

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**PROFESSIONAL LEVEL EXAMINATION – PILOT QUESTIONS**

**ADVANCED TAXATION**

**INSTRUCTION:** **YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER**

**SECTION A:** **COMPULSORY QUESTION** **(30 MARKS)**

**QUESTION 1**

Mr. Rob Dudu holds a dual citizenship as a Nigerian and Briton by virtue of his marriage to a British national when he got married at the age of 27. Following an unresolved family dispute, he separated from his wife, and therefore, relocated back to Nigeria on December 1, 2023. While in the United Kingdom (UK), he had trained in a solar development company with over five years working experience.

Mr. Rob Dudu took advantage of the liberal economic policies of the Nigerian Government, as well as the incessant power failure in the country and decided to incorporate a limited liability company as a sole director. The Corporate Affairs Commission (CAC) confirmed the availability of **ROBINSON-DUDU NIGERIA LIMITED** and was duly incorporated on December 30, 2023, with a share capital of ₦500 million, divided into 50 million ordinary shares of ₦10.00 each.

Robinson-Dudu Nigeria Limited trades in imported solar panels with inverters and batteries. It commenced business on January 1, 2024. In 2024, the business was so lucrative and organised in such a way that solar panels, inverters and batteries were imported into the country, via Tin Can Island, port, Lagos. The landing cost of the imported goods includes insurance, freight, custom duty, clearing and forwarding expenses.

The results of operations for the first accounting year are stated below:

**Statement of profit or loss**

	<u><b>Notes</b></u>	<b>₦'000</b>
<b>Revenue</b>	(1)	432,500
Direct cost	(2)	<u>(285,200)</u>
<b>Gross profit</b>		<b>147,300</b>
Other income	(3)	<u>5,650</u>
		<b>152,950</b>
<b>Operating expenses:</b>		
Staff cost	(4)	(75,800)
Administrative expenses	(5)	<u>(77,275)</u>
Operating profit/(loss) from ordinary activities		(125)

Finance cost	(9,590)
Operating profit/(loss) before tax expense	(9,715)
Income tax expense	-
	<u>(9,715)</u>
Other comprehensive income	520
Total comprehensive income for the year	<u><b>(9,195)</b></u>

## Statement of financial position

	<u>Notes</u>	<b>N'000</b>
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment		90,138
Financial assets		<u>130,000</u>
<b>Total non-current assets</b>		<u><b>220,138</b></u>
<b>Current assets:</b>		
Inventory	(6)	59,996
Trade receivables	(7)	61,923
Other receivables		73,728
Related party receivable		14,828
Cash and cash equivalents		<u>164,655</u>
<b>Total current assets</b>		<u><b>375,130</b></u>
<b>Total assets</b>		<u><b>595,268</b></u>
<b>Equity and liabilities</b>		
<b>Shareholders' equity and liabilities</b>		
Share capital		500,000
Retained earnings		<u>(9,195)</u>
<b>Shareholders' equity</b>		<u><b>490,805</b></u>
<b>Non-current liabilities:</b>		
Deferred tax liability		<u>3,450</u>
<b>Total non-current liabilities</b>		<u><b>3,450</b></u>
<b>Current liabilities:</b>		
Trade payables		57,225
Related party payable		27,110
Deferred income		136
Other payables		16,542
Current income tax payable		-
<b>Total current liabilities</b>		<u><b>101,013</b></u>
<b>Total shareholders' equity and liabilities</b>		<u><b>595,268</b></u>

The financial statements were approved and signed by the Director on June 28, 2025.

## Notes to the financial statements

(i) Revenue	<b>N'000</b>
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	Sales of solar panels, inverters and batteries	422,500
	Funds from UK / sales of personal items brought into the business	<u>10,000</u>
		<b><u>432,500</u></b>
<b>(ii)</b>	<b>Direct cost</b>	
	Cost of imported panels, inverters and batteries	181,940
	Custom duties on imported panels	75,540
	Cost, custom duty and clearing of personal items from UK	11,520
	Clearing and forwarding of saleable items	<u>16,200</u>
		<b><u>285,200</u></b>
<b>(iii)</b>	<b>Other income</b>	
	Bank interest	2,600
	Realised exchange gains	1,400
	Unrealised exchange gains	<u>1,650</u>
		<b><u>5,650</u></b>
<b>(iv)</b>	<b>Staff cost</b>	
	Salaries and allowances to staff	59,950
	Director's emoluments	9,650
	Alimony paid to wife in UK	2,450
	Staff pensions – Employer's contribution	<u>3,750</u>
		<b><u>75,800</u></b>
<b>(v)</b>	<b>Administrative expenses</b>	<b>N'000</b>
	Bank charges	3,615
	Audit fees	7,000
	Repairs and maintenance	3,096
	Transport and travelling	2,100
	Rent and service charge	26,678
	Printing and stationery	985
	Publicity and staff Christmas party	2,070
	Insurance	3,490
	Motor vehicle running expenses	4,499
	Donations and subscriptions	1,800
	Electricity and internet access	1,653

Foreign exchange loss	1,842
Diesel fuel for generators	6,009
Expected credit loss	2,430
Incorporation expenses	1,200
Depreciation provision	7,822
Legal fees	<u>986</u>
	<b><u>77,275</u></b>

<b>(vi) Inventory</b>	<b>N'000</b>
Closing inventory per inventory sheets	60,636
Less cost of solar panels donated to a gospel ministry by the director	<u>640</u>
Per statement of financial position	<b><u>59,996</u></b>

- The donation was wrongly posted by an inexperienced accounts clerk. The accountant intends to adjust this in the following year.

<b>(vii) Trade receivables</b>	<b>N'000</b>
Per ledger before adjustment	62,318
Amount credited by a customer directly to the director's bank account	<u>395</u>
Per statement of financial position	<b><u>61,923</u></b>

Cost of sales was adjusted upward for this anomaly.

