THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

REVIEWED PILOT QUESTIONS AND ANSWERS

PROFESSIONAL LEVEL

ADVANCED TAXATION (SET 1)

QUESTION 1

(a) You are a Partner in B. N. Alkali & Co. Chartered Accountants. Salim, your Managing Partner held a meeting with Mr Peter, the Managing Director of P. A. Olayemi Nig Ltd on the 17th of May 2013 in relation to a new audit of the company.

The company is engaged in the production of tyres.

In the course of discussion, the following tax matters occupied the mind of the Managing Director

- Payment of dividend by a Nigerian company
- Treatment of losses
- Incentives, with particular reference to Research and Development

The Managing Partner on coming back from the meeting presented you with the two tables shown below. The information contained in the tables were already agreed with the Federal Inland Revenue Service.

Table I: 2012 Assessment Year

	N'000
Assessable Profit	26,000
Loss b/f	9,000
Balancing charge	4,500
Capital Allowance	4,200

Table II: 2009 to 2011 Assessment Years

Year	Total Profit	Tax	Capital Reserves	Dividend Paid
	N'000	N'000	N'000	N'000
2009	10,000	3,000	-	5,000
2010	-	-	-	5,000

2011	3,000	9,000	4,000	5,000

Required:

Write a letter to the Managing Director addressing the following issues:

(a) Write to the Managing Director:

(i) Explaining the provisions of the Nigerian Companies Income Tax Act Cap C21 LFN 2004 dealing with the three areas of interest indentified by him (5 Marks)

(ii) Determining the tax payable for the 2012 Assessment Year (5 Marks)

(iii) Determining the adequacy of the taxes for all the years based on the dividend payments in the Assessment Years 2009 to 2011 (5 Marks)

(b) An old friend of the Managing Partner, Mr Bassey, called from the United States of America expressing his wish to return to the country hoping to benefit from the incentives available to companies engaged in Agriculture and Agro-Allied products as well as Export-oriented businesses in Nigeria

Required:

Your Managing Partner also requested you to explain to Mr Bassey, the conditions that need to be met to qualify a company for incentives in the following areas:

(i) Agriculture (2marks)
(ii) Solid Minerals (2marks)
(iii) Tourism (2marks)
(iv) Export Incentive (2marks)
(v) Small Manufacturing Companies (2marks)

(Total: 25 Marks)

QUESTION 2

(a) The Federal Government of Nigeria is encouraging Nigerians in the diaspora to return home and invest in the economy in order to create jobs.

In response to the patriotic call, Apendah Ltd was incorporated to engage in petroleum operations. The company operates a joint venture with the NNPC.

The Chief Executive of the company, Mr Adiabuah, is uncertain as to the provision of the tax laws relating to the companies engaged in Upstream Petroleum Operations. He was also confused when the issue of Basis of Assessment and what constitutes the profit of an accounting period including treatment of losses were raised at one of the heated Board meetings of the company. He is desirous of updating his knowledge in these areas.

The following information is provided for the year ended 31 December 2012

	N' 000
Direct lifting costs	70,000
Direct handling/transportation costs	40,000
Other direct production costs	20,000
Field overheads	30,000
Environmental protection	11,000
Safety	7,000
Personnel amenities	14,000
Materials handling and storage expenses	19,000
Other general and administrative expenses	9,000
Exploration costs	36,000

First two Appraisal Wells cost	26,000
Intangible drilling and development costs	60,000
Capital allowances	98,000
Fees received for services ancillary to petroleum operations	22,000

The Company commenced its operation immediately after incorporation, it bided for and won an Oil Mining Lease (OML). After some years of prospecting, the company successfully struck oil and its first year of production data are given below:

Production of crude oil for the year - 44,000,000 barrels

Required:

Using the above data:

i. Compute the Operating Cost per barrel (T1) (5 Marks)
ii. Compute the Capital Investment Costs (T2) (5 Marks)
iii. State the Tax Act regulating the Upstream and Downstream operations (2 Marks)
iv. State the Basis Year applicable to the Upstream operations (2 Marks)
v. Mention the components of profit for Upstream operations (2 Marks)
vi. Explain the treatment of losses in Upstream operations (2 Marks)

(b) In relation to Petroleum Profits Tax Act Cap P13 LFN2004, you are also required to explain these terms which are common features

(i) G-Factor (3 Marks)

(ii)	Chargeable Oil	(3 Marks)
(iii)	Chargeable Natural Gas	(3 Marks)
(iv)	Posted Price	(3 Marks)

(Total 30 Marks)

QUESTION 3

Pariola Nigeria Limited commenced business on 1 July 2009. It is engaged in the importation and sale of building materials.

