

**COVENANT UNIVERSITY
NIGERIA**

*TUTORIAL KIT
OMEGA SEMESTER*

**PROGRAMME: ESTATE
MANAGEMENT**

COURSE: ESM 322

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ESM 322: REAL ESTATE RATING AND TAXATION 11

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QUESTION 1

Discuss the entire process involved in applying and obtaining approval for consent as spelt out in the 'Land Use Act' from the Lagos State Government? **(23 marks)**

QUESTION 2

Chief Ajiri bought a piece of land in November 2004 for ₦29, 815, 706. Expenses on acquisition amounted to ₦ 2, 056, 177. He disposed part of the property for ₦ 11, 783, 219 in February 2006, expenses on disposal was ₦ 1, 204, 096. The un-disposed part of the property had a market value of ₦ 34, 865, 204. In September 2008 another portion of the property was disposed for ₦ 14, 379, 013, expenses on disposal was ₦ 1, 785, 802. The un-disposed part of the property had a market value of ₦ 20, 837, 516. In June 2010 another portion of the property was disposed for ₦ 18, 704, 156, expenses on disposal was ₦ 2, 356, 712. The un-disposed part of the property had a market value of ₦ 9, 829, 742. The last portion of the property was sold in January, 2012 at ₦ 10, 342, 699. The expenses on disposal amounted to ₦ 2, 948, 315. Compute his chargeable gain and the Capital Gain Tax liability for all relevant assessment. **(23 marks)**

QUESTION 3

(a) Calculate the total fees payable on Plot 268 Olusegun Obasanjo Drive, Surulere, Lagos. The property belonging to Dcn. Olatunji Ademola is a Seven Bedroom Detached House situated on an approximate 1, 694m² of land having a certified C of O issued on March 2001 Ten months after purchase of value ₦81, 000, 000 (Eighty-One Million Naira) only. In August 2010 a negotiation for sales with Mr. Fadipe commenced and concluded Three months later at a consideration of ₦109, 512, 000 (One Hundred and Nine Million, Five Hundred and Twelve Thousand Naira) only. (Assume all considerations represent the open market value of the property and consent are granted by the Lagos State Government within three months of application immediately after transaction) **(16 marks)**

(b) Discuss the provision of Withholding Tax on rent? **(7 marks)**

QUESTION 4

(a) Discuss the various land related documents that needs the application of stamp duty for its authentication. **(13 marks)**

(b) What are the criticisms in the provision of the Capital Transfer Tax **(10 marks)**

QUESTION 5

(a) Discuss the entire indications for implementing Value Added Tax (VAT)? **(13 marks)**

(b) With the help of the Table below give the parties who are liable to pay Stamp Duty such that in case there is a default in the payment these parties are liable to be penalized. **(6 marks)**

Title of Instrument as Described in the Schedule	Person Liable
Bond, Covenant or Instrument of any kind whatsoever	
Conveyance on sale	
Conveyances or transfers operating as Voluntary dispositions inter vivos	
Lease.....	
Mortgage bond, debenture, Covenant and Warranty of attorney to confess and enter up judgement	
Settlement.....	

(c) Discuss the “Relevant Tax Authority” as provided in the Capital Transfer Tax Act. **(4 marks)**

ANSWERS:

APPLICATION AND APPROVAL FOR CONSENT AND FEES COMPUTATION (A CASE OF LAGOS STATE):

- **Application for Consent Form:**

Application for consent fee is made on a prescribed form, which is obtainable at the Consent Section of the Land Use and Allocation Committee of the Lagos State Secretariat Complex, Alausa Ikeja free of charge (payment to be made on submission of application). The application form must be completed with clarity to give all information required from the applicant and both parties to the transaction must duly sign the form. In the case of mortgage transaction, the official stamp of the financial institution advancing the mortgage facility must accompany the signature of the authorized official of the institution. A completed and duly signed application form must be accompanied on submission with the following: **(1 Mark)**