**After a further scrutiny of the above expenses, it was discovered that:**

- An amount of ₦190,000 was given as travel assistance to the director's relation.
- A life insurance premium of ₦340,000 for the director was included in the insurance amount paid by the company.
- Donations include a sum of ₦200,000 to a friend of the accountant who was in need, and another ₦150,000 for an approved less-privileged home.
- Foreign exchange loss includes the following:

	<b>N'000</b>
Unrealised exchange loss	1,340
Realised exchange loss	<u>502</u>
	<b><u>1,842</u></b>

- Expected credit loss consist of:

	<b>N'000</b>
Customers debts considered bad	940
Expected loss on other financial instruments	<u>1,490</u>
	<b><u>2,430</u></b>

- **Property, plant and machinery acquired:**

<u>Date of acquisition</u>	<u>Description</u>	<u>Amount</u> <u>₦'000</u>
January 1, 2024	Motor vehicles (2)	16,000
January 1, 2024	Office equipment and fixtures (10)	39,560
March 1, 2024	Testing machine (4)	14,400
July 1, 2024	Generator (1)	28,000
		<u><b>97,960</b></u>

The business grew faster than what was initially expected, and the tax authority had expected that the company would have filed its first annual returns as stipulated in the extant laws.

The director was of the opinion that the company is yet to fully find its feet as shown in the statement of profit or loss. He asked for your advice on income tax payable (if any), having appointed your firm as tax consultant for an initial period of two years.

**Required**

- a. Compute for the relevant year of assessment:
  - (i) Adjusted profit (8 Marks)
  - (ii) Capital allowances (6 Marks)
  - (iii) Assessable profit, together with the income tax payable and tertiary education tax only. (6 Marks)
- b. Discuss the commencement rule as per the relevant provision of CITA 2004 (as amended). (3 Marks)
- c. Discuss the minimum tax rules for companies in accordance with the provisions of Companies Income Tax Act Cap. C21 LFN 2004 (as amended). (3 Marks)
- d. Discuss those conditions that must be met before any expenses can be acceptable for tax purpose as per Section 24 of the Companies Income Tax Act Cap. C21 LFN 2004 (as amended). (4 Marks)

**(Total 30 Marks)**

**SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (40 MARKS)**

**QUESTION 2**

Damaraq Petroleum Producing Company Ltd, an oil prospecting company, was established in 2006. The directors of the company took advantage of the provisions of the Petroleum Industry Act (PIA) 2021, and applied for the petroleum prospecting licence (PPL) in 2022. The initial application for the

licence was stepped down, due to inadequate documentation. After the submission of additional documents, the licence was granted by the regulatory authority on January 2, 2024.

The audit committee of the company insisted that it must confirm the actual amount of tax payable to the Revenue Authority before it approves the financial statements. As a result, the following information were made available by the company's Chief Financial Officer (CFO) for the year ended December 31, 2024.

	N'million	N'million
<b><u>Revenue:</u></b>		
Value of crude oil sold		468,000
Value of condensate from associated gas sold		84,000
Value of natural gas liquid from associated gas sold		<u>168,750</u>
Gross revenue		720,750
Income from refinery operations		94,905
Balancing charge		<u>95</u>
		815,750
<b><u>Expenses:</u></b>		
Production cost	394,300	
Drilling cost incurred	15,200	
Depreciation of plant and machinery	1,560	
Cost of gas reinjection wells	645	
Repairs and maintenance	14,450	
Royalty cost paid	90,400	
Decommissioning and abandonment	1,450	
Niger Delta Development Commission charge	1,340	
Terminating cost	1,420	
Donations to approved charity home	80	
Finance charges	2,645	
Host community fund paid	1,200	
Concession rentals	64,470	
Environmental remediation fund	1,330	
Cost of seeking information for oil deposits	1,265	
Local Government Municipal levy	<u>210</u>	<u>591,965</u>
<b>Net profit</b>		<b><u>223,785</u></b>

**Additional information made available are:**

**(i) Value of crude oil sold:**

<u>Type</u>	<u>Quantity (barrels)</u>	<u>Actual price</u>	<u>Fiscal price</u>
		\$	\$
Olobiripo	3,900,000	80	85

**(ii) Value of condensate from associated gas sold:**

<u>Type</u>	<u>Quantity (barrels)</u>	<u>Actual price</u>	<u>Fiscal price</u>
		\$	\$
Ololo	1,600,000	35	35

**(iii) Value of natural gas liquid from associated gas sold:**

<u>Type</u>	<u>Quantity (barrels)</u>	<u>Actual price</u>	<u>Fiscal price</u>
		\$	\$
Renny	2,500,000	45	44

(iv) Average dollar (\$) rate exchanged to Naira (~~N~~) at ~~N~~1,500.

(v) Unabsorbed losses b/fwd to the current year amounted to ~~N~~750 million.

(vi) Repairs and maintenance comprised of the following:

	<b><u>N'million</u></b>
- Improvement to production machinery	8,100
- General repairs to machinery & fittings	<u>6,350</u>
	<b><u>14,450</u></b>

**(vii) Drilling cost incurred breakdown:**

	<b><u>N'million</u></b>
- Tangible drilling cost for the first exploration well	10,120
- Cost of drilling the first two appraisal wells	3,480
- Cost of drilling the fourth appraisal well	<u>1,600</u>
	<b><u>15,200</u></b>

**(viii) Capital allowances agreed with the Revenue Authority:**

	<b><u>N'million</u></b>
- Unutilised balance brought forward	485
- Computed for the current year	<u>2,470</u>
	<b><u>2,955</u></b>

(ix) Production allowances after the commencement of the Petroleum Industry Act was in the sum of ~~N~~4,520,000.

**Required:**

Prepare a report to the Chairman of the audit committee, showing the hydrocarbon tax payable for the relevant year of assessment, in line with the provisions of the Petroleum Industry Act (PIA) 2021.

**(Total 20 Marks)**

**QUESTION 3**

An inhouse workshop was organised by the Federal Inland Revenue Service to discuss the emergence of digital transactions and e-commerce. These spirited efforts came up as a result of a memo from the Minister of Finance to the heads of all the federal revenue generating authorities in Nigeria. The Minister's concern bothers on the increase in revenues of companies and individuals (residents and non-residents) who engaged in digital transactions, without a commensurate increase in tax revenue.

In his statement, the Minister maintained that the Federal Government published the Companies Income Tax (Significant Economic Presence Order, 2020) to aid the process of collection of taxes in this category, and also to finance, TAXPRO MAX, a locally developed management solution for effective tax administration.

Issues on Transfer Pricing are also likely to be discussed because some officials handling multi-national companies will also be in attendance.

