

The Institute of Chartered Accountants of Nigeria

SKILLS LEVEL

Pilot Questions & Solutions

2014

ICAN PILOT QUESTIONS AND SUGGESTED SOLUTIONS

TAXATION GROUP

AUGUST/SEPTEMBER 2014

TYPIFICATION

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Prepared by:

Name: SUNDAY KAJOLA

Signature: _____ Date: 11 September 2014

SECTION A: Attempt this Question (30 Marks)

QUESTION 1

CASE STUDY

SUCCESS Limited is a manufacturing outfit based in Abeokuta, Ogun State. The company has a non professional as its "Accountant". For the year ended 30 June 2011, the "Accountant" caused the company to pay total tax liability of N1,520,000. This amount was in accordance with an assessment raised upon it by authorised Revenue officials. There was no dispute between the Revenue and the company on the amount of Adjusted Profit for the year, which was N9,507,750.

Dr. Jayeola Olabisi, the Managing Director of the company, who is a Chartered Accountant, was of the opinion that the tax paid by the company was excessive due to an error in a return made by the company. The error or mistake occurred as a result of the fact that the capital allowance computed by the "Accountant", which was allowed as a deduction in arriving at the total profit, was understated.

The company made several written representations to the Federal Inland Revenue Service (FIRS). It failed to convince the FIRS to re-compute the disputed assessment.

The company therefore, lodged a complaint before the Tax Appeal Tribunal and a date has been set aside for the hearing to commence.

The Managing Director provided the following information relating to their qualifying capital expenditure to you as the newly appointed Tax Consultant.

Assets acquired during the year ended 30th June 2011:

| | N |
|------------------------------|-----------|
| Extension to Office Building | 2,500,000 |
| Furniture and Fittings (13) | 1,750,000 |
| Motor Vehicles (2) | 9,500,000 |

The tax written down values of the old assets of the company were given as follows:

| Assets | Date acquired | Cost | TWDV |
|---------------------------|---------------|------------|-----------|
| | | N | N |
| Building | 12/09/2008 | 6,000,000 | 2,318,600 |
| Motor Vehicles (3) | 18/11/2009 | 13,500,000 | 6,476,000 |
| Furniture & Fittings (25) | 19/07/2009 | 3,400,000 | 1,385,600 |
| Generator | 29/04/2010 | 5,600,000 | 3,789,000 |

Additional information relating to the year includes the following:

| | N |
|----------------------|------------|
| (i) Revenue | 18,000,000 |
| (ii) Gross profit | 5,255,000 |
| (iii) Net Asset | 11,310,000 |
| (iv) Paid up capital | 30,000,000 |

You are required to write a report to your client highlighting:

- (a) (i) The capital allowance the company is entitled to claim during the year in dispute.

(18 Marks)

(ii) The revised total tax liability of the Company, which is to be tabled before the Tax Appeal Tribunal. **(7 Marks)**

(b) The relief (if any) your client is entitled to, assuming a successful appeal at the Tax Appeal Tribunal. **(5 Marks)**

(Total 30 Marks)

SECTION B: *Attempt any Two Questions (40 Marks)*

QUESTION 2

Pursuant to section 59 (1) of Federal Inland Revenue Service (Establishment) Act, 2007 there shall be established a Tax Appeal Tribunal to exercise the jurisdiction, powers and authority conferred on it by or under this Schedule.

You are required to:

(a) Write short notes on the composition and powers of a Tax Appeal Tribunal. **(10 Marks)**

(b) Explain the specific particulars to be included in a Notice of Appeal against an assessment pending before the Tax Appeal Tribunal. **(6 Marks)**

(c) Determine when an assessment can be deemed to be final and conclusive. **(4 Marks)**

(Total 20 Marks)

QUESTION 3

The records of Raji Ibrahim's Settlement created in favour of his four children- Aminu, Funmilola, Shukurat and Sarah, as at 31 December, 2012, are as follows:

| | N |
|-----------------------|-----------|
| Rental income (gross) | 1,480,000 |
| Trading income | 800,000 |
| Dividends (gross) | 490,000 |
| Interest | 260,000 |
| Sundry income | 240,000 |

