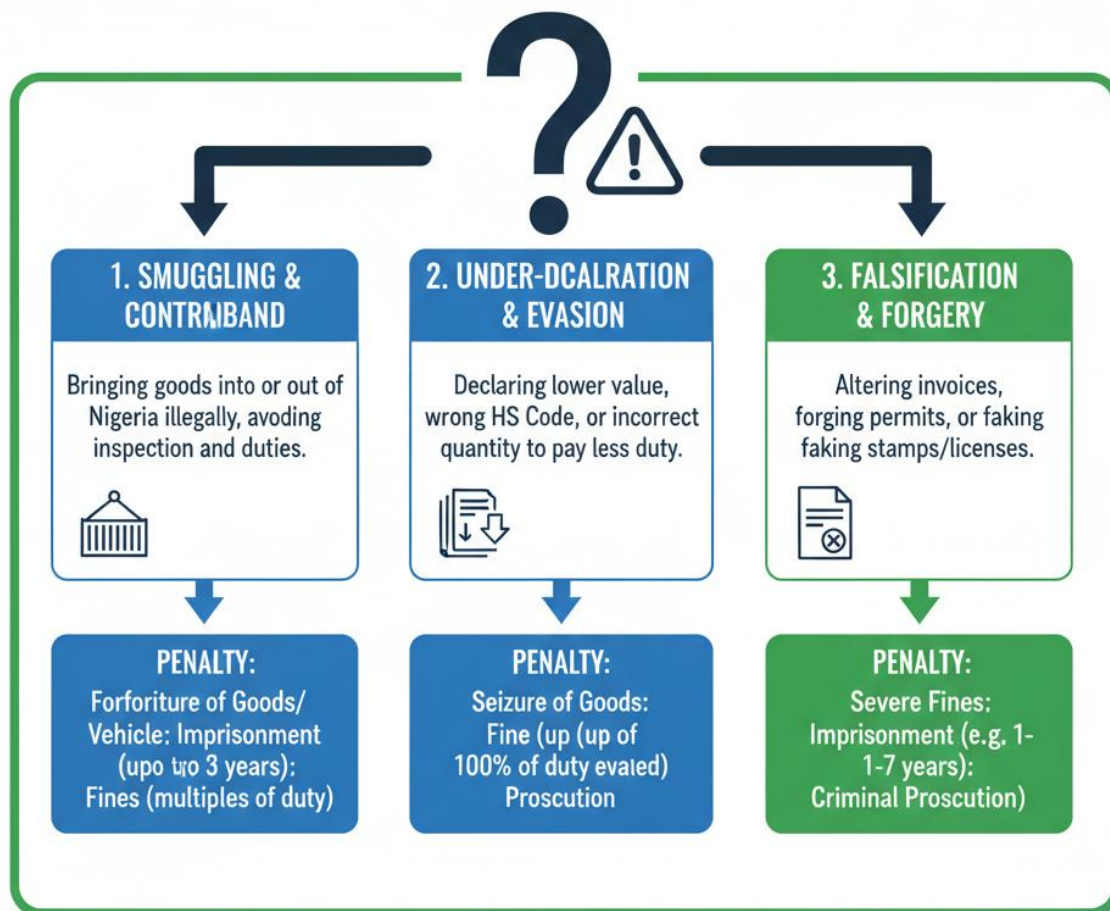
4.4.1 Common offences under customs and excise laws

Offences under **customs and excise laws** include smuggling, under-declaration of goods, falsification of documents, and failure to pay duties. Smuggling involves importing or exporting goods without declaring them to customs authorities. Under-declaration occurs when importers deliberately state lower values or quantities to reduce duty liability. Falsification of documents, such as invoices or permits, is another serious offence. These actions undermine government revenue and compromise trade regulation.

Fill in the blank: Smuggling involves importing or exporting goods without _____ them to customs authorities.



Figure 4.4: *Common offences in customs and excise administration*



CUSTOMS & EXCISE OFFENCES IN NIGERIA

OPEN EDUCATIONAL RESOURCE (OER)

4.4.2 Penalties and enforcement measures

Penalties are imposed to deter offences and ensure compliance. These may include fines, seizure of goods, revocation of licences, or imprisonment. For example, goods smuggled into the country may be confiscated, and offenders prosecuted. Enforcement measures are carried out by the Nigeria Customs Service, which has the authority to inspect goods, demand payment, and prosecute offenders. These measures ensure that customs and excise duties remain effective tools for revenue generation and trade regulation.

Fill in the blank: Goods smuggled into the country may be _____ and offenders prosecuted.



Table 4.4: Examples of penalties for customs and excise offences

Offence Category	Description	Description	Additional Actions
	Nigeria Customs Act NCCA 2023	Penalty for smuggling (vehicle)	Nigeria Customs Act
Smuggling Contraband	Illegally Forfeiture vehicle	Penalty & value goods	Importation of
Smuggling & Contraband	Undersuath & (ratay (HS Code 0 51)	Seizure Forfeiture / goods	Importation value & SON
Under-declaration / Evasion	Importation is up at HS Codes N7 years)	3x duty value	Importation
Seizure & Value Return	Forfeiture value (HS Code)	100% Forfeiture of	Importation of interest
Seizure Declaration Evasion	Undersuath & Forfeiture (on the declared value)	100% Penalty of	Importation of interest
Document Falsification Offences	Withholding of interest	10% Penalty duty evaded duty + interest	Importation Customs Service
License Fines	Value & Forfeiture (NCCA)	N\$ 5,0000 Fine	Fines
Settlement Unlawful Excise	Seizure & Forfeiture NCCA 2026	10% Penalty + interest	Importation of
Failure of Goods Offences	Document Falsification (feats)	10% Penalty, interest	Importation of duty
Importation of Excise Offences	Seizure & Forfeiture and interest, duty of interest)	27-03,0000,000	27-08,0000
Failure of for Remit Excise	Importation - Illegally compete duty)	N\$ 20,000,000	Importation of duty
Failure of Remit of Offences	Offsits & Penalties (years)	N\$ 7,00,00,000	Penalty & interest Pays