The Managing Director, Mrs Angel had been keeping the records of the company from inception until when an Accountant, Mr. Bulama, was appointed on 1 May 2010.

The following details were provided by the Managing Director for the period 1 July 2009 to 30 April 2010.

	N
Cost of incorporating the Company	250,000
Purchases (1July 2009 to 31 December 2009)	82,000,000
Purchases (1 January 2010 to 30 April 2010)	50,000,000
Sales (1 Juy 2009 to 31 December 2009)	106,600,000
Sales (1 January 2010 to 30 April 2010)	67,500,000
Depreciation (1 July 2009 to 31 December 2009)	850,000

Advertisement (1 July 2009 to 31 December2009)	150,000
Medical (1 July 2009 to 31 December 2009)	250,000
Construction of new office block completed on October 2009	10,000,000

The Managing Director has computed the company's tax liability as N9,180,000 as shown below:

Managing Director's Computation of Net Profit and Tax Liability

	N'000	N'000
Sales (N106,600 + N67,500,000)	174,100	
Purchases (N82,000,000+ N50,000,000)	(132,000)	
	42,100	
Less:		
Cost of Floating the company		250
Advertisement		150
Medical		250
Construction of New office block		10,000
Depreciation		850
	(11,500)	
Net Profit	30,600	
Tax on N30,600,000 at 30%	9,180,000	

Assume that the company makes up accounts to 31 December each year.
Ignore Capital allowance

Required:

a) As an External Consultant of the company, compute the correct tax liability
(5 Marks)

b) Compute the Education Tax liability for the relevant Year of Assessment (1 Mark)

c) Compute the Total Tax liability? (1 Mark)

d) Give FOUR reasons why your computation is different from that of the Managing Director.
(8 Marks)

(Total: 15 Marks)

QUESTION 4

(a) Onyekachi Limited is a company that deals in Investment Properties.. During the year ended 31 December 2007, the company disposed off the following fixed assets:

1) A generating set (Initial Cost N3,200,000) for N10,000,000. Advertising cost was N60,000. Payment is to be made in four equal bi-annual instalments commencing 1 June 2008.

2) A wing of a two-wing duplex completed in 2002 for N2,230,000 was sold for N5,500,000. An Estate Valuer has valued the unsold wing at N4,400,000 in the open market. 3% of the consideration for the part sold was paid to the Estate Agent as commission while the Estate valuer received a fee of 7.5% of the valuation. Additional cost incurred in improving the disposed wing prior to sale was N325,000.

3) One of its buildings constructed in 2003 for N850,000 was disposed of for N3,200,000 during the year. The cost of advertisement was N75,000 while the Estate Agent received 3% of the sales value as commission. A new building was constructed during the year for N2,000,000.

Required:

Compute the Capital Gains Tax payable for each of the transactions.
(10 Marks)

(b) Galadunchi Ltd. purchased a bulldozer on hire purchase on 1 February 2007 and paid a sum of N28,500,000 deposit. The cash price of the bulldozer at the time of purchase was N45,000,000, but Meltdown Construction Limited was allowed to pay the balance in twenty monthly instalments of N1,000,000 each with effect from 1 March 2007.

Required:

Calculate the Capital Gains Tax for the relevant year of assessment, assuming that the bulldozer was sold for N49,600,000 after the payment of instalment on 5 September, 2008. (10 Marks)

(Total: 20 Marks)

QUESTION 5

Badar is a foreigner interested in investing in Nigeria. He was told about the provisions of the Industrial Development (Income Tax Relief) Act. He intends to take advantage of the provisions as they relate to "Pioneer Status". He was given two proposals for his consideration. He appoints you as his Tax Consultant to advice on which of the proposals to accept.

i. Proposal I

Badar Nigria Limited was granted a Pioneer status effective from July 1,2005. The accounts of the company are as follows:

	N
For the year ended 30/6/06 – adjusted Profit/(loss)	220,000
For the year ended 30/6/07 – adjusted Profit/(loss)	120,000
For the year ended 30/6/08 – adjusted Profit/(loss)	80,000
For the year ended 30/6/09 – adjusted Profit/(loss)	412,000

Required:

(a.) (i) Compute the profits of the Pioneer period stating the reliefs available. (2 Marks)

(ii) Compute the tax liability immediately after the pioneer period. (2 Marks)

ii. Proposal II

Ogundare Nigria Limited was granted a pioneer status effective from September 1, 2005. The accounts of the company showed the following:

	N
For the year ended 31/8/06 – adjusted Profit/(loss)	350,000
For the year ended 31/8/07 – adjusted Profit/(loss)	520,000

For the year ended 31/8/08 – adjusted Profit/(loss)	(1,000,000)
For the year ended 31/8/09 – adjusted Profit/(loss)	250,000

Required:

(b.) (i) Compute the profits/(Loss) of the Pioneer period stating the reliefs available. (2 Marks)

(ii) Compute the tax liability immediately after the pioneer period. (2 Marks)

(iv) Advise on which proposal to accept. (2 Marks)

(Total: 10 Marks)

QUESTION 6

Ekpan Incorporated of New Jersey, USA has R&A Nigeria limited as its subsidiary in Nigeria. In 2007, the federal government of Nigeria awarded a contract to the foreign company for the construction of an Export processing zone located in the South East of Nigeria for the sum of $12 million. It decided for the sake of convenience to execute the contract through Donatus Nigeria Limited.

The following are the expenses incurred for the execution of the contract:

	N	
Materials and other inputs	434,957,750	
Hire of dredger	186,553,750	
Foreign experts costs		156,785,500
Personnel costs	107,689,250	
Other administrative costs	65,546,750	

Additional information:

(a) Capital Allowance was agreed at N74,221,750 and
(b) Exchange rate is N90.00 to a dollar

Required:

(a) Compute the tax payable by the company for the relevant tax year. (12 Marks)

(b) Discuss the issue of turnover assessment for a non resident company in Nigeria.

(8 Marks)

(Total: 20 Marks)

QUESTION 7

The Partners, based in Abuja, run the firm Amawhe, Bashir, Chuke & Co. as builders for several years. The Partnership Agreement provided for the following:

(i.) Salaries paid to Partners:

	N
Amawhe	120,000
Bashir	240,000
Chuke	480,000

(ii.) Profit sharing ratio:

Amawhe	[illegible]
Bahir	[illegible]
Chuke	[illegible]

In January 2010, there was a decision to review the Partnership Agreement. Messrs Amawhe, Bashir and Chuke have been unable to find worthy successors to take over as Partners. Rather than review the Partnership Agreement, they agreed to convert the partnership into a limited liability company. In view of this, a firm of Chartered Accountants was contacted to incorporate the name ABC Consultants Limited.

The authorized share capital of the proposed company was agreed as N10,000,000 made up of 10,000,000 ordinary shares of N1.00 each. The details of the shareholding were agreed as:

Amawhe	20%
Bashir	30%
Chuke	505

The company was incorporated on August 1, 2010 & commenced business on 1/10/2010

The cost of incorporation include:

Payment for Stamp Duty	80,000
Professional fee on incorporation	50,000
Corporate Affairs Commission registration fees	100,000
Incidental costs on incorporation	40,000

270,000

The financial results for the year ended 31 December 2010 are as follows:

	N	N	N
Income			4,000,000
Less :			
Incorporation expenses		270,000	
Transport and travelling		135,000	
Medical		120,000	
Hotel and accommodation		125,000	
Audit and accountancy		110,000	
Postages and telephone		150,000	
Salaries:			
Amawhe	120,000		
Bashir	240,000		
Chuke	480,000		
		840,000	
			1,750,000
Net Profit			2,250,000

Note:
Assume fees and expenses were earned/incurred evenly throughout the year.

Required:

Write a report to Messrs Amawhe, Bashir & Chuke, in which you should:

(a) State any ONE tax implication of the decision to convert to a limited liability company, limiting yourself to the facts/details provided in the Case Study (1 Mark)

(b) Comment on the breakdown of the cost of incorporation of N270,000 and the tax implication of EACH item. (2 Marks)

(c) Computation of the tax liabilities for the relevant assessment year

(12 Marks)

(Total: 15 Marks)

SOLUTION 1

(a)

(i) B. N. ALKALI & CO. CHARTERED ACCOUNTANTS

May 18, 2013

The Managing Director
Salim Nigeria limited
2 Broad Street
Lagos

Dear Sir,

RE: TAX MATTERS

Further to our discussions at the last workshop, please find below our explanations on the three areas of interest as identified:

- PAYMENT OF DIVIDEND BY A NIGERIAN COMPANY

  Section 19 of CITA Cap C21 LFN 2004 states that where a dividend is paid out of profits on which no tax is payable due to:

  1) No total profits

  2) Total profits which are less than the amount of dividend which is paid, whether or not the recipient of the dividend is a Nigerian company, by a Nigerian company, the company paying the dividend shall be charged to

tax at 30%, as if the dividend is the Total Profits of the company for the year of assessment to which the accounts relate

This means that dividends paid out of exempted profits from pioneer company, capital or reserves will be treated as business profits. This is an anti-avoidance provision which seeks to exclude dividends from a pioneer company, and Revaluation Reserves, and other Reserves as Franked Investment Income.