The following additional information is made available:

- (i) Trustee remuneration per Trust Deed:
Fixed - N100,000
Variable - 4% of total computed income
- (ii) Each beneficiary is entitled to 20% share of the net distributable income.
- (iii) Administrative and other expenses N96,000
- (iv) Fixed annuity to a beneficiary N80,000
- (v) The interest income is from a Nigerian money deposit bank
- (vi) Interest on debt repayment by the settlement N98,000
- (vii) Under the terms of the Trust Deed, the Trustee made the following discretionary payments to:

| | N |
|-----------|--------|
| Aminu | 60,000 |
| Funmilola | 35,000 |
| Shukurat | 39,000 |
| Sarah | 50,000 |

- (viii) Capital allowance N650,000
- (ix) The children have no other income.

You are required to compute:

- (i) The amount due to each beneficiary. **(14 Marks)**
- (ii) Income tax payable by each of the beneficiaries and the trustee on the trust income.

(6 Marks)
(Total 20 Marks)

QUESTION 4

The extract from the Global Statement of Comprehensive Income of ADA Airways Limited, a foreign airline, which operates into Nigeria for the year ended 31 December 2012, shows the following information:

| | N o 000 | N o 000 |
|--|--------------------|--------------------|
| Transportation Income | | |
| Income from passengers, cargo and mails: | | |
| Outside Nigeria | 6,200,000 | |
| In Nigeria | <u>200,000</u> | |
| | | 6,400,000 |
| Less: Transportation expenses: | | |
| Salaries and other expenses | 4,600,000 | |
| Depreciation | 640,000 | |
| Other disallowed expenses | <u>360,000</u> | |
| | | <u>5,600,000</u> |
| Net Transportation Profit | | 800,000 |
| Other Income: | | |
| Income from properties (net) | 50,000 | |
| Income from maintenance (net) | 100,000 | |
| Income from duty-free shops (net) | 100,000 | |
| Income from catering (net) | <u>150,000</u> | |
| | | <u>400,000</u> |
| | | <u>1,200,000</u> |

You are required to compute:

- (a) Total profit for Nigerian tax purposes. **(15 Marks)**
- (b) Income tax payable by the Airline for 2013 assessment year. **(5 Marks)**
- (Total 20 Marks)**

SECTION C: Attempt any Two Questions (30 Marks)

QUESTION 5

Mrs. Biola Phillip has been in business as a sole trader for many years. She is contemplating acquiring another business outfit with the aim of converting the proposed enlarged Enterprise to a limited liability company. In line with her vision, she decided to change her business accounting date from 30 June to 30 September each year. She provided the following details for tax purposes.

| | N |
|--|-----------|
| Adjusted profit for year ended 30 June 2008 | 1,120,000 |
| Adjusted profit for the period ended 30 September 2009 | 1,200,000 |
| Adjusted profit for year ended 30 September 2010 | 1,800,000 |
| Adjusted profit for year ended 30 September 2011 | 2,160,000 |
| Adjusted profit for year ended 30 September 2012 | 2,400,000 |

The following capital allowances have been agreed with the State Internal Revenue Service:

| Assessment Year | N |
|-----------------|---------|
| 2008 | 155,000 |
| 2009 | 162,000 |
| 2010 | 180,000 |
| 2011 | 220,000 |
| 2012 | 230,000 |
| 2013 | 255,000 |

You are required to:

- (a) Identify the practice of the Revenue when issues relating to change in accounting dates are brought before it by a taxpayer. **(3 Marks)**
 - (b) Compute the Assessable profit of Mrs. Biola Phillip for the relevant Assessment Years. (Ignore reliefs) **(12 Marks)**
- (Total 15 Marks)**

QUESTION 6

Education tax was introduced into the Nigerian tax system through the Education Tax Act, 1993 (ETA 1993) which metamorphosed into Education Tax Act CAP E4 LFN 2004 and now repealed with the enactment of the Tertiary Education Fund (Establishment etc) Act, 2011 to address the funding crisis in the education sector.

