

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**

**SKILLS LEVEL EXAMINATION – PILOT QUESTIONS**

**TAXATION**

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

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

**QUESTION 1**

Ganga Nigeria Limited is a medium-sized company incorporated in 2015, with a registered office in Abeokuta, Ogun State. The company has been in the business of primary agricultural production and adopted June 30, as its accounting year-end.

The business has been performing well and taking advantage of various incentives available to small and medium-sized businesses in the agricultural sector. Despite the performance, the directors are of the opinion that they need to know more about the sector and they also registered their displeasure about the way the accounts are being prepared.

A friend, who is appreciative of your professional knowledge, introduced you to the Managing Director of the company who is desirous of having an independent accountant to look into the accounts of the company. You have been appointed as the consultant to handle the tax matters of the company.

The following details have been extracted from the accounting records of the company for the year ended June 30, 2024:

	<b>₦</b>	<b>₦</b>
Gross profit		60,000,000
Other income		<u>27,000,000</u>
		87,000,000
Less: expenses:		
Salaries and wages	22,860,000	
Directors' emoluments	3,600,000	
Transportation	790,000	

Rent	1,500,000	
Fuel and maintenance	2,000,000	
Bad debts	800,000	
Repairs	460,000	
Legal and professional fees	2,400,000	
Cash defalcation	2,700,000	
Donations and subscriptions	4,200,000	
Electricity	6,000,000	
Land preparation	6,300,000	
Seed for planting	2,700,000	
Fertilizers and chemicals	2,000,000	
Irrigation	4,000,000	
Miscellaneous expenses	4,800,000	
Bank charges	860,000	
Depreciation	<u>7,000,000</u>	<u>74,970,000</u>
Net profit		<u>12,030,000</u>

You are also provided with the following additional information:

(i) Other incomes include the following:

	N
Rent received in respect of the Managing Director's personal house	6,300,000
Income received from services rendered by the company	4,700,000
Profit on disposal of property, plant and equipment	2,200,000

(ii) Miscellaneous expenses include the following:

	N	N
Cost of computer hardware		1,800,000
Cost of fuel and lubricants		600,000
Advertisement cost		500,000
Printing and stationery		200,000

(iii) Donations and subscriptions include the following:

N

Donation to the ruling party	1,200,000
National Library of Nigeria	400,000
Nigerian Film Corporation	300,000
(iv) Legal and professional fees include the following:	<del>N</del>
Cost of tax defense on appeal in Court	600,000
Legal expenses incurred for perfecting a land title	300,000
Fines imposed by Court	30,000
Professional fee paid to the estate agent	150,000
Legal expenses incurred for debt recovery	200,000
(v) Irrigation cost includes the following :	<del>N</del>
Salaries of irrigation staff	1,500,000
Centrifugal pumps for irrigation	1,000,000
Sprinklers and emitter equipment	400,000
(vi) Cash defalcation includes the following:	<del>N</del>
Cash stolen by junior staff	56,000
Misappropriation by the Finance Director	600,000
(vii) Land preparation cost includes the following:	<del>N</del>
Clearing and leveling of the land	300,000
Land acquisition	3,200,000
Soil preparation	320,000
(viii) Seed for planting includes the following:	<del>N</del>
Seed purchases	600,000
Labour cost	360,000
Tips given to the officials of the Ministry of Agriculture	27,000

- |                            |        |
|----------------------------|--------|
| Transportation of the seed | 20,000 |
|----------------------------|--------|
- (ix) One-quarter of the fertilizer purchased was used by the Managing Director in his private firm.
- (x) Capital allowance as agreed with the Revenue was ₦3,360,000 for the year.
- (xi) The gross turnover of the company was ₦121,000,000.

**Required:**

- (a) (i) Compute the adjusted profit for the relevant year of assessment. (13 Marks)
- (ii) Compute the companies income tax liability for the relevant year of assessment. (3 Marks)
- (iii) Compute the tertiary education tax for the relevant year of assessment. (2 Marks)
- (b) (i) Explain the meaning of “agricultural trade or business”. (2 Marks)
- (ii) Explain “primary agricultural production”. (2 Marks)
- (iii) Explain the incentives available to small and medium scale companies engaged in primary agricultural production. (3 Marks)
- (iv) Explain the criteria that must be met for exemption of profit of small and medium-sized companies. (5 Marks)
- (Total 30 Marks)**

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

**QUESTION 2**

First Construction Company Limited is engaged in the construction of high quality roads and bridges in Nigeria in order to compete with foreign construction companies that have hitherto dominated the construction industry.