- TREATMENT OF LOSSES IN THE ASCERTAINMENT OF TOTAL PROFITS

In ascertaining the Total Profits of any company, losses are deductible from the Total Assessable Profits from all sources.

The conditions to be met for losses to be deductible as contained in Section 31 of CITA CAP C21 LFN 2004 are:

1) The Board must be satisfied that the loss has been incurred by the company in any trade or business during any preceding year of assessment.
2) The aggregate deduction from the assessable profits or income must not exceed the total amount of the loss.
3) The loss can be carried forward and deducted from the same trade or business up to the fourth year from the year of commencement. Where the company is engaged in an agricultural trade or business however, the losses can be carried forward indefinitely (without restriction to time).
4) The loss sustained by a Non-resident Company that indigenizes its Nigerian operations shall be deemed to be a loss of the re-constituted company in its trade or business during the year of assessment in which it commenced business, and it shall be deducted from the profits of subsequent assessment year(s)

- TAX INCENTIVES WITH PARTICULAR REFERENCE TO RESEARCH AND DEVELOPMENT:

Section 26 (1), (2) and (3) stipulate that:

1) In ascertaining the profits or loss of any company, from any source, chargeable to tax, there shall be deducted, the amount of reserve made out of the profits of that period.
2) The deduction shall not exceed an amount which is equal to 10% of total profits of the company for that year, before any deduction is made.

3) Where the company or organisation is engaged in Research and Development for commercial purpose, the incentive is 20% Investment Tax Credit on the qualifying expenditure for that purpose.

(ii) TAX PAYABLE IN 2012 ASSESSMENT YEAR

	N'000	
Assessable profits	26,000	
Add: Balancing charge	4,500	
	30,500	
Loss Relief	(9,000)	
	21,500	
Capital Allowance	(4,200)	
Total Profits	17,300	
Income tax payable @ 30%		5,190
Education tax 2% of N26,000.000	520	
Total liability	5,710	

iii)

1) 2009 - Since the dividend payable is less than the Total Profits, the dividend will only suffer withholding tax in the hands of the recipients.
2) 2010 - There was no Total Profits hence no Tax Payable. However dividend paid will be taken as business profits, and so will be regarded as Total Profits and taxed at 30%, resulting in the tax payable of N1, 500,000 payable.
3) 2011 - There was Total Profits of N3, 000,000 and a Tax of N9, 000,000. Since the Total Profits are less than the dividend paid, the dividend of N5, 000,000 will be treated as Total Profits and will be taxed at 30%, which is N1, 500,000. This means that additional tax of N600, 000 will be paid.

Summary of taxes payable.

Year of Assessment	Total Profit	Dividend	Tax Paid	Tax on Dividend	Tax Underpayment
	N'000	N'000	N'000	N'000	N'000
2009	10,000	5,000	3,000	1,500	NIL
2010	-	5,000	-	1,500	1,500
2011	3,000	5,000	9,00	1,500	600
Total					2,100

We hope the above satisfies your enquiry. Please feel free to revert to us if you require further clarification.

Yours faithfully,

B. N. ALKALI & Co.

Chartered Accountants

(b) The following incentives are available for the various sectors of the economy as follows:

i. Agriculture

Without prejudice to government deregulation of the financial sector, banks have been enjoined to recognize the differences in the gestation periods within each category of agricultural loans ranging from 6 months to 10 years, for crops, livestock, fisheries, forestry and wild life.

In addition, the following incentives are also available;

- Companies in the agro-allied business do not have their capital allowance restricted to 60% but granted in full - 100%;
- Agro-allied plant and equipment enjoy enhanced capital allowances of up to 50%.

ii. Solid Minerals

Nigeria is richly endowed with a variety of solid minerals of various categories ranging from precious metals, stones and industrial Minerals such as Barytes, Gypsum, Kaolin and Marble.

