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

LIS Nigeria Limited, a manufacturer of soap and detergent, was incorporated on April 1, 2020, but commenced business on July 1, 2020.

At the 2023 annual general meeting of the company, the shareholders approved the resolutions for increase in the share capital in 2024, and request for long-term bank loan in first quarter of 2025, to fund expansion of the company's operations.

In December 2024, the company initiated a preliminary request for a long-term loan from its bankers. As part of the documentation required, the company is expected to submit audited financial statements and tax clearance certificates for the past three years. While the company has consistently fulfilled its tax obligations, it has not yet applied for a tax clearance certificate since the commencement of its operations.

Your firm of tax consultants has been engaged to procure the tax clearance certificate for three years for the company after recomputing the tax liabilities from inception to the financial year ended December 31, 2024. The Managing Director stressed that the company is willing to make additional tax payment, if a case of short-payment of tax liabilities is established.

After accepting the engagement, your Principal Partner, during interaction with the Managing Director, submitted that based on the provisions of the Companies Income Tax Act 2004 (as amended), the Federal Inland Revenue Service may consider instituting back duty audit on the company, hence the need for an early preparation for their visit. The Managing Director seems not to understand the submission made by the Principal Partner.

The company has provided all the financial records necessary for the conduct of this assignment.

The following details of the statement of profit or loss were extracted from the financial records of the company for the year ended December 31, 2024:

	₦'000	₦'000
Turnover		145,700
Cost of sales		(66,250)
Gross profit		79,450
Other operating income		3,000
		82,450
Deduct:		
Other personnel cost	21,000	
Power and rates	3,800	
Depreciation	5,500	
Repairs and maintenance	1,900	
Allowance for doubtful debts	5,800	
Finance cost	2,200	
Donations and subscriptions	2,450	
Legal and professional fees	4,500	
Transport and traveling	1,100	
Telephone and postages	900	
Loss on disposal of a motor vehicle	1,800	
Other operating expenses	3,350	
Preliminary expenses written off	1,200	
Transfer to general reserve	2,000	57,500
Net profit for the year		24,950

The following additional information was made available:

(i) Adjusted profit/(loss) and turnover :

Accounting period	Adjusted profit/(loss)	Turnover
	₦'000	₦'000
Period ended December 31, 2020	(27,950)	65,800
Year ended December 31, 2021	2,600	90,500
Year ended December 31, 2022	6,200	108,250
Year ended December 31, 2023	12,870	124,600

(ii) Other operating income:

	₦'000
Excess on revaluation of industrial building	1,300
Dividend received (net)	1,700
	3,000

(iii) Repairs and maintenance:

	₦'000
Improvement to industrial warehouse	1,000
Repairs of industrial plant	400
Renewals of tools and implements	200
Maintenance of motor vehicle	300
	1,900

(iv) Allowance for doubtful debts:

	₦'000
General allowance for doubtful debts	4,350
Specific allowance for doubtful debts	1,750
Bad debt written off	900
Bad debt recovered	(1,200)
	5,800

(v) Donations and subscriptions:

	₦'000
Contribution to a fund created by a state government for victims of flooding	1,000
Award of scholarship to three indigent students	1,200

Subscription to manufacturers' association	250
	2,450

(vi) Legal and professional fees:

	₦'000
Audit and accountancy fees	1,600
Legal - acquisition of long-term lease	1,500
Legal - new issue of shares	1,400
	4,500

(vii) Other operating expenses:

	₦'000
Provision of unbranded Xmas hampers to customers	1,100
Local government tenement rate	750
Income tax provisions	1,500
	3,350

(viii) Schedule of qualifying capital expenditure:

QCE	Date of acquisition	Number of items	Amount ₦'000
Industrial building	May 15, 2020	1	15,000
Non-industrial building	June 6, 2020	2	8,000
Furniture and fittings	June 16, 2020	10	2,400
Industrial plant	July 1, 2020	1	12000
Motor vehicles	July 1, 2020	3	7,500
Motor vehicles	July 1, 2022	2	6,000
Furniture and fittings	September 1, 2022	2	600
Industrial plant	October 1, 2024	1	18,000

(ix) A motor vehicle assigned to the General Manager, which cost ₦3 million at the date of purchase on July 1, 2022, was sold for ₦1.2 million on December 31, 2024.

Required:

As the newly engaged Tax Consultant, you are to draft a report to the Managing Director, showing/stating the:

(a) Adjusted profit for the year ended December 31, 2024 (7 Marks)

(b) Company's tax liabilities for the relevant assessment years (ignore minimum tax computations) (20 Marks)

(c) Provisions of the CITA 2004 (as amended) on back duty audit (3 Marks)

(Total 30 Marks)

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

QUESTION 2

Colends Energies Nigeria Limited has been in oil prospecting business for more than twenty-five years. The company operates in both onshore and shallow waters in the Nigerian oil-rich region.