The company, despite its expertise in the field of construction, has had problems with the Revenue in the areas of omission of some income in the accounts. This has necessitated the need to invoke certain provisions of the law to raise Best of Judgement (BOJ) assessment on the company for the current year.

The management is not happy with this situation. The Revenue, in addition to the Best of Judgement assessment, also decided to conduct a back duty assessment on the company.

The directors of the company and the management desperately want some clarifications to enable them understand the implications of the actions being taken by the Revenue.

You are a professional accountant just employed by the company to handle its tax matters.

**Required:**

- a) Explain the situations when a company can be assessed to tax on the basis of Best of Judgement assessment. (5 Marks)
- b) Explain the restriction of the powers of the Revenue to extend the back duty assessment beyond the normal time limit of 6 years. (5 Marks)
- c) The law requires that a professional accountant shall not disclose confidential information acquired in the course of professional and business relationships. There are, however, conditions under which such confidential information can be disclosed.

**Required:**

Explain when a professional accountant can disclose or use confidential information about his client. (5 Marks)

- d) A tax practitioner may be faced with a conflict of interest when undertaking a professional activity.

**Required:**

Explain what a tax practitioner should do when there is conflict of interest. (5 Marks)

**(Total 20 Marks)**

**QUESTION 3**

Mr. Bonaventure has just retired from the Federal Civil Service and has decided to venture into a small manufacturing business.

His accountant has produced the first year's account which, fortunately, recorded a huge profit. The accounts have been submitted to the Revenue in compliance with the relevant laws and within the stipulated time.

The Revenue has come up with additional assessment based on the difference between the self-assessment and its review of the accounts.

Mr. Bonaventure is not happy about the situation and wants to know certain steps he can take to object to the additional assessment, if he is not satisfied with the final decision of the Revenue.

**Required:**

Explain:

- a) Time limit for the notice and grounds of objection to the State Internal Revenue Service (5 Marks)
- b) Time limit of notice of appeal to the Court of Appeal (5 Marks)
- c) The options open to the Revenue on receipt of a notice of objection (5 Marks)
- d) The conditions to be satisfied to validate the appeal to the Court of Appeal and the Supreme Court (5 Marks)

**(Total 20 Marks)**

**QUESTION 4**

Mr. Odinga was a successful businessman. He resided in his home town, Lokoja, before he died after a protracted illness. He had three children, namely:

- Anthony who was 35 years old;
- Dode who was 30 years old; and
- Melaye who was 25 years old.

There was, however, a disagreement amongst his three children on how the income from their father should be taxed. Mr. Odinga died testate in June 2023 and in his Will, appointed Mr. Ikomi, as trustee who has now intervened to enlighten the children on the provision of the law relating to testate succession.

You are provided with the following information:

- (i) The net profit of Mr. Odinga's estate as adjusted for tax purposes for the year ended September 30, 2023 was ₦21,600,000.
- (ii) Qualifying capital expenditure for the business for the year ended September 30, 2023, are as follows:

	<del>N</del>
Furniture and fittings	4,800,000
Plant and machinery	3,600,000
Motor vehicles	6,800,000
(iii) Annual allowances on existing qualifying asset have been agreed with the Revenue as follows:	
	<del>N</del>
Furniture and fittings	420,000
Plant and machinery	300,000
Motor vehicles	480,000
(iv) A beneficiary is entitled to a fixed annuity of 400,000 naira.	
(v) Each of the children is entitled to $\frac{1}{4}$ of distributable income.	
(vi) The trustee is entitled to a fixed remuneration of <del>N</del> 360,000 per annum.	
(vii) The trustee incurred administration and other expenses in the sum of <del>N</del> 85,000.	
(viii) In line with the terms of the trust, the trustee made the following discretionary payments to the children:	
	<del>N</del>
Anthony -	510,000
Dide -	480,000
Melaye -	320,000

**Required:**

- a) Explain the following terms as they relate to the taxation of settlement, trusts, and Estates.
  - i. Settlement
  - ii. Trusts
  - iii. Estates
  - iv. Settlor
  - v. Personal representative (5 Marks)
- b) Compute the capital allowances for the relevant year of assessment (5 Marks)
- c) Compute the tax payable in hand of the trustee. (10 Marks)

**(Total 20 Marks)**

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

**QUESTION 5**

Value added tax has been a source of revenue to the Federal Government of Nigeria, accounting for a major percentage of distributable revenue to all tiers of government. Consequently, the government has provided an enabling law for the assessment and collection of the tax.