The Ministry of Solid Minerals worked out a package of attractive incentives for potential investors in the solid minerals sector, including:

- 3 to 5 years tax holiday;

- Deferred royalty payments depending on the magnitude of the investment and strategic nature of the project;
- Possible capitalisation of expenditure on exploration and surveys;
- Provision of 100% foreign ownership of mining companies or concerns;
- In addition to roll-over relief under the capital gains tax (cgt), companies replacing their plants and machinery are to enjoy a once-and-for-all 95% capital allowance in the first year with 5% retention value until the asset is disposed of, etc.

iii. Tourism

The tourism sector was accorded preferred sector status in 1991. This makes it qualify for such incentives as tax holidays, longer years of moratorium and import duty exemption on tourism related equipment;

State governments are prepared to facilitate acquisition of land through the issuance of certificate of occupancy for the purpose of tourism development;

25% of income derived from tourists by hotels in convertible currencies are tax-exempt provided such income is put in a reserve fund to be utilized within 5 years for expansion or the construction of new hotels, conference centres, etc that are useful for tourism development

iv. Export incentives for non-oil sector

Export proceeds can be retained in foreign currency in a domiciliary account with any authorised bank in Nigeria.

A special export development fund has been set up by the government to provide financial assistance to private sector exporting companies to cover a part of their initial expenses in some export promotion activities, including training courses, symposia, seminars and workshops, export market research, advertising and publicity campaigns in foreign markets, trade missions, etc.

There is also an export adjustment fund scheme which serves as supplementary export subsidy to compensate exporters for the high cost of local production arising mainly from infrastructural deficiencies, and other negative factors beyond the control of the exporter.

Finally, Nigerian government established in i991, an export processing zone (EPZ), which allows interested parties to set up industries and businesses within demarcated zones, with the objective of exporting the goods and services manufactured or produced within the zones.

Calabar in cross river state has been designated as the primary EPZ territory in Nigeria. incentives within the territory include, tax holiday relief; unrestricted remittance of profits and dividends earned by foreign investors; no import or export licenses are required; up to 100% foreign ownership of enterprises; sale of up to 25% of production is permitted in domestic market; etc,

All exports under the Nigerian value added tax (vat) system are zero-rated and dividends received from investment in export-oriented businesses are to be free of tax.

v. Small Manufacturing Companies:

- Small manufacturing companies are those with less than N1million Turnover
- They are to pay income Tax at 20% for the first four years of commencing business
- Dividends from small manufacturing companies are exempted form tax for the four years of business operations
- No tax is payable on interest charged by banks for manufacturers of Export goods
- Dividend derived from manufacturing companies in the petrochemical and Liquefied Natural Gas Sub-Sectors are tax exempted
- There are no restrictions on Capital Allowance claimable by small manufacturing companies.

SOLUTION 2

(a) APENDAH JAMES LIMITED

The points to be raised in a Tax Advisory Memorandum are:

(i)Computation of the Operating cost per barrel (T1)

	N'000
Direct Lifting Costs	70,000
Direct Handling/Transportation Costs	40,000
Other Direct Production Costs	20,000
Field Overheads	30,000
Environmental Protection	11,000
Safety	7,000
Personnel Amenities	14,000
Materials Handling & Storage Expenses	19,000

Other General & Administrative Expenses	9,000
Total Operating Costs	(220,000)
Less: Fees received for ancillary services	(22,000
Net Operating costs	198,000

Production for the year 44,000,000 Barrels

Therefore:

$$\frac{T1}{\text{Barrels}} = \frac{N198,000,000}{44,000,000}$$

$$= N4.50/\text{Barrel}$$

(ii) Computation of Capital Investment Costs (T2)

N'000	
Exploration costs	36,000
First two Appraisal Well Costs	26,000
Intangible Drilling & Development costs	60,000
Capital allowances	98,000
220,000	

(iii) Petroleum Profits Tax Act CAP P13 LFN 2004 regulates tax imposition on the profits of companies engaged in petroleum operations – upstream activities.

Profits of companies engaged in petroleum operations – downstream activities are taxed based on Companies Income Tax Act CAP C21 LFN 2004.

(iv) Profits arising from petroleum operations upstream activities are assessable to tax on current or actual year basis.

(v) The profit of an accounting period for companies engaged in upstream activities is the aggregate of:

1) Proceeds of sales of chargeable oil;
2) Value of chargeable oil disposed of;

3) Value of chargeable natural gas, and
4) Incidental income from petroleum operations

(vi) The losses sustained in upstream activities are deducted from adjusted profit. There is no restriction on the number of years that losses can be carried Apendah James.

(b) A company may elect to defer the deduction of losses that should have been made from the adjusted profit of one accounting period to the succeeding accounting period(s).

(i) G-Factor This means Gas Projection Cost Adjustment Factor. It defines the level of discount to be granted for losses before sales proceed is charged to tax, depending on the quality of the gas declared and paid.