1. A covering letter addressed to the Director of Land Services stating all documents submitted with the signature of the applicant. **(1 Mark)**
2. Certified true Copy of the assignor or sublessor’s (Donor’s title in case of gift) title documents obtainable at the Lagos State Land Registry, the Secretariat, Alausa, Ikeja on the payment of the stipulated fee. **(1 Mark)**
3. Six copies of the Deed on which the Governor’s consent is sought. **(1 Mark)**
4. In case of fee simple interest i.e. interest existing before the Land Use Act of 1978, the applicant should include the clause, “the Assignee herein mentioned hereby undertakes to pay all government levies inclusive of land charges that may be imposed from time to time by the State Government.” **(1 Mark)**
5. Evidence of up-to-date payment of ground rent and land charges in case of private land converted by right of occupancy or state land. **(1 Mark)**
6. Evidence of payment rates and copies of building plan in the case of developed land. **(1 Mark)**

7. Affidavit in lieu of building plan and tenement rate receipt in case of undeveloped land. **(1 Mark)**
8. Current Tax Clearance Certificate of the two parties. In case of mortgage transactions, current tax clearance certificate of the mortgagor is required. If one of the parties is a Limited Liability Company, the Board of Internal Revenue Certificate on Pay-As-You-Earn (PAYE) for its entire staff and the current Tax Clearance Certificate of the Directors should be attached. **(1 Mark)**
9. Finally a certified bank cheque made payable to Lagos State Government for an amount equal to 15% or 30% as the case may be, of the consideration passing should be attached as initial deposit for consent fee. Other fees include charting fee of N1, 000, Endorsement fee of N200 and application form fee of N200. **(1 Mark)**

It is worth to note that after the property has been inspected and valued an amount equal to 15% or 30% of the capital value would be demanded as consent fee and if the initial deposit does not cover the consent fee, the balance must be paid before the application is processed further. It is also important to note that the 15% and 30% mentioned above resulted from a recent policy of the Lagos State Government to discourage speculation on land. Hence, the state government charges 30% as consent fee on assignment of title granted less than 10 years and 15% on those above 10 years. **(0.5 Marks)**

Procedure for Approval:

Having carefully completed the application form, the process of granting consent to subsequent transactions begins with the submission of the duly completed application form to the Director of Land Services. **(1 Mark)**

In the Director's office, the application is given a file number for easy identification and reference after which the Director of Land Services passes the file to the Survey Department for charting. **(1 Mark)**

Charting is done so as to ensure that the land specified in the survey plan is scheduled to the title deed is the actual land on which the governor's consent is sought. **(1 Mark)**

Once the Surveyor General is convinced that the land on paper corresponds with that on the ground, he returns the file for further action to the Director of Land Services, in whose office the documents submitted along with the application are cross checked to ensure that they are complete. **(1 Mark)**

At this point, neighborhood improvement charges are paid in respect of private land. **(0.5 Marks)**

Still in the Director of Lands Services' office, the file is passed to the schedule officer for site inspection. The schedule officer now informs the applicant of the impending joint inspection. **(1 Mark)**

After the joint inspection the schedule officer writes his report obligation to the state if the initial deposit does not cover the consent fees being demanded. **(0.5 Marks)**

Immediately this payment obligation is discharged, the process continues with the director of land services moving the file to the computation of Capital Gain Tax. **(1 Mark)**

Once this is computed and paid by the applicant, the application is moved back to the Director General, Lands and Housing Department enroute Ministry of Justice. **(1 Mark)**

The Honourable Commissioner of Justice and Attorney General of the State, if satisfied with the application signs the certificate of consent on behalf of the state governor. **(1 Mark)**

The approved application is sent back to the Director-General, Lands and Housing Department who passes same to the Director of Land Services. **(0.5 Marks)**

The Director of Land Services at this point writes to inform the applicant of the success of his application. **(1 Mark)**

However, the process is not complete until the Consent Deed is registered and the applicant collects it. **(1 Mark)**

As soon as the applicant collects the approved deed, he submits the deed to the registrar of Titles and Deeds who register same upon the payment of 6% registration fees. **(1 Mark)**

The process is completed with the payment of another 2% stamp duties for stamping of the deed. (1 Mark)

QUESTION 2

APPLICATION AND APPROVAL FOR CONSENT AND FEES COMPUTATION (A CASE OF OYO STATE):