Bobby Nigeria Limited is a manufacturing company engaged in the production of Zem juice drinks and one of the problems the company always have in the filing of tax returns is in relation to value added tax (VAT).

You have been appointed as the company's consultant to handle its tax matters. You have been provided with the following information for the month of December, 2024:

	<b>₦</b>
Product sales	7,200,000
Raw materials purchased	2,700,000
Carriage inwards for raw materials	600,000
Processing machine acquired	4,000,000
Consultancy fees	960,000
Legal fees	500,000
Audit fees	500,000
Non-vatable items purchased	750,000
Non- vatable goods sold	900,000

**Additional information is as follows:**

- (i) 20% of product sales are on credit
- (ii) 75% of product purchases were paid for in cash

**Required:**

- a) Compute the amount remittable to the Federal Inland Revenue Service (FIRS) for the month of December 2024. (10 Marks)
- b) The complexities of tax practice and administration all over the world have necessitated the use of technology in handling tax matters. Digital transformation inspired by unprecedented pace of



advancement of technology is disrupting businesses and has also affected tax practice and administration.

**Required:**

Discuss **FIVE (5)** of the following technologies as they relate to tax management:

- (i) Cloud computing technology
- (ii) Artificial and robotics
- (iii) Blockchain technology
- (iv) Data analytics technology
- (v) Social media technology
- (vi) Mobile app technology

(5 Marks)

**(Total 15 Marks)**

**QUESTION 6**

The Nigeria Startup Act was signed into law on October 19, 2022 with the aim of creating an enabling environment for incentivising, attracting and protecting investment and innovation in tech startup.

Mr. Olokode, a tax expert and the Managing Director of Biggs Tech Nigeria Limited has just learnt of immense incentives provided for in the Act and he is interested in enjoying the benefits.

Mr. Olokode has invited you on behalf of his company, Biggs Tech Nigeria Limited, to explain certain provisions of the Act to management.

**Required:**

Explain the following:

- a) The objectives of the Act (3 Marks)
- b) Businesses covered by the provisions of the Act (3 Marks)
- c) Obligations of a labeled startup (3 Marks)
- d) **THREE (3)** tax and fiscal benefits available to a labeled startup (3 Marks)
- e) The criticisms of the tax incentives (3 Marks)

**(Total 15 Marks)**

## QUESTION 7

- a) Godson Limited is a company engaged in the importation of electrical items from the United Kingdom. The company had in the past posted huge profit which had enhanced its ability to diversify into many areas of importation. A new Managing Director has just been appointed who has a little knowledge about import business.

As a tax expert, you have been invited to look at the financial details of the electrical items the company imported in September 2024.

Item	Quantity Carton	Price \$ per carton
Circuits breakers	5,000	20
Distribution boards	2,000	15
Switches	2,500	35
Adapters	5,000	18

You are also provided with the following information:

- The relevant exchange rate was ₦1,500 to \$
- Rate of import duty:

Circuit breakers	15%
Distribution boards	10%
Switches	18%
Adapters	20%
- Insurance was 5% of the cost of imported items
- The cost of freight for the respective items are

	\$
Circuits breakers	2,150
Distribution boards	1,850
Switches	1,500
Adapters	1,950

### Required:

- (a) Compute the import duty payable by Godson Limited to the Nigerian Customs Service for the month of September 2024. (10 Marks)

- b) The impact of technology has revolutionised the practice and administration of taxation in Nigeria. Evidence has revealed that most of the tasks can now be made more efficient through automation.

Mr. Alexander is a Nigerian who had lived abroad for a long time and he is considering coming back to Nigeria to set up a business. He is, however, skeptical about what he considers to be inefficient tax administration and arbitrary tax assessments in Nigeria.

A friend of Mr. Alexander, has just contacted you to explain the efforts Government has put in place to ease the difficulties taxpayers have experienced in the past.