4.4.3 Compliance challenges and solutions

Compliance challenges often arise due to lack of awareness, corruption, and inadequate documentation. Many importers and manufacturers may not fully understand the requirements for customs and excise duties, leading to unintentional non-compliance. Corruption can also hinder enforcement, as some individuals attempt to evade duties through bribery. Solutions include awareness campaigns, stricter enforcement, and the use of electronic platforms to reduce human interference. Businesses can also adopt internal compliance strategies such as staff training and accurate record-keeping.



Fill in the blank: Compliance challenges often arise due to lack of _____ and inadequate documentation.

Box 4.4: Strategies for improving compliance with customs and excise laws

Category	Customs Duties (International Trade)	Excise Duties (Local Production)
Primary Law	Nigeria Customs Service Act (NCSA) 2023	Nigeria Tax Act 2025
Administering Body	Nigeria Customs Service (NCS)	NCS (Collection) & NRS (Audit/Policy)
Tax Base	CIF Value (Cost, Insurance, Freight)	Ex-Factory Price or Specific Quantity
Key Platforms	National Single Window / TradePro	B'Odogwu / NRS E-Invoicing
Payment Deadline	Before release of goods from the port.	21st day of the following month.

Pilot questions 4.4

1. Name one common offence under customs and excise laws.
2. What penalties may be imposed for smuggling goods?
3. Who enforces customs and excise penalties?
4. Mention two compliance challenges faced by taxpayers.
5. Suggest one solution to improve compliance with customs and excise laws.

Series Summary

This Series has explored customs and excise duties, which are vital tools for regulating trade, protecting local industries, and generating government revenue. We began by examining the concept and scope of customs and excise duties, defining each and identifying the transactions that attract them. We then moved on to the legal and institutional framework, highlighting the Customs and Excise Management Act and the roles of the Nigeria Customs Service and other agencies. Following that, we studied the procedures for assessment and collection, focusing on



valuation methods, documentation, and compliance requirements. Finally, we analysed offences, penalties, and compliance challenges, considering common offences, enforcement measures, and strategies for improving compliance.

By completing this Series, you should now be able to define customs and excise duties (SLO 4.1, SLO 4.2), identify liable transactions (SLO 4.3), analyse the legal and institutional framework (SLO 4.4), describe assessment and collection procedures (SLO 4.5, SLO 4.6), and evaluate offences, penalties, and compliance challenges (SLO 4.7).

Glossary of Terms

- **Assessment:** The process of calculating the amount of duty payable on goods.
- **Compliance:** Adhering to customs and excise laws, including proper documentation and timely payment.
- **Customs duties:** Taxes imposed on goods imported into or exported out of a country.
- **Customs and Excise Management Act (CEMA):** The law that provides the legal framework for customs and excise duties in Nigeria.
- **Excise duties:** Taxes levied on goods produced locally, often on luxury or harmful items.
- **Nigeria Customs Service (NCS):** The primary agency responsible for administering customs and excise duties.
- **Smuggling:** Importing or exporting goods without declaring them to customs authorities.

Concept Check Questions 4

Objective Questions

1. (Linked to SLO 4.1) Customs duties are imposed on:
 1. Goods produced locally
 2. Goods imported or exported
 3. Services rendered
 4. Profits earned
2. (Linked to SLO 4.2) Excise duties are levied on:
 1. Imported goods
 2. Exported goods
 3. Locally manufactured goods
 4. Foreign services

Short-Answer Questions

3. (Linked to SLO 4.3) Give two examples of transactions liable to customs duties.
4. (Linked to SLO 4.4) What law provides the legal foundation for customs and excise duties in Nigeria?
5. (Linked to SLO 4.5) What does customs duty assessment involve?
6. (Linked to SLO 4.6) How are excise duties calculated?
7. (Linked to SLO 4.7) Mention one common offence under customs and excise laws.



Long-Answer Questions

8. (Linked to SLO 4.5 & SLO 4.6) Describe the procedures for assessment and collection of customs and excise duties.
9. (Linked to SLO 4.7) Evaluate compliance challenges in customs and excise administration and suggest strategies for improvement.

Answers to Concept Check Questions 4

Objective Questions

1. Goods imported or exported
1. Locally manufactured goods

Short-Answer Questions

3. Importation of vehicles and exportation of raw materials.
4. The Customs and Excise Management Act (CEMA).
5. Calculating duty based on valuation, documentation, and prescribed rates.
6. Based on either the quantity produced or the value of goods.
7. Smuggling.

Long-Answer Questions

8. **Basic response:** Customs duties are assessed based on valuation and collected at ports, while excise duties are assessed on locally produced goods and collected periodically.

Value-added response: Customs duties involve documentation such as invoices and bills of lading, electronic or physical payment, and clearance. Excise duties require manufacturers to register, maintain production records, submit returns, and pay duties monthly or quarterly.

1. **Basic response:** Compliance challenges include lack of awareness and poor documentation. Solutions include awareness campaigns and stricter enforcement.
Value-added response: Additional strategies include electronic platforms to reduce corruption, staff training, professional consultation, and collaboration between agencies to ensure transparency and efficiency.