- **Collection of Application forms, which is either by hand or post: (3 Marks)**
 - By hand-** mostly used. Come to revenue office of the ministry. Payment made, receipt for payment and form issued. Advantages of this method: facilitate filling of form correctly as applicant are enlightened. Opportunity to know the exact fee to pay particularly for Mortgage transaction
 - By post:** letter gets to lands department, directed to chief lands officer for onward transmission to the revenue office. It is then sent to land registry where it will be dispatched to the applicant. Rarely used due to inefficiency in postal system
- **Requirements for the processing of application for governor's consent (5 Marks)**

Some requirements are general while some are peculiar. The general ones are:

 - Current Tax Clearance
 - Development levy receipt for the past 3 years
 - The Instrument vesting the subject property (Deed of Conveyance; assignment; sublease or certificate of occupancy. For leasehold property, a letter showing the lessor's consent to the transaction will be forwarded)
 - Receipt issued in respect of payment made on the application. In a situation where the applicant is a Limited Liability Company or a club, its certificate of registration will be forwarded. If a company has not been paying tax, all its subscribers as contained in its Memorandum and Articles of Association would forward their current tax clearance certificates and development levy receipts of three years. (Photostat copy of all these documents is required. For tax clearance certificate, the original copy will be presented for verification).

(More specific)

 - for mortgage transaction, the applicant will forward a letter from the bank showing the loan to be made to him. A consent fee of 1% of the loan value is charged.
 - For assignment and deed of sublease transaction, an undated draft deed of assignment or sublease. This shows that parties to the transaction have agreed. The document is undated because it should not predate the letter of consent. It will be dated when it should be stamped.
 - Valuation consultants of government to confirm valuation of other valuers's
 - Approved Building Plan is such that property as described is what it actually is
 - Photographs of property to ensure that valuation is done 'rebus sic stantibus'
- **Submission of application forms (4 Marks)**

To ensure forms get to the right place and at the right time applicants submit forms personally. In submitting the forms applicants first get to the revenue office to pay the consent fee. Usually total payment is paid at the submission of form for mortgage since the applicant is already aware (1% of loan transaction).

For a sublease or assignment transaction 10% of the value of property is payable as consent fee. An inspection need to be conducted to ascertain actual value of the subject property. That is why at submission of form a pre-determined minimum consent fee is paid as deposit while the remaining amount is paid when the actual property value is determined.

After acceptable payments made, applicants go to the land registry with the form and other relevant documents brought. Documents will be filed and name of applicant written against the number assigned to the file in the register for Governor's consent. The file is sent to Inspectorate Section of the Ministry for processing.

- **Processing the application forms (8 Marks)**

Processing of application commences at the Inspectorate Section of the Ministry after they have been duly registered at the Registry. For mortgage transaction which is not cumbersome, the first stage is the scrutiny of all documents by the schedule officer who is usually a land officer. Unless where defects is discovered in the application and sent to the applicant while form is held until defect is rectified, the application is recommended for commissioners approval by the schedule officer by completing a form called submission form. He will also prepare a letter of consent which will be issued to the applicant after the commissioner has approved the application. This letter and its duplicate will be put at the back cover of the file while the complete submission form is filled along with other documents. In completing the form, location of the property, title deed, type of transaction, amount paid and all the supporting documents will be mentioned.

From the shedule officer the file goes to the commissioner through the deputy chief land officer, chief lands officer and permanent secretary.

The commissioner of lands, housing and survey has been empowered to act on behalf of the governor to quicken the process. After approving an application, the commissioner will send the file back to the permanent secretary who will sign the letter of consent at the back cover of the file. After appending his signature on the letter, he will send the file to the chief lands officer from whose office the consent fees will be collected.

The major difference between the processing of an application for mortgage and that of assignment and sublease is that the subject property for mortgage purpose is not valued, whereas the value of the subject of the property of an assignment or sublease transaction will be determined.

