FEDERAL INLAND REVENUE SERVICE

INFORMATION CIRCULAR **NO: 2005/01**

Date: February, 2006

SUBJECT: ***TAX INVOICE AND ITS RELEVANCE TO VAT OPERATION***

This Information Circular is published as a guide to all registered taxable persons or firms to enable them understand the duty imposed upon them under the VAT Act. The aim of the circular is to assist business owners on how to keep relevant records of taxable transactions which may be very helpful as the FIRS begins to streamline and fine-tune the VAT operation system in preparation for the implementation of the VAT refund scheme. Section 29 Part V of the VAT Act provides stiff penalties for offenders who fail to keep proper records of tax invoice.

1.0 Introduction

Invoice generally means any document issued as an evidence of demand for payments. A Tax Invoice is similar in many respect to a normal sales or purchases invoice, except that it has provision for VAT registration reference number and VAT payment at the prescribed rate. Every taxable firm has a duty to issue a tax invoice for every single Vat able transaction carried out by the business, details of which must be furnished to the nearest Integrated Tax Office of the FIRS within the period prescribed in the Act for the rendition of VAT returns.

2.0 Sources of Invoice

Invoice may be originated from the following sources:

(i) Overseas Suppliers:- Invoices from this source usually originate from a foreign country to cover goods being imported to Nigeria. It becomes a Tax Invoice at the point when VAT is imposed by the Customs on the CIF value of the goods duly reflected on the invoice.

(ii) Local Suppliers:- Invoices issued locally by one taxable business entity to another in normal business transactions e.g. manufacturers invoice to wholesaler or retailer in the business chain.

(iii) Local Consumers:- Invoices raised by taxable entities to final consumers, who must ultimately bear the burden of tax paid. Invoice raised by a retailer to a final consumer is not useable for VAT purpose.

3.0 Nigerian VAT System

The Nigerian VAT system has the following features:

(a) **Multi-Stage Tax System**

Under this principle, VAT is imposed at every stage of the production chain from the Manufacturer to the consumer.

(b) **Credit Mechanism**

In order to eliminate the cascading effect of taxation at every stage of production, a credit mechanism system is installed to allow VAT paid on imports or purchases of raw materials (INPUT TAXES) to be deducted from the VAT charged on sales (OUTPUT TAXES) and therefore, the tax to be paid by a taxable firm is the difference between Output tax and Input tax. This credit mechanism acts as a safeguard against the negative impact of the tax so that VAT is made neutral to price determination (VAT is not an element in the price). The credit mechanism also helps VAT to promote export drive in view of its neutral characteristic to international trade. In export trade, the total input taxes incurred on production is refundable.

(c) **Tax-Invoice System**

Our VAT system is invoiced-based. The Tax invoice can be regarded as commercial invoice, but a commercial invoice cannot be regarded as a Tax Invoice because the document has to satisfy certain requirements in order to qualify as a "Tax Invoice".

The requirements are very essential because they determine the legality of the Tax Invoice, implying that a credit can be allowed against output tax only if the invoice satisfies the requirements which are mandatory and are intended to achieve the followings:

(i) to improve the low level of compliance by taxable persons with respect to observance of accounting principles and maintaining of the records of transactions.

(ii) to enable the Revenue Authority monitor every trading transaction conducted by the taxable firms, thereby ensuring that the reported monthly sales returns in the books of the seller is in agreement with the monthly returns made by the purchaser.

4.0 Operation of the Tax Invoice

(a) Regulation

The FIRS has taken steps to provide in the Act specific obligations on taxable firms. The statute states that "each Taxable firm is obligated to issue a Tax Invoice at the time of delivery of a taxable good or service". This means that only a taxable firm is obligated to issue Tax Invoice and without fulfilling VAT registration requirement, the firm will have no right to Issue Tax Invoice. It is an offence however for a taxable firm to fail to register for VAT as well as failure to issue tax invoice when it is already confirmed to be doing business. Stiff penalties have been provided in the VAT Act to check these abuses. Section 32 of VAT Act.