**Required:**

Explain how the use of TAXPRO MAX has made the following areas more efficient:

- (i) e-tax assessment
- (ii) e-payment
- (iii) e-filing
- (iv) e-TCC
- (v) e-reporting

(5 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

SKILLS LEVEL EXAMINATION – SOLUTIONS TO PILOT QUESTIONS

TAXATION

Suggested solution to question 1

(a)		Ganga Nigeria Limited	
		Computation of adjusted profit	
		For the year ended June 30, 2024 (Assessment year 2025)	
		₦	₦
Net profit as per accounts			12,030,000
<u>Less:</u>			
Managing Director's rent	6,300,000		
Profit on disposal of property, plant and equipment	<u>2,200,000</u>		<u>(8,500,000)</u>
			3,530,000
Add:			
Cost of computer hardware	1,800,000		
Donation to the ruling party	1,200,000		
Cost of tax appeal	600,000		
Legal expenses for land	300,000		
Fines imposed by Court	30,000		
Centrifugal pumps for irrigation	1,000,000		
Sprinklers and emitters equipment	400,000		
Misappropriation by Finance Director	600,000		
Land acquisition cost	3,200,000		
Tips to the officials of the ministry	27,000		
Fertilizer taken for personal use	500,000		
Depreciation	<u>7,000,000</u>		<u>16,657,000</u>
<b>(i) Adjusted profit</b>			20,187,000
Less agreed capital allowances			<u>(3,360,000)</u>

Total profit		<u>16,827,000</u>
<b>(ii) Companies income tax liability</b>	(30% of ₦16,827,000)	5,048,100
Computation of minimum tax liability:		
(0.5% of gross turnover), that is, 0.5 % of ₦121,000,000 = ₦605,000.		
<b>(iii) Tertiary education tax</b>	(3% of ₦20,187,000)	<u>605,610</u>
Total tax liability		<u>5,653,710</u>

**(b) i. Agricultural trade or business** is defined in the Act, as any trade or business connected with; the establishment or management of plantations for the production of rubber, oil palm, coffee, tea and similar crops; the cultivation or production of cereal crops, tubers, fruits of all kinds, cotton, beans, groundnuts, sheanuts, benised, vegetables, pineapples, bananas and plantains, animal husbandry, that is, poultry, piggery, cattle rearing, fish farming, and deep sea fish trawling.

The gain or profit from any land used for agricultural purposes or for livestock shall unless the relevant tax authority is satisfied to the contrary, be deemed to be gain or profit which should be realised by the taxpayer, if the land were dealt with, as the case may be, in the manner and up to average standard of cultivation, use or practice, relating to the use of the land, or the dealing with livestock prevailing in the neighbourhood.

This is an area where average standard of cultivation plays an important role in case the business result is below expectation.

**ii. Section 11(4) of CITA (as amended) defines “primary agricultural production” as:**

- “primary crop production comprising the production of raw crops of all kinds, but excluding any intermediate or final processing of crops or any other associated manufactured or derivative crop product;
- primary livestock production comprising the production of live animals and their direct produce, such as live or raw meat, live or raw poultry, fresh eggs and milk of all kinds, but excluding any other associated manufactured or derivative livestock product;
- primary forestry production comprising the production of timber of various kinds, such as firewood, charcoal, uncultivated materials gathered and other forestry products of all kinds,



including seeds and saplings, but excluding the intermediate and final processing of timber and any other manufactured or derivative timber product; and

- primary fishing production comprising the production of fish of all kinds, including ornamental fish, but excluding any intermediate and final processing of any other manufactured or derivative fish product.

**iii. Small and medium-sized companies engaged in primary agricultural production shall be granted:**

- pioneer status for an initial period of 4 years and an additional period of 2 years, subject to satisfactory performance; and
- a reduction in import duty on tractors from 35% to 5%.

To enjoy these tax incentives, these companies are expected to apply to the President through the Minister for Industry, Trade and Investment

**iv. Criteria that must be met for exemption of profits of a small company from companies income tax (CIT)**

The profits of a small company are exempted from companies income tax - section 23(1) of CITA (as amended).

The above notwithstanding, a small company is required to fulfil the following obligations with the FIRS:

- register for tax and obtain the tax identification number;
- file its tax returns on or before the due date;
- comply with all other obligations stipulated under CITA (as amended); and
- pay all penalties imposed for breach of statutory duties.

Penalties shall be computed by FIRS and the company shall be assessed to tax where it defaults in fulfilling any of the above listed obligations. For small companies in the manufacturing sector, dividend payments during the first five years of operation are exempt from tax.

**Suggested solution to question 2**

- (a) The Federal Inland Revenue Service will assess a company to tax based on its “Best of Judgement” under the following situations:

- i. where a company files its returns, audited accounts and tax computations, the tax authority may refuse to accept same if found unsatisfactory, and therefore, proceed to determine, based on its “Best of Judgement”, the company’s total profit and raise an assessment thereon accordingly; and
  - ii. where a company has failed to submit a self – assessment return, audited accounts, etc., and the FIRS is of the opinion that it is liable to tax, it may proceed, based on its “Best of Judgement”, to determine the total profit of such a company and raise an assessment thereon accordingly.
- (b) Where a taxpayer or its representative has committed fraud, willful default or neglect in connection with the tax assessed on it, the FIRS is empowered to assess such company to additional tax in order to make good any loss attributable to the fraud, willful default or neglect.

