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EXPIRATION OF THE VALUE ADDED TAX EXEMPTION ON STOCKBROKING COMMISSIONS



INTRODUCTION

In July 2014, the then Minister of Finance – Dr Ngozi Okonjo- Iweala¹ signed the Value Added Tax (Exemption of Commissions on Stock Exchange Transactions) Order, 2014 to waive payment of Value Added Tax (“VAT”) on commissions of the capital market operations. The exemption was to last for a period of five (5) years. July 2019 witnessed the re-commencement of Value Added Tax (“VAT”) exemption on commissions of stock exchange transactions.

THE VAT EXEMPTION

VAT is a consumption tax ² imposed at the rate of five percent on the supply of taxable goods and services, except those excluded under the First Schedule of the Value Added Tax Act and those exempted by an Order of the Minister of Finance.³ In 2014, the then Minister of Finance Order exempted commissions:

- a. earned on traded value of shares;

- b. payable to the Securities and Exchange Commission;
- c. payable to the Nigerian Stock Exchange; and
- d. payable to the Central Securities Clearing System.

In capital market transactions, VAT on commissions are passed onto issuers and investors as the case may be.⁴ The exemption was introduced to resuscitate the Nigerian capital market,⁵ and to increase trading activities.⁶

Impact of the VAT Exemption So far

Unfortunately, it is difficult to ascertain the effect of the VAT exemption and whether it has impacted on the volume of transactions on the Nigerian Stock Exchange (“Exchange”). A report of the Exchange indicated that the average daily traded value of shares traded in Q2 2014 was 5.01 billion naira while the value traded in Q1 2019 is 3.2 billion naira. Also, the average daily transactions in Q2 2014 was 5000 while that of Q1 2019 is 3,769. ⁷

¹ Section 38 of the Act empowers the Minister of Finance to amend, vary or modify the list in the First Schedule of the Act.

² Mohammed Taofeeq Abdulrazaq – Revenue Law and Practice in Nigeria - Malthouse Law Books

³ Section 38 of the Act

⁴ https://pwc-nigeria.typepad.com/files/pwc-tax-alert---vat-exemption-on-capital-market-transactions_oct-2014.pdf accessed

⁵ Nigerian Stock Exchange – Value Added Tax (VAT) Exemption of Commissions on Stock Exchange Transactions - <http://www.nse.com.ng/mediacenter/pressreleases/Pages/>

[Value-Added-Tax-Exemption.aspx](#) accessed on 8th August 2019

⁶ Feyisayo Popoola – VAT Charges on Capital Market Transactions resume today - <https://punchng.com/vat-charges-on-capital-market-transactions-resume-today/>

⁷ http://www.nse.com.ng/market_data-site/other-market-information
http://www.nse.com.ng/market_data-site/NSE%20Fact%20Sheet/Q2%20Fact%20Sheet%20-%202014.pdf, http://www.nse.com.ng/market_data-site/other-market-information

Implication

Following the expiration of the VAT exemption, the cost of transactions will increase for issuers and investors as the case.⁸ Financial Vanguard reported that the cost on shares traded on the Exchange rose by 0.17 percent for both the buy and sell side. It was also gathered that the commissions payable to stockbrokers increased to 1.41 percent from 1.35 percent per transaction; commission payable to the NSE also increased to 0.31 percent from 0.3 percent while the commission payable to Central Securities Clearing System, CSCS Limited rose to 0.38 percent from 0.36 percent. Consequently, the total cost per transaction on the buy side increased from 1.72 percent to 1.79 percent while total costs on the sell side rose from 2.02 percent to 2.12 percent, making the total transaction cost in both buy and sell side to rise by 0.17 percent.⁹



[site/NSE%20Fact%20Sheet/Q1%20Fact%20Sheet%202019.pdf](https://www.vanguardngr.com/2019/08/stock-market-transaction-cost-up-0-17-as-operators-decry-imposition-of-vat/) accessed on 9th August, 2019

8

⁹ Peter Egwuatu – Stock Market Transactions cost up 0.17% as operators decry imposition of VAT -

<https://www.vanguardngr.com/2019/08/stock-market-transaction-cost-up-0-17-as-operators-decry-imposition-of-vat/>

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