

SMEs: The 5 taxes you need to pay as a business

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Starting and growing a business takes determination, hard work, planning and lots of research. From deciding which business idea to go with to what legal structure you want your business to take, the decisions you must make as an SME owner are endless. Despite the fact that you want to keep as much profit as you can from your business, you also must consider your obligations to the government, by way of taxes.

In this article, we will save you some research time and highlight 5 taxes which you need to pay during the course of your operations, or risk being subject to fines or other penalties which may be imposed by the tax authorities.



1

Companies income tax

If you choose to structure your business as a company incorporated at the Corporate Affairs Commission (“CAC”), you will need to comply with the provisions of the Companies Income Tax Act (as amended by the Finance Act 2019) (“CITA”). Under the CITA, a small company, which is defined as a company with a gross turnover¹ of N25 million and below, is exempt from companies' income tax. However, such company must be registered with the Federal Inland Revenue Service (“FIRS”) and file the necessary returns as required under the CITA. On the other hand, if your SME has a gross turnover of over N25 million but less than N100 million, the company will be subject to companies' income tax at the rate of 20% of its income as a medium-sized company. It is doubtful that when starting up, your company will have a gross turnover which exceeds N100 million, but if it does, then such company will be regarded as a large company and companies income tax is payable at the rate of 30% of its income.



The CITA requires existing companies to file their tax returns within 6 months of their accounting year end. Companies which have newly been incorporated are, however, required to file within 18 months of incorporation or not less than 6 months after their accounting year end; whichever is earlier. Also, payment of companies' income tax at least 90 days before the due date entitles the relevant company to a bonus of 2% and 1% of the tax paid for medium companies and large companies respectively. Failure to file company income tax returns attracts a penalty of N25,000 for the first month in which the failure occurs and N5,000 for each subsequent month in which the failure continues. In addition, the CITA provides a penalty of 10% of the amount of tax payable and interest at the monetary policy rate for late payment or non-payment of tax.

2

Personal income tax

Nigerian law recognises that not every SME owner would wish to incorporate a company- at least, not at the start. Therefore, as an alternative to registering a company, you may register your SME as a business name at the CAC. Although the income of such a business is not liable to companies income tax, you as an individual will still be required to pay your personal income tax on any income you receive from your business. Personal income tax ranges between 7% – 24% and this depends on the individual's chargeable income. Returns are required to be filed with the State tax authority of your residence by the 31st of March every year.

3

Value added tax

This is a consumption tax payable on the supply of VATable goods and services at the rate of 7.5% of the value of such good or service. All goods and services supplied in Nigeria are VATable except those exempted from the tax under the law. Examples of goods that are exempt from VAT are medical and pharmaceutical products, books and educational materials, basic food items, baby products, etc. Exempted services include medical services, exported services and tuition relating to nursery, primary, secondary and tertiary education. Only businesses with taxable supplies amounting to N25 million in any calendar year are required to charge, collect and remit VAT as well as file monthly returns with the FIRS. Such returns are to be made to the FIRS on or before the 21st day of the month after which the relevant supply or purchase is made.

The penalty for not complying with the obligation to file VAT returns is N50,000 for the first month of default and N25,000 for each subsequent month of default. In addition, for non-remittance of VAT, there is a penalty of 10% of the unremitted tax.



4

Tertiary Education tax

The Tertiary Education Tax Trust Fund (Establishment, etc.) Act 2011 imposes a tertiary education tax of 2% on the assessable profits of companies registered in Nigeria. It is payable within 60 days after the FIRS has served a notice of the assessment on the company. The assessments for this tax and companies income tax are usually done concurrently.

5 Withholding tax

This is a deduction made from certain payments made out to companies or individuals and remitted to the relevant tax authority. Such payments include rent, commissions, contract sum and fees payable to a wide range of professional, consultancy, technical or management service providers. The rates at which tax is to be withheld range from 2.5% to 10%, depending on the nature of the payment and the recipient.

Under the law, the person making the payment has an obligation to deduct the tax on the relevant payment, at the appropriate rate, and remit same to the FIRS within 21 days from the date the amount was deducted or the time the duty to deduct arose (where the recipient is a company) or to the relevant internal revenue service of the state that the recipient is resident (if the recipient is an individual) within 30 days from the date the amount was deducted or the time the duty to deduct arose. Failure to deduct or remit the tax withheld attracts a penalty of 10% of the amount not deducted or remitted.

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