- (a) Briefly explain the administration of Tertiary Education Tax in Nigeria. **(4 Marks)**
- (b) The Net profit of SALAMI BEM Limited for the year ended 31 December 2011 was ₦50,870,000, after crediting profit on the disposal of some old non-current assets and charging:

| | ₦ |
|--|-----------|
| (i) Directors' remuneration | 700,000 |
| (ii) Depreciation | 5,194,000 |
| (iii) Legal charges for purchase of leasehold rights | 142,464 |
| (iv) Donation to National Library | 250,000 |
| (v) Donation to community fund | 62,000 |
| (vi) Club house project | 819,000 |
| (vii) Recreation club | 50,340 |
| (viii) Building fund | 550,000 |
| (ix) Church building fund | 41,600 |

Other information provided includes:

- (i) Profit on disposal of non-current assets - ₦300,000 (included in Net profit).
- (ii) The capital allowance and balancing allowance claimed for the year were agreed at ₦6,696,176 and ₦41,882 respectively.

You are required to:

Compute the Tertiary Education Tax for the relevant Assessment Year.

(11 Marks)
(Total 15 Marks)

QUESTION 7

Stamp duties are taxes on written documents. Stamp duties are governed by the Stamp Duties Act Cap S8 LFN 2004, which provides for the levying of Stamp Duties on certain matters specified in the Act in order to confer legal authority on such documents.

You are required to:

- (a) Identify the controls that have been put in place by the government to ensure an effective administration of Stamp Duties in Nigeria (9

Marks)

- (b) Identify any **FOUR** differences between Value Added Tax and Withholding Tax.

(6 Marks)

(Total 15 Marks)

SUGGESTED SOLUTION TO QUESTION 1

Aseye & Company
(Chartered Accountants)
Igbogbo.
Lagos.

19 September 2013.

The Managing Director
Success Limited
Abeokuta.

Dear Sir,

RE: CAPITAL ALLOWANCE AND TOTAL TAX LIABILITY FOR 2012 ASSESSMENT YEAR

We refer to our discussion on the above subject matter and letter of appointment with Reference Number SUCCESS/13/ Vol 2, which we received from you on 23 July 2013.

Based on our tax computations for 2012 Assessment Year, your company is entitled to capital allowance of ₦11, 282,892 but this is restricted to ₦9,507,750, being the Assessable Profit for the period ended 30 June 2011. Unutilized capital allowance of ₦1,775,142, is available for relief in 2013 Assessment Year.

As a result of the inability of the company to fully utilize its capital allowance for the 2012 Assessment Year, the Companies Income Tax liability of the company is limited to the Minimum Tax of ₦96,875. In line with the provision of the Tertiary Education Tax Act, 2011, the company is to pay the tax at the rate of 2% of Assessable Profit, which is ₦190,155. The total tax liability payable by the company for the 2012 Assessment Year is therefore ₦190,155 + ₦96,875. which is ₦287,030.

Since the company had already paid total tax of ₦1,520,000 to the Revenue, and the Revenue decided not to review its stand after repeated demands, we advise the company to challenge this at the Tax Appeal Tribunal. If this is properly prosecuted, the company will be entitled to a refund of ₦1,232,780, being the excess tax liability paid to the tax authority by the company.

Attached herewith are (ai), Appendices I, II, III, IV, detailing the capital allowance computations; Appendix V, Minimum tax and (aii) total tax computations, for your perusal.

We are ready to attend to you if you still need further clarification.

Thank you.