The additional tax referred to above can be raised by the Revenue at any time or as often as it may consider necessary without a time limit, but the decision of TAT, Benin Zone, has restricted the powers of the tax authorities to assess taxpayers to back-duty assessments except where fraud, willful default or neglect on the part of the taxpayers has been established by a Tribunal or a Court of competent jurisdiction.

- (c) A professional accountant may disclose or use confidential information where:
- (i) there is a legal or professional duty or right to do so; or
  - (ii) this is authorised by the client or any person with the authority to permit disclosure or use of the confidential information and this is not prohibited by law or regulation.

Nevertheless, the following are circumstances where professional accountants might be required or have the duty or right to disclose confidential information:

- (i) disclosure is required by law or regulation, for example:
  - production of documents or other provision of evidence in the course of legal proceedings; or
  - disclosure to the appropriate public authorities of infringement of the law that come to light;
  - and
- (ii) there is a professional duty or right to disclosure or use, when not prohibited by law or regulation:
  - to comply with the quality review of a professional body;
  - to respond to an enquiry or investigation by a professional or regulatory body;
  - to protect the professional interests of a professional accountant in legal proceedings; or
  - to comply with technical and professional standards, including ethics requirements.

- (d) A tax practitioner may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and the other fundamental principles. Such threats may be created when:
- (i) the tax practitioner undertakes a professional activity relating to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
  - (ii) the interests of the tax practitioner with respect to a particular matter and the interests of a client for whom the tax practitioner undertakes a professional activity related to that matter are in conflict.

A tax practitioner may be required to resolve a conflict in complying with the fundamental principles. It may be in the best interests of the tax practitioner to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.

If a significant conflict cannot be resolved, a tax practitioner may consider obtaining professional advice from the relevant professional body, that is, ICAN and or CITN. The tax practitioner generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege.

If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a tax practitioner shall, where possible, refuse to remain associated with the matter creating the conflict. The tax practitioner shall determine whether, in the circumstances, it is appropriate to withdraw from the specific assignment or client.

### **Suggested solution to question 3**

- (a) If any taxpayer disputes a tax assessment raised on him by the tax authority, it may give a notice of objection, to the State Internal Revenue Service, seeking a review or revision of the assessment. However, the time limit for objection is within thirty days from the date of service of the notice of assessment.

In line with the provision of the law, for a notice of objection to be valid, it must:

- (i) be in writing, delivered in person, by courier service or via electronic mail and addressed to the Chairman, State Internal Revenue Service;

(ii) state the grounds of objection, as follows:

- amount of assessable and total profits of the company for the relevant assessment year; and
- amount of tax which the taxpayer claims is payable for the year of assessment.

The objection must be raised within thirty days of the date of service of the notice of assessment.

(b) A taxpayer who is aggrieved by an assessment, demand notice made or decision of the SIRS, may appeal against such decision or assessment or demand notice within thirty days from the date on which a copy of the order or decision which is being appealed against is made, or deemed to have been made by the SIRS.

Notice of appeal shall specify the following specific particulars:

- (i) the official number of the assessment and the year of assessment for which it was made;
- (ii) the amount of the tax charged by such assessment;
- (iii) the amount of the total profit upon which such tax was charged as appearing in the notice of assessment;
- (iv) the date upon which the appellant was served with notice of refusal by the SIRS to amend the assessment as desired;
- (v) the precise grounds of appeal against the assessment, but such grounds shall be limited to the grounds stated by the appellant in its notice of objection; and
- (vi) an address for service of any notices, receipts or other documents to be given by the Secretary to the Tax Appeal Tribunal. Provided that at any time the appellant may give notice to such Secretary and to the SIRS, by delivering the same by registered post, of a change of such address but any such notice shall not be valid until delivered or received.

**(c) The options open to the Revenue on receipt of a notice of objection**

On receipt of the notice of objection by a taxpayer, the SIRS may require the taxpayer giving the notice of objection to furnish such particulars as the SIRS may deem necessary and to produce all books or other documents relating to the profits, and may summon any person who may be able to give evidence relating to the assessment to attend for examination by an officer of the SIRS on oath or otherwise.

