



Tax Alert

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The LIRS Deploys an Upgraded Consumption Tax Collection Process for the Hospitality Sector in Lagos State

The Lagos State Internal Revenue Service (LIRS or “the Service”) has released a notice regarding the deployment of an upgraded Consumption Tax Collection Process for the Hospitality sector in Lagos State. This initiative aligns with the Service’s dedication to enhancing convenience in tax payments, simplifying compliance with tax laws, and fostering an improved business environment in Lagos State.

The key highlights from the notice are as follows:

1. Eco Fiscal Solution or System (EFS):

In a bid to boost revenue collection, streamline processes and improve efficiency in tax administration, the LIRS has introduced a digitalized payment solution platform called the Eco Fiscal System (EFS). This system is specifically tailored for businesses in the Hospitality sector such as hotels, event centers, restaurants, bars, and related facilities in Lagos State. All operators in the sector are required to download and install the EFS software, which will interface only with the Point of Sale (PoS) and transmit records of all sale transactions to the LIRS Online Tax System (OTS) in real time. If the collecting agent does not have a PoS, the LIRS will provide it. The primary objective is to automate the collection of the Hotel Occupancy and Restaurant Consumption Tax (HORCT)

Key features of the newly deployed EFS include:

- Real-time online monitoring of consumption tax collection.
- Instant issuance of receipts with unique invoice numbers.
- Reduction in compliance costs for operators.
- Promotion of transparency.

2. Compliance Obligation:

The LIRS emphasized the mandatory adoption of the EFS by all operators in the hospitality sector. This directive is effective immediately upon the issuance of the notice. Taxpayers falling within this category should adhere to this directive, as failure to comply will be deemed a violation of the provisions outlined in Section 7(1), 8, and 9 of the Hotel Occupancy and Restaurant Consumption Fiscalization Regulation 2017, leading to the imposition of penalty of ₦2million, imprisonment or both as stipulated in Section 11(2) of the HORC Law 2009.

Commentaries

While we commend the LIRS for its dedicated efforts to improve tax compliance processes in Lagos State, it is essential to acknowledge the current dispute around the imposition of consumption tax by State Governments on businesses in the hospitality sector. You would recall that the Appeal Court had ruled in the case between *the Federal Inland Revenue Service (FIRS) vs. Attorney General of Lagos State (AGL) & The Registered Trustees of Hotel Owners and Managers Association of Lagos* that the VAT law has covered the field of consumption tax. Therefore, the VAT law (being an existing Federal law) should prevail over any similar state law, including the Hotel Occupancy and Restaurant Consumption Law of Lagos State. The key question, therefore, is whether the deployment of an upgraded Consumption Tax Collection Process would be operative in light of the Appeal Court decision. We hope that the controversy would be resolved now that the decision has been referred to the Supreme Court for decision.

Nonetheless, the deployment of the EFS should ensure full compliance and encourage timely payment of consumption tax. This will ultimately increase tax revenue. It is crucial for the LIRS to facilitate a smooth transition into the newly deployed system for taxpayers. There is a need for comprehensive awareness campaigns and training programs to ensure a seamless transition. Though the LIRS has stated that the system will not interfere with the accounting system of the operator to address potential privacy concerns, the fact that every LIRS agent dealing with consumption tax will have access to the OTS may enhance the potential for unauthorized access or breaches. It is also important to state that the entire system is highly dependent on the availability and reliability of internet connection, which is a big issue in the country. Even though the LIRS will provide the PoS application for those operators that do not have, the potential cost of implementing and maintaining internet infrastructure can be expensive, especially for small operators.

We propose that sufficient notice be provided to operators before implementation begins. This will ensure a better understanding of the system while also ensuring a smooth integration process. In any event, careful planning, robust cyber security measures to address any data security concerns and ongoing communication with operators will be critical to ensure the success of the EFS.

Please click [here](#) to read the LIRS' Public Notice on the EFS, and [here](#) to read responses to Frequently Asked Questions (FAQs) about the new system.

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