Yours faithfully,

Omoba Aseye

For: Aseye & Co
(Chartered Accountants)

(a) (i) Computation of Capital allowances for the 2012 Assessment Year

| | Office Building IA 15% AA 10% ₦ | Motor Vehicle 50% 25% ₦ | Furniture & Fittings 25% 20% ₦ | Generator 50% 25% ₦ | Capital allowance ₦ |
|-------|--|--|---|--|--|
| TWDV | 2,318,600 | 6,476,000 | 1,385,600 | 3,789,000 | |
| Costs | 2,500,000 | 9,500,000 | 1,750,000 | - | |
| IA | (375,000) | (4,750,000) | (437,500) | - | 5,562,500 |
| AA | <u>(502,325)</u> | <u>(3,346,167)</u> | <u>(608,900)</u> | <u>(1,263,000)</u> | <u>5,720,392</u> |
| | | | | | <u>11,282,892</u> |
| TWDV | 3,941,275 | 7,879,833 | 2,089,200 | 2,526,000 | |

(ii) **SUCCESS Limited**
Computation of Tax Liability
For 2012 Assessment Year

| | ₦ | ₦ |
|---|--------------------|-----------------------|
| Assessable Profit | | 9,507,750 |
| Capital allowance | 11,282,892 | |
| Relieved | <u>(9,507,750)</u> | <u>(9,507,750)</u> |
| Unutilized Capital allowance c/f | <u>1,775,142</u> | |
| Taxable Profit | | NIL |
| Companies Income Tax @ 30% (Restricted to Minimum Tax) | | 96,875 |
| Tertiary Education Tax (2% of ₦9,507,750) | | <u>190,155</u> |
| Total tax liability | | <u>287,030</u> |

Appendix

| | |
|---|----------------|
| I. Building | |
| (New) IA = 15% of ₦2,500,000 = <u>₦375,000</u> | |
| AA = $\frac{2,500,000 \div 375,000}{10}$ | ₦212,500 |
| (Old) AA = $\frac{2,318,600}{10 \div 2}$ | <u>289,825</u> |

| | | |
|------|---|-------------------------|
| | | <u>502,325</u> |
| II. | Motor Vehicle | |
| | (New) IA = 50% of N9,500,000 = N4,750,000 | |
| | AA = $\frac{9,500,000 \text{ ó } 4,750,000}{4}$ = | N1,187,500 |
| | (Old) AA = $\frac{6,476,000}{4-1}$ = | <u>2,158,667</u> |
| | | <u>3,346,167</u> |
| III. | Furniture & Fittings | |
| | (New) IA 25% of N1,750,000 = N437,500 | |
| | AA = $\frac{1,750,000 \text{ ó } 437,500}{5}$ = | N262,500 |
| | (Old) AA = $\frac{1,385,600}{5-1}$ = | <u>346,400</u> |
| | | <u>608,900</u> |
| IV. | Generator | |
| | (Old) AA = $\frac{3,789,000}{4-1}$ = | <u>1,263,000</u> |
| V. | Minimum Tax | |

The highest of:

| | |
|---|---------------|
| | N |
| 0.5% of Gross Profit = 0.005 x N5,255,000 = | 26,275 |
| 0.5% of Net Asset = 0.005 x N11,310,000 = | 56,550 |
| 0.25% of Paid up capital = 0.0025 x N30,000,000 = | 75,000 |

Plus 0.125% of (Difference between Turnover of N18,000,000 and N500,000) = 0.00125 x 17,500,000 = **N21,875**

Minimum tax payable = N75,000 + N21,875 = **N96,875.**

Note:

Minimum tax computation is applicable because the company has been in operation for more than 40 months.

(b) In accordance with Companies Income Tax Act Cap C21, LFN, 2004, òif any taxpayer which has paid tax for any year of assessment alleges that any assessment made upon it for that year is excessive by reason of an error or mistake in the return, statement or account made by or on behalf of the taxpayer for the purpose of the assessment, it may make an application in writing to the relevant tax authority for relief. However, this is only valid if application is made within 6 years after the end of the year of assessment, within which the assessment was madeö.

Upon receiving such assessment, the relevant tax authority shall inquire into the matter and give, by way of repayment of such tax relief in respect of the error or mistake as it appears to it to be reasonable and just. If there is a dispute as in this case, the matter will be resolved by the Tax

Appeal Tribunal, Federal High Court, Court of Appeal and finally the Supreme Court in that order if the matter is challenged by either the taxpayer or the tax authority after the decision have been made by the respective institution.