Upon expiration of its current oil mining licence (OML) on December 31, 2022 and in compliance with the provisions of Petroleum Industry Act 2021, the company automatically converted its OML to petroleum mining lease (PML) on January 1, 2023.

The company has provided the following results in respect of its operations for the year ended December 31, 2024:

(i) **Crude oil sold**

Type	**Quantity (million barrels)**	**Actual price US $**	**Fiscal price US $**
Bonny light	10.2	78	80
Forcados medium	8.8	75	75
Bonny sweet	5.3	68	67

(ii) **Condensate from associated gas sold**

Type	Quantity (MMBTU)	Actual price US $	Fiscal price US $
OSO condensate	2 million	35	36
Brass condensate	1.5 million	33	32

(iii) **Natural gas liquid from associated gas sold**

Type	Quantity (MMBTU)	Actual price US $	Fiscal price US $
Penington	3 million	34.5	35

(iv) Income from refinery operation during the year was ₦3,625 million.

(v) **Expenses:**

	₦'million
Royalty cost incurred and paid	433,200
Production cost	910,820
Drilling costs	231,040
Concession rentals	57,600
Terminalling cost	5,200
Customs duty on essentials	520
Environmental remediation fund	1,170
Cost of gas reinjection wells	1,160
Depreciation of plant, machinery and fixtures	2,630
Repairs of plant, machinery and fixtures	350
Repairs of alteration of production implement utensils	210
Decommissioning and abandonment	800
Niger Delta Development Commission charge	150
Host community costs	2,320
Donations to widows and orphanage	100
Finance costs	755
Administrative expenses	1,685

The following additional information was provided:

(vi) The drilling costs consisted of 75% tangible costs and 25% intangible costs.

(vii) Included in administrative expenses was ₦250 million spent on acquisition of geophysical and geological data and information during search for existence of petroleum deposits.

(viii) Agreed capital allowances for the year was ₦1,780 million.

(ix) Production allowances after commencement of the Petroleum Industry Act, 2021, consisted of:

	₦'million
Onshore operations	1,100
Shallow water operations	1,300
	2,400

(x) Assume ₦1,400 is equivalent to US $1.

Required:

(a) As the company's tax manager, you are to prepare a report to the Managing Director showing the hydrocarbon tax payable by the company in the relevant assessment year. (19 Marks)

(b) Identify the relevant assessment year. (1 Mark)

(Total 20 Marks)

QUESTION 3

Phillips Global Limited, based in Kabba, Kogi State, is a fully Nigerian-owned company specialising in stationery products. The company was incorporated six years ago and has grown steadily. To better serve its expanding customer base in Ghana, Togo, and the Republic of Benin, the management has decided to set up a dedicated business unit in Legon, Accra, Ghana.

The operating results of the company for the year ended December 31, 2024, revealed the following:

	₦'000
Income from Nigeria	135,200
Income from Ghana	88,900
Total income	224,100
Less: overheads	170,760
Net profit	53,340

Included in the overheads were:

		₦'000
(i)	Depreciation - Nigeria	22,500
	- Ghana	8,600
(ii)	Donations - Nigeria business:	
	Social club	400
	Flood relief fund	1,500
(iii)	Preliminary expenses – Nigeria	2,900
(iv)	Foreign tax suffered	6,200
(v)	Profit attributable to Ghana business	18,300

(vi) The flood relief fund was set up by the Federal Government of Nigeria for the victims of flood incidence, which occurred in Mokwa, Niger State.

(vii) Capital allowances agreed with tax officials for Nigeria and Ghana businesses were ₦9,500,000 and ₦4,400,000, respectively.

Required:

(a) Compute the tax liabilities on the total income, stating clearly the double taxation relief applicable to the company. (14 Marks)

(b) Comment on the provisions of sections 45 and 46 of Companies Income Tax Act, 2004 (as amended), in respect of foreign income made by a Nigerian company, where there is a double taxation agreement between Nigeria and the other company. (6 Marks)

(Total 20 Marks)

QUESTION 4

One of the most significant advancements in tax administration is the development of modern tax software, otherwise known as disruptive technologies.

Your firm of chartered accountants, with experience in the use of modern tax software, has been invited by a small-sized consultancy outfit, to a workshop on "Disruptive technologies and tax administration in Nigeria." The workshop has been packaged for newly appointed Tax Consultants.

Required:

Your Principal Partner has instructed you to represent the firm at the upcoming workshop scheduled to take place in two weeks. However, you are required to submit a draft of your presentation to the Principal Partner by next Friday for review. The presentation should address the following key areas:

(a) The role of artificial intelligence (AI) in data analysis and fraud detection by tax consultants and administrators (10 Marks)

(b) The role of big data in enhancing tax planning (6 Marks)

(c) Benefits of benchmarking databases and technology in transfer pricing analysis (4 Marks)

(Total 20 Marks)

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

QUESTION 5

Colcom Limited commenced operations in January 2013, as a manufacturer of glass and glassware in a major town in the Northern part of Nigeria. The company owned two factories, A and B, in the same town.

