



# FEDERAL INLAND REVENUE SERVICE

**INFORMATION  
CIRCULAR**

**NO: 9501**

**DATE: 19th September, 1994**

**SUBJECT: VALUE ADDED TAX (VAT) REFUND PROCEDURE**

*This circular is for the education and information of vatable persons and the general public on VAT refund procedure.*

**1. Introduction**

A salient feature of the VAT system is its ability and promptness in making refunds as and when due. Refund here does not necessarily mean direct cash payment as further explained in paragraph 4 below. The Value Added Tax Act Cap V1 LFN 2004 (as amended) permits a taxable person to claim refund of the excess tax, in the event of input tax exceeding output tax. Refund is also available for VAT paid on zero-rated goods and services. The FIRS is empowered to set the guidelines and requirements for VAT refund from time to time.

**2. The right to claim VAT refund**

It is the right of the vatable person to demand for a VAT refund where the input tax genuinely exceeds the output tax for a transaction period. Vatable persons by their roles are agents of the FIRS in the administration of VAT and the FIRS is obliged to make timely refund to them in the course of their agency roles.

**3. How to apply for VAT refund.**

The vatable person must first fill the VAT return form 002, duly completed and submitted to the relevant tax office and the form must clearly and correctly indicate that it is excess of input tax over output tax, to warrant any refund.

**4. Nature of Refund.**

VAT refund can be claimed in any of these ways;

- i.) by credit method, or
- ii.) by direct cash refund method; or
- iii.) by both methods in (i) & (ii) above.

**4.1 Credit method**

This is carried out with the use of VAT form 002, which contains the calculation of total output tax and input tax and deduction thereof. Where output tax equals input tax, no tax is payable or refundable and where output tax exceeds input tax, the tax

difference is remittable to government. Where the output tax is less than the input tax, the excess of input tax must be refunded. Here, the taxable person may decide to set off the balance resulting in his favor against the output tax in subsequent month by making the outstanding input tax in the previous month as the first charge in the current month output tax. This is a popular VAT refund approach in many VAT system and is encouraged by the FIRS since it saves time and unnecessary paperwork.

#### 4.2 **Direct Cash method**

It is reasonable to expect that output tax will always exceed input tax. However, There are some companies whose input tax are perpetually in excess of output tax, such a company cannot reasonably be persuaded to engage in future set –off by means of credit because the need for refund is repetitive and could be so for an extended period. It is for this category of companies that regular cash refund may be necessary.

#### 5. **Who is qualified for refund?**

Refund may be demanded by a registered vatable person in respect of its excess input tax. It follows that only registered vatable person can make refund claim.

#### 6. **How soon can refund be obtained?**

Normally all relevant document for VAT transaction will be verified before a refund can be made. The Service shall decide on who is eligible for refund subject to its refund rules and conditions. The refund shall be made within 90 days of the decision of the Service on the eligibility for the refund. The earlier the underlying documents are available for VAT audit, the quicker will the refund process.

#### 7. **Document verification**

All evidences of payments in respect of input tax must be kept for verification purpose before a refund can be made, while all source documents relating to the transaction in refund application must be kept and made available for inspection. The following document shall be produced for VAT audit:

- related monthly VAT return form 002, input tax invoices, sales invoices, notices of import and original proof of tax payment on imports;
- export documents, notices of export and proof of realization of export; and
- other relevant document needed to back up refund claim.

#### 8. **Refund procedure**

All claims for refund, irrespective of the mode of refund, must be subjected to verification by the VAT auditor. It is therefore important to stress that all tax invoices are to be scrupulously kept for at least a full year before they are stored away. Unless a vatable person indicates in writing his preference for direct cash refund, the FIRS

will safely presume a refund by the credit approach. The VAT auditor' report of findings is the acid test in processing any VAT refund through the FIRS internal processing channels.

9. **Refund Account**

In order to minimize delays in the refund process, especially for direct cash, a dedicated account has been opened by the Accountant-General of the Federation from which payment of all successful refund are to be made to applicants.

10. **Refund Offence**

Stiff penalties are provided in the law for offences that may be committed in the course of requesting for refund. Examples of such offences include among others:

- Using false documents to make refund claim;
- Issuing false tax invoice, with the intention to procure unmerited refund;
- Resisting VAT auditor from the verification exercise or supplying false or misleading information.

11. **Further Enquiries**

For more information on this Circular and other aspects of the VAT refund, please contact:

Executive Chairman  
Federal Inland Revenue Service  
Revenue House,  
15 Sokode Crescent, Wuse Zone 5. Abuja.

Or

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