(ii) Chargeable Oil These are Casinghead Petroleum Spirit and Crude Oil won or obtained by a Company from Petroleum Operations.

(iii) Chargeable Natural Gas This is the Natural Gas actually delivered by a Company to the Nigerian National Petroleum Corporation under a Gas Sales Contract, but does not include Natural Gas taken by or on behalf of the Government of the Federation.

(iv) Posted Price Posted price is "The Price Free on Board", at the Nigerian Port of Export for Crude Oil, as it is regularly agreed between the Nigerian National Petroleum Corporation and the Oil Companies Operating in Nigeria.

SOLUTION 3

PARIOLA NIGERIA LIMITED
COMPUTAONS OF TAX LIABILITYFOR ASSESSMENT YEAR 2009
(1JULY 2009-31 DECEMBER 2009)

	N'000
Net Profit (WK 1)	23,350
Add Back:	
Depreciation	850
Adjusted/Assessable Profit	24,200
Deduct:	
Capita Allowances	-
Total Profit	24,200

(a) Tax Liability – 30% of N24,200,000 = N7,260,000

(b) Education Tax – 2% of N24,200,000 = N484,000

(c) Total Tax Liability = N7,260,000 + N484,000 = N7,744,000

(Wk 1) Calculation of Net Profit	N'000	N'000
Sales		106,600
Less:		
Purchases		82,000
Gross Profit		24,600
Less:		
Advertisement	150	
Medical	250	
Depreciation	850	
		1,250
Net Profit		23,350

(d) Reasons for differences in both figures for tax liability as derived by the Managing Director

1) Since the Company commenced business on 1 July 2009, the commencement rules or provisions will apply.

2) The Managing Director's treatment of Depreciation is wrong. Depreciation is not an allowable deduction for tax purposes, and the Consultant correctly treated it by adding it back.

3) Since accounts are made up to 31 December each year, the first set of accounts will cover the period 1 July 2009 to 31 December 2009 based on commencement rule.

4) The cost of incorporating the Company of N250,000, is a disallowable expense. Since it was not taken into account in arriving at Net Profit, it was not therefore added back.

5) Only sales figure relating to the period July 1, 2009 to 31 December 2009 should be used in ascertaining the Net Profit.

6) Only purchase figure relating to the period 1 July 2009 to 31 December 2009 should be used in ascertaining the Net Profit.

7) The cost of the construction of new office block of N10,000,000 is of a Capital nature. It should not have been included in the ascertainment of Net Profit as done by the Managing Director. Also Capital Allowances computations were ignored as instructed

SOLUTION 4

ONYEKACHI LIMITED

COMPUTATION OF CAPITAL GAINS TAX PAYABLE FOR 2007 YEAR OF ASSESSMENT

(a) 1) Payment of Capital Gains Tax by Instalment

	N
Sales Proceeds	10,000,000
Less Advertisement Cost	(60,000)
Net Sales proceeds	9,940,000
Less Acquisition cost	(3,200,000)
Capital Gains	6,740,000
Capital Gains Tax @ 10%	674,000

2) Apportionment of Capital Gains Tax Payable

Instalment	Date	Tax Year	CGT Payable N
1	1/6/2008	2008	168,500
2	1/12/2008	2008	168,500
3	1/6/2009	2009	168,500
4	1/12/2009	2009	168,500

3) Partial Disposal

	N	N
Sales Proceeds	5,500,000	
Less Estate Agent Comm. (3% x N5,500,000)	(165,000)	
Estate Valuer's fee	(330,000)	
		5,005,000
Less Cost of Asset $\frac{N5,500,000 \times N2,555,000}{N5,500,000 + N4,400,000}$ =		(1,419,444)
		3,585,556
C G T @ 10%		358,555.6

4) Building

	N	N
Sales Proceeds	3,200,000	
Less Advertising Cost	(75,000)	
Estate Agent's fee	(96,000)	3,029,000

Less Acquisition cost			(850,000)
			2,179,000
Less Roll-Over Relief:			
Amount Re-invested		2,000,000	
Less Cost of Asset	(850,000)		(1,150,000)
Chargeable Gains			1,029,000
CGT @ 10%			102,900

(b) GALADUNCHI LIMITED

COMPUTATIONS OF CAPITAL GAINS TAX FOR 2008 YEAR OF ASSESSMENT

	N	N	N
Sales Proceed of Bulldozer			49,600,000
Cost of Bulldozer			
Deposit Paid		28,500,000	
Instalments Paid			
(19 months @ N1m each)	19,000,000		
Less Interest Portion paid (W3)	(3,325,000)		
		15,675,000	
			(44,175,000)
Chargeable Gains			5,425,000
Capital Gains Tax thereon @ 10%			542,500