The following details relate to each of the two factories:

Factory A

This was built by the company in 2013 at a cost of ₦30 million. In 2018, improvement, which cost ₦3 million was made on the factory warehouse.

On August 11, 2024, the factory was completely burnt due to a high voltage/power surge from the local electricity distribution company. Both the company's staff and federal fire service personnel put up spirited efforts to curtail the spread of the fire outbreak, but this was not enough to salvage the factory from total destruction.

The factory was, however, insured with Colphy Insurance Limited. The insurance company after thorough investigation, on November 25, 2024, paid a compensation of the sum of ₦75 million to Colcom Limited.

Factory B

This factory cost ₦85 million when it was acquired in September 2020. Renovation was made to the factory in December 2023 at a cost of ₦5 million.

The shareholders of the company at the 2024 annual general meeting, held in March 2025, approved the following resolutions as presented by the directors:

(i) relocation of the company to the Southern part of the country, where over 75% of the company's customers are located;

(ii) not more than ₦60 million, being part of the compensation received from the insurance company, in respect of the burnt Factory A, be used in the acquisition of a new factory in Ikorodu, Lagos State. The balance should be retained for future investment opportunities;

(iii) factory B should be sold and the funds realised be used in the acquisition of another factory at Surulere, Lagos State; and

(iv) the deadline for the completion of the above transactions/activities is second quarter of 2025.

Between May and June 2025, the following transactions were undertaken:

(i) ₦58 million from the compensation received in respect of the burnt Factory A, was used to acquire a new factory in Igbogbo, near Ikorodu, Lagos State; and

(ii) factory B was sold for ₦120 million and this was used to fund the acquisition of another factory, which cost ₦200 million, at Surulere, Lagos State.

You were appointed as the company's consultant in 2025 to advise the directors on tax matters.

Required:

(a) Compute in line with the provisions of the Capital Gains Tax Act Cap C1, LFN 2004 (as amended), the following:

i. Capital gains (if any) made on each of the two factories (9 Marks)

ii. Capital gains tax payable (if any) (2 Marks)

(b) Comment on the provisions of Section 3 of the Finance Act, 2023, in respect of the computation of chargeable gains of a taxable person when a loss arises from the disposal of an asset. (4 Marks)

(Total 15 Marks)

QUESTION 6

The Nigerian Data Protection Act, 2023, addresses key ethical concerns relating to data privacy and client confidentiality by establishing a robust legal framework and clear obligations for data controllers and processors. These provisions are especially relevant to tax consultants and administrators, who routinely handle sensitive client information in the course of their professional engagements.

Required:

(a) Discuss the ethical considerations applicable to tax consultants and tax administrators in the following areas, with reference to the provisions of the Nigerian Data Protection Act, 2023:

(i) Data privacy (4 Marks)

(ii) Client confidentiality (4 Marks)

(iii) Data handling (4 Marks)

(b) Comment on the enforcement by the regulatory agent and penalties that are imposed for any breach of the provisions of the extant Act. (3 Marks)

(Total 15 Marks)

QUESTION 7

Solid Mining Company Limited has been in the business of mining of gold (solid mineral), which it exports to both domestic and foreign markets, for over five years.

Of recent, the company has been battling with shrinking market share, due to activities of some unlicenced mining operators in the domestic environment and stiff competition from the West African sub-region, particularly Ghana. This has actually affected the liquidity and profitability positions of the company, at least in the last two years.

To navigate the challenging business environment, the company's management has adopted a strategic approach to expand into the African market by leveraging the African Continental Free Trade Area (AfCFTA) agreement, which offers attractive tax incentives and a more liberal trade framework.

As a means of resolving the liquidity crisis in the short-run, the Managing Director of the company has presented a proposal before the Board, which involves delay in filing of annual tax returns and payment of company's tax liabilities due to the relevant tax authorities.

The company presented the following financial records for the year ended December 31, 2024:

	₦'000	₦'000
Foreign		586,000
Domestic sales		125,700
Gross turnover		711,700
Mining cost	284,400	
Transportation cost	23,000	
Salaries and other emoluments	105,300	
Repairs of mining equipment	2,900	
Rent	125,800	
Bad debts	34,700	
Auditors' remuneration	20,000	
Insurance	25,000	
Balance of preliminary expenses	15,400	
Transfer to reserve fund	28,000	
Donations and subscription	20,000	
Depreciation	101,900	
Motor vehicle expenses	16,560	
		(802,060)
Net loss		(91,260)

The following additional information was provided:

(i) It has been established that the mining and 80% of transportation cost are relevant direct cost.

(ii) The reserve fund was approved by the Board at one of its meetings in the financial year.

(iii) Included in the donations and subscription was a payment of N1 million, representing the Managing Director's annual subscription to Oreyo Country Club, a social and cultural organisation.