In the event of any taxpayer assessed, who has objected to an assessment made upon him/her, agreeing with the SIRS as to the amount at which he/she is liable to be assessed, the assessment shall be amended accordingly, and notice of the tax payable shall be served upon such person.

However, if the taxpayer fails to agree the amount at which he/she is liable to be assessed with the SIRS, the SIRS shall give notice of refusal to amend the assessment as desired by such person and may revise the assessment to such amount as the SIRS may, according to the best of its judgement, determine and give notice of its revised assessment and of the tax payable together with the notice of refusal to amend the revised assessment.

**(d) Appeals before the Court of Appeal and Supreme Court**

An appeal against the decision of the Federal High Court shall lie with the Court of Appeal and finally with the Supreme Court. However, for such appeal to be valid, the following conditions must be satisfied, namely:

- (i) the appeal must be on the points of law;
- (ii) notice of appeal against the decision of the Federal High Court must be given within 30 days after the judgement of the FHC; and
- (iii) the grounds of law on which the decision of the FHC is being challenged should be stated.

**Suggested solution to question 4**

**(a) (i) Settlement**

A settlement is a means by which enjoyment of an estate, or part of it is transferred to another person, either through a disposition, trust, or covenant, agreement, arrangement or transition of assets by reference to a trust, for the benefit of persons specified.

**(ii) Trusts**

The term trust relates to equitable obligation, binding a person, called the trustee, to deal with a property, over which he/she has custody (which is called the trust property), for the benefits of persons (beneficiaries) of which he/she may be one.

### (iii) Estates

An estate is the total of the properties of a person and is commonly used in executorships. It also means the property of a deceased person.

### (iv) Settlor

“Settlor” in relation to a settlement, includes a person by whom the settlement was made or entered into directly or indirectly, and in particular (but without prejudice to the generality of the foregoing), includes a person who has provided or undertaken to provide funds directly or indirectly for the purpose of the settlement, or has made with any other person a reciprocal arrangement for that other person to make or enter into the settlement.

### (v) Personal representatives

“Personal representative” is the person, whether executor or administrator, who is charged with the administration of the estate of a deceased person, and in whom the estate is vested for the purpose of distribution.

(b)

#### Estate of Late Mr. Odinga Computation of capital allowances for 2024 year of assessment

	Motor vehicle	Plant and machinery	Future and fittings	
Initial allowance	50%	25%	25	
Annual allowance	25	20%	20%	
				Total capital allowance
	₦	₦	₦	₦
Qualifying capital				
Expenditure - Cost	6,800,000	3,600,000	4,800,000	
Initial allowance	(3,400,000)	(900,000)	(1,200,000)	5,500,000
Annual allowance	(850,000)	(540,000)	(720,000)	<u>2,110,000</u>
				7,610,000
Capital allowances on existing assets:				
Annual allowances	(480,000)	(300,000)	(420,000)	<u>1,200,000</u>
				<u>8,810,000</u>

(c)

**Estate of Late Mr. Odinga**  
**Computation of income tax payable by the trustee**  
**For 2024 year of assessment**

	N	N
Adjusted profit		21,600,000
Less capital allowances		<u>(8,810,000)</u>
		12,790,000
Less: allowable expenses		
Fixed annuity - beneficiary	400,000	
Trustee's fixed remuneration	360,000	
Administration and other expenses	85,000	
Discretionary payments:		
Anthony	510,000	
Dode	480,000	
Melaye	<u>320,000</u>	<u>2,155,000</u>
Income available for distribution		10,635,000
Less: Distribution of beneficiaries for:		
Anthony (1/4 of N10,635,000)	2,658,750	
Dode (1/4 of N10,635,000)	2,658,750	
Melaye (1/4 of N10,635,000)	<u>2,658,750</u>	<u>7,976,250</u>
Net distributable income attributable to trustee		2,658,750
<b>Consolidated relief allowance:</b>		
(Higher of 1% of gross income or N200,000 + 20% of gross income)		<u>(797,625)</u>
<b>Chargeable income</b>		<u><u>1,861,125</u></u>
<b>Computation of tax liability</b>		
	N	N
	%	
First	300,000	7
Next	300,000	11
Next	500,000	15
Next	500,000	19
Next	<u>261,125</u>	21
	<u>1,861,125</u>	
		<u><u>278,836.25</u></u>

### Suggested solution to question 5

(a)

**Bobby Nigeria Ltd**

#### **Computation of VAT payable to FIRS**

**For the month of December 2024**

##### **Output VAT**

	<b>₦</b>	<b>₦</b>
Product sales	7,200,000	
Less credit sales (20% of ₦7,200,000)	<u>(1,440,000)</u>	
Net cash sales	<u>5,760,000</u>	
Output VAT – (7.5 %X ₦5,760,000)		432,000