Your firm has been invited to share your professional knowledge on this crucial matters, given your diverse experience in financial and tax administration.



**Required:**

- (a) (i) Discuss significant economic presence (SEP) as stipulated in the Companies Income Tax (Significant Economic Presence – SEP) Order 2020, gazetted in February 2020. (2 Marks)
- (ii) Discuss any **Four** (4) potential e-commerce taxable transactions. (2 Marks)
- (iii) Discuss the effect of technology through the adoption of locally developed management solution, such as TAXPRO MAX for tax administration in Nigeria. (3 Marks)
- (iv) Explain “**Cloud Computing**” and the opportunities available to tax practitioners in Nigeria. (3 Marks)
- (b) Discuss “connected persons” in line with the provisions of Income Tax (Transfer Pricing) Regulations, 2018 (as amended), (10 Marks)

**(Total 20 Marks)**

**QUESTION 4**

You are an Assistant Manager of a firm and has been on that position for four years. You are also looking forward to your promotion to a substantive manager very soon, having gained prerequisite experience after your professional qualification seven years ago.

The Managing Partner of your firm has mandated you to present a paper titled; “Ethics and Professionalism in Tax Management” to tax officials of a State Internal Revenue Service (SIRS).

**Required:**

- (a) Prepare a draft seminar paper for the approval of your Managing Partner, bearing in mind the following:
  - (i) The establishment of the International Ethics Standards Board for Accountants (IESBA) (2 Marks)
  - (ii) Fundamental principles and guidance for accountants (IESBA Codes) (3 Marks)
  - (iii) Possible legal and ethical issues which may arise from tax assignments. (6 Marks)
  - (iv) Significance of legal and ethical issues in preparing tax returns and reporting (2 Marks)
- (b) Dudulanwo has been operating illegal mining in his village for a very long time. He had premonition that he may be arrested and prosecuted, if eventually caught in this illegal act. He has been advised to register a mining company and continue to carry out a lawful business in that locality.

**Required:**

Discuss the general obligations of mineral title holders in Nigeria, in line with the provisions of Section 20 of the Nigerian Minerals and Mining Act, 2007 (as amended). (7 Marks)

**(Total 20 Marks)**

**SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (30 MARKS)**

**QUESTION 5**

- a. Some trade groups in Nigeria have expressed their concern over the multiplicity of taxes in the country. This menace has become so worrisome, hence the Government of Nigeria recently addressed this issue in the National Tax Policy (NTP) documentation.

A seminar was organised by various stakeholders which you attended as an employee of a small tax practitioner firm, during which, you took note of some crucial points.

**Required:**

Discuss the:

- (i) Causes of multiplicity of taxes in Nigeria (5 Marks)  
(ii) Problems arising from multiplicity of taxes (4 Marks)

- b. Discuss the tax treatment of compensation for loss of office as provided for in Finance Act 2020. (6 Marks)

**(Total 15 Marks)**

### QUESTION 6

Jemolat Limited is a limited liability food processing company based in the South-Eastern region of Nigeria. The directors of the company have just reviewed the company's business plan and would like to enter the international market with affiliation to some foreign entities.

The management team needs to broaden its knowledge on regional economic integration and trade blocs beyond African continent.

Your firm has been engaged to advise on some salient points pertaining to the above matters.

**Required:**

- (a) Differentiate between regional integration and trade blocs. (2 Marks)
- (b) Discuss the objectives of regional integration. (8 Marks)
- (c) Explain the main benefits of regional integration and trade blocs. (5 Marks)

**(Total 15 Marks)**

### QUESTION 7

- (a) Many multinationals have keyed into the successive Nigerian government economic liberalisation policies over the years. This is because Nigeria belongs to many international organisations, such as the Organisation for Economic Co-operation and Development (OECD), amongst others.

In recent time, the government is also concerned with the various challenges, which hinder effective tax administration and inadequate capacity for tax audits.

**Required:**

- (i) Explain 'Tax Inspectors Without Borders' (TIWB). (2 Marks)
  - (ii) Explain the benefits and challenges of technology on tax administration in Nigeria. (5 Marks)
- (b) On February 24, 2025, the Federal Inland Revenue Service (FIRS) issued information circular No. 01/2025 (the Circular) to guide the implementation of the provisions of Deductions of Tax at Source (Withholding Tax) Regulations, 2024.

A foreign investor who intends to do business with some Nigerian companies, need your advice on withholding tax and related matters.

**Required:**

Explain the:

- (i) Deduction of tax at source for related parties (2 Marks)
- (ii) Exemption of small businesses and unincorporated entities (2 Marks)
- (iii) Keeping and maintaining adequate documentation (2 Marks)
- (iv) Disparity on the applicable rates between residents and non-residents especially for interest, dividend and royalties (2 Marks)

**(Total 15 Marks)**



## Nigerian Tax Rates

### 1. Capital Allowances

	Initial ( %)	Annual ( %)
Building expenditure	15	10
Industrial building expenditure	15	10
Mining expenditure	95	Nil
Plant expenditure (excluding furniture & fittings)	50	25
Manufacturing industrial plant expenditure	50	25
Construction plant expenditure (excluding furniture and fittings)	50	Nil
Public transportation motor vehicle	95	Nil
Ranching and plantation expenditure	30	50
Plantation equipment expenditure	95	Nil
Research and development expenditure	95	Nil
Housing estate expenditure	50	25
Motor vehicle expenditure	50	25
Agricultural plant expenditure	95	Nil
Furniture and fittings expenditure	25	20

### 2. Rates of Personal Income Tax

**Consolidated relief allowance** is ₦200,000 or 1% of gross income, whichever is higher, plus 20% of gross income

#### Graduated tax rates

	Chargeable income (₦)	Rate of tax (%)
First	300,000	7
Next	300,000	11
Next	500,000	15
Next	500,000	19
Next	1,600,000	21
Over	3,200,000	24

After granting the tax exempt items and the relief allowance, the balance of income (chargeable income) shall be taxed as specified in the tax table above.

