

Certificate of acceptance on fixed assets (CAFA) – Is it time to review process and threshold or discontinue?

The process of obtaining CAFA is usually not a walk in the park even when there are valid documents to support the acquisition of fixed assets. There are most times usually long delays at various stages of the process (i.e. pre-inspection, inspection and follow up). These bottlenecks come at a cost to companies

The Industrial Inspectorate Act Cap 18, Laws of the Federation of Nigeria (LFN) 2007 (the Act) is the legislation that established the Industrial Inspectorate Division (IID) of the Federal Ministry of Industry, Trade and Investment (FMITI) for the purpose of investigating and following the undertakings of industries, including investments and other related matters.

One of the most important roles of IID is to inspect, value and certify capital expenditure incurred by businesses in Nigeria. In this regard, every business that incurs or intends to incur capital expenditure of N500,000 or more must inform IID. The IID, after satisfactorily making a verification, issues a Certificate of Acceptance of Fixed Assets (CAFA) certifying the value of the capital expenditure.

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Considering the time value of money and the depreciation of Naira between when the law was enacted in 1970, the possibility exists that the proposed revised threshold of N5 million – N10 million, may still be lower than the equivalent amount of N20,000 in 1970 or N500,000 thereafter.

A revised threshold will definitely provide some relief to Small and Medium Enterprises (SMEs) whose need to process CAFA may then become deferred. This is especially in the light of the unique and distinct challenges facing SMEs in Nigeria.

There is no doubt that there is a good intention behind the requirement for obtaining CAFA. However, there is an abiding concern on the continuity of this regime in the realities of today's economy. A holistic review to determine the basis for relevance and continuity of the CAFA regime is thus imperative.

The need to ensure consistent valuation of capital expenditure amongst the various government agencies who would in performance of their duties need to validate the values of capital expenditure made by businesses emphasizes the relevance of the IID. Thus, Federal Inland Revenue Service (FIRS) is one of such government agencies specifically mentioned in the IID Act.

Companies that incur qualifying capital expenditure (QCE) for the purpose of their businesses are allowed to recover the costs of such investment through capital allowance claim when calculating their income tax liability.

This tax benefit is specifically provided for in the Second schedule of the Companies Income Tax Act (CITA). Also, CITA states the categories of QCE upon which capital allowances can be claimed, subject to provision of CAFA, as stipulated in the Act. FIRS generally seeks to withdraw the capital allowance claimed by a company where the company is unable to provide CAFA in support of its investment in the acquisition of such QCE.

Consequently, a company that fails to provide CAFA for its QCE runs the risk of increased income tax liability. In order to obviate this risk, companies engage with IID with a view to process and obtain the "almighty" CAFA.

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Apart from the administrative cost of deploying personnel of the company or engaging the services of a tax advisor to process CAFA, companies appear to be at the mercy of IID officials given the level of follow up before the process is completed. Moreover, the excuse of a delay from IID is not usually accepted by FIRS especially where the application for

CAFA coincides with the notification of a tax audit exercise by FIRS. Thus, companies are invariably forced to pay income tax on valid business expenses.

Companies that eventually succeed in obtaining CAFA sometimes have to deal with the further challenge of seeking a refund from FIRS for overpaid tax due to withdrawal of tax benefits for failure to provide the certificates at the appropriate time.

The process of obtaining CAFA has to be reviewed to make it more efficient for businesses and thus reduce associated compliance costs of doing business in Nigeria.

The current CAFA threshold can also be revised from N500,000 to N5,000,000 (or N10,000,000 to align with the minimum prescription in the Pioneer Incentive Regulations) to adjust for the depreciating value of the naira and the current realities of doing business in Nigeria.

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