##### **Input VAT:**

Raw materials purchased	2,700,000	
Carriage inwards	<u>600,000</u>	
	3,300,000	
Less credit purchases (25% x N3,300,000)	<u>(825,000)</u>	
	<u>2,475,000</u>	
Input VAT (7½% of N2,475,000)		<u>(185,625)</u>
VAT remmittable to FIRS		<u>246,375</u>

#### **(b) (i) Cloud computing technology**

Many accounting software is hosted in the cloud and some come along with modules for tax management, which are used for:

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

In most advanced tax environments, 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 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.

## **(ii) Artificial intelligence and robotics**

Traditionally, tax practitioners put a lot of efforts in collating and analysing financial data in order to serve their clients and taxpayers. Artificial Intelligence (AI) and Robotics make it easier for tax practitioners to simplify and accelerate various data-related tasks. Robotic Process Automation (RPA) software has been demonstrated to be effective in handling routine and monotonous aspects of the tax man's job.

AI is capable of making tax practitioners and administrators more productive as its algorithms allow machines to take over time-consuming, repetitive, and redundant tasks. Rather than just crunch numbers, tax professionals will be able to spend more time delivering actionable insight on tax implications of past and future transactions of a company.

Machines can help reduce costs and errors by streamlining operations. For instance, the optical character recognition (OCR) technology enables practicing firms to automate and accelerate manual entries by converting textual data to digital files, using scanners and mobile device cameras.

Apart from automating the repetitive and mundane tasks of tax practitioners, AI would enable tax practitioners to focus on high value functions, such as tax advisory services based on deeper insights of client's data.

## **(iii)Blockchain technology**

Blockchain technology became popular globally through the advancements in digital currency transactions, such as Bitcoin. Many businesses now leverage the blockchain technology to record their financial and non-financial transactions in an open, secured and decentralised ledger.

Where tax consultants or the tax authorities are made part of the transaction flow and given access to the data chain, it makes it possible for all parties to see each transaction and determine the tax implications. The blockchain can equally be used to facilitate tax payments to the government at highly reduced processing cost.

Blockchain enables smart contracts, protecting and transferring ownership of assets, verifying people's identities and credentials, etc. Once blockchain is widely adopted, and challenges around industry regulation are overcome, it will benefit businesses by reducing costs, increasing traceability and enhancing security.

#### **(iv) Data analytics technology**

Data has become the new cash as it is extremely crucial to make useful business financial decisions. Today, data is not just numbers and spreadsheets that accountants and tax practitioners have been familiar with for years. It also includes unstructured data that can be analysed through automated solutions.

Data analytics software can allow for real-time status monitoring of financial matters, including their tax implications. Data is the fuel that powers other technology trends that are transforming finance and accounting. In the financial realm, data produces valuable insights, drives results and creates a better experience for clients. Since everything leaves a digital footprint, the unprecedented digitalisation of our world is creating opportunities to glean new insights from data that were not possible before.

These insights help tax administrators to improve internal operations and build revenue for the government. Through data analytics software, tax practicing firms could offer more valuable advisory services to their clients.

#### **(v) Social media technology**

Social media platforms have been with us for a while and they have become useful tools in the hands of tax practitioners and administrators. Primarily, the social media platforms are used for dissemination of tax information due to its wide reach and appeal to the younger generation. Beside information sharing, platforms such as Facebook; Instagram; Twitter; LinkedIn; etc; are useful for collaboration among tax professionals and institutions.

A lot of tax practitioners have made themselves more visible and attractive to clients through the use of social media platforms.

#### **(vi) Mobile app technology**

Tax practitioners can use their mobile devices to access the financial data of their clients anytime and anywhere especially where the client has adopted cloud accounting technology. Also, tax administrators and practitioners could develop and deploy mobile apps which taxpayers and clients respectively could download and install for tax updates and news.

### **Suggested solution to question 6**

**(a) The objectives of the Nigeria Startup Act are to:**

- (i) provide a legal and institutional framework for the development of startups in Nigeria;
- (ii) provide an enabling environment for the establishment, development and operation of startups in Nigeria;
- (iii) provide for the development and growth of technology-related talents; and
- (iv) position Nigeria's startup ecosystem, as the leading digital technology centre in Africa, having excellent innovators with cutting edge skills and exportable capacity.