Answers to Pilot Questions 4

- **Part 4.1**

1. Customs duties are taxes on imports and exports.
2. Excise duties are taxes on locally produced goods.
3. Alcohol and tobacco.
4. They protect local industries by discouraging excessive imports.
5. Importation of vehicles.

- **Part 4.2**



1. The Customs and Excise Management Act.
2. The Finance Acts.
3. Nigeria Customs Service.
4. Assessing duties and preventing smuggling.
5. Ministry of Finance and Standards Organisation of Nigeria.

• Part 4.3

1. Calculating duty based on valuation and documentation.
2. Based on quantity or value of goods.
3. Invoices and bills of lading.
4. Monthly or quarterly.
5. It ensures transparency and prevents disputes.

• Part 4.4

1. Smuggling.
2. Seizure of goods and prosecution.
3. Nigeria Customs Service.
4. Lack of awareness and corruption.
5. Awareness campaigns and electronic platforms.

References and Attributions 4

- Federal Inland Revenue Service (FIRS). *Guidelines on Customs and Excise Duties in Nigeria*.
- Customs and Excise Management Act (CEMA), Cap C45, Laws of the Federation of Nigeria.
- Finance Acts (various years).
- Nigeria Customs Service official publications.

Illustrations (AI-generated or OER suggested)

- *Figure 4.1:* Flow of customs duties in international trade. Prompt: “Generate a diagram showing customs duties applied to imports and exports.”
- *Table 4.1:* Examples of goods liable to excise duties. Prompt: “Create a table showing goods liable to excise duties.”
- *Box 4.1:* Transactions liable to customs and excise duties. Prompt: “Generate a box summarising liable transactions.”
- *Box 4.2:* Key provisions of the Customs and Excise Management Act. Prompt: “Generate a box summarising provisions of CEMA.”
- *Figure 4.2:* Institutional framework for customs and excise duties administration. Prompt: “Generate a diagram showing NCS and collaborating agencies.”
- *Figure 4.3:* Customs duty assessment and collection flow. Prompt: “Generate a diagram showing customs duty assessment and collection.”



- *Table 4.3:* Examples of excise duty assessment methods. Prompt: “Create a table showing excise duty assessment methods.”
- *Box 4.3:* Key documentation required for customs and excise compliance. Prompt: “Generate a box summarising documentation requirements.”
- *Figure 4.4:* Common offences in customs and excise administration. Prompt: “Generate a diagram showing offences.”
- *Table 4.4:* Examples of penalties for customs and excise offences. Prompt: “Create a table showing penalties.”
- *Box 4.4:* Strategies for improving compliance with customs and excise laws. Prompt: “Generate a box summarising compliance strategies.”

TAX223 Series 5 Taxation Of Goods And Services In Nigeria

- **Part 5.1: Concept And Scope Of Goods And Services Taxation**
 - Definition and purpose of taxation on goods and services
 - Transactions liable to taxation
- **Part 5.2: Legal And Institutional Framework**
 - Laws governing taxation of goods and services in Nigeria
 - Roles of the Federal Inland Revenue Service (FIRS) and other agencies
- **Part 5.3: Procedures For Assessment And Collection**
 - Methods of assessment and collection
 - Documentation and compliance requirements
- **Part 5.4: Offences, Penalties, And Compliance Challenges**
 - Common offences under goods and services taxation
 - Penalties and enforcement measures
 - Compliance challenges and solutions

Introduction

Taxation of goods and services is a cornerstone of Nigeria’s fiscal system, ensuring that government generates revenue from everyday transactions while regulating economic activities. Taxes on goods and services, such as Value Added Tax (VAT) and excise duties, affect businesses and consumers alike, making them an essential area of study for anyone interested in taxation.

The aim of this Series is to equip you with the knowledge and skills to define, explain, and apply the principles of goods and services taxation, including its scope, legal framework, administration, and compliance requirements.

We shall commence this Series by exploring the concept and scope of goods and services taxation, focusing on its definition and the types of transactions that attract it. Next, we will



examine the legal and institutional framework, highlighting the laws and agencies responsible for administration. Following that, we will study the procedures for assessment and collection, including documentation and compliance requirements. Finally, we will conclude by analysing offences, penalties, and compliance challenges, showing how businesses and individuals can avoid sanctions and maintain proper compliance.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 5.1** define taxation of goods and services and explain its purpose,
- **SLO 5.2** identify transactions liable to taxation of goods and services,
- **SLO 5.3** analyse the legal and institutional framework for taxation of goods and services in Nigeria,
- **SLO 5.4** describe the procedures for assessment and collection of taxes on goods and services,
- **SLO 5.5** explain the documentation and compliance requirements in goods and services taxation, and
- **SLO 5.6** evaluate offences, penalties, and compliance challenges related to taxation of goods and services.