(iv) Analysis of the bad debts account shows the following:

	₦' 000
General allowance for doubtful debts	25,000
Specific allowance for doubtful debts	18,500
Bad debts written off	30,200
Bad debts written off recovered	(39,000)
	34,700

(v) Capital allowance agreed with the tax authorities:

	₦'000
For the assessment year	37,700
Unutilised brought forward	26,200
	63,900

Required:

As the newly appointed Tax Manager of the company, you are to:

(a) Compute the tax liabilities of the company for the relevant assessment year in accordance with the provisions of the extant tax legislation. (9 Marks)

(b) Advise the Board on the proposal made by the Managing Director to delay the remittance of taxes to the appropriate tax authorities. (6 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)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL LEVEL EXAMINATION – SOLUTIONS TO PILOT QUESTIONS

ADVANCED TAXATION

Suggested solution to question 1

Reloaded & Co. (Tax Consultants)

Date:

The Managing Director
LIS Nigeria Limited
Enugu

Dear Sir,

RE: Computations of Adjusted Profit and Tax Liabilities for the Relevant Assessment Years

We refer to your request regarding the computations of adjusted profit for the year ended December 31, 2024, and tax liabilities for 2021 to 2025 assessment years. Our comments are as follows:

a. Adjusted profit for the year ended December 31, 2024

As shown in Appendix 1, the company's adjusted profit for the year ended December 31, 2024, is ₦43,300,000.

b. Tax liabilities for 2021- 2025 assessment years

Appendix 2 presents the report of the companies income tax and tertiary education tax payable for 2021 to 2025 assessment years, while that of capital gains tax is in Appendix 3.

c. Provisions of the CITA 2004 (as amended) on back duty audit

The Companies Income Tax Act (CITA) 2004, as amended, empowers the relevant tax authorities to conduct a back duty audit on a taxpayer. This audit may be initiated when previously submitted tax returns are suspected to contain errors, omissions, or deliberate misstatements, or where there is a failure to fully disclose income or earnings.

Under the provisions of the principal Act, the tax authority is permitted to review records going back up to six years prior to the year of examination.

During the audit process, the taxpayer's financial records are thoroughly examined to verify the accuracy and completeness of the information provided in the annual returns. Based on the findings, the tax computations are reassessed and compared with the original submissions.

If discrepancies are identified, resulting in a shortfall in tax liabilities, the taxpayer is required to settle the difference through an additional assessment. However, this additional assessment is subject to the standard objection and appeal procedures provided under the law.

We trust this report accurately reflects the scope of the assignment given to us. If you require any further clarification, we would be pleased to provide additional information.

Yours faithfully,
For: RELOADED & Co.

Segun Oshadare
Managing consultant

Appendices

Appendix 1: Adjusted profit for the year ended December 31, 2024

	₦'000	₦'000
Net profit as per accounts		24,950
Add back:		
Depreciation	5,500	
Improvement to industrial warehouse	1,000	
General allowance for doubtful debts	4,350	
Legal - acquisition of long lease	1,500	
Legal - issue of shares	1,400	
Loss on disposal of motor vehicle	1,800	

Provision of unbranded Xmas hampers	1,100	
Income tax provisions	1,500	
Preliminary expenses written off	1,200	
Transfer to general reserve	2,000	21,350
		46,300
Deduct: Non-taxable items		
Excess on revaluation of industrial building	1,300	
Dividend received (net)	1,700	3,000
Adjusted profit		43,300

Appendix 2: Computation of tax liabilities for 2021 - 2025 assessment years

	₦'000	₦'000
2021 assessment year		
Basis period: 1/7/20 - 31/12/20		
Adjusted loss		27,950
Capital allowance for the year	17,376.25	
Capital allowance utilised	Nil	Nil
Unutilised capital allowance c/f	17,376.25	
Total loss c/f		27,950
Companies income tax @ 20% of total profit		Nil
Tertiary education tax @ 2% of adjusted profit		Nil
2022 assessment year		
Basis period: 1/1/21 - 31/12/21		
Adjusted profit		2,600
Unrelieved loss b/f	27,950	
Loss relieved	(2,600)	(2,600)
Unrelieved loss c/f	25,350	
Capital allowance for the year	4,752.5	
Capital allowance b/f	17,376.25	

Capital allowance available	22,128.75	
Capital allowance utilised	Nil	Nil
Unutilised capital allowance c/f	22,128.75	
Total profit		Nil
Companies income tax @ 20% of total profit		Nil
Tertiary education tax @ 2.5% of ₦2,600,000		65

2023 assessment year

Basis period: 1/1/22 - 31/12/22		
Adjusted profit		6,200
Unrelieved loss b/f	25,350	
Loss relieved	(6,200)	(6,200)
Unrelieved loss c/f	19,150	
Capital allowance for the year	8,742.5	
Capital allowance b/f	22,128.75	
Capital allowance available	30,871.25	
Capital allowance utilised	Nil	Nil
Unutilised capital allowance c/f	30,871.25	
Total profit		Nil
Companies income tax @ 30% of total profit		Nil
Tertiary education tax @ 2.5% of ₦6,200,000		155

