ADVANCED TAXATION

SUGGESTED SOLUTIONS TO PILOT QUESTIONS

Suggested solution to question 1

SAO & Co
Firm of Chartered Accountants
(6, King David Close, Mowe, Ogun State)

Date

The Board of Directors
Tobi Ola Ltd
5, Olusoji Idowu Street
Lagos State

Dear Sir

RE: COMPUTATION OF TAX LIABILITIES OF THE COMPANY FOR 2017 AND 2018 TAX YEARS

Further to your directives on the above subject, please find below our advice in relation to the above subject matter.

1. Companies income tax liability

   The tax payable for 2018 tax year was ₦311,355. For 2017 tax year, after the deduction of loss brought forward and capital allowances from the assessable profit, there was no total profit, hence, a nil tax liability.

2. Small business relief

   The company which is engaged in mining and in the fifth year of business was entitled to this relief in 2017 tax year when the total revenue was less than ₦1,000,000. However, because of the nil total profit, the company could not take advantage of the small business rate of 20% of total profit.

3. Minimum tax

   This was computed on the bases of the relevant information as provided in the financial statements. Based on our computations, the minimum tax liabilities for 2017 and 2018 assessment years were ₦11,250 and ₦11,875, respectively.

   For 2018 tax year, the minimum tax liability of ₦11,875 was not taken into consideration in arriving at the total tax payable for the year because the companies income tax of N31, 355 was higher than the minimum tax liability.

4. Capital allowances

   In arriving at the total tax payable for each of the years, maximum claim for capital allowances were made. In addition, balancing charges arising from the disposal of qualifying capital expenditure were considered in our computation.

5. Tertiary education tax payable

The tertiary education tax for each of the years was computed based on the company's adjusted profits after adjusting for the balancing charges.

6. Total tax payable for 2017 and 2018 tax years

In summary, the tax liabilities for 2017 and 2018 tax years were ₦23,750 and ₦51,045, respectively.

Please find attached the relevant computations in respect of the above taxes. Please revert if there is need for any further explanation on each aspect of the report.

We thank you for your patronage to date.

Yours faithfully

For SAO & Co

Mariam Jimoh
Managing Partner

Workings

1. Computation of tax liabilities
For 2017 and 2018 tax years

Tax years	2018		2017	
	₦	₦	₦	₦
Net profit per accounts		665,100		420,900
Add:				
VAT on equipment		36,800		21,000
Sales tax		13,600		11,100
Excess allowance for doubtful debts		3,000		97,000
Adjusted profit		718,500		550,000
Balancing charge		324,990		-
Assessable profit		1,043,490		550,000
Loss brought forward		-		(200,000)
		1,043,490		350,000
Capital allowances:				
Brought forward	564,990		-	

For the year	504,990		779,990	
Balancing Allowance	-		135,000	
	1,069,980		914,990	
Relieved in the year		(1,043,490)	(350,000)	(350,000)
CAs carried forward	26,490		564,990	
			-	
Total profit		0		0
Companies income tax @ 20%		-		₦0
Minimum tax		11,875		11,250
Companies income tax @ 30%		-		-
Tertiary education tax		20,870		11,000
Total tax liability of the company		32,745		22,250

2. Revised allowance for doubtful debts

	₦ 2018	₦ 2017		₦ 2018	₦ 2017
Bad debt written off	110,000	64,000	Bal b/f	6,000	36,000
			Bad debt recovered	70,000	118,000
Statement of profit or loss	-	20,000	Statement of profit or loss	39,000	-
Bal c/d	5,000	70,000			
	115,000	154,000		115,000	154,000
			Bal c/f	5,000	70,000

Summary

For 2017 tax year, the sum of ₦77,000 was charged in the statement of profit or loss as allowance for doubtful debts. However, the revised allowance shows that ₦20,000 should have been credited to the statement of profit or loss. Therefore, ₦77,000 charged in error and ₦20,000 that should have been credited both totaling ₦97,000 is to be added back to the net profit for the year. For 2018 tax year, the sum of ₦42,000 was charged in the statement of profit or loss as allowance for doubtful debts. However, the revised allowance for doubtful debts shows that ₦39,000 should have been charged. The excess charge of N3,000 is to be added back to net profit in the adjustment process.

3. Calculation of capital allowances

Assets	Plant	Equipment	M/V (old)	M/V (New