5.1 Concept And Scope Of Goods And Services Taxation

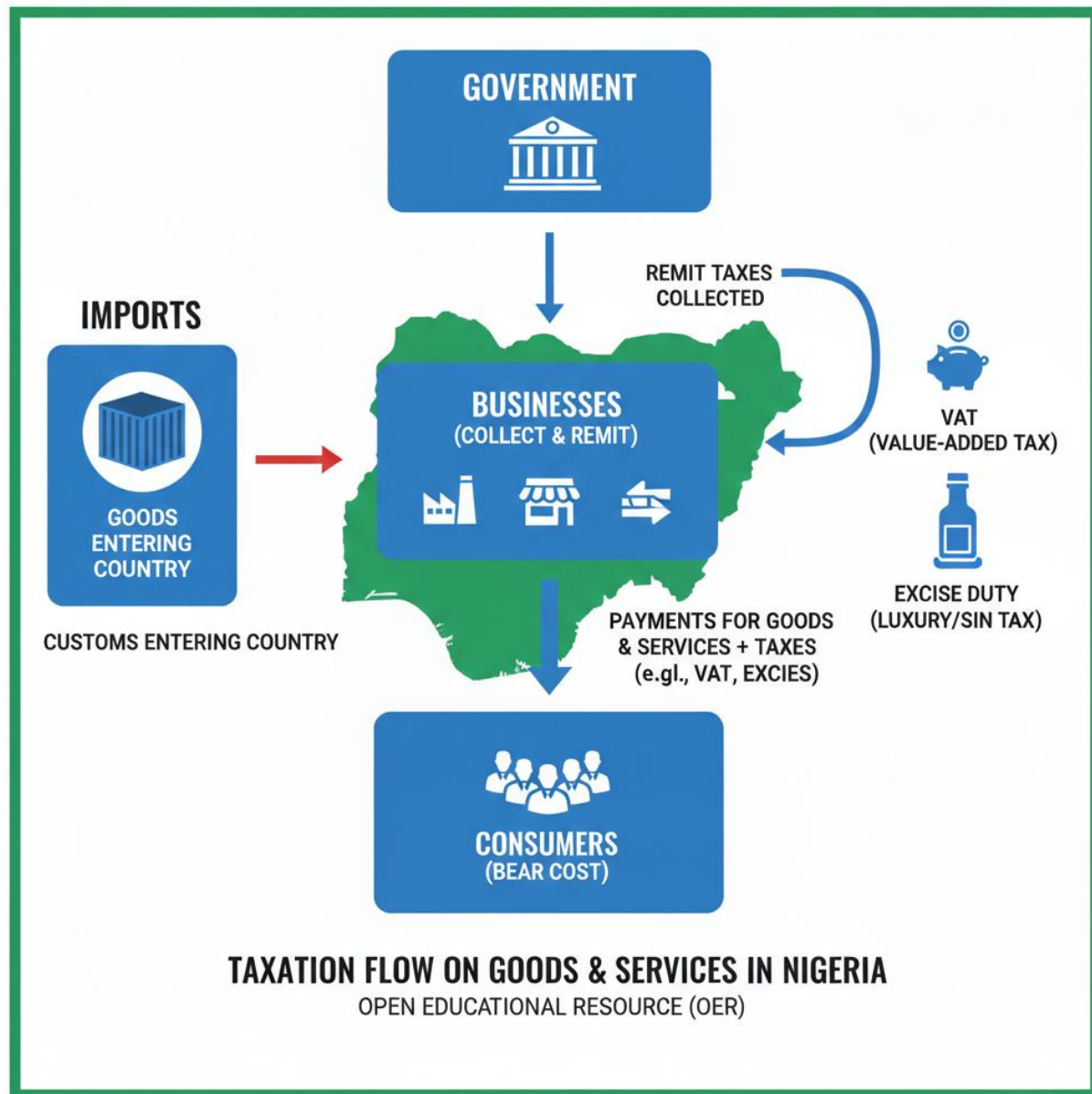
5.1.1 Definition and purpose of taxation on goods and services

Taxation of goods and services refers to the imposition of levies such as Value Added Tax (VAT) and excise duties on the sale, consumption, or production of goods and services. The purpose of this taxation is to generate revenue for government, regulate economic activities, and ensure fairness in the distribution of tax burdens. Taxes on goods and services are indirect, meaning they are collected from businesses but ultimately borne by consumers through higher prices.

Fill in the blank: Taxes on goods and services are _____ taxes, collected from businesses but borne by consumers.



Figure 5.1: *Flow of goods and services taxation*



5.1.2 Transactions liable to taxation

Transactions that attract taxation of goods and services include the sale of manufactured goods, provision of professional services, importation of consumer goods, and production of excisable items such as alcohol and tobacco. For instance, when a business sells electronics, VAT is charged on the transaction. Similarly, when a brewery produces beer, excise duty is levied on the quantity produced. These taxes ensure that government revenue is generated from both domestic and international economic activities.

Fill in the blank: When a brewery produces beer, _____ duty is levied on the quantity produced.



Table 5.1: Examples of transactions liable to taxation of goods and services

Transaction Category	Primary Tax Applicable	Rate / Threshold (2026)	Examples of Liable Items
Sale of Taxable Goods	VAT (Output Tax)	7.5%	Electronics, furniture, automobiles, and luxury fashion items.
Provision of Services	VAT & WHT	7.5% (VAT) / 2%–5% (WHT)	Legal fees, accounting, repairs, and hotel/hospitality services.
Importation of Goods	Customs Duty & Import VAT	0% – 35% (Duty) + 7.5% (VAT)	Raw materials, machinery, and finished retail goods from abroad.
Excisable Production	Excise Duty	Specific (per unit) or Ad Valorem (%)	Alcohol, tobacco, and sugar-sweetened beverages (SSBs).
Digital/Virtual Sales	Digital Service Tax (VAT)	7.5%	Streaming (Netflix/Spotify), e-books, and cloud hosting.
Asset Disposal	Capital Gains Tax (CGT)	30% (Companies) / PIT Band (Individuals)	Sale of land, buildings, and digital assets (cryptocurrency/NFTs).
Energy Consumption	Fossil Fuel Surcharge	5%	Locally produced petroleum products (excluding CNG/LPG).

Pilot questions 5.1

1. What is taxation of goods and services?
2. Why is taxation of goods and services important for government revenue?
3. Give two examples of transactions that attract taxation of goods and services.
4. Who ultimately bears the burden of indirect taxes?
5. What type of duty is levied on the production of alcohol and tobacco?