WORKING NOTES (W1)

Calculation of Hire Purchase Interest	N
Hire Purchase Price: -	
- Deposit (1/2/2007)	28,500,000
- 20 Instalments Payable (March 2007 to October 2008)	

@ N1,000,000 per month
20,000,000

48,500,000

Cash Price (45,000,000)

Hire Purchase Interest for 20 months 3,500,000

(W2) Calculation of Hire Purchase Interest up to 1/12/2007

Hire Purchase Interest Payable N3,500,000

Hire Purchase Interest at the time

of Disposal – 3/12/2007

$\frac{N3,500,000 \times 10}{20}$ N1,750,000

(W3) Calculation of Hire Purchase Interest up to 1/10/2008

Hire Purchase Interest for 19 months

at the time of Disposal (i.e. 5/9/2008)

= N175,000 x 19months N3,325,000

SOLUTION 5

BADAR NIGERIA LIMITED

Proposal I: BADAR NIGERIA LIMITED

(a) (i) Computation of Profits of the Pioneer Period

Pioneer Period	Profit
	N
Year ended 30/6/06	220,000
Year ended 30/6/07	120,000
Year ended 30/6/08	80,000
	N420,000

(ii) The following reliefs are available:

1) No tax is payable on profit generated during the pioneer period.
2) Qualifying capital expenditures acquired during the pioneer period are deemed to have been acquired on the first day of the new business.
3) Dividends declared during the pioneer period are exempted from all forms of taxes.

(b) Computation of Tax liability immediately after the Pioneer Period

	N
2008 Tax Year (1/7/08-31/12/08)	
Assessable Profit	206,000
Capital Allowance	(0)

Taxable Profit		206,000
Tax at 30%	61,800	
Educational Tax at 2%	4,120	

2009 Tax Year (1/7/08-30/6/09)

	N	
Assessable Profit	412,000	
Capital Allowance	(0)	
Taxable Profit		412,000
Tax at 30%	123,600	
Educational Tax at 2%	8,240	

2010 Tax Year (1/7/08-30/6/09)

Assessable Profit	412,000	
Capital Allowance	(0)	
Taxable Profit		412,000
Tax at 30%	123,600	
Educational Tax at 2%	8,240	

Proposal II- OGUNDARE LIMITED

(b) (i) Computation of Profits of the Pioneer Period

Pioneer Period	Profit
Year ended 31/8/06	N350,000
Year ended 31/8/07	N520,000
Year ended 31/8/08	(N1,000,000)
	(N130,000)

(ii) Computation of Tax Liability immediately after the Pioneer period.

2008 Tax Year (1/9/08-31/12/08)	N	N
Assessable Profit		83,333
Loss Brought Apendah James	130,000	
Relief	(83,333)	(83,333)
	46,667	
Taxable Profit		NIL
Tax at 30%		NIL
Educational Tax at 2%		1,667

2009 Tax Year (1/9/08-31/8/09)		
Assessable Profit		250,000
Capital Allowance		(0)
Taxable Profit		250,000
Tax at 30%		75,000
Educational Tax at 2%		5,000

2010 Tax Year (1/9/08-31/8/09)		
Assessable Profit		250,000
Capital Allowance		(0)
Taxable Profit		250,000
Tax at 30%		75,000

Educational Tax at 2%	5,000

(iii) The proposal to accept should be proposal II: OGUNDARE LIMITED.. This proposal is recommended for acceptance because it will minimize tax payable in the years when tax is due.

SOLUTION 6

EKPAN INCORPORATED

Computation of Tax Payable for 2008 Tax Year

	N	N	
Turnover ($12million x N90)		1,080,000,000	
Deduct:			
Materials and other inputs	434,957,750		
Hire of dredger	186,553,750		
		(621,511,,500)	
		458,488,500	
Personnel costs	57,689,250		
Foreign experts costs	156,785,500		
Other administrative costs	65,546,750		
		280,021,500	
Assessable Profit		178,467,000	
Capital allowance	74,221,750		
Relieved	(74,221,750)	(74,221,750)	
	NIL		
Taxable Profit			104,245,250
Tax payable at 30%		31,273,575	

Educational Tax at 2%	3,569,340
Withholding Tax on Hire Dredger	18,655,375

(b) The policy of the Federal Inland Revenue Service in the determination of the fair and reasonable percentage of the turnover of Non-Resident company are as follows:

i. Where the activities carried on through a fixed base involves construction, assembly or installation, or in the case of turkey projects, the percentage of the turnover to be adopted to determine the assessable profit is 30%. The capital allowances are deemed to have been granted and at the current tax rate of 30% this gives an effective rate of 9% of turnover.

ii. Where the activity carried on through the fixed base or through the dependent agent involves consultancy, management, technical or agency services, the 10 percent withholding tax is the final tax payable.