### 3. Companies Income Tax Rate: Finance Act 2019 specifies:

- 30% (Large company)
- 20% (Medium-sized company)
- 0% (Small company)

### 4. Tertiary education tax:

- 2% of assessable profit (up to December 31, 2021)
- 2.5% of assessable profit (with effect from January 1, 2022 to August 31, 2023) and
- 3% of assessable profit, with effect from September 1, 2023 (Finance Act 2023)

### 5. Capital gains tax

10%

### 6. Value added tax

7.5%

### 7. Hydrocarbon tax

- 15% of chargeable profit (Petroleum prospecting licence and marginal fields companies)
- 30% of chargeable profit (Petroleum mining lease companies)

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**Suggested solution to question 1**

(a) (i)

**Robinson-dudu Nigeria Limited**

**Computation of adjusted profit**

**For the year ended December 31, 2024 (Assessment year 2025)**

	<b>₦'000</b>	<b>₦'000</b>
Operating loss per 2024 financial statements		(125)
<b>Add back the following:</b>		
Custom duties on personal items	11,520	
Depreciation provision	7,822	
Alimony paid to ex-wife	2,450	
Travel assistance to a relation	190	
Insurance – Director's life	346	
Donation – needy friend	200	
Unrealised exchange loss	1,340	
Expected loss on financial instruments	1,490	
Solar panel donated to Gospel Ministry	640	
Cash paid to director	<u>395</u>	<u>26,393</u>
		26,268
<b>Less:</b>		
Funds and sales of personal items from UK	10,000	
Unrealised exchange gain	<u>1,650</u>	<u>(11,650)</u>
<b>Adjusted profit</b>		<b><u>14,618</u></b>

(ii)

**Robinson-dudu Nigeria Limited**  
**Computation of capital allowances**

	Motor vehicles	Office equip. and fixtures	Testing machinery	Generator	Total
I. A.	50	25	50	50	
A. A.	25	20	25	25	
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>

**YOA**  
**2025**

Cost	16,000	39,560	14,400	28,000	
I.A.	(8,000)	(9,890)	(7,200)	(14,000)	39,090
A.A	<u>(2,000)</u>	<u>(5,934)</u>	<u>(1,800)</u> (w1)	<u>(3,500)</u> (w2)	<u>13,234</u>
					<b><u>52,324</u></b>
TWDV	6,000	23,736	5,400	10,500	

**Workings**

**W1**

**Annual allowance for 2025 A. Y on machinery:**

	<b>N'000</b>
Cost	14,400
I.A	<u>(7,200)</u>
	<b><u>7,200</u></b>

$$7,200/4 = 1,800$$

**W2 Allowance annual for 2025 A.Y on generator:**

	<b>N'000</b>
Cost	28,000
I.A	<u>(14,000)</u>
	<b><u>14,000</u></b>

$$14,000/4 = 3,500$$

**NB: Investment allowance was abolished in 2023,**



(iii) **Computation of assessable profit and taxes payable**  
**For 2025 year of assessment**

	<b>₦'000</b>	<b>₦'000</b>
<b>Basis period (1/1/2024 – 31/12/2024)</b>		
Adjusted profit		14,618
Deduct Capital allowances	52,324	
C/A restricted to $\frac{2}{3}$ of ₦14,618	<u>(9,745)</u>	<u>(9,745)</u>
<b>Unutilised C/A c/fwd</b>	<b><u>42,579</u></b>	<u>          </u>
<b>Total profit</b>		<b><u>4,873</u></b>
 Companies income tax payable @ 30%		1,461.90
Tertiary education tax @ 3% of ₦14,618		<u>438.54</u>
		<b><u>1,900.44</u></b>

(b) **Assessment rules (Basis period)**

The commencement rule as per the provisions of CITA 2004 (as amended) states that:

- (i) for the first year, the assessable profits shall be the profits from the date in which it commenced to carry on such trade or business in Nigeria to the end of its accounting period;
- (ii) for the second year, the assessable profits shall be the profits from the first day after its first accounting period to the end of its second accounting period; and
- (iii) for the third year and for each subsequent year, the assessable profits shall be the profits from the day after the accounting period just ended.

(c) **Section 33 of CITA as amended – Minimum tax rules**

The minimum tax to be levied and paid shall be 0.5% of gross turnover of the company less franked investment income:

Provided, that the applicable minimum tax is reduced to 0.25% for tax returns prepared and filed for any year of assessment falling due on any date between January 1, 2020 and December 31, 2021, both days inclusive.

However, minimum tax provisions shall not apply to:

- (i) a company carrying on agricultural trade or business as defined in subsection (9) of section 11, of the Act;
- (ii) a company that earns gross turnover of less than N25,000,000 in the relevant year of assessment;

(iii) any company for the first four calendar years of its commencement of business [Finance Act 2019, S. 14(b)].

(d) **Conditions to be met before any expenses can be accepted for tax purposes**

**(CITA Section 24 – Deductions allowed)**

Before expenses incurred by the taxpayers are accepted for tax purposes, such expenses must be reasonable, necessary, exclusive, and wholly incurred for the purpose of generating taxable income.

**Wholly incurred:** The expense is wholly incurred, if the entire amount has been incurred for the purpose of the business.

**Exclusive:** If the business alone obtained the benefits of incurring the expense, then the expense is exclusively incurred.

**Necessary:** Business expense is necessarily incurred if the business cannot derive the income without incurring such expense.

**Reasonable:** An expense which is wholly, exclusively, and necessarily incurred might not be allowed because it is unreasonable. An expense is believed to be reasonable, when it is fair and not excessive, considering the following:

- (i) materiality of the amount;
- (ii) amount of profit or loss for the period;
- (iii) practice obtainable in the industry;
- (iv) general business environment; and
- (v) comparative amount of the same expense in the previous year.

**Suggested solution to question 2**

Date:

The Chairman of Audit Committee  
Damarag Petroleum Producing Company Ltd  
Lagos.

Dear Sir,

**RE: Determination of Hydrocarbon Tax for 2024 Year of Assessment**

In line with your instruction to determine actual taxes payable for the company's operations in 2024, please find below the necessary information:

**Hydrocarbon tax**

The hydrocarbon tax payable for the 2024 year of assessment in line with the provisions of PIA 2021 amounted to **~~N~~24,773.25 million.**

Please see the attached computation in appendix attached to this report.

Thank you.