5.2 Legal And Institutional Framework

5.2.1 Laws governing taxation of goods and services in Nigeria

The taxation of goods and services in Nigeria is primarily governed by the **Value Added Tax Act (VAT Act)**, which provides the legal basis for imposing VAT on the supply of goods and services. The Act specifies the rate of tax, the categories of goods and services liable, and exemptions for certain essential items such as medical supplies and basic foodstuffs. In addition to the VAT Act, the **Finance Acts** are regularly enacted to update tax rates, expand coverage, and strengthen compliance measures. These laws ensure that taxation of goods and services remains relevant to Nigeria's economic realities and contributes effectively to government revenue.

Fill in the blank: The Value Added Tax Act provides the legal basis for imposing _____ on the supply of goods and services.

Box 5.2: Key provisions of the Value Added Tax Act

Tax Type	Scope of Transaction	Standard Rate	Responsible Agency
Value Added Tax (VAT)	Sale of goods, provision of services, and digital transactions.	7.5%	Nigeria Revenue Service (NRS)
Excise Duty	Local manufacture of specific goods (alcohol, tobacco, etc.).	Specific (per unit) or Ad Valorem (%)	Nigeria Customs Service (NCS)
Customs Duty	Importation of goods into Nigeria.	0% – 35% (per CET)	Nigeria Customs Service (NCS)
Electronic Money Transfer Levy (EMTL)	Electronic transfers of ₦10,000 and above.	₦50 (Flat)	NRS / Commercial Banks

5.2.2 Roles of the Federal Inland Revenue Service (FIRS) and other agencies

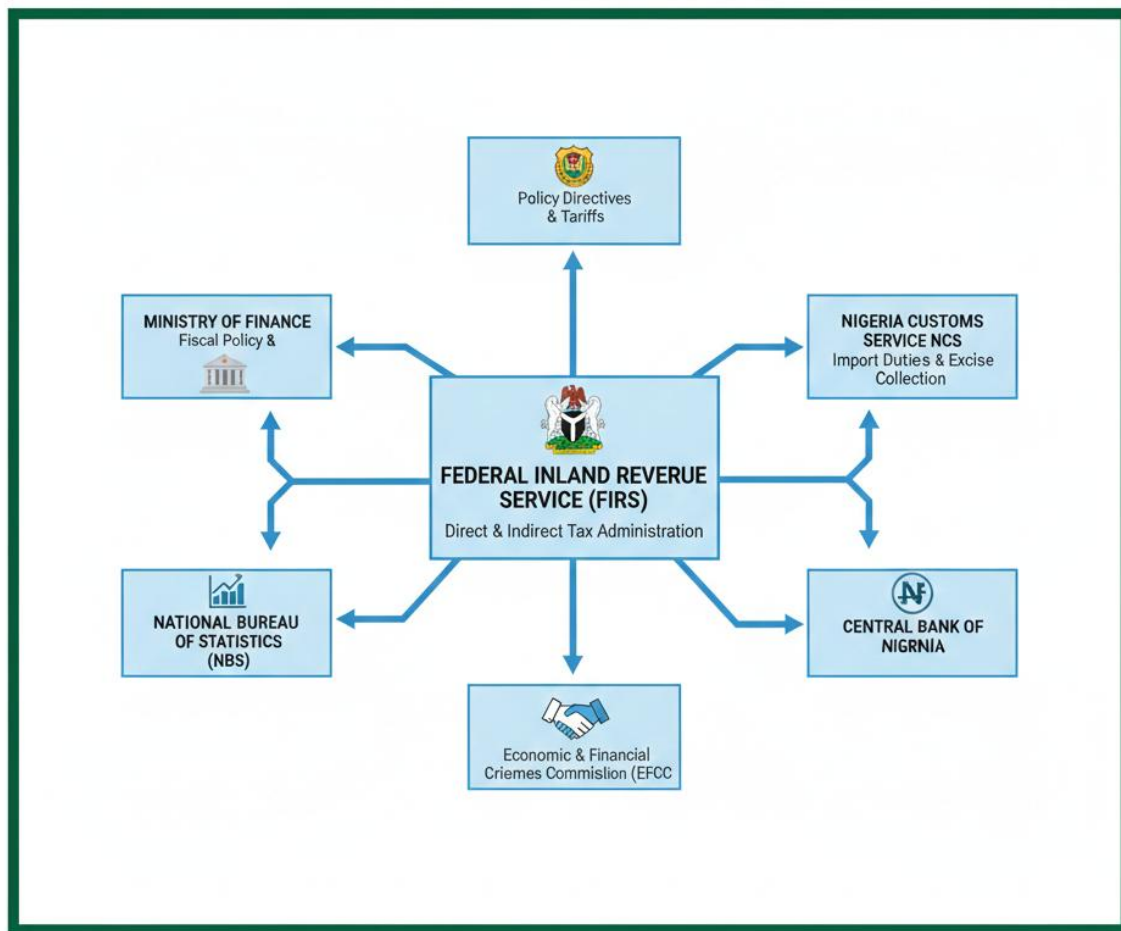


The **Federal Inland Revenue Service (FIRS)** is the primary agency responsible for administering VAT and other taxes on goods and services in Nigeria. Its functions include assessing tax liabilities, collecting payments, monitoring compliance, and enforcing penalties for non-compliance. The FIRS also provides guidelines and conducts public awareness campaigns to educate taxpayers. Other agencies, such as the Ministry of Finance and the Nigerian Customs Service, collaborate with the FIRS to regulate imports, ensure proper documentation, and align tax policies with broader fiscal objectives. Together, these institutions form the backbone of goods and services taxation in Nigeria.

Fill in the blank: The Federal Inland Revenue Service is the primary agency responsible for administering _____ in Nigeria.