Upon the receipt of an application for assignment or sublease transaction, the schedule officer will invite the applicant for a joint physical inspection of the property. After inspect the schedule officer will prepare a valuation report on the property. He will file the report and send the file to the chief land officer for the ratification of value arrived at. Thereafter he will send the file to his deputy for onward transmission to the schdule officer who will convey the approved value to the applicant. On paying the appropriate consent fee which is 10% of the capital value of the property and forwarding all relevant documents earlier mentioned, the appliucation will be processed for commissioner's approval in the same manner as described above with respect to the mortgage transaction.

- **Collection of letter of consent (4 Marks)**

The processing of the letter takes a week if no hitch arises. If application is flawless the shedule officer informs the applicant to check at the Inspectorat Section the position of the application one week after submitting. In the chief land officer's office, the list of approved application is pasted on the wall. If his name is on the wall, a clerk will locate his letter and issue it to him on production of original receipt issued to him in respect of payment made on the application. The duplicate copy of the letter will be filed and the file will be sent to the Inspectorate Section. At this place, it will be recorded that action has been completed on the application and the file will be sent to Lands Registry for safe keeping. The document, deed of legal mortgage, for example, evidencing the transaction is not valid until it has been registered. In the light of this, both the letter and the document will be stapled together in readiness for stamp duty. After it has been stamped, it will be registered at the deeds registry of Ministry of Lands and Housing.

SECTION B

QUESTION 3

(a) CTT on Chief. Abel Adiola estate:

	N
Value as determined by the tax office	89, 674, 208 (0.5 Marks)
Less exemption (i.e. 1 st N100, 000)	100, 000 (0.5 Marks)
Less statutory burial expenses	4, 000 (0.5 Marks)
Chargeable transfer after death	89, 570, 208 (0.5 Marks)
<i>CTT on the 1st N150, 000 @ 10%</i>	<i>15,000 (0.25 Marks)</i>
<i>CTT on the next N150, 000 @ 20%</i>	<i>30,000 (0.25 Marks)</i>
<i>CTT on the next N250, 000 @ 30%</i>	<i>75,000 (0.25 Marks)</i>
<i>CTT on the next N500, 000 @ 40%</i>	<i>200,000 (0.25 Marks)</i>
<i>CTT on the next N1,000, 000 @ 50%</i>	<i>500,000 (0.25 Marks)</i>
<i>CTT on N87, 520, 208 @ 60%</i>	<i><u>52, 512, 125 (0.75 Marks)</u></i>
Total CTT payable by Barr. Adieola	54, 562, 125 (0.5 Marks)

Since the two deaths is within 3 yrs a 60% reduction is given on tax.
₦32, 737, 275 is reduced, thus (1 Mark)

54, 562, 125 - 32, 737, 275 = ₦21, 824, 850 (CTT Payable) (1.5 Marks)

(b) 4 (Marks)

- Expenses incurred wholly, exclusively, and necessarily for the acquisition of the asset
- Incidental costs for the acquisition
- Expenditure for establishing, preserving or defending title
- Expenditure incurred for the purpose of enhancing the value of assets
- Incidental costs for making the disposal. These include expenditure wholly, exclusively and necessarily incurred for the purpose of either acquisition or as the case may be, the disposal, such being fees, commission or remuneration paid for professional services of any Land Surveyor, Estate Surveyor and Valuer, Legal Adviser and other contractors amongst others. Other costs include cost of transfers or conveyance, cost of advertising and also the expenses reasonably incurred in ascertaining the market value of the asset (see Section 14).

(c)

Attestation Fee

Since the inception of the Land Use Act of 1978, it has become ever more necessary for landowners to get the Governor's attestation on their ownership of the land which they claimed to have possessed before the Act. The fee paid to obtain this attestation is called the attestation fee, which is a variant of documentary tax **(2 Marks)**

Ratification Fee:

There have been cases where land already acquired by government for public land distribution/distribution programme is illegally occupied by persons who had presumptuously bought same from the so-called "land owners". Where this scenario prevails, the government, instead of quitting such individuals may decide to accommodate such individuals thereby normalizing their ownership status. The fees paid for the regularization of their ownership status is known as ratification fee. **(2 Marks)**

Application for Certificate of Occupancy Fee:

The certificate of occupancy is a statutory right of occupancy granted by the State Governor and or Local Government Chairman of various states and local governments as established by the Land Use Act. The fees paid in the procurement of this document include among others, the amount paid to obtain the land information form (an amount which varies from state to state) and charting fee to certify if the land in question is not in an area under government acquisition. **(2 Marks)**

Land Registration Fee

This involves the registration of not just land but the registration of land purchase instrument which should be between 30 days of purchase and the registration of title of land. The registration of land instruments and titles on land are carried out to forestall the effort of some element in the multiplicity of sales of a particular land to several buyers. The fee collected by the land's authority to handle the registration is called the registration fees, which is a form of documentary tax. **(2 Marks)**

(d)

Title of Instrument	Person Liable
Covenant	Covenantee (0.5 Marks)
Conveyance on sale	The vendee or Transferee (0.5 Marks)
Mortgage bond	mortgagee (0.5 Marks)
Debenture	oblige (0.5 Marks)
Settlement	The settler (0.5 Marks)
Conveyances or transfers operating as Voluntary dispositions inter vivos	The grantor or transferor (0.5 Marks)
Bond	oblige (0.5 Marks)
Lease	The Lessee (0.5 Marks)

QUESTION 4

(a) 10% of ₦300, 000 = ₦30, 000 **(3 Marks)**

(b)

(i) The gross amount of rent **(0.5 Marks)**

(ii) The amount of tax being accounted for **(0.5 Marks)**

(iii) The name and the address of the recipient and the period for which the rent has been paid or credited; and **(0.5 Marks)**

(iv) The address or accurate description of the location of the property concerned **(0.5 Marks)**

(c)

₦30, 000 **(2 Marks)**

(d)

(i) The first ₦100, 000 allowable deductions should be in Millions as most assets are worth that region **(1 Mark)**

- (ii) The allowable burial expenses is very small **(1 Mark)**
- (iii) The graduated deductions should also be placed in Millions **(1 Mark)**
- (iv) The graduated percentage is on the high side **(1 Mark)**

(e)

Goods exempted (any three @ 0.5 Marks each)

- Medical and pharmaceutical products.
- Basic food items
- Books and educational materials
- Newspapers and magazines
- Baby products
- Commercial vehicles and their spare parts.
- Agricultural equipments, spares and veterinary medicines.

Services exempted (@ 0.5 Marks each)

- Medical services
- Services by Community Banks, Peoples Bank and Mortgage Institution.
- Plays and performances conducted by educational institutions as part of learning.

(f)

Under Section 11 of the Act it is stated that

(a) When an asset changes hands under a contract

- i. The date of disposal and acquisition is the time at which the contract is made. If the contract is conditional, the disposal is made when the condition has been met **(2 Marks)**
- ii. When an interest in land is acquired (otherwise than under a contract) by an authority possessing compulsory purchase powers, the acquisition and disposal date is the time at which compensation for the acquisition is agreed or otherwise determined or if it is earlier, the time when the authority enters on the land in pursuance of their powers **(2 Marks)**
- iii. In the case of capital sums received by way of compensation of damage to or loss of an asset or under a policy of insurance for damage to or loss of assets, or received for surrender of rights or as consideration for exploitation or use of assets, the effective date is when the capital sum is received. **(2 Marks)**

(g)

Stamp Duty is important for Documentary Instrument because:

- It makes the document admissible in the court **(1 Mark)**
- It involves a third party in the transaction which makes it harder to be denied **(1 Mark)**
- The Government are also carried along from the onset **(1 Mark)**

QUESTION 5

• **Solution:**

Year 2007

	N	N
Consideration received on part disposal		10, 116, 025(0.5 Marks)
Porportion sold = A/A+B		
<u>10, 116, 025</u>		
10116025+23006198		
<u>10116025</u> = 0.3054 (1 Mark)		
33122223		
Less allowable expenditure:		
Purchase price: 21197305 × 0.3054		
=	6, 473, 657 (1 Mark)	
Expenses on acquisition:		
2008375 × 0.3054		
=	<u>613, 358 (1 Mark)</u>	
Expenses on Disposal		
=	1, 695, 225 (0.5 Marks)	
		<u>8, 782, 240 (1 Mark)</u>
Chargeable Gain =		<u>1, 333, 785 (1 Mark)</u>
CGT @ 10% =		<u>133, 379 (1 Mark)</u>

