

Federal Inland Revenue Service and Lagos State Internal Revenue Service Sign a Memorandum of Understanding on Joint Tax Audits, Investigations and Automatic Exchange of Information

Friday, 24th February, 2023



Introduction

On the 8th of February 2023, the Federal Inland Revenue Service (FIRS) signed a Memorandum of Understanding (MOU) with the Lagos Internal Revenue Service (LIRS), to kick start the implementation of joint tax audit, investigation exercise and the automatic exchange of information between the revenue agencies.

Objectives of the MoU

- The FIRS and LIRS team will collaborate on tax audits and investigation exercises.
- There will be automatic exchange of information for data gathering for the purpose of tax administration.
- The MoU will create a capacity building opportunity where both revenue agencies can learn from each other. It is believed that this MoU would assist in bridging the information and knowledge gap as well as any variation between the apex tax authority and the state tax authority.
- The MoU will also help increase revenue generation for both the Lagos State Government and the Federal Government to enable them meet infrastructural targets and fund their budgetary requirements.
- The MoU will address issues on duplication of efforts and

facilitate the exchange of data that is relevant to the enforcement of extant tax laws.

- To reduce the cost of tax collection and improve taxpayers' satisfaction.
- As a result of the joint tax audit, there will be an implementation of presumptive tax regime on taxpayers. The presumptive tax would be for the purpose of personal income tax and ground rent administration in Lagos State.

Effects of the MoU on Taxpayers

As a result of the MoU signed by the tax authorities, taxpayers should:

- Comply with all tax obligations and statutory requirements as taxpayers may be more exposed to high scrutiny by both the State and Federal tax authorities.
- Ensure that proper and adequate records are kept for both personal and corporate tax matters.
- With the likely implementation of presumptive tax, some taxpayers may be affected, and it is therefore paramount that relevant documentation be put in place to ensure compliant taxpayers are not assessed to arbitrary taxes.

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OUR COMMENTS

The execution of the MoU by the FIRS and LIRS is one of the measures to set the pace for a joint tax administration between the State Governments and Federal Government, even though the implementation date has not been announced. It is expected that the success of this MOU may encourage more States to go into similar partnerships with FIRS. We expect that adequate and appropriate implementation of this approach would give room for quicker audit resolution, reduce costs (for the revenue authorities and taxpayers), streamline facts-finding approach adopted by different tax authorities, reduce burden of multiple tax audits of similar transactions, and encourage effective compliance by taxpayers.

The success of this initiative is dependent on how the agencies can drive and maximize the

mechanisms and processes to be established. Adequate and appropriate mechanisms should be put in place by both agencies to ensure a smooth implementation of the exercise, considering that a similar approach was introduced in the past by FIRS to jointly audit taxpayers, but it failed the purpose.

The above notwithstanding, if this initiative is objectively implemented, it will ease the burden of corporate taxpayers who are faced with multiple visits by different tax authorities. The initiative will potentially not only increase tax revenue accruable to governments by enlarging the tax net, but also eliminate possible tax evasion. The tax agencies should also put forth proper guidance and notice to the public for proper sensitisation to ensure the cooperation of taxpayers.



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