Figure 5.2: *Institutional framework for taxation of goods and services*



NIGERIA'S TAX ECOSYSTEM: KEY COLLABORATORS

OPEN EDUCATIONAL RESOURCE (OER)

Pilot questions 5.2

1. What law provides the legal basis for taxation of goods and services in Nigeria?
2. Name one other law that updates tax rates and procedures.
3. What is the primary agency responsible for administering VAT in Nigeria?
4. Mention two functions of the Federal Inland Revenue Service.
5. Which other agencies collaborate with the FIRS in administering goods and services taxation?



5.3 Procedures For Assessment And Collection

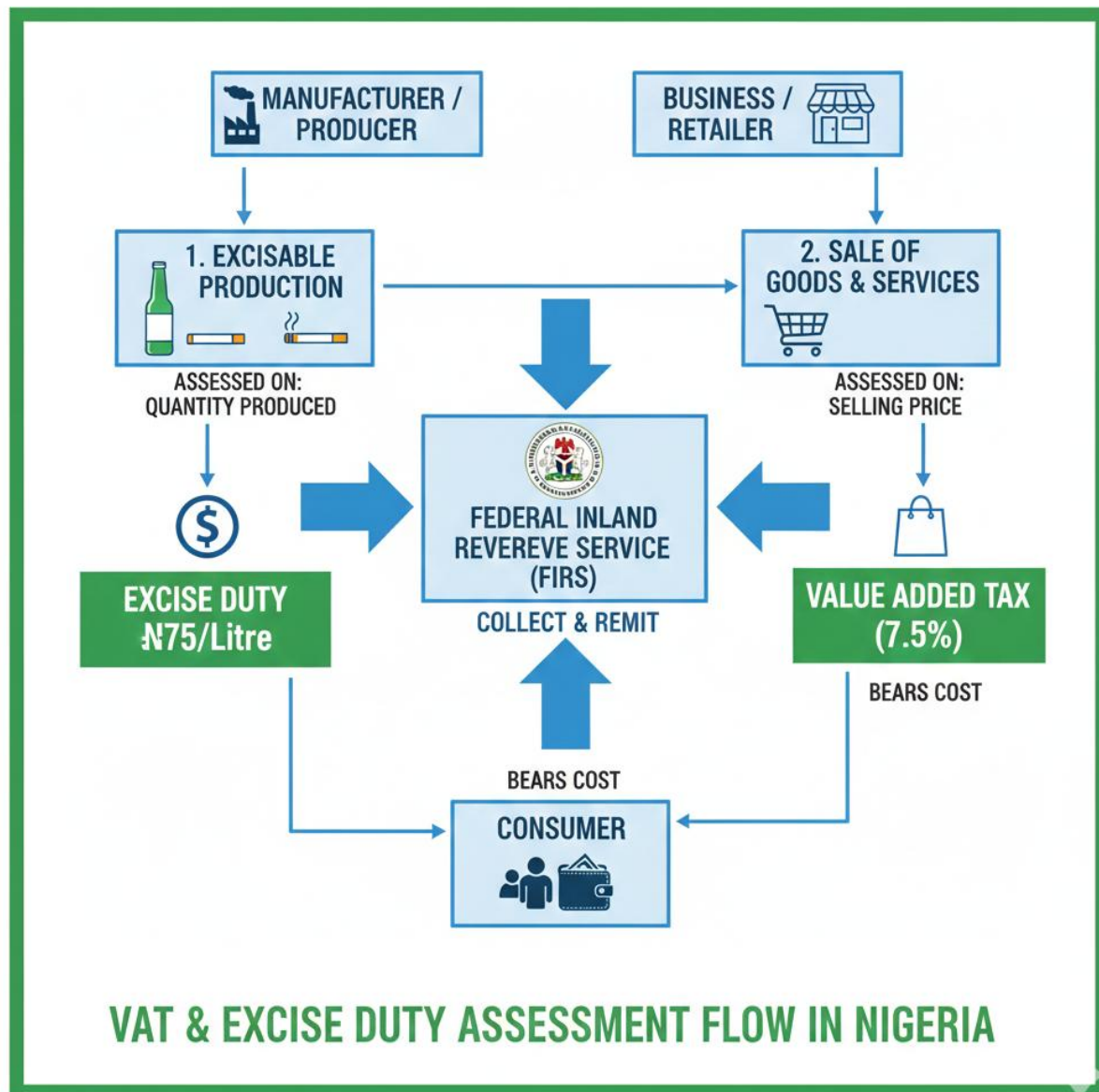
5.3.1 Methods of assessment and collection

Assessment in goods and services taxation refers to the process of determining the amount of tax payable on a transaction. For Value Added Tax (VAT), assessment is based on the value of goods or services supplied, calculated as a percentage of the selling price. Businesses are required to charge VAT at the point of sale and remit it to the Federal Inland Revenue Service (FIRS). Excise duties, on the other hand, are assessed on the quantity or value of locally manufactured goods. Collection is typically carried out electronically through approved payment platforms, ensuring transparency and accountability.

Fill in the blank: VAT is assessed as a percentage of the _____ price of goods or services supplied.



Figure 5.3: *Assessment and collection process for goods and services taxation*



5.3.2 Documentation and compliance requirements

Proper **documentation** is essential for compliance in goods and services taxation. For VAT, businesses must issue tax invoices, maintain records of sales, and file periodic returns with the FIRS. For excise duties, manufacturers must keep production records, submit returns, and retain receipts of duty payments. Compliance ensures that businesses avoid penalties and maintain credibility with tax authorities. Failure to provide accurate documentation or remit taxes on time may result in fines, audits, or prosecution.