(Signed)

**APPENDIX 1**

**Damarag Petroleum Producing Company Limited**

**Computation of hydrocarbon tax**

**For the 2024 assessment year**

	<b>N'million</b>	<b>N'million</b>
<b><u>Revenue:</u></b>		
Value of crude oil sold (3.9million barrels x \$85 x <del>N</del> 1,500)		497,250
Value of condensate from associated gas sold (1.6million barrels x \$35 x <del>N</del> 1,500)		84,000
Value of natural gas liquid from associated gas sold (2.5million barrels x \$45 x <del>N</del> 1,500)		<u>168,750</u>
Gross Revenue		750,000
Balancing Charge		<u>95</u>
		750,095
<b>Allowable deductions (Section 263 of PIA):</b>		
Production cost	394,300	
Drilling cost (10,120 + 3,480)	13,600	
Cost of gas reinjection wells	645	

Repairs and Maintenance (14,450 – 8,100)	6,350	
Royalty cost paid	90,400	
Decommissioning and abandonment	1,450	
Niger Delta Development Commission charge	1,340	
Terminating cost	1,420	
Host community fund paid	1,200	
Concession rentals	64,470	
Environmental remediation fund	1,330	
Local Government Municipal levy	<u>210</u>	
Total Allowable Cost (Section 263)	576,715	<u>(576,715)</u>
Total Cost allowed (w1)		<u>(579,670)</u>
Excess allowable cost c/fwd	<u>NIL</u>	
Adjusted profit		173,380
Loss relief		<u>(750)</u>
Assessable profit		172,630
Less Section 266 and 6 <sup>th</sup> Schedule deductions:		
Capital allowances:		
- For the year	2,470	
- Unutilised capital allowance b/fwd	<u>485</u>	<u>(2,955)</u>
		169,675
Production allowance		<u>(4,520)</u>
<b>Chargeable profit</b>		<b><u>165,155</u></b>
Hydrocarbon tax @ 15% of <del>N</del> 165,155		<b><u>24,773.25</u></b>

### Workings

#### **W1      Cost – Price -Ratio (CPR) Limit**

	<b>N'million</b>	<b>N'million</b>
a) Gross revenue		<u>750,000</u>
i. Maximum allowable @ 65% of gross revenue		<u>487,500</u>

Total operating cost	576,715
Capital allowances	<u>2,955</u>
b) Total eligible cost	579,670
<b>Less: Exempted cost incurred</b>	
[Section 263(1)]:	
Royalty paid	90,400
NDDC charge	1,340
Concession rentals	64,470
Host community fund	1,200
Environmental remediation fund	<u>1,330</u>
c) i. Total exempted cost	<u>(158,740)</u>
ii. Net total cost to be subject to CPR	<u><b>420,930</b></u>

c2 The maximum allowable cost is the lower of (i) and (ii) which is **N420,930**

d) Total allowable cost = c1 + c2 (in line with the practice of FIRS)

= ~~N~~158,740 million + ~~N~~420,930 million

= **N579,670 million**

**Note:** We sincerely believe that capital allowances should not have been added to total operating cost in determining the total eligible costs in the computation of CPR limit. However, we adhered strictly to the format of the Federal Inland Revenue Service (FIRS), being the Federal tax administration.

Henceforth, candidates are advised to adhered to this format (FIRS circular), pending any subsequent review of same.

### Suggested solution to question 3

#### (a) (i) Significant Economic Presence (SEP)

The Federal Government of Nigeria (FGN) on Friday, May 29, 2020 published the Companies Income Tax (Significant Economic Presence) Order, 2020 ("the Order") in its Official Gazette No. 21, Vol 107 of February 10, 2020.

For the purpose of section 13(2)(c) of CITA, a company, other than a Nigerian company, shall have a significant economic presence in Nigeria in any accounting year, where it -

- derives gross turnover or income of more than N25 million or its equivalent in other currencies, in that year, from any of combination of the following:
  - streaming or downloading services of digital contents, including but not limited to movies, videos, music, applications, games and e-books to any person in Nigeria;
  - transmission of data collected about Nigerian users which has been generated from such users' activities on a digital interface, including website or mobile applications;
  - provision of goods and services other than those sub-paragraph (5) of this paragraph, directly or indirectly through a digital platform to Nigeria, or
  - provision of intermediation services through a digital platform, website or other online applications that link suppliers and customers in Nigeria;
- uses Nigerian domain name (.ng) or registers a website address in Nigeria; or
- has a purposeful and sustained interaction with persons in Nigeria by customising its digital page or platform to target persons in Nigeria, including reflecting the prices of its products or services in Nigerian currency or providing options for billing or payment in Nigerian currency.

**(ii) E-commerce transactions taxable to technology-based transactions include:**

- online shopping;
- online movies;
- internet banking;
- online ticketing and reservation;
- auction sites;
- journal subscription; and
- online betting and gaming.

**(iii) The effects of technology using TAXPRO MAX on tax administration in Nigeria**

Recently, the FIRS announced the adoption and deployment of a locally developed tax management solution known as TAXPRO MAX. This system has the capacity to handle different aspects of tax administration, including:

- **e-registration** – Deployment and use of a robust and integrated tax management software makes it possible for accurate taxpayers' data to be captured by the tax authority. Each taxpayer enrolled is assigned a unique tax identification number (TIN) and it is now possible for taxpayers to do self-enrolment through a web application service.

- **e-assessment** – When taxpayers file returns electronically, it is possible for their tax liabilities to be computed and assessment notice generated automatically and sent to their email accounts.
- **e-payment** – Technology has made it possible for taxpayers to make payments through several electronic channels, such as point of sale (POS), internet banking, bank transfers, unstructured supplementary service data (USSD) or even using their credit/debit cards from the comfort of their homes.
- **e-filing** – Most integrated tax management solutions come along with a module that facilitates electronic filing. This enables taxpayers to file their returns from their offices without the stress of going to the tax office which might be several kilometers away. For instance, the FIRS has been encouraging taxpayers to make use of the recently deployed TaxPro Max solution to file their periodic tax returns, including VAT and CIT returns.
- **e-tax calculator** – Modern tax authorities develop and deploy this tool on their websites to enable taxpayers and their consultants to compute the accurate amount of taxes to be paid. This function has been part of the FIRS website ([www.firs.gov.ng](http://www.firs.gov.ng)) in the last few years.
- **e-TCC** – Many individual and corporate taxpayers require their tax authorities to issue tax clearance certificates (TCCs) to them on yearly basis. Through the use of appropriate technology, taxpayers can apply for their TCCs electronically and get them sent to their email accounts, if the conditions are met.
- **e-reporting** – Each tax authority requires various performance reports to be generated on a periodic basis. These reports can be generated within seconds at the click of a button.
- **e-tax audit** – Technology has made it possible for the entire process of tax audit to be carried out without the tax auditors visiting the premises of the taxpayer and vice versa. For instance, all the pre and post – audit meetings can be held using video conferencing tools and documents exchanged electronically through emails.