2024 assessment year

Basis period: 1/1/23 - 31/12/23		
Adjusted profit		12,870
Unrelieved loss b/f	19,150	
Loss relieved	(12,870)	(12,870)
Unrelieved loss c/f	6,280	
Capital allowance for the year	5,592.5	

Capital allowance b/f	30,871.25	
Capital allowance available	36,463.75	
Capital allowance utilised	Nil	Nil
Unutilised capital allowance c/f	36,463.75	
Total profit		Nil
Companies income tax @ 30% of total profit		Nil
Tertiary education tax @ 3% of N12,870,000		386.1

2025 assessment year

Basis period: 1/1/24 - 31/12/24

Adjusted profit	43,300	
Balancing charge on disposal of vehicle	825	
	44,125	
Unrelieved loss b/f	6,280	
Loss relieved	(6,280)	(6,280)
Unrelieved loss c/f	Nil	
Capital allowance for the year	15,482.75	
Capital allowance b/f	36,463.75	
Capital allowance available	51,946.5	
Capital allowance utilised	37,845	37,845
Unutilised capital allowance c/f	14,101.5	
Total profit		Nil
Companies income tax @ 30% of total profit		Nil
Tertiary education tax @ 3% of ₦43,300,000		1,299

Appendix 3: Computation of capital gains tax on disposal of the motor vehicle

	₦'000
Sales proceeds	1,200
Less: Cost of acquisition	3,000
Capital gains	Nil
Capital gains tax @ 10%	Nil

Appendix 4: Capital allowances schedule

	Industrial building	Non-ind. building	Furniture & fittings	Indust. Plant	Motor Vehicle	Cap. Allow
	IA 15% AA 10%	IA 15% AA 10%	IA 25% AA 20%	IA 50% AA 25%	IA 50% AA 25%	
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
2021 A/Y						
Cost	15,000	8,000	2,400	12,000	7,500	
IA	(2,250)	(1,200)	(600)	(6,000)	(3,750)	13,800
AA	(637.5) W1	(340)	(180)	(750)	(468.75)	2,376.25
Inv. allowance				(1,200)		1,200
						17,376.25
2022 A/Y						
TWDV	12,112.5	6,460	1,620	5,250	3,281.25	
AA	(1,275) W2	(680)	(360)	(1,500)	(937.5)	**4,752.5**
2023 A/Y						
TWDV	10,837.5	5,780	1,260	3,750	2,343.75	
Addition			600		6,000	
IA			(150)		(3,000)	3,150
AA	(1,275)	(680)	(450)	(1,500)	(1,687.5)	5,592.5
						8,742.5

2024 A/Y						
TWDV	9,562.5	5,100	1,260	2,250	3,656.25	
AA	(1,275)	(680)	(450)	(1,500)	(1,687.5)	**5,592.5**
2025 A/Y						
TWDV	6,287.5	4,420	810	750	1,968.75	
Disposal					(375) W3	
					1,593.75	
Addition	1,000			18,000		
IA	(150)			(9,000)		9,150
AA	(1,360)	(680)	(450)	(2,999)	(843.75)	6,332.75
						15,482.75
C/f	7,777.5	3,740	360	6,751	750	

Workings:

(1) 2021 Y/A (AA)

Industrial building

This is a case of 6 months in the basis period,

hence annual AA $= \frac{\text{Cost - IA x 1/2}}{n}$

$= \frac{(₦15{,}000 - ₦2{,}250) \times 1/2}{10}$

$= ₦637.5$

(2) 2022 Y/A (AA)

Industrial building

This is a case of 12 months in the basis period,

hence annual AA $= \frac{\text{Cost - IA}}{n}$

$= \frac{₦15{,}000 - ₦2{,}250}{10}$

= ₦1,275

(3) 2025 Y/A (Disposal of Motor vehicle)

	Motor vehicle IA 50% AA 25% ₦'000
Cost	3,000
IA	1,500
AA (for 3 years) = ₦375 x 3	1,125
Total capital allowance claimed up to date of disposal	2,625
TWDV at disposal (cost - total capital allow)	375
Sales proceeds	1,200
Balancing charge (sales proceeds - TWDV)	825

Suggested solution to question 2

(a) **Colends Energies Limited**

Computation of hydrocarbon tax

For 2024 assessment year

	₦'million	**₦'million**
Revenue:		
Value of crude oil sold:		
Bonny Light (10.2m barrels x $80 x ₦1,400)		1,142,400
Forcados medium (8.8m x $75 x ₦1400)		924,000
Bonny Sweet (5.3m x $68 x ₦1400)		504,560
Value of condensate from associated gas:		
OSO condensate (2m x $36 x ₦1,400)		100,800
Brass condensate (1.5m x $33 x ₦1,400)		69,300
Value of natural gas liquid from associated gas: Penington (3m x $35 x ₦1,400)		147,000
Gross revenue		2,888,060
Balancing charge		Nil
Total income		2,888,060
Allowable deductions (Section 263):		
Royalty incurred and paid	433,200	
Production cost	910,820	
Drilling cost (both tangible and intangible)	231,040	
Concession rentals	57,600	
Terminaling cost	5,200	
Environmental remediation fund	1,170	
Cost of gas reinjection wells	1,160	
Repairs of plant, machinery and fixtures	350	
Repairs of alteration of production implement utensils	210	
Decommissioning and abandonment	800	