Since the decision of the Tax Appeal Tribunal is acceptable to both the tax authority and the taxpayer (Success Limited), then the tax authority will need to refund to the company an amount of **N1,232,970** (that is N1,520,000 ó N287,030) being the excess tax liability paid by Success Limited to the Revenue.

SUGGESTED SOLUTION TO QUESTION 2

(a) Composition of the Tax Appeal Tribunal

- (i) A Tribunal shall consist of five members to be appointed by the Minister.
- (ii) A Chairman for each zone shall be a legal practitioner who has been so qualified to practice for a period of not less than 15 years with cognate experience in tax legislation and tax matters.
- (iii) A Chairman shall preside at every sitting of the Tribunal and in his absence; the members shall appoint one of them to be the Chairman.
- (iv) The quorum at any sitting of the Tribunal shall be three members.

Powers of the Tax Appeal Tribunal

The Tribunal shall, for the purposes of discharging its functions, have powers to:

- (i) Summon and enforce the attendance of any person and examine him on oath.
- (ii) Require the discovery and production of documents.
- (iii) Receive evidence on affidavits.
- (iv) Call for the examination of witnesses or documents.
- (v) Review its decisions.
- (vi) Dismiss an application for default or deciding matters *exparte*.
- (vii) Set aside any order or dismissal of any application for default or any order passed by it *exparte*.
- (viii) Do anything which in the opinion of the Tribunal is incidental or ancillary to its functions under the Schedule.

(b) Notice of Appeal shall specify the following specific particulars:

- (i) The official number of the assessment and the year of assessment for which it was made.
- (ii) The amount of the tax charged by such assessment.
- (iii) The amount of the total profit upon which such tax was charged as appearing in the Notice of Assessment.
- (iv) The date upon which the appellant was served with Notice of Refusal by the FIRS to amend the assessment as desired.
- (v) The precise grounds of appeal against the assessment, but such grounds shall be limited to the grounds stated by the appellant in its Notice of Objection.
- (vi) An address for service of any notices, receipts or other documents to be given by the Secretary to the Tax Appeal Tribunal. Provided that at any time the appellant

may give notice to such Secretary and to the FIRS by delivering the same by registered post, of a change of such address but any such notice shall not be valid until delivered or received.

(c) **Final and conclusive assessment occurs where:**

- (i) No valid objection or appeal has been lodged on assessment raised by the Revenue within the specified statutory time limit.
- (ii) No further notice of appeal has been given against the decision of the Tax Appeal Tribunal or the High Court or Court of Appeal.
- (iii) The amount of total income or profit or tax liability has been determined and agreed by the taxpayer.

SUGGESTED SOLUTION TO QUESTION 3

**The Settlement of Raji Ibrahim's children
Computation of Income Tax Payable
For 2013 Assessment Year**

| | Total ₦ | Aminu ₦ | Funmilola ₦ | Shukurat ₦ | Sarah |
|-------------------------|----------------|------------|----------------|---------------|--------|
| Income: | | | | | |
| Rent | 1,480,000 | | | | |
| Trading income | 800,000 | | | | |
| Dividends | 490,000 | | | | |
| Interest | 260,000 | | | | |
| Sundry income | <u>240,000</u> | | | | |
| Total income | 3,270,000 | | | | |
| Less: Expenses | | | | | |
| Trustee's Remuneration: | | | | | |
| Fixed | 100,000 | | | | |
| Variable (W1) | 111,385 | | | | |
| Admin & other | | | | | |
| Expenses | 96,000 | | | | |
| Fixed annuity | 80,000 | | | | |
| Interest on debt | <u>98,000</u> | | | | |
| | <u>485,385</u> | | | | |
| Computed Income | 2,784,615 | | | | |
| Less: Capital allowance | <u>650,000</u> | | | | |
| | 2,134,615 | | | | |
| Less: | | | | | |
| Discretionary payments | (184,000) | 60,000 | 35,000 | 39,000 | 50,000 |
| Remainder of computed | | | | | |

| | | | | | |
|------------------------|-----------------------|----------------|----------------|----------------|----------------|
| Income | 1,950,615 | | | | |
| Share of distributable | | | | | |
| Income | <u>1,560,492</u> | <u>390,123</u> | <u>390,123</u> | <u>390,123</u> | <u>390,123</u> |
| Trustees' Income | <u>390,123</u> | | | | |