**(iv) Cloud computing technology**

Many accounting softwares are hosted in the cloud and some of them come along with modules for tax management used for:

- automated tax computation;
- tax returns preparation and filing;
- tax planning and forecasting; and
- tax payment; etc

There are cloud-based independent automated solutions for tax management. When a tax practice or administration subscribes to a cloud-based tax management solution, it is relieved of the need to invest in physical onsite servers with the attendant costs of maintenance and support.

Cloud-based tax management solutions, therefore, afford tax practitioners the opportunity to work remotely from practically any device with internet connection and serve their clients from any location at any time. It further helps tax practitioners to facilitate collaborations among themselves and clients.

- (b) Connected taxable persons include persons, individual, entities, companies, partnerships, joint ventures, trust or associations (collectively referred to as “Connected Taxable Persons”). Also includes the persons referred to in section 13, section 22 of CITA, section 15 of PPTA, section 17 of PITA, article 9 of OECD Model Tax Convention and “associated enterprise” in OECD guidelines.

Section 12. (1) of Income Tax (Transfer Pricing) Regulations 2018, states that, “generally, persons are deemed connected where one person has the ability to control or influence the other person in making financial, commercial or operational decisions, or there is a third person who has the ability to control or influence both persons in making financial, commercial, or operational decisions.

Subsection (2) In these regulations, “connected persons” includes persons who are related, associated, or connected to one another as defined in –

- (i) the Companies Income Tax Act, CAP. C21, Laws of the Federation of Nigeria, 2004 (as amended);
- (ii) the Petroleum Profit Tax Act, CAP, P13, Laws of the Federation of Nigeria 2004 (as amended);
- (iii) the Personal Income Tax Act, CAP. P8, Laws of the Federation of Nigeria, 2004 (as amended);
- (iv) the Capital Gains Tax Act, CAP. C1, Laws of the Federation of Nigeria 2004 (as amended);
- (v) Article 9 of the OECD and UN Model Tax Conventions and the Agreements for the Avoidance of Double Taxation between Nigeria and other countries; and
- (vi) the OECD TP guidelines and UN TP manual”.

The following persons will be regarded as connected taxable persons (i.e. related parties) within the context of the Transfer Pricing Regulation 2018.

- (i) any entity dealing with a related party (associate, subsidiary, joint venture);



- (ii) a member of a local group of companies;
- (iii) members of a conglomerate;
- (iv) multinationals;
- (v) an entity in a group located in the free zone;
- (vi) a group entity has a pioneer status;
- (vii) intra company profits is taxable under different regimes e.g tax exempt export profits;
- (viii) loss making entity within a profitable group;
- (ix) related parties subject to tax at different rates; and
- (x) permanent establishment.

#### **Suggested solution to question 4**

**(a) (i) Establishment of International Ethics Standards Board for Accountants (IESBA)**

International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting body within the International Federation of Accountants (IFAC). The IESBA develops and issues in the public interest high-quality ethics standards and other pronouncements for professional accountants for use around the world. It encourages member bodies to adopt high standards of ethics for their members and promotes good ethical practices globally. The IESBA also fosters international debate on ethical issues faced by accountants.

The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

**(ii) The Five fundamental principles and guidance for accountants (IESBA codes)**

The fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA) are:

- **Integrity**

A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships. Integrity implies fair dealing and truthfulness. A professional accountant shall not knowingly be associated with reports, returns, communications or other information where he believes that the information contains materially false or misleading statement.

- **Objectivity**

A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgement because of bias, conflict of interest or undue influence of others. A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgement regarding that activity.

- **Professional competence and due care**

A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislations and act diligently and in accordance with applicable technical and professional standards.

- **Confidentiality**

A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships.

The principle of confidentiality imposes an obligation on all professional accountants to refrain from:

- disclosing outside the firm or employing organisation, confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
- using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

- **Professional behaviour**

A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

(iii) **Possible legal and ethical issues that may arise from tax assignments**

The following are the possible legal and ethical issues that could arise from tax assignments:

- **Technical competence** – Failure of tax practitioners to maintain an appropriate level of professional competence by ongoing development of their knowledge and skills.
- **Reasonable enquiry** – Failure to make reasonable enquiries where information or documentation as furnished by a client appears to be inaccurate or incomplete.
- **Continue to act** – Continuing to act for a client in circumstances where incorrect or misleading information is not corrected by the client.
- **Tax avoidance** – Conflicts which arise in distinguishing between legitimate tax planning/tax minimisation arrangements and tax avoidance activities/schemes.
- **Supervision of tax audit** – Failure to carefully plan for or otherwise supervise on behalf of the client, audit activities carried out by tax authorities.
- **Tax loopholes** – “Loophole seeking” to deliberately test the boundaries of tax laws.
- **Fee setting** – Basing the amount of the fee charged for tax services on the amount of tax saved/tax liability, that is, contingent fee setting.
- **Aggressive interpretation** – Adoption of overly aggressive interpretations of questionable issues and reporting positions on the basis that detection of the issue by the tax authorities is unlikely, that is, playing the “tax audit lottery”.
- **Misleading advice** – Provision of inadequate or misleading advice to clients as to the potential risks and consequences of adopting various reporting positions and tax arrangements.
- **Misrepresentation** – Misrepresentation or concealing limitations in a tax practitioner’s competence or skills to perform particular tax services.
- **Personal gain** – Conflicts between opportunities for personal financial gain (or other personal benefit) and proper performance of a tax practitioner’s responsibilities.
- **Conflict of interest** – Conflicts of interest that involve providing services to competing clients, such that the interests of one client may be prejudiced.
- **Documentation** – Preparing and signing a return without seeing full documentation.
- **Communication** – Failure to communicate to clients unfavourable as well as favourable information and professional opinions.
- **Tax authority’s errors** – Inaction by the tax practitioner in respect of a clear and significant mathematical or clerical mistake by the relevant tax authorities in favour of a client.
- **Reporting position** – Determining whether the client or the tax practitioner should make the final reporting decisions for contentious or ambiguous items.