NDDC charge	150	
Host community fund	2,320	
Total allowable deductions (S.263)	1,644,270	(1,644,270)
Total cost subject to CPR limit (W1)	1,646,050	
Excess allowable cost carried forward	Nil	
Adjusted profit		1,243,790
Less: Loss relief		-
Assessable profit		1,243,790
Less: Section 266 and 6th schedule deductions		
Capital allowances for the year		(1,780)
		1,242,010
Less: Production allowance:		
Onshore operations	1,100	
Shallow water operations	1,300	2,400
Chargeable profit		**1,239,610**
Hydrocarbon tax @ 30% of ₦1,239,610		**371,883**

Workings

(1) Cost-price-ratio (CPR) limit

	₦'million	₦'million
a. Gross revenue		2,888,060
(i) Maximum allowable @ 65% of		
Gross revenue of ₦2,888,060		1,877,239
Total operating cost	1,644,270	
Capital allowances	1,780	
b. Total eligible costs	1,646,050	
Less: Exempted cost incurred [Section 263(1)]:		
Royalties paid	433,200	
Concession rentals	57,600	

Environmental remediation fund	1,170
NDDC charge	150
Host community fund	2,320
Total exempted cost	(494,440)

(i) Net total costs to be subject to CPR (B- C1) 1,151,610

(ii) Maximum allowable cost is the lower of (i) and (ii),
which is ₦1,151,600 million.

c. Total allowable cost (in line with the practice of FIRS)
= C1 + C2 (that is, exempted cost + CPR restricted cost)
= ₦495,440 million + ₦1,151,610
= ₦1,646,050

(b) Hydrocarbon tax is assessed based on actual year basis (AYB). Therefore, the relevant assessment year is 2024.

Suggested solution to question 3

(a)

Phillips Global Limited

Computation of income tax

For 2025 assessment year

	₦'000	₦'000
Net profit as per accounts		53,340
Add back: Disallowable items:		
Depreciation:		
Nigeria	22,500	
Ghana	8,600	
Donation (Social club)	400	
Preliminary expenses-Nigeria	2,900	
Foreign tax suffered	6,200	40,600
Assessable profit/adjusted profit		93,940

Deduct:		
Capital allowances:		
Nigeria	9,500	
Ghana	4,400	(13,900)
Total profit		80,040
Companies income tax @ 30%		24,012
Less: Double taxation relief		
[15% (See wk2) of ₦28,700,000 (wk1)]		4,305
Final tax liability		19,707
Tertiary education tax		
(3% of Assessable profit of ₦93,940,000		2,818.2

Workings/Notes

1. Computation of total profit for Ghana business

	₦'000	₦'000
Net profit as per accounts		18,300
Add back: Disallowable items		
Depreciation	8,600	
Foreign tax	6,200	
		14,800
Assessable/adjusted profit		33,100
Deduct: Capital allowances		4,400
Total profit		**28,700**

2. Commonwealth rate of tax = $\frac{₦6,200,000}{₦28,700,000}$ x 100 = **21.6%**

Nigerian income tax rate = **30%**

½ of Nigerian income tax rate = 30% / 2 = **15%**

Since Commonwealth rate of tax is greater than ½ of Nigerian income tax rate, double taxation relief shall be ½ of Nigerian income tax rate (15%).

Hence, double taxation relief = 15% of ₦28,700,000 = ₦4,305,000

(b) Where there is a double taxation agreement between Nigeria and the other country

The provision of the law states that "where there exists double taxation agreement between one country and Nigeria, *the amount of relief available will be computed on the basis of the provisions of the agreement* (as contained in Sections 45 and 46 of the Act)."

Issues to note

(i) The provision of section 44 of the Act shall have no effect (that is, it is not possible to claim benefits of commonwealth income tax relief and double taxation arrangement concurrently.

(ii) "Foreign tax" means any tax payable in a country which under the agreement is to be allowed as a **credit against tax payable** in respect of those profits in Nigeria.

(iii) The tax payable on the worldwide income will be reduced by the credit admissible under the terms of agreement.

(iv) Credit is allowable only for a Nigerian company.

(v) The total credit to be allowed for the foreign tax for any year of assessment cannot exceed the total tax payable by the company for that year. In effect, no cash refund can be made in Nigeria for foreign tax paid.

(vi) A company can elect not to take the benefit of the credit available under the arrangement in respect of the foreign profit earned by it, for the assessment year.

(vii) Any claim for an allowance by way of credit shall be made not later than two years after the end of the assessment year.

(viii) In the event of any dispute as to the amount allowable, the claim shall be subject to objection and appeal in like manner as an assessment.

