WHAT CONSTITUTES "REASONABLE REMOVAL EXPENSES FOR THE PURPOSE OF TAX EXEMPTION

The Lagos State internal Revenue Service (LIRS) is issuing this Public Notice to all employers, company owners or their representatives, employees, high net worth individuals and other members of the public.

Definition

"Reasonable removal expenses" constitutes any expense which an employee incurs to move to a new employment location and the payment made by the employer towards the expenses results in no net overall benefit to the employee. It is also any payments made to or on behalf of an employee taking up employment with a new employer such as relocation allowance. The reasonable amount should not be more than the amount incurred by the employee in relocating.

Legal basis

Section4 (3)c of the Personal income Tax, Act (PITA) as amended 2011, exempts "reasonable removal expenses" from taxes. The section goes further to provide that these expenses may or may not include a temporary subsistence allowance incurred by the employer by reason of a change of the employee's employment which requires such employee to change his place of residence, and the employee shall not be treated as being in receipt of any remuneration in respect of the allowance.

Compliance Requirements

1. Reasonable removal expenses can only be tax deductible in the following instances:

    - The reimbursement to the employee or payment directly by the employer is with respect of removal/relocation expenses actually incurred
    - The expenses are of a reasonable amount
    - The payment of the expenses must be properly documented
    - Moving house must be necessary in the circumstances.

2. The following documents/details must be kept to substantiate the removal/relocation expenses: the name and address of the employee; the date of the relocation/removal the reason for the removal/relocation; the distance (km) involved; and receipts to vouch the actual expenses.

3. Any amount paid to the employee as temporary subsistence allowance which covers expenses already incurred by the employer shall be taxed as it would lead to duplication.

    In order to obtain certainty for such removal expenses and temporary subsistence allowances, corporate and business enterprises may submit their staff policy and guidelines as well as their per diem rates for pre-approval by the LIRS.

For further enquiries, please call **0700-CALL LIRS (0700 2255 5477)** or visit **www.lirs.gov.ng**

Thank You

Signed
Ayodele Subair
Executive Chairman
Lagos Internal Revenue Service

1. WHAT CONSTITUTES "REASONABLE REMOVAL EXPENSES" FOR THE PURPOSE OF TAX EXEMPTION

Definition

A "<u>reasonable removal expenses</u>" – This constitutes the following:

I. Any expense which an employee incurs to move to a new employment location and the payment made by the employer towards the expenses results in no net overall benefit to the employee.

II. Any payments made to or on behalf at an employee taking up employment with a new employer such as relocation allowance.

The reasonable amount should not be more than the amount incurred by the employee in relocating.

<u>Determination of reasonableness of "removal expenses"</u>

After a detailed review of the documents listed under the heading 'expenses covered under removal expenses' (see below), the LIRS will apply specific guidelines which take into consideration the price uncertainties over time and use her judgement to arrive at what in its opinion is reasonable.

Legal Basis

Section 4(3)(c) of the Personal Income Tax, Act (PITA) as amended 2011, exempts "reasonable removal expenses" from taxes. The section goes further to provide that these expenses may or may not include a temporary subsistence allowance incurred by the employer by reason of a change of the employee's employment which requires such employee to change his place of residence, and the employee shall not be treated as being in receipt of any remuneration in respect of the allowance. This explanatory note provides guidance on what constitutes "reasonable removal expenses".

Objective

The objective of this explanatory note is to provide guidelines with respect to the exemption from taxes of "reasonable removal expenses" incurred by an employee or by an employer on behalf of an employee.

Conditions that need to be satisfied before any relocation allowance can be tax exempt.

The expenses incurred by an employee in the removal/relocation from one place to another tor the sole purpose of performing his/her duties will be exempt from taxes only when the conditions below are jointly met:

a) The reimbursement to the employee or payment directly by the employer h with inspect d removal/relocation expenses actually incurred

b) The expenses are of a reasonable amount

c) The payment of the expenses must be property documented

d) Moving house must be necessary in the circumstances.

Expenses covered under removal expenses

The expenses that are covered under the definition of removal expenses include:

- Auctioneers' and solicitor's fees and stamp duty arising from moving house
- Removal of furniture and effects
- Storage charges
- Insurance of furniture and effects in transit or in storage
- Flight for employee and his/her family
- Freight charged
- Temporary accommodation (this should not be more than 90 days);
- Cleaning stored furniture
- Travelling expenses on removal
- Temporary subsistence allowance while looking for accommodation at the new location (this should not be more than a maximum of 90 nights at the rate approved by the LIRS) or if the location is temporary, e.g. a project in another country or state, for the duration of the project.

Subsistence allowance

Any amount paid to the employee as temporary subsistence allowance which covers expenses already incurred by the employer shall be taxed accordingly.

Reporting Requirements

The following documents/details must be kept to substantiate the removal/relocation expenses;

- the name and address of the employee;
- the date of the relocation/removal
- the reason for the removal/relocation;
- the distance (km) involved;
- Receipts to vouch the actual expenses; and
- Records should be kept for a minimum of 6 years

Approval by the LIRS

In order to obtain certainty for such removal expenses and temporary subsistence allowances, corporates and business enterprises may submit their staff policy and guidelines as well as their per diem rates for pre-approval by the LIRS. This pre-approval principle would also cover estacodes/per diem relating to out of station travels which can be used to compensate staff outside payroll. They do not constitute reasonable removal expenses but are similar in nature.

The amount approved by the LIRS will be basis for any assessment during an audit and a preapproval will reduce any disputes during a tax audit.