Fill in the blank: For VAT compliance, businesses must issue tax _____ and file periodic returns with the FIRS.

Box 5.3: Key documentation required for VAT and excise compliance

Document Category	Required Items	Key 2026 Requirement
Transaction Records	NRS E-Invoices , Sales Daybooks, Purchase Ledger.	All invoices must have a QR Code and Cryptographic Stamp (CSID) .
Input Tax Evidence	Supplier E-Invoices, Customs PAAR , Import VAT receipts.	Input VAT is only claimable if the supplier's Tax ID is validated in real-time.
Monthly Returns	Form VAT 002 (filed via TaxPro-Max).	Must include a detailed sales schedule with a state-by-state breakdown.
Zero-Rating Proof	Bills of Lading, Export Certificates, Diplomatic IDs.	Physical evidence that goods left Nigeria or were sold to exempt entities.

Pilot questions 5.3

1. What does assessment in goods and services taxation involve?
2. How is VAT assessed?
3. How are excise duties assessed?
4. Mention two documents required for VAT compliance.
5. Why is documentation important in goods and services taxation?

5.4 Offences, Penalties, And Compliance Challenges

5.4.1 Common offences under goods and services taxation

Offences under **goods and services taxation** include failure to register for VAT, non-issuance of tax invoices, under-reporting of sales, falsification of records, and failure to remit collected taxes. For example, a business that collects VAT from customers but fails to remit it to the



Federal Inland Revenue Service (FIRS) is committing an offence. These actions undermine government revenue and distort fair competition among businesses.

Fill in the blank: A business that collects VAT but fails to _____ it to the FIRS is committing an offence.

Figure 5.4: *Common offences in goods and services taxation*



5.4.2 Penalties and enforcement measures



Penalties are imposed to discourage offences and ensure compliance. These may include fines, interest charges, suspension of business licences, or prosecution. For instance, businesses that fail to remit VAT may be required to pay the outstanding amount plus a penalty fee.

Enforcement measures are carried out by the FIRS, which has the authority to audit businesses, demand payment, and prosecute offenders. These measures ensure that taxation of goods and services remains effective in revenue generation and economic regulation.

Fill in the blank: Businesses that fail to remit VAT may be required to pay the outstanding amount plus a _____ fee.

Table 5.4: Examples of penalties for goods and services taxation offences

Offence Category	Administrative Fine (Immediate)	Interest / Surcharge	Criminal Sanction (On Conviction)
Failure to Register	₦50,000 (1st month) + ₦25,000 (each month after).	N/A	Business closure/seizure of assets.
Failure to File Returns	₦100,000 (1st month) + ₦50,000 (each month after).	N/A	Possible prosecution for repeat offenders.
Non-Remittance of Tax	10% of the principal tax due.	CBN Monetary Policy Rate (MPR) (accrued daily).	Up to 3 years imprisonment or a fine of 150% of the tax due.
Non-Issuance of E-Invoice	₦200,000 per transaction + 100% of tax due.	CBN MPR interest.	Revocation of Tax Clearance Certificate (TCC).
Denying Tech Access	₦1,000,000 (1st day) + ₦10,000 (daily).	N/A	Suspension of operating license.
Fraud / Fictitious Refund	100% of the refund amount claimed.	CBN MPR interest.	Up to 3 years imprisonment.
VASP Non-Compliance	₦10,000,000 (1st month) + ₦1,000,000 (subsequent).	N/A	Revocation of SEC License.



5.4.3 Compliance challenges and solutions

Compliance challenges often arise due to lack of awareness, poor record-keeping, and deliberate tax evasion. Many small businesses may not fully understand VAT requirements, leading to unintentional non-compliance. Others may deliberately evade taxes to reduce costs. Solutions include public awareness campaigns, simplified tax procedures, and electronic filing systems that make compliance easier. Businesses can also adopt internal measures such as staff training, accurate record-keeping, and consulting tax professionals to ensure compliance.

Fill in the blank: Compliance challenges often arise due to lack of awareness and poor _____ keeping.

Box 5.4: Strategies for improving compliance with goods and services taxation

Feature	Value Added Tax (VAT)	Excise Duty
Governing Law	Nigeria Tax Act 2025	Nigeria Tax Act 2025 & NCSA 2023
Primary Rate	7.5% (Standard)	Specific (per unit) or Ad Valorem (%)
Taxable Base	Selling Price of goods/services.	Quantity or Ex-Factory Price.
New 2026 Additions	Digital services (Netflix/Spotify/Cloud).	Fossil fuel surcharge (5%), Plastic levy.
Exempt Threshold	Turnover under ₦50m (Small Biz).	No minimum threshold for production.
Filing Deadline	21st day of the following month.	21st day of the following month.
Payment System	TaxPro-Max / E-Invoicing (MBS).	B'Odogwu / NRS Customs Portal.

Pilot questions 5.4

1. Name one common offence under goods and services taxation.
2. What penalties may be imposed for failure to remit VAT?
3. Who enforces penalties under goods and services taxation?



4. Mention two compliance challenges faced by businesses.
5. Suggest one solution to improve compliance with goods and services taxation.

Series Summary

This Series has examined the taxation of goods and services in Nigeria, which is a vital source of government revenue and an important tool for regulating economic activities. We began by exploring the concept and scope of goods and services taxation, defining its purpose and identifying the transactions that attract it. We then considered the legal and institutional framework, focusing on the Value Added Tax Act, the Finance Acts, and the roles of the Federal Inland Revenue Service (FIRS) and other agencies. Following that, we studied the procedures for assessment and collection, including methods of assessment, documentation, and compliance requirements. Finally, we analysed offences, penalties, and compliance challenges, highlighting common offences, enforcement measures, and strategies for improving compliance.