SOLUTION 7

The Partners,
Messrs ABC & Partners,
5, Koko Street,
Wuse Zone 5,
Abuja.

Sirs,

Conversion of ABC & Partners to ABC Consultants Limited

We write in response to your recent decision to convert your Partnership business into a limited liability company.

Please find our submissions below:-

(a) TAX IMPLICATIONS OF CONVERSION

- The Partnership ceases on 30th September 2010 and so all Partnership income shall be based on Personal Income Tax.

- Commencement rules will apply from 1st October 2010 when ABC Consultants Limited commences operation.

- The incorporation expenses shall be applicable only to ABC Consultants Limited and it is not an allowable expense for tax purposes.

- ABC Consultants Limited will be required to register with the Federal Inland Revenue Services for Value Added Tax and Companies Income Tax.

- ABC Consultants Limited on paying the incorporation expenses, shall deduct and remit with-holding tax (WHT) from the Professional fees at the rate of 10% if the beneficiary is a limited liability company and 5% if the recipient is not a limited liability company (an individual partnership or an enterprise).

(b) TAX IMPLICATION OF COST OF INCORPORATION

- The total cost of N270,000 though paid during the Partnership period, shall be considered as pre-operational expenses of ABC Consultants Limited.
- The pre-operational expenses when added back, will increase the taxable Income, thereby increasing tax payable by ABC Consulting Ltd
- N270,000, charged into ABC Consultants Limited is not an allowable expense for tax purpose even if spread over a period of years.

(c) (i) ABC CONSULTANTS LIMITED
TAX COMPUTATION FOR 3 MONTHS TO 31-12 2010
2010 ASSESSMENT YEAR

	N	N
Profit from Accounts (see below)	360,000	
Add back Incorporation Expenses	270,000	
Assessable Profit	630,000	
Capital Allowances	-	
Tax Liability		
30%(IncomeTax)	189,000	
2% (Education Tax)	12,600	
Tax Liability	201,600	

(ii) REVISED NET PROFIT

	PARTNERSHIP ACCOUNTS	ABC CONSULTING LIMITED	TOTAL
	N	N	N
Income	3,000,000	1,000,000	4,000,000
Less: Expenses	(480,000)	(160,000)	(640,000)
Cost of Incorporation	-	(270,000)	(270,000)

Salaries	(630,000)	(210,000)	(840,000)
	(1,890,000)	360,000	2,250,000

COMPUTATION OF INCOME DISTRIBUTION IN PARTNERSHIP 2010 ASSESSMENT YEAR

	N
Income from Partnership	1,,890,000
Add back salaries	630,000
	2,520,000

Distribution:	Salaries	Share of Profits	Total
	N	N	N
Abia	90,000	378,000	468,000
Biodun	180,000	567,000	747,000
Clement	360,000	945,000	1,305,000
	630,000	1,890,000	2,520,000

COMPUTATION OF TAX LIABILITY – PARTNERSHIP 2010 ASSESSMENT YEAR

	Abia	Biodun	Clement
	N	N	N
Income from Partnership	468,000	747,000	1,305,000
Others: Salaries	30,000	60,000	120,000
	498,000	807,000	1,425,000
Less Personal Allowance	104,600	166,400	290,000
	393,400	640,600	1,135,000

TAX LIABILITY FOR 2010			
FIRST N160,000 (W1)	22,000	22,000	22,000
Balance	58,350	120,150	243,750
Total Tax Liability (W_2)	80,350	142,150	265,750

COMPUTATION OF TAX LIABILITY
FIRST N160,000 FOR ABIA, BIODUN AND CLEMENT

W1		N
1 N30,000 @ 5%	1,500	
Next N30,000 @ 10%	3,000	

1 N50,000 @ 15%	7,500
Next N50,000 @ 20%	10,000
	22,000

W2	N
Amawhe N233,400 @ 25%	58,350
Bashir N480,600 @ 25%	120,150
Chuke N975,000 @ 25%	243,750

Please note that the Personal Allowance used is for 2010 and not the Consolidated Relief Allowance introduced in 2011 PITA