(i) Due to beneficiaries **450,123** **425,123** **429,123** **440,123**

(ii) Tax payable by the beneficiaries:

| | |
|---------------------|-------------------------|
| | Aminu |
| | N |
| First N300,000 @ 7% | 21,000.00 |
| Next N150,123 @ 11% | <u>16,513.53</u> |
| | <u>37,513.53</u> |

| | |
|---------------------|-------------------------|
| | Funmilola |
| | N |
| First N300,000 @ 7% | 21,000.00 |
| Next N125,123 @ 11% | <u>13,763.53</u> |
| | <u>34,763.53</u> |

| | |
|---------------------|-------------------------|
| | Shukurat |
| | N |
| First N300,000 @ 7% | 21,000.00 |
| Next N129,123 @ 11% | <u>14,203.53</u> |
| | <u>35,203.53</u> |

| | |
|---------------------|-------------------------|
| | Sarah |
| | N |
| First N300,000 @ 7% | 21,000.00 |
| Next N140,123 @ 11% | <u>15,413.53</u> |
| | <u>36,413.53</u> |

(iii) Tax payable by Trustee

| | |
|---------------------|-------------------------|
| | N |
| First N300,000 @ 7% | 21,000.00 |
| Next N90,123 @ 11% | <u>9,913.53</u> |
| | <u>30,913.53</u> |

Workings

(i) Variable Trustee Remuneration

| | | |
|--------------------------|---------|-----------|
| | N | N |
| Total income | | 3,270,000 |
| Less: Fixed remuneration | 100,000 | |
| Admin expenses | 96,000 | |
| Fixed annuity | 80,000 | |

| | | |
|------------------|--------|------------------|
| Interest on debt | 98,000 | |
| | | <u>374,000</u> |
| | | <u>2,896,000</u> |

4% of Chargeable profit = $4/104 \times \text{N}2,896,000 = \text{N}111,385$

SUGGESTED SOLUTION TO QUESTION 4

(i) Adjusted Profit in the transportation business

| | |
|---------------------------|--------------------|
| | N 0 000 |
| Net transportation profit | 800,000 |
| Add: Depreciation | 640,000 |
| Other disallowed expenses | <u>360,000</u> |
| | <u>1,800,000</u> |

(ii) Computation of Adjusted Profit Ratio

$$\begin{aligned} \text{Adjusted Profit Ratio} &= \frac{\text{Adjusted Profit}}{\text{World wide income}} \times 100 \\ &= \frac{\text{N}1,800,000}{\text{N}6,400,000} \times 100 = 28.125\% \end{aligned}$$

(iii) Computation of Depreciation Ratio

$$\begin{aligned} \text{Depreciation Ratio} &= \frac{\text{Depreciation allowance}}{\text{World wide income}} \times 100 \\ &= \frac{\text{N}640,000}{\text{N}6,400,000} \times 100 = 10\% \end{aligned}$$

(a) Determination of Total Profit for Nigerian Tax Purposes

Nigerian income (as above) N200,000,000

Therefore, Total Profit for Nigerian tax purposes (Assessable Profit) = 28.125% of N200,000,000 = **N56,250,000**

(b) Determination of Income Tax Payable by the Company

| | |
|---|--------------------------|
| | N |
| Total profit for Nigerian tax purpose (Assessable Profit) | 56,250,000 |
| Less: Depreciation allowance (in lieu of capital allowance) | |
| (10% of N200,000,000) | <u>20,000,000</u> |
| Total Profit liable to tax in Nigeria | <u>36,250,000</u> |
| Companies Income Tax @ 30% | 10,875,000 |
| Tertiary Education Tax @ 2% of N56,250,000 | <u>1,125,000</u> |
| Total tax payable | <u>12,000,000</u> |

