



Tax Alert

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FIRS and LIRS sign MoU on joint tax audit/investigation and exchange of information

On Monday 6 February 2023, the Federal Inland Revenue Service (“FIRS”) and Lagos Internal Revenue Service (“LIRS”) signed a Memorandum of Understanding (MoU) to establish a Joint FIRS and LIRS Audit and Investigation Team (“JAIT” or “the Team”) The MoU aims to foster collaboration between the two tax authorities on joint tax audits and investigations to address the issue of duplication of tax on any selected taxpayer, improve exchange of information only for tax assessments, collections, and recovery purposes, and facilitate staff capacity development The MoU will also assist FIRS and LIRS to build a reliable and updated database on corporate and high net worth taxpayers

Consequently, the JAIT would jointly execute both current and back duty tax audit or investigation on records of selected taxpayers and exchange information, spontaneous or on-request, solely for tax assessments, collection, and recovery The two tax authorities have assured taxpayers of their commitment to maintaining confidentiality and ensuring that taxpayers’ records and financial information are safeguarded during the exchange of information

Commentaries

The keys areas of the MoU align with the functions of the FIRS outlined in Section 8 of the Federal Inland Revenue Service (Establishment) Act, 2007 (“FIRSEA”) (as amended) Section 8(1)(i) and (j) of the FIRSEA empowers the FIRS to collaborate with relevant national and international agencies or bodies on tax matters to facilitate rapid exchange of information and undertake exchange of personnel or other experts with complementary agencies for purposes of comparative experience and capacity building

In 2017, the FIRS and the States Inland Revenue Service had signed a similar collaborative framework, which was aimed at improving the relationship among the various tax authorities The framework, which was to be coordinated and implemented by the Joint Tax Board (JTB), was designed as a roadmap to identify essential operational areas of taxation for collaboration to improve tax revenue collection at the three (3) tiers of government Notably, the key areas of collaboration outlined in the framework are the same as the key areas of the current MoU However, the framework was not fully implemented due to

logistic issues. The question, therefore, is whether those issues have now been fully addressed.

Nonetheless, we commend the FIRS and LIRS for taking steps to reduce the compliance cost of tax audit and/or investigation for taxpayers by jointly performing the exercise. If judiciously implemented, the MoU should also foster collaborative relationship between the two tax authorities and this will ensure swift resolution of overlapping tax issues. It is, therefore, important that adequate measures be instituted to ensure transparency of the process and proper delineation of roles and responsibilities between members of the teams. However, the focus of all tax authorities should be how to 'make tax just happen' and less visible to taxpayers. To achieve this, there should be less focus on tax audits and investigations, which are backward-looking tools. Rather, emphasis should be on continuous investment in digital transformation and automation of their systems to enhance tax compliance and collection.

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