The Tax Invoice should be issued at the time of delivery of the taxable goods or services. This emphasizes that the tax is due at the time of delivery and not at the time of payment. An exception to this rule may exist only where payment is received before the deliveries.

(b) Requirements of a Tax Invoice

The Tax Invoice must contain the under-listed information which relates to the taxable deliveries. These are:

- name, address and VAT registration number of the firm that delivers the taxable good or Service.
- name and address of the person/company receiving the taxable good or service
- description, type, number, unit price and total sales value or consideration of goods sold or purchased
- value added tax (VAT) charged or collected and rate applied
- date of delivery.

(c) Coincidence of Time of delivery and Time when Tax is due

The time of delivery of the taxable good or service is made to coincide with the time of issuance of the tax invoice. This means that the time when tax is due, is the time when delivery of the taxable goods take place and not the time of payment. The rationales for these regulations are:

- to simplify the calculation of the tax due. Through accrual accounting basis, only Records of sales are required; those of payments or accounts receivables will not be required.
- to safeguard tax revenue in order to ensure that:
- tax revenue is collected early; and

- no bad debt is taken into account in calculating the amount of tax due since the tax revenue is purely based on the invoices.
- to plug loopholes and leakages in the collection system.

(d) **Penalty Provisions**

Section 29 & 31 of the VAT Act provides stiff penalty for failure to issue tax invoice. A person who fails to issue tax invoice for goods sold or services rendered is guilty of an offence and liable on conviction to a fine of 50% of the cost of the goods or services for which the invoice was not issued.

(e) **Sample of Tax Invoice**

A sample of an acceptable Tax Invoice is shown below.

SAMPLE OF TAX INVOICE

XENOX YAKOS ZENOX

Plot 733 Sokode Crescent,
Wuse Zone 5, Abuja FCT

Name:……………………………. VAT Reg. No. ABV.011620240

Address:…………………………..

……………………………………. Date:…………………………...

Qty	Description	Rate	Amount N	K
	Total	N		

Amount in words ……………………………………………………………………..

…………………………………………………Naira……………………....Kobo

……………………… ………………………..
Customer's Signature Manager's Signature

Taxable firms are free to print their Tax Invoice from any source, but they must ensure that their registered addresses and VAT registration numbers are printed on the Invoices.

5.0 Cash Registered for Retailers

Requirements

Every trader who carries on businesses! Restaurants, hotels and other similar businesses will be required to install a cash register machine for the business or issue tax invoices whichever is convenient, on which the consideration for supply is based. For this category of taxpayers, particularly where invoices have not been issued e.g. Supermarket stores turnover figure will be presumed as VAT-inclusive and the implication here is that because the taxpayer has installed a Cash Register Machine he is deemed to have performed his obligation of bookkeeping and issuance of receipts. VAT will then be charged based on his total cash receipts.

6.0 Conclusion

As part of the efforts of FIRS to effectively reach out to all taxpayers, we have embarked on a Comprehensive Computerization of the tax administration system. As we advance on this project, it is expected that Taxpayers' VAT registration numbers will soon give way to Taxpayers' Identification Number (TIN) which will become the code numbers to access the stored information on every taxable firm. In this regard, the FIRS is building an interface with the Nigeria Customs Service (NCS) as the agent of VAT collection on Imports. The interface with the Customs will enable the Revenue have access to import documentation in relating to taxable firms and therefore will be able to verify the various input tax claims made by the companies.

Registered taxable firms are required to particularly note that only Invoices that fulfill the requirements listed in 4(b) above will be accepted and recognized as Tax Invoice by the Revenue authority as Tax Invoices; also, only such an invoice will be allowed to be treated as creditable input tax against output tax charged. The computer programme is unlikely to accept input tax claims on invoices with any missing features.

7.0 Enquiries

All enquiries on any aspect of this publication are to be directed to:

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FORM VAT 005

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