SUGGESTED SOLUTION TO QUESTION 5

- (a) The following procedure is, in practice, adopted by the Revenue in making assessment for a set of accounts presented by a taxpayer whenever change of accounting date is involved:
- (i) Consider the Year of Assessment in which the organisation fails to make up its accounts to the old accounting date. This is often referred to as the year of change.
 - (ii) Consider two Years of Assessment following the Year of Change.
 - (iii) Consider the old and new accounting dates.
 - (iv) Prepare tax computations based on the profits (or incomes) for the period to the old accounting date and new accounting date in respect of the three assessment years in (i) and (ii) above.
 - (v) Aggregate the profits for the years in respect of the old and new accounting dates.
 - (vi) Where the aggregate profit of one of the accounting dates is greater than the other, the Revenue will assess the organisation based on the accounting year which produces the greater aggregate profit. The Revenue has the right of option in this case.
 - (vii) Thereafter, the organisation will be allowed to change to its new accounting date.

(b)

Mrs. Biola Phillip
Computation of Assessable Profit
For the Relevant Assessment Years

Old Accounting Basis

2009 Assessment Year

| | |
|----------------------------------|----------------|
| Basis period 1/7/2007- 30/6/2008 | N |
| Adjusted Profit (Given) | 1,120,000 |
| Less: Capital allowance | <u>162,000</u> |
| Total profit | <u>958,000</u> |

2010 Assessment Year

| | |
|--------------------------------------|----------------|
| Basis period 1/7/2008- 30/6/2009 | N |
| Adjusted Profit (12/15 x N1,200,000) | 960,000 |
| Less: Capital allowance | <u>180,000</u> |
| Total profit | <u>780,000</u> |

2011 Assessment Year

| | |
|---|------------------|
| Basis period 1/7/2009- 30/6/2010 | N |
| Adjusted Profit (3/15 x N1,200,000 + 9/12 x N1,800,000) | 1,590,000 |
| Less: Capital allowance | <u>220,000</u> |
| Total profit | <u>1,370,000</u> |

New Accounting Basis

2009 Assessment Year

| | |
|---|----------------|
| Basis period 1/10/2007- 30/9/2008 | ₦ |
| Adjusted Profit (9/12 x ₦1,120,000 + 3/15 x ₦1,200,000) | 1,080,000 |
| Less: Capital allowance | <u>162,000</u> |
| Total profit | <u>918,000</u> |

2010 Assessment Year

| | |
|--------------------------------------|----------------|
| Basis period 1/10/2008- 30/9/2009 | ₦ |
| Adjusted Profit (12/15 x ₦1,200,000) | 960,000 |
| Less: Capital allowance | <u>180,000</u> |
| Total profit | <u>780,000</u> |

2011 Assessment Year

| | |
|-----------------------------------|------------------|
| Basis period 1/10/2009- 30/9/2010 | ₦ |
| Adjusted Profit (Given) | 1,800,000 |
| Less: Capital allowance | <u>220,000</u> |
| Total profit | <u>1,580,000</u> |

Summary of Assessable Profits

| Tax Year | Old Accounting Date | New Accounting Date |
|-----------------|----------------------------|----------------------------|
| | ₦ | ₦ |
| 2009 | 958,000 | 918,000 |
| 2010 | 780,000 | 780,000 |
| 2011 | <u>1,370,000</u> | <u>1,580,000</u> |
| | <u>3,108,000</u> | <u>3,278,000</u> |

The Revenue will assess Mrs. Biola Phillip to tax in 2009, 2010 and 2011 Assessment Years based on the new accounting date, because it yields higher tax revenue than the old date. Thereafter, the Revenue will allow her to adopt the new accounting date.

