



# FEDERAL INLAND REVENUE SERVICE

**INFORMATION**

**NO: 9503**

**CIRCULAR**

**DATE: 1<sup>st</sup> December, 1995**

**SUBJECT: VAT ON SERVICES OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

*This Circular is issued for the information of the general public and in particular all taxpayers, officials of Banks and other Financial Institutions, as well as the staff of the FIRS*

## **1. Introduction**

The Value Added Tax Act Cap V1 LFN 2004 (as amended) imposes a tax known as Value Added Tax (VAT) on taxable goods and services. Part 2 of the First Schedule to the Act only exempts services rendered by Community banks, Peoples bank and Mortgage institutions from VAT. Accordingly, all banks and financial institutions, except those exempted, are required to charge VAT on services rendered by them to their customers and account for same to the Federal Inland Revenue Service. This is in line with Section 2 of the Act, which stipulates that “the tax shall be charged and payable on the supply of all goods and services (in this Act referred to as “taxable goods and services”) other than those goods and services listed in the First Schedule to this Act.

## **2. Definition of Bank and other Financial Institutions**

These are legal entities incorporated under the Companies and Allied Matters Act (CAMA) of 1990 and engage in banking and financial activities as defined by the Banks and other Financial Institutions Act (BOFIA), 1991. They are companies within the financial sector of the Nigerian economy and are either publicly quoted or private companies. Banks will ordinarily include commercial banks, merchant banks and development banks while other financial institutions will include; finance houses, insurance companies, re-insurance companies, stock-brokerage firms, investment companies and financial consultants.

## **3. VAT Liability**

Banks in particular, charge commission, fees, or other charges for services rendered to their customers. VAT calculations are expected to be based only on the charges made for services rendered. It should however, be noted that the focus of VAT is on the charges levied on customers for the consumption of services rendered by Banks.

The provision of loans and advances does not in itself constitute a taxable service but there are other ancillary services to the provision of bank loan/advances or bank overdrafts, which are taxable. The documentation and perfection of loan/overdraft agreements are examples of such ancillary services and fees charged, which would attract VAT. The resultant interest chargeable on the loans and overdraft is however not taxable.

Insurance companies’ brokers/agents earn commission, loss adjusters earn fees, surveyors earn fees, brokers earn commission and agents earn commission for various services rendered to the Insurance Companies. The services which generated these income are taxable services, and even though the premium received on policies is not taxable as it represents cost of risk to the insured, the commission paid to brokers/agent from premium will attract VAT; with

the burden of VAT being borne by the insurance company itself. **4. Vatable Services Rendered by Financial Institutions**

In arriving at what constitutes vatable financial services, a distinction should be made between activities that constitute return on investment and consumption of services rendered by financial institutions. All charges arising from the services of banks and financial institutions will ordinarily attract VAT and they include among others, the following:

- Commissions/fees charged on forex trading or remittance;
- Commission on turnover (COT), ledger fees etc;
- Legal and other fees chargeable on lease arrangements;
- Fees charged for advisory services e.g. mergers and acquisition, financial strategy counseling etc;
- Fees chargeable on public/private issues;
- Debt conversion fees;
- Fees/commission on asset trading;
- Fees earned on fund management;
- Fees and commissions earned on letters of credit/documentary collection to finance import/export;
- Commissions on sale of Bankdrafts/certified cheques;
- Fees chargeable on stock-brokerage and trust services;
- Commissions paid to brokers, reinsurers, underwriters and other insurance agents by an insurer.

**5. Services of Banks and Other Financial Institutions not Liable to VAT**

A simple criteria for determining whether a service is vatable or not is the identification of those activities that constitute return on investment as distinct from those that represent consumption of services. The services of Banks and Other Financial Institutions that will not attract VAT include:

- Premium on insurance policies;
- Interest on loans/advances and overdraft facilities;
- Interest on savings accounts;
- Interest on bank deposits;
- Dividends;
- Interbank placements; and
- Profit/gain on disposal of Government securities.