By completing this Series, you should now be able to define taxation of goods and services (SLO 5.1), identify liable transactions (SLO 5.2), analyse the legal and institutional framework (SLO 5.3), describe assessment and collection procedures (SLO 5.4), explain documentation and compliance requirements (SLO 5.5), and evaluate offences, penalties, and compliance challenges (SLO 5.6).

Glossary of Terms

- **Assessment:** The process of calculating the amount of tax payable on a transaction.
- **Compliance:** Adhering to laws and regulations governing goods and services taxation, including documentation and timely payment.
- **Excise duty:** A tax levied on locally manufactured goods, often on items such as alcohol and tobacco.
- **Federal Inland Revenue Service (FIRS):** The primary agency responsible for administering VAT and other taxes on goods and services in Nigeria.
- **Finance Acts:** Laws enacted periodically to update tax rates, expand coverage, and strengthen compliance measures.
- **Indirect tax:** A tax collected from businesses but ultimately borne by consumers through higher prices.
- **Value Added Tax (VAT):** A tax imposed on the supply of goods and services, calculated as a percentage of the selling price.

Concept Check Questions 5

Objective Questions

1. (Linked to SLO 5.1) Taxes on goods and services are:
 1. Direct taxes
 2. Indirect taxes



3. Income taxes
4. Property taxes
2. (Linked to SLO 5.3) Which law provides the legal basis for VAT in Nigeria?
 1. Customs Act
 2. Finance Act
 3. VAT Act
 4. Excise Act

Short-Answer Questions

3. (Linked to SLO 5.2) Give two examples of transactions liable to taxation of goods and services.
4. (Linked to SLO 5.4) What does assessment in goods and services taxation involve?
5. (Linked to SLO 5.5) Mention two documents required for VAT compliance.
6. (Linked to SLO 5.6) Name one common offence under goods and services taxation.

Long-Answer Questions

7. (Linked to SLO 5.4 & SLO 5.5) Describe the procedures for assessment and collection of VAT and excise duties, including documentation requirements.
8. (Linked to SLO 5.6) Evaluate compliance challenges in goods and services taxation and suggest strategies for improvement.

Answers to Concept Check Questions 5

Objective Questions

1. Indirect taxes
1. VAT Act

Short-Answer Questions

3. Sale of manufactured goods and provision of professional services.
4. Determining tax payable based on value or quantity of goods and services.
5. Tax invoices and periodic returns.
6. Failure to remit VAT.

Long-Answer Questions

7. **Basic response:** VAT is assessed on the selling price of goods and services, while excise duties are assessed on locally manufactured goods. Documentation includes tax invoices, production records, and periodic returns.

Value-added response: VAT requires businesses to charge tax at the point of sale, remit it to FIRS, and maintain proper records. Excise duties require manufacturers to register, submit production returns, and pay duties periodically. Compliance ensures transparency and prevents disputes.



1. **Basic response:** Challenges include lack of awareness and poor record-keeping. Solutions include awareness campaigns and simplified procedures.
Value-added response: Additional strategies include electronic filing systems, staff training, professional consultation, and stricter enforcement by FIRS. These measures reduce offences and promote compliance.

Answers to Pilot Questions 5

- **Part 5.1**

1. Taxation of goods and services refers to VAT and excise duties.
2. It generates revenue and regulates economic activities.
3. Sale of goods and provision of services.
4. Consumers.
5. Excise duty.

- **Part 5.2**

1. The VAT Act.
2. The Finance Acts.
3. Federal Inland Revenue Service.
4. Assessing liabilities and collecting payments.
5. Ministry of Finance and Nigerian Customs Service.

- **Part 5.3**

1. Determining tax payable on transactions.
2. As a percentage of selling price.
3. Based on quantity or value of goods.
4. Tax invoices and sales records.
5. It ensures transparency and prevents penalties.

- **Part 5.4**

1. Failure to remit VAT.
2. Fines and penalty fees.
3. Federal Inland Revenue Service.
4. Lack of awareness and poor record-keeping.
5. Awareness campaigns and electronic filing systems.

References and Attributions 5

- Federal Inland Revenue Service (FIRS). *Guidelines on Value Added Tax in Nigeria*.
- Value Added Tax Act, Cap V1, Laws of the Federation of Nigeria.
- Finance Acts (various years).
- Nigeria Customs Service official publications.



Illustrations (AI-generated or OER suggested)

- *Figure 5.1:* Flow of goods and services taxation. Prompt: “Generate a diagram showing taxation flow: government imposes tax, businesses collect, consumers bear cost.”
- *Table 5.1:* Examples of transactions liable to taxation. Prompt: “Create a table showing transactions liable to taxation.”
- *Box 5.2:* Key provisions of the VAT Act. Prompt: “Generate a box summarising key provisions of the VAT Act.”
- *Figure 5.2:* Institutional framework for taxation of goods and services. Prompt: “Generate a diagram showing FIRS and collaborating agencies.”
- *Figure 5.3:* Assessment and collection process for goods and services taxation. Prompt: “Generate a diagram showing VAT and excise duty assessment.”
- *Box 5.3:* Key documentation required for VAT and excise compliance. Prompt: “Generate a box summarising documentation requirements.”
- *Figure 5.4:* Common offences in goods and services taxation. Prompt: “Generate a diagram showing offences.”
- *Table 5.4:* Examples of penalties for goods and services taxation offences. Prompt: “Create a table showing penalties.”
- *Box 5.4:* Strategies for improving compliance with goods and services taxation. Prompt: “Generate a box summarising compliance strategies.”