2012 Assessment Year

| | |
|-----------------------------------|------------------|
| Basis period 1/10/2010- 30/9/2011 | ₦ |
| Adjusted Profit (Given) | 2,160,000 |
| Less: Capital allowance | <u>230,000</u> |
| Total profit | <u>1,930,000</u> |

2013 Assessment Year

| | |
|-----------------------------------|------------------|
| Basis period 1/10/2011- 30/9/2012 | ₦ |
| Adjusted Profit (Given) | N2,400,000 |
| Less: Capital allowance | <u>255,000</u> |
| Total profit | <u>2,145,000</u> |

SUGGESTED SOLUTION TO QUESTION 6

(a) Administration of Tertiary Education Tax

The Tertiary Education Tax Trust Fund (Establishment etc) Act, 2011, stipulates that the Tertiary Education Tax shall be charged on the Assessable profit of any company registered in Nigeria at the rate of 2%.

The FIRSB is to be responsible for the assessment and collection of the tax. The payment of tax is due within 60 days of the Service of Notice of Assessment. The Board shall pay tax collected to the Tertiary Education Trust Fund with relevant details to the Board of Trustees to the Fund.

(b)

SALAMI BEM Limited
Computation of Tertiary Education Tax
For 2012 Assessment Year

| | ₦ | ₦ |
|--|---------------|--------------------------|
| Net Profit as per accounts | | 50, 870,000 |
| Add Back: | | |
| Depreciation | 5,194,000 | |
| Legal charges to leasehold | 142,464 | |
| Donation to community fund | 62,000 | |
| Club house project | 819,000 | |
| Recreation club | 50,340 | |
| Building fund | 550,000 | |
| Church building fund | <u>41,600</u> | |
| | | <u>6,859,404</u> |
| | | 57,729,404 |
| Deduct: Profit on sale of non-current assets | | <u>300,000</u> |
| Assessable Profit | | <u>57,429,404</u> |
| Tertiary Education Tax @ 2% of Assessable profit | | <u>₦1,148,588</u> |

SUGGESTED SOLUTION TO QUESTION 7

(a) In Nigeria, Stamp Duties are managed by the Commissioner of Stamp Duties. An instrument must be sent to the Commissioner of Stamp Duties for adjudication. A Commissioner of Stamp Duties performs both administrative as well as technical functions.

(i) Administrative function

This is basically to ensure the proper functioning of the stamp duties office, for example:

- ❖ Stamping room where documents are embossed;
- ❖ Cash office where duties are paid and books are balanced on daily basis; and
- ❖ The archives where copies of stamped documents are kept for future use.

(ii) Technical function

He has the following duties:

❖ Assessments

Assessment of documents and imposition of penalties as appropriate.

❖ Stamping of embossments

This can be by way of embossment with dies, affixing adhesive stamps, affixing postage stamps in lieu of adhesive stamps and printing on the instrument.

❖ The custody of Dies and Stamps

These are important documents used for the stamping of instruments and should be securely kept.

❖ Adjudication

He is responsible for adjudication.

Adjudication is the process of determining the correct amount of duty to be paid. The Commissioner of Stamp Duties carries out this duty.

In addition to the functions of the Commissioner of Stamp Duties, there are other built-in controls to ensure that the Commissioner acts within the ambit of the law. These controls include but are not limited to:

- (i) No two commissioners can adjudicate on an instrument and anybody who takes an instrument that has been adjudicated upon by one Commissioner to another, shall be guilty of an offence punishable with a fine;
- (ii) The imposition of penalties for late stamping;
- (iii) Where a court has ruled that an instrument has not been duly stamped, subsequent adjudication cannot retrospectively make it duly stamped; and
- (iv) Any individual or company can appeal against any adjudication and this is treated as a case in the High Court, with further rights of appeal as for ordinary tax cases.

(b) The major differences between VAT and WHT are as shown in the table below:

| S/N | VAT | WHT |
|-----|-------------------------------------|--|
| 1 | An indirect tax | A direct tax |
| 2 | Imposed on goods and services | Imposed on incomes at source |
| 3 | Imposed at 5% | Rate applicable depends on type of transaction |
| 4 | Backed by VAT Act 2004 | Backed by certain sections of CITA 2004 and PIT (Amendment) Act 2011 |
| 5 | Is administered only by FIRS | Is administered by SIRS and FIRS |
| 6 | Shared by the 3 tiers of government | It is not shared by the 3 tiers of government |