Year 2010

	N	N
Consideration received on part disposal		13, 857, 109(1 Mark)
Porportion sold = A/A+B		
<u>13857109</u>		
13857109+18741003		
<u>13857109</u>		
32598112 = (1- 0.3054) × (0.4251)		
= 0.6946 × (0.4251) = 0.2953 (1 Mark)		
Less allowable expenditure:		
Purchase price: 21197305 × 0.2953		
=	6, 259, 564 (1 Mark)	
Expenses on acquisition:		
2008375 × 0.2953		
=	<u>593, 073 (1 Mark)</u>	
Expenses on Disposal		
		<u>2, 466, 713 (0.5 Marks)</u>
		<u>9, 319, 350 (1 Mark)</u>
Chargeable Gain =		<u>4, 537, 759 (1 Mark)</u>
CGT @ 10% =		<u>453, 776 (1 Mark)</u>

Year 2013

	N	N
Consideration received on part disposal		22, 234, 785(0.5 Marks)
Porportion sold = A/A+B		
1- (0.3054 + 0.2953) = 1-0.6007		

=0.3993 (0.5 Marks)

Less allowable expenditure:

Purchase price: 21197305 × 0.3993

= 8,464,084 (1 Mark)

Expenses on acquisition:

2008375 × 0.3993

= 801,944 (1 Mark)

Expenses on Disposal 2,980,415 (0.5 Marks)

12,246,443(0.5Marks)

Chargeable Gain =

9,988,342(0.5 Marks)

CGT @ 10% =

998,834(0.5 Marks)

Total CGT

= 133,379 + 453,776 + 998,834 = 1,585,989(0.5Marks)

(b)

Payment	Individual Rates	Corporate Rates
Construction	5% 0.25 Marks	5% 0.25 Marks
Professional fees	5% 0.25 Marks	10% 0.25 Marks
Royalties	15% 0.25 Marks	15% 0.25 Marks
Consultancy fees	5% 0.25 Marks	10% 0.25 Marks
Contract supplies	5% 0.25 Marks	5% 0.25 Marks
Management fees	5% 0.25 Marks	10% 0.25 Marks

QUESTION 6

(a)

$30/100 \times 12,000,000 = \text{N}3,600,000$ (4 Marks)

$\text{N}3,600,000 - \text{N}2,000,000 = \text{N}1,600,000$ (3 Marks)

(b)

Fees Payable:

$\text{CGT} = \text{N}37,000,000 - \text{N}29,300,000 = \text{N}7,700,000/10 = \text{N}770,000$ (2 Marks)

Consent Fee = $0.3 \times \text{N}37,000,000 = \text{N}11,100,000$ (2 Marks)

Stamp Duty = $0.02 \times \text{N}37,000,000 = \text{N}740,000$ (2 Marks)

Registration Fee = $0.06 \times \text{N}37,000,000 = \text{N}2,220,000$ (2 Marks)

Charting Fee = $\text{N}1,000$ (2 Marks)

Endorsement Fee = $\text{N}200$ (2 Marks)

Application Form Fee = $\text{N}200$ (2 Marks)

Total = $\text{N}14,831,400$ (2 Marks)

QUESTION 7

(a)

APPRAISEMENTS: THE ESTATE SURVEYORS AND VALUERS CONNECTION WITH STAMP DUTY (Sections 31 and 32)

In accordance of the provisions of Section 31 and 32 of the Stamp Duty Act, the Estate Surveyors and Valuers are required to stamp any valuation report based on the value as stated in such reports otherwise the parties involved shall be guilty of an offence with the consequent that fines will have to be paid. Details of these provisions are contained below: **(2 Marks)**

Section 31: for the purposes of this Act, the expression “appraiser means a person who values or appraises any estate or property, real or personal, or any interest, whether in possession or not, in any estate or property, or any goods, merchandise or effects for or in expectation of any hire, gain, fee or reward. **(1.5 Marks)**

Section 32(1): Every appraiser, by whom an appraisal or valuation chargeable with duty is made, shall within fourteen days after the making thereof, write out the same in words and figures showing the full amount thereof, and shall duly stamp the same and if he neglects or omits so to do, or in any other manner first discloses the amount of the appraisal or valuation, he shall be guilty of an offence and liable to a fine of one hundred naira.