**6. VAT Registration and Rendition of Returns**

Banks and other Financial Institutions are taxable persons within the provisions of the VAT Act and all services rendered by them are taxable with the exception of the services of Peoples Bank, Community Banks and Mortgage Institutions which are exempted by the VAT Act. These Banks and Other Financial Institutions are to register for tax with the relevant tax office and obtain TIN. VAT returns are to be made regularly to the relevant tax office within twenty one (21) days after the month of transaction.

**7. Accounting Procedure and Records to be kept by Banks**

The mode of operation in the Banks does not permit the issuance of tax invoices to customers. The VAT charges therefore have to be reflected in the customers' statements of accounts in order to enhance disclosure and easy verification by tax officers. Banks and Other Financial institutions are required to adopt the following simple methods of recording their transactions for VAT purposes:

- (i) When any service is identified as vatable, internal entries are raised by the Bank for the cost of the service plus 5% VAT.
- (ii) The Bank is expected to debit the account of the customer accordingly with the cost of the service plus the 5% VAT charged.
- (iii) Credit the Income account of the Bank or Institution with the income element of the charge excluding the VAT
- (iv) Credit the FIRS VAT Account in the particular Bank or Institution with the 5% VAT deducted from (ii) to arrive at (iii).

Section 16 subsection (b) provides that where input tax exceeds output tax, the taxpayer will be entitled to refund of the excess tax from the FIRS on production of such documents as the FIRS may, from time to time require. With regards to banks and other financial institutions, this is not applicable because of the provision of Section 17 of Value Added Tax Act on allowable input tax, which provides that input tax on any overhead, service, and general administration of any business which otherwise can be expended through the income statement (profit and loss accounts) shall not be allowed as a deduction from output tax.

It is a common knowledge that the Bank and Other Financial Institutions render services; they do not produce goods and therefore regarded as final consumer of those goods purchased or services rendered to them. In this connection, all input VAT payable in respect of assets purchased for use in the Banks and other financial institutions should be added to the cost of the assets on which capital allowances may be claimed. Similarly, all VAT payable in respect of services consumed by the Bank should be regarded as part of normal operational expenses chargeable to Statement of Profit or Loss Account. Under no circumstance should input tax on such items be claimed or deducted from output tax collected. Banks and other financial institutions cannot claim or deduct any input tax suffered. The entire amount collected on behalf of the FIRS should be promptly remitted in whole as prescribed by the law.

## **9. The Central Bank**

The position of the Central bank with regards to VAT payment is not different from that of other banks in the system. The Central Bank performs nearly all the services listed in paragraph 4 above and also acts as banker to other banks. It is therefore expected that VAT would be charged on payments made to it by the banks for vatable services rendered to them. This makes it necessary for the Central Bank to register for VAT purposes.

## **10. Offences and Penalties**

Banks and other financial institutions have obligations to fulfill under the VAT Act like other taxable or registered persons. Part V of the Act contains the list of offences and penalties to be imposed. These include among others:

- failure to register within six (6) months of the existence of a bank;
- failure to issue tax invoice (debit note showing amount of VAT collected in the case of Banks); failure to charge and remit VAT collected;
- failure to keep proper records and accounts;
- rendition of incorrect or false returns.

For these offences, stringent penalties are imposed to check possible defaults.

## **11. Conclusion**

Banks and other financial institutions are taxable persons within the provisions of the VAT Act and all their services are taxable except those specifically mentioned in the First Schedule. Bank officials are strongly advised to familiarize themselves with the provisions of the VAT Act.

Whatever is peculiar to any Bank or Financial Institution in terms of procedures which has not been dealt with in this circular should be referred to the FIRS without delay.

Finally, where computerization has been established and it is likely to skip these procedures, the FIRS should be notified of the system in operation and how it would take care of all procedures without leaving out anything uncaptured.

## **12. Enquiries**

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

Executive Chairman  
Federal Inland Revenue Service  
Revenue House,  
15 Sokode Crescent, Wuse Zone 5, Abuja.

Or

Visit our website: [www.firs.gov.ng](http://www.firs.gov.ng)

Email: [enquiries@firs.gov.ng](mailto:enquiries@firs.gov.ng)

Telephones: 08159490002, 08159490001, 08159490000