

# FIRS updates TaxPro-Max Module on VAT Filing and Payment

KPMG in Nigeria  
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**The Federal Inland Revenue Service (FIRS) recently made updates to the features for value added tax (VAT) filing and payment module on the TaxPro-Max (TPM or “the platform”).**

**One significant change is the introduction of an input VAT credit mechanism, which requires suppliers to remit VAT collected from customers to the FIRS using a new sales schedule format for the customers to claim the allowable input VAT on such purchases. The new monthly sales schedule includes additional information, which should be uploaded to the TPM, such as customers tax identification numbers (TINs), description of items sold and status of the items for VAT purpose (i.e., VATable, zero-rated or exempt). Remarkably, where the supplier does not know a customer’s TIN and fails to enter zero in the relevant cell, the customer will NOT be able to claim the input VAT.**

**Another notable change is the modification of the sales adjustment process. The sales adjustment feature allows a taxpayer to modify the sales figures reported in the prior month’s returns in the current month where there are changes to the information filed earlier. Based on the updates, a taxpayer is now required to provide the item identification number of the sales for that month(s) in order to make such adjustments. Further, where a taxpayer needs to make a sales adjustment for the previous month, the platform will reverse the VAT credit granted in that month.**

**Though the FIRS is yet to issue a formal Public Notice on the changes, various local tax offices have been conducting taxpayers’ sensitization exercises to demonstrate the new features while also providing user guides and illustrative videos.**

## Commentary

The updates to the TPM platform demonstrate FIRS’s continued efforts to improve tax compliance processes, increase tax collections and reduce revenue leakages. However, the new changes have created some unintended issues which the FIRS needs to promptly address in order to avoid decline in VAT collection and unnecessary conflicts with taxpayers. We have summarised these issues below as follows:

1. The FIRS Establishment Act empowers the FIRS to carry out such activities that are necessary or expedient for the full discharge of its functions. However, such activities must be consistent with the law. The VAT Act is very specific on when a taxpayer can claim its allowable input VAT. This is not dependent on whether the supplier has remitted the output VAT collected from the taxpayer or the failure of the supplier to insert “zero” under the beneficiary TIN’s column in the sales schedule where the supplier does not know the TIN.

The input-output VAT recovery mechanism provided in Section 17(1) of the VAT Act (as amended) does not require the supplier to have remitted the input VAT collected as a prerequisite for the customer to claim allowable input VAT on purchases in any month. To the extent that the customer has paid over the input VAT to the supplier, it should claim such allowable input VAT in that month, in line with the provisions of the law. However, it seems that the FIRS, through the input VAT credit mechanism, has shifted the responsibility for ensuring compliance with timelines for VAT remittances to the customers which is inconsistent with the provisions of the extant laws. It is imperative, therefore, that the FIRS review the operation of input VAT credit mechanism to ensure that it is not imposing additional obligations on taxpayers where none exists under the law. If these updates are not modified, there will be significant delay in the filing of monthly returns and resultant decline in VAT payment.

2. The input VAT credit mechanism may have significant cashflow impact on taxpayers whose output VAT is withheld at source, particularly the Fast-Moving Consumer Goods companies, large manufacturing companies and suppliers to companies operating in the oil and gas industry, banks, MTN Plc, Airtel and government ministries, statutory bodies and agencies. For example, in order to claim allowable input VAT on monthly purchases, the input VAT credit mechanism requires that the supplier must have remitted the VAT collected on the supplies before the credit becomes available to the customers. While the logic behind the update may seem reasonable, as suppliers are expected to remit the VAT collected from their customers on a monthly basis; however, this is not always the case. The reality is that some suppliers, based on their business exigencies, may not always remit the VAT collected from their customers on monthly supplies as and when due. The implication of restricting the available input VAT amount to the amount of VAT remitted by the suppliers is that the affected customers will be required to make additional cash payments in such months that the suppliers fail to remit the VAT collected to the FIRS.
3. Finally, the input VAT credit mechanism does not consider the allowable input VAT paid to Nigeria Customs Service (NCS) on imported goods. Section 17(1) of the VAT Act (as amended) defines allowable input VAT to include "the tax on goods purchased or imported directly for resale..." The omission of the VAT paid to the NCS on imported goods in the input VAT credit mechanism feature is a significant oversight which must be promptly addressed to ensure that the operation of the system is consistent with the provisions of the law.

While we commend the continued efforts of the FIRS to leverage technology to improve tax collection and voluntary compliance in Nigeria; however, it is

important that the operations of these technology tools are designed in line with the compliance provisions stipulated in the relevant tax laws. This will help to mitigate unintended adverse effects on taxpayers and their businesses. It is, therefore, hoped that the FIRS will review the updates to VAT compliance process on TPM in line with the issues discussed above to ensure the achievement of the twin objectives of improving revenue collection for the government and reducing compliance cost for taxpayers.

The effective automation of tax processes requires ongoing communication/ consultation between tax authorities and taxpayers. Consequently, the success of any 'innovation' is highly dependent on continuous engagements with stakeholders. Though the FIRS has consistently done this, except in this instant case. Consulting with stakeholders when the actions have already been taken is not the way to go towards 'making tax just happen'. It is also important that the innovation must be user-friendly and valued adding. Where these elements are not present, there will be resistance and such innovation will fail.

One area that needs urgent innovation is in data entry. Taxpayers are still required to populate line by line details of all monthly transactions in the sales schedule before they can upload. This is a manual, repetitive, time-consuming and low value task which is not required. The time spent on data entries into the sales schedule can be spent on more important and value-adding activities. The system should, therefore, be designed in a way that can allow taxpayers to directly upload their sales schedule on the TaxPro-Max platform. FIRS, using data analytical tools, can sort out the information in the way it requires. The FIRS only needs to specify the key information that the taxpayer's sales ledger must contain. This will certainly reduce compliance burden on taxpayers.



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