(2) Every person who receives from any appraiser, or pays for the making of any such appraisal or valuation, not so written out and stamped as aforesaid shall incur a fine of forty naira. **(1.5 Marks)**

(b) Explanation of any two of these gives a maximum of 8 points

Section 5(1) (f); Section 12(4); Section 20(1); Section 20(2); Section 20(3); Section 21; Section 22; Section 23; Section 24(b); Section 26; Section 28 (2) (a); Section 28 (3) (d); Section 34 (7); Section 34 (8); Section 36 (5); Section 36 (6);

The implementation of VAT in Nigeria, which was promulgated by Decree 102 of 1993, started on 01/01/94. In furtherance of its understanding and implementation, the FIRS in September 1993, provided the ruling essential guidelines detailing the feature, administration and implementation of VAT. **(1 Mark)**

-VAT is a tax on spending. The tax is borne by the final consumer of goods and services because it is included on a separate item of the price paid by the consumer. **(1 Mark)**

-The tax is at a flat rate of 5% of the seller’s price (i.e. an ad-valorem tax, which means it is a tax based on the value of goods and services acquired) **(1 Mark)**

-The tax is collected on behalf of the government by sellers of goods and other organizations, which have registered with (FIRS). (The VAT Directorate). For VAT purposes, the following are required to register and collect VAT: (Govt. ministries, parastatals, and agencies with the obligation to collect the tax and remit the proceeds to FIRS. **(1 Mark)**

-The business or organization, which has registered for VAT, is classified as a “registered person”. The registered persons are to pay 5% VAT on goods and services purchased but can claim credit e.g. this tax (called input tax) when sold. The latter is the credit system to ensure that it is only final consumers that bears the burden of tax. **(1 Mark)**

-5% VAT (called output tax) is included as a separate item in the price of all goods and services supplied by registered persons. **(0.5 Marks)**

For the purpose of understanding, it is pertinent to define both input and output tax. Input Tax, is what is charged on business purchases expenses. Example of these are goods and services supplied or imported by the manufacturer while Output Tax, is the tax that is due on vat able supplies. It is derived by multiplying the value of the aggregated

goods and services supplied by the VAT rate of 5%. Under the operation of VAT, a seller of goods and services would have paid VAT on his input, which is vat able (while purchasing his inputs). This is at the rate of 5%. This seller of goods or services in turn collects VAT from the producer of his products (his output) while selling it. The rate of output is 5%. The output VAT received (less) the input VAT is paid in a tax period in the amount to be remitted to the local VAT office with the appropriate returns backed by the proper VAT records and account in the office of the VAT agent. **(1 Mark)**

-The registered persons have to make regular VAT returns and either pays to or receives from the (FIRS). (The VAT Directorate), the difference in the input tax or output tax.

-VAT returns and payments are normally made on a monthly basis to the local VAT office on or before the last day in the month following that in which the supply was made. **(1 Mark)**

-to claim a credit for input tax, a registered person must hold a “Tax invoice”. Tax invoice are expected to contain the following information:

- ❖ Taxpayers identification number (T.I.N)
- ❖ Name, address and VAT registration number.
- ❖ Customer’s name and address.
- ❖ Type of supply
- ❖ A description of the goods and services supplied.
- ❖ Quantity of goods or extent of services.
- ❖ The rate of VAT.
- ❖ The rate of any discount offered.
- ❖ The total VAT payable. **(1 Mark)**

-Records and accounts tax to be kept for regular verification by VAT inspectors. **(0.5 Marks)**

Although VAT is administered centrally by the Federal Government by using the existing machinery of the FIRS in close co-operation with the Nigerian Customs Service (N.C.S) and the State Internal Revenue Services (SIRS). The net proceeds from the new tax accruing solely to the state governments after making an allowance of 20% to cover the cost of administration. In effect, the state government will benefit to the tune of 80% of the entire VAT collection. **(1 Mark)**