Suggested solution to question 4

Oladejo & Co. (Chartered Accountants)
Internal Memo

Date:

From: Senior Tax Consultant
To: Principal Partner

RE: Paper on "Disruptive Technologies and Tax Administration in Nigeria"

I refer to your request in respect of the preparation of a draft paper on "Disruptive technologies and tax administration in Nigeria". I hereby present a report for your review before my attendance at the workshop, which comes up next week.

(a) Role of artificial intelligence (AI) in data analytics and fraud detection by tax consultants and administrators

The rapid evolution of financial technology has led to increase in financial fraud, thereby making the use of AI by both the tax consultants and administrators in mitigating fraudulent activities to become inevitable:

Roles of AI in curbing the occurrence and detection of financial fraud

(i) AI using data analytics approach enhances fraud detection by enabling systems to process large volumes of data, identify patterns, and flag anomalies in real time.

(ii) AI can assist in identifying patterns that indicate potential crimes (fraud) before they occur by using techniques, such as data analysis and electronic surveillance.

(iii) AI- powered fraud detection systems can significantly reduce false claims in tax returns, while also improving the accuracy of identifying fraudulent transactions.

(iv) AI supports fraud detection by generating synthetic data, which addresses data imbalance and enhancing the use of modeling techniques by its users (tax consultants and administrators).

(v) A key advantage of AI in fraud prevention and compliance is its ability to continuously learn and adapt to emerging threats. Traditional/conventional fraud detection systems often struggle with novel attack vectors, as rule-based mechanisms require frequent updates and manual intervention.

(vi) The convergence of AI with blockchain technology further enhances fraud prevention efforts by providing immutable transaction records and enabling smart tax legislation-based compliance enforcement.

(vii) AI- driven fraud prevention systems, if properly used, can assist in data security and privacy, which is in line with relevant data protection legislation in Nigeria.

(b) Role of big data in enhancing tax planning

(i) Big data technology assists in efficient collection and processing of large amount of tax planning information from clients and taxpayers.

(ii) It helps organisations to uncover patterns and develop proactive strategies to address compliance requirements.

(iii) By employing big data technology, a tax consultant can assist his client to make faster, more accurate, and data - driven decisions, which eventually will lead to timely disposition of tax planning issues with the relevant tax authorities.

(iv) It assists tax consultants in risk control of tax planning.

(v) Most organisations do not pay more attention to tax management (tax planning) because they lack professional talents. With the use of big data, tax professionals will be in a better position to assist their clients in resolving tax planning matters with the tax authorities.

(c) Benefits of benchmarking databases and technology in transfer pricing analysis

The use of benchmarking databases and technology in transfer pricing analysis offers several benefits, which include:

(i) **Improved accuracy:** Access to comprehensive and reliable data enables more accurate benchmarking and transfer pricing analysis.

(ii) **Increased efficiency:** Automation and advanced analytics streamline the benchmarking process, reducing the time and resources required.

(iii) **Enhanced transparency:** The use of benchmarking databases and technology provides a clear and transparent framework for transfer pricing analysis.

(iv) **Better risk management:** By leveraging benchmarking data and technology, companies can proactively identify and mitigate transfer pricing risks.

(v) By leveraging benchmarking databases and technology, companies can ensure more accurate and efficient transfer pricing analysis, reducing the risk of non-compliance and potential disputes with tax authorities.

Thank you.

Dauda Oladejo

Suggested solution to question 5

(a) (i) **Computations of capital gains**

Factory A

	₦'000	**₦'000**
Compensation received		75,000
Less:		
Cost of acquisition of old factory	30,000	
Renovation cost	3,000	
Effective cost of factory		33,000
Capital gains record		42,000
Computation of roll-over relief		
Lower of:		
Amount re-invested	58,000	
and		
Sales proceeds (compensation received)	*75,000*	
Less: cost of acquisition of old factory	33,000	
Roll-over		(25,000)
Capital gains		**17,000**

Factory B

	₦'000	₦'000
Sales proceeds		120,000
Less:		
Cost of acquisition of old factory	85,000	
Renovation cost	5,000	
Effective cost of factory		90,000
Capital gains record		30,000
Computation of roll-over relief		
Lower of:		
Amount re-invested	*200,000*	
and		
Sales proceeds (compensation received)	120,000	
Less: cost of acquisition of old factory	90,000	
Roll-over		(30,000)
Capital gains		Nil

(a) (ii) Computation of capital gains tax

Factory A

	₦'000
Capital gains (from (a)(i) above	17,000
Capital gains tax @ 10% of ₦17,000	1,700

Factory B

	₦'000
Capital gains (from (a)(i) above	Nil
Capital gains tax @ 10% of Nil	Nil

(b) Provisions of Section 3 of the Finance Act, 2023, in respect of computation of chargeable gains of a taxable person when a loss arises from the disposal of an asset

Section 3 of Finance Act, 2023, which amended Section 5 of the Principal Act (Capital Gains Tax, 2004), provides that:

(i) in the computation of chargeable gains under the Capital Gains Tax, the amount of any loss which accrues to a person on the disposal of any asset, shall be deductible from gains accruing to the person disposing that asset, provided that such loss shall only be deductible against the same type of asset; and

(ii) where the aggregate capital losses by any taxable person in a tax year exceeds the aggregate chargeable gains, such loss may be carried forward for deduction from chargeable gains arising from the disposal of the same type of asset in the following year and so on, provided that such losses shall only be carried forward for a maximum of 5 years immediately succeeding the year in which the loss was incurred.

Suggested solution to question 6

(a) Ethical issues as they affect tax consultants and tax administrations

(i) Data privacy

- **Consent:** Data subjects must provide informed consent for the collection and processing of their personal data.
- **Purpose limitation:** Personal data can only be collected and processed for specified, legitimate purposes.
- **Data minimisation:** Only necessary personal data should be collected and processed.
- **Accuracy:** Data controllers must ensure the accuracy and up-to-datedness of personal data.
- **Storage limitation:** Personal data should not be stored for longer than necessary.

(ii) Client confidentiality

- **Confidentiality:** Data controllers and processors must maintain the confidentiality of personal data.

- **Non-disclosure:** Personal data should not be disclosed to unauthorised parties.
- **Duty of care:** Data controllers and processors have a duty of care to protect personal data.

(iii) Data handling

- **Data protection by design:** Data controllers and processors must implement data protection measures from the outset.
- **Data protection impact assessment:** Assessments must be conducted for high-risk data processing activities.
- **Data breach notification:** Data controllers must notify data subjects and the relevant authorities in case of a data breach.
- **Accountability:** Data controllers and processors are accountable for their data handling practices.

(b) Enforcement and penalties

(i) **Regulatory oversight:** The Nigerian Data Protection Commission will oversee compliance with the Act.

(ii) **Penalties:** Non-compliance can result in fines and other penalties.

Suggested solution to question 7

(a) **Solid Mining Company Limited**

Computation of tax liabilities

For 2025 assessment year

	₦'000	₦'000
Net loss as per accounts		(91,260)
Deduct:		
Transportation cost (20% of ₦23,000,000)	4,600	
Bad debts (General provisions)	25,000	
Balance of preliminary expenses	15,400	
Transfer to reserve fund	28,000	
Donations and subscription (Oreyo Country Club)	1,000	
Depreciation	101,900	175,900
Adjusted profit		84,640
Less: Capital allowances:		
For the year	37,700	
Brought forward	26,200	
Total available for utilisation	63,900	
Capital allowance utilised	(63,900)	(63,900)
Capital allowance utilised c/f	Nil	
Total profit		20,740
Companies income tax @ 30% of total profit of ₦20,740,000		6,222
Tertiary education tax @ 3% of assessable/adjusted profit of ₦84,640,000		2,539.2

Computation of minimum tax

	₦'000
Gross turnover	711,700
Less: Franked investment income	-
Net turnover for minimum tax computation	711,700
Minimum tax @ 0.5% of ₦711,700,000	3,558.5

Since the companies income tax is greater than the minimum tax, the company is expected to pay the companies income tax computed of ₦6,222,000.

(b) Advice to the Board on the proposal made by the Managing Director to delay the remittance of taxes to the appropriate tax authorities

(i) Filing of annual tax returns and payment of tax due is as provided for by the Companies Income Tax Act, 2004 (as amended).

(ii) Section 55 (1) of the Companies Income Tax Act, 2004, provides that every company, including a company granted exemptions from incorporation shall, whether or not a company is liable to pay tax, for a year of assessment, with or without notice from the FIRS, file a self-assessment return with FIRS.

(iii) The self-assessment return in the prescribed form and such return shall consist:

- the audited accounts, tax and capital allowances computation for the year of assessment and a true and correct statement in writing containing the amount of profits from each and every source computed;
- a duly completed self-assessment form as may be prescribed by the Service from time to time, attested to by a director or secretary of the company and such attestation shall contain a declaration that it contains a true and correct statement of the amount of its profits; and
- evidence of payment of the whole or part of the tax due into a bank designated for the collection of the tax.

(iv) Section 55(2) of the Act specifies the time of filing returns as follows:

- for a company that has been in operation for more than 18 months (just like our company), it is expected to file its return not more than 6 months after the end of its accounting year; and
- in the case of a newly incorporated company, it is expected to file its return within 18 months from the date of its incorporation or not later than 6 months after the end of the first accounting period, whichever is earlier.

(v) For not complying with the provisions of the Act, Section 55(3) states that any company, which fails to comply with the provisions in respect of time of filing of return, shall pay as penalty of ₦100,000 for the first month of the failure and ₦50,000 per month in subsequent months the failure occurs.

In view of the above provisions of the Act, it is advisable for the company to comply with these provisions in order not to run afoul of the law and payment of unavoidable penalty, which can even complicate the current precarious liquidity position of the company.