

Tax Alert

Federal Government approves new interest rate spread on unpaid taxes

The Federal Government (FG) has approved a new interest rate spread of 5 per cent on unpaid taxes for 2017. The spread was approved by the Honourable Minister of Finance (“the Minister”), Mrs. Kemi Adeosun, in exercise of her powers under Section 32(1) of the Federal Inland Revenue Service (Establishment) Act, 2007. Based on the section, unpaid taxes in both Naira and foreign currencies¹, are liable to interest charges at the prevailing Central Bank of Nigeria (CBN) Minimum Re-Discount Rate (MRR) plus the spread determined by the Minister. The CBN Monetary Policy Rate (MPR), which replaced the MRR in December 2006, is currently 14%. Consequently, taxpayers would be liable to interest charges for non-payment and late payment of taxes at the rate of 19% with effect from 1 July 2017. Rates for future periods would modulate based on changes in the MPR.

Meanwhile, it is important to record that while the FIRS issued public notices in 2014 and 2015 fixing 15% interest rate on unpaid taxes for the two years, the applicable interest rate was not published in 2016. This has resulted in the use of varying interest rates by different FIRS offices since then. Certainty is desirable in this respect to stop this arbitrary practice. One way of doing this is to retain the 15% rate applicable in the immediate preceding years.

Finally, it is hoped that the newly approved interest rate spread will improve taxpayers’ voluntary compliance so as to avoid the additional interest burden arising therefrom.

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¹The interest rate applicable to foreign currency liabilities is the higher of the CBN MPR and the London Inter-bank Offer Rate (LIBOR), plus spread to be determined by the Minister. However, the comparison is moot, as the LIBOR has consistently been lower than the MPR since its introduction.

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