- **Public responsibility** – Failure to acknowledge a public responsibility to contribute to the improvement of the tax laws and their administration, for example, reporting blatant tax avoidance arrangements.
- **Professional judgement** – Carrying out a client's instructions which are inconsistent with the professional judgement of the tax practitioner. (Professional judgement)
- **Poaching clients** – Poaching or soliciting potential clients from other practitioners / practices.
- **Authority** – Dealing with a client's fund (for example, a tax refund cheque) without client authority.
- **Tax audit** – Structuring a transaction, or the preparation of a tax return in such a way as to reduce the chances of a tax audit.
- **Research** – Failure to conduct adequate research on a problem as a reasonable basis for identifying issues and forming carefully considered conclusions and recommendations.
- **Prior years errors** – Inaction by the tax practitioner in respect of a clear and significant error detected in a client's prior year return(s).
- **Confidentiality** – Failure to ensure confidentiality with regard to privileged client information.
- **Tax minimisation** – Keeping a client informed of current tax minimisation arrangements which have no real commercial or family purpose.

**(iv) Significance of legal and ethical issues in preparation of tax returns and in reporting**

Professional accountants in tax practice must take note of legal and ethical issues when preparing tax returns. Non-adherence could lead to following consequences from the professional body.

- imposition of fines;
- suspension from membership of the Institute for a period of time;
- expulsion from membership of the Institute;
- withdrawal of Certificate and Licence to Practice;
- reprimand; and
- payment of costs associated with the investigations and meetings.

**(b) General obligations of mineral title holders**

Section 20 of the Nigerian Minerals and Mining Regulations, 2011, states that every holder of a mining lease shall:

- (i) pay the rents under the permit, licence or lease at the prescribed time and in the prescribed manner;

- (ii) use the land in respect of which the permit, licence or lease is granted solely for exploration and mining purposes only;
- (iii) not transfer the permit, licence or lease without the prior written consent of the Minister;
- (iv) not assign, underlet or part with the possession of such land or any part thereof without the prior written consent of the Minister and shall register any partnership and third-party agreement with the Mining Cadastre Office;
- (v) lodge with the Mines Inspectorate Department such reports and information as prescribed under the Act and the Regulations;
- (vi) promptly report in writing to the Minister details of all minerals discovered;
- (vii) duly observe and comply with all provisions, conditions and obligations contained in the Acts for the time being in force applicable to the permit, licence or lease or the land;
- (viii) perform and comply with any further conditions, terms or stipulations in any Community Development Agreement to which the holder is a party and submit a copy to the Mining Cadastre Office;
- (ix) comply with all environmental, health and safety provisions contained in the Act and the Regulations;
- (x) comply with all reasonable directives and instructions which may be issued from time to time by the Ministry or any of its agencies or authorised officers; and
- (xi) allow any public officer duly authorised by the Ministry or any of its agencies at any time with or without notice to enter upon the land or mining area of inspection purposes.

### **Suggested solution to question 5**

#### **a. (i) Causes of multiplicity of taxes**

The statutory approved list for collection of taxes, in accordance with the Taxes and Levies (Approved List for Collection) Act Cap T2 LFN 2004 (as amended), states that there are 39 taxes in Nigeria. This number is rather alarming.

#### **Some of the possible causes of multiplicity of taxes**

- It would appear that the listing of 20 items in “Taxes and Levies Act” in favour the local governments is one of the factors that motivated them into the inordinate drive for revenue through those items.
- Administratively, most of the State Boards of Internal Revenue are plagued with various problems, including poor funding, lack of infrastructure, poor remuneration and lack of motivated skilled personnel.

- Some of the state governments deliberately deny their local governments the revenue due to them and in some cases, have even usurped the taxes assigned to the local governments. Consequently, the local governments, as a way of survival desperately and aggressively focus on anything that will generate revenue for them, for example, a development levy of just N100 is being collected by the states.
- All the tiers of government usually fail to adequately fund their departments and agencies. These developments make them to embark on aggressive revenue drive even illegally in the name of increasing their internally generated revenue.
- Lack of tax information and data.

**(ii) Major problems arising from multiplicity of taxes**

- Multiplicity of taxes comes with a lot of uncertainties in the investment environment. The investors are not sure of the extent to which their incomes would be taxed. This has basically led to large corporate entities moving their operations out of some states or from Nigeria to neighboring countries on account of multiplicity of taxes and other relevant reasons.
- Tax yield is very low as a result of numerous taxes that brings in little but with high cost of administration. Tax yield is the revenue that accrues to government after taking account of the cost of administration.

**(b) Tax treatment of compensation for loss of office – Finance Act, 2020**

Sums obtained by way of compensation for loss of office, up to a maximum of N10,000,000.00, shall not be chargeable gains and subject to tax under this Act.

Provided that any sum in excess of N10,000,000.00 shall not be so exempt but the excess amount shall be chargeable gains and subject to tax accordingly.

Any person who pays compensation for loss of office to an individual is required, at the point of payment of such compensation, to deduct and remit the tax due under this section to the relevant tax authority.

The tax so deducted shall be remitted within the time specified under the Pay-As-You-Earn regulations issued pursuant to the Personal Income Tax Act.

**Suggested solution to question 6**

**(a)**

**XYZ & ASSOCIATES**

The Managing Director  
Jemolat Limited

Lagos

Dear Sir,

**Re: Report on Regional Integration and Trade Blocs**

We refer to your request in respect of the above subject matter. We wish to submit our report as follows:

**(i) Differentiation between regional integration and trade blocs**

- **Regional integration**

Regional integration is the process where neighbouring countries agree to cooperate and coordinate policies, often through common institutions and rules, to achieve shared goals like economic growth, political stability or security.

The process typically involves reducing barriers to trade, investment, and the movement of people and ideas, and can lead to the formation of trade blocs or even more formal political unions.

Regional integration can take many forms, from free trade areas and custom areas to common markets and economic unions, with varying degrees of integration and shared sovereignty.

Examples of regional integration are European Union, North American Free Trade Agreement, Asian Pacific Economic Cooperation Forum, etc.

- **Trade blocs**

A trade bloc is a group of countries that reduces or eliminates trade barriers, such as tariffs and quotas, among themselves to promote economic integration and cooperation. Examples include the European Union (EU), the North American Free Trade Agreement (NAFTA), the Association of Southeast Asian Nations (ASEAN), Economic Community of West African State (ECOWAS), etc.

**(ii) Objectives of regional integration**

Regional integration initiatives should fulfil at least the following eight important objectives:

- strengthening of trade integration in the region;
- the creation of an appropriate enabling environment for private sector development;
- development of infrastructure programmes in support of economic growth and regional integration;

- development of strong public sector institutions and good governance;
- reduction of social exclusion and the development of an inclusive civil society;
- contribution to peace and security in the region;
- building of environment programmes at the regional level; and
- strengthening of the region's interaction with other regions of the world.

(iii) **Benefits of regional integration and trade blocs**

The advantages or benefits derivable from regional economic integration and trade blocs agreements include the following:

- **Trade creation** – These agreements create more opportunities for countries to trade with one another by removing the barriers to trade and investment. Due to a reduction or removal of tariff, cooperation results in cheaper prices for consumers in the bloc countries. Studies indicate that regional economic integration significantly contributes to the relatively high growth rates in the less developed countries.
- **Employment opportunities** – By removing restrictions on labour movement, economic integration can help expand job opportunities.
- **Consensus and cooperation** – Member nations may find it easier to agree with smaller numbers of countries. Regional understanding and similarities may also facilitate closer political cooperation.
- **Impetus for private sector planning and investment** – Regional economic integration can serve useful economic purpose beyond the direct gains from trade liberalisation, by reducing uncertainties and improving credibility and thus making it easier for the private sector to plan and invest. Indeed, reducing uncertainty may be vital for realising gains from liberalisation. Economic benefits from a particular regional trade agreement depend on the scope and coverage of its provisions, the nature of the enforcement mechanism and the circumstances in which the agreement can be modified.
- **Other non-economic benefits** – Regional economic integration may allow a member country to reap other non-economic benefits, such as peace and security.

**Suggested solution to question 7**

**(a)(i) Tax Inspectors Without Borders (TIWB)**

TIWB is a joint new initiative of the Organisation for Economic Co-operation and Development (OECD) and the United Nations Development Programme (UNDP) for delivering assistance needed to build tax audit capacity in developing countries, bridging the gap between theory and



practice and complementing efforts from the international development community to help with a range of broader domestic resource mobilisation (DRM) issues. As such, TIWB can make a significant contribution to DRM efforts by developing countries.

TIWB facilitates targeted, tax audit assistance programmes in developing countries across the globe. Under TIWB, tax audit experts work alongside local officials of developing country tax administrations on current direct and indirect tax audits and audit related issues concerning international tax matters and sharing general audit practices for specific cases. TIWB programmes can include pre-audit risk assessment and case selection, investigatory techniques, audit cases, involving transfer pricing issues, anti-avoidance rules, or sector-specific issues, relating for example to natural resources, e-commerce, financial services or telecommunications.

The host administrations of developing countries are the lead partners in TIWB programmes, clearly specifying their needs and scope of work. Audit experts work with the host administration under a programme agreement which covers all the legal and practical safeguards and provisions. The experts are not intended to act as substitutes of local audit staff or to carry out audit work where no local audit personnel would otherwise exist.

## **(ii) Benefits of technology to tax administration**

The contributions of technology to tax practice and administration in Nigeria include:

- improvement in access to real-time updates of tax laws;
- improvement in access to data and information;
- improvement in access to a wide outreach marketing channel and communication medium;
- improvement in efficient and effective service to clients and taxpayers;
- increasing loyalty of customers and taxpayers to their clients and tax agencies, respectively;
- timely delivery of service to clients;
- encouragement of customisation of office space to the taste of the tax practitioners and administrators;
- reduction in the cost of providing office infrastructures;
- reduction in communication cost and time;
- promotion of ease of filing tax returns and paying taxes by the taxpayers; and
- creation of better productivity on the part of the tax practitioners and administrators.

## **Challenges of technology on tax administration**

- **Security risk:** Security risk is the most common challenge to technological-driven tools in tax practice and administration.
- **Unreliability of Internet:** The performance of the technological-driven tools in achieving the benefits attached to them is a function of the reliability of the internet.
- **Resistance from the management and other users:** In-house resistance to adoption and implementation of the technological-driven tools.
- **Lack of awareness**
- **High cost of acquisition of the facilities, licensing, subscription, and implementation**
- **Activities of hackers**

**(b)(i) Deduction of tax at source for related parties**

For related party transactions, tax should be deducted at the point of payment or when the liability is recognised, whichever comes first. For example, if an entity raises an invoice but payment occurs later, tax must be deducted when the liability is recognised, not when the payment is made. This highlights the need for businesses to monitor internal transactions to ensure timely tax deductions.

**(ii) Exemption of small businesses and unincorporated entities**

Small businesses and unincorporated entities are exempt from withholding tax (WHT) if the supplier has a valid taxpayer identification number (TIN) and the transaction value does not exceed ₦2,000,000 in a calendar month. Small businesses should review contracts and supplier relationships to ensure compliance with the TIN requirement and the ₦2,000,000 threshold.

**(iii) Keeping and maintaining adequate documentation**

The circular reinforces the requirements of the regulations for businesses to submit returns to tax authorities with evidence of tax remittance, including detailed transaction records, such as payer and payee details, tax amounts, and the nature of transactions. Additionally, businesses must issue receipts for WHT deductions to the payee, ensuring alignment between both parties and facilitating tax credit claims. This underscores the importance of accurate record-keeping and timely issuance of receipts and statements.

**(iv) Disparity on the applicable rates between residents and non-residents**

The circular reproduces the different WHT rates for residents and non-residents, depending on the nature of the transaction. While the WHT rates for dividends, interest and royalties for Nigerian residents remain 10% and those for non-residents will be reduced to 7.5% through the use of double taxation treaties (DTT) with certain territories.