**(b) A startup is eligible for labelling under this Act, where —**

- (i) it is registered as a limited liability company under the Companies and Allied Matters Act, and has been in existence for a period not more than 10 years from the date of incorporation;
- (ii) its objects are innovation, development, production, improvement, and commercialisation of a digital technology innovative product or process;
- (iii) it is a holder or repository of a product or process of digital technology, or the owner or author of a registered software;
- (iv) it has at least one-third local shareholding held by one or more Nigerians as founder or co-founder of the startup; and
- (v) in the case of a sole proprietorship or partnership, it satisfies the conditions set out in paragraphs (ii), (iii) and (iv).

**(c) The obligations of a labelled startup under the Act shall be to:**

- (i) comply with all the extant laws governing businesses in Nigeria;
- (ii) provide information annually on the number of human resources, total assets and the annual turnover achieved from the period the startup label was granted;

- (iii) maintain proper books of accounts in accordance with reporting obligations provided under extant laws and regulations;
- (iv) provide an annual report on incentives received and advancement made by virtue of the incentives;
- (v) notify the Coordinator of any change in structure, composition or objects within a period of one month from the date of such change; and
- (vi) comply with the obligations set out by the Coordinator after issuance of the startup label.

Where a labelled startup defaults in any of the obligations, or fails to meet the eligibility criteria under this Act, the Coordinator shall notify the labelled startup of the default, and within 30 days of the notification, the startup shall take steps to rectify the default.

- (d) (i) A labelled startup which falls within industries captured under the extant Pioneer Status Incentives (PSI) Scheme may upon application through the Secretariat receive expeditious approval from the Nigerian Investment Promotion Commission (NIPC) for the grant of the tax reliefs and incentives under the PSI Scheme.
- (ii) Notwithstanding the provisions of any other law, the Federal Government may, through the Federal Ministry responsible for Finance or any other relevant MDA, simplify the requirements for a startup to benefit from existing fiscal incentives.
- (iii) In accordance with the provisions of the Industrial Development (Income Tax Relief), a labelled startup may be entitled to exemption from the payment of income tax or any other tax chargeable on its income or revenue for a period of three years and an additional two years if still within the period of a labelled startup, provided that the commencement date of the tax relief shall be the date of the issuance of the startup label.
- (iv) A labelled startup shall enjoy full deduction of any expenses on research and development which are wholly incurred in Nigeria and the restrictions placed by the Companies Income Tax Act shall not apply to a labelled startup.
- (v) Non-resident companies that provide technical, consulting, professional or management services to a labelled startup shall be subjected to a five percent withholding tax on income derived from the provision of such services, provided that the payment of the withholding tax, shall be the final tax to be paid by such non -resident companies.

- (vi) A labelled startup shall be exempted from contributions to the Industrial Training Fund where it provides in-house training to its employees for the period where it is designated as a labelled startup.
  - (vii) The Secretariat shall ensure that a labelled startup involved in the exportation of products and services, which are deemed eligible under the Export (Incentives and Miscellaneous Provisions) Act, is entitled to export incentives and financial assistance from the Export Development Fund, Export Expansion Grant and the Export Adjustment Scheme Fund.
  - (viii) The Secretariat shall ensure that a labelled startup has access to grants and loan facilities administered by the CBN, the Bank of Industry or other bodies statutorily empowered to assist small and medium scale enterprises and entrepreneurs.
- (e) The Nigeria Startup Act 2022 has received both praise and criticism. While it aims to create a supportive environment for startups, some experts have raised concerns about its potential effectiveness, which include the following:
- (i) **Overemphasis on legislation:** Some argue that the Act alone may not be enough to fuel the growth of Nigeria's startup economy, suggesting that other factors like infrastructure, talent, and market access also play crucial roles.
  - (ii) **Implementation challenges:** The Act's success depends on effective implementation, which can be hindered by bureaucratic processes, inadequate funding, or lack of clarity on specific provisions.
  - (iii) **Limited impact on growth of SMEs:** Research suggests that the Act's objectives may not necessarily redefine SME growth in Nigeria, implying that more targeted support might be needed for small and medium-sized enterprises.
  - (iv) **Uncertainty around benefits:** Some studies indicate that the perceived benefits of the Act may not materialise without proper execution and infrastructure.

### Suggested solution to question 7

**(a)**

**Godson Limited**

### Computation of import duty payable to Nigeria Customs Service On imported items in September 2024

[illegible]

- (b) 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.

**(i) 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.

**(ii) e- payments**

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.

**(iii) 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.

**(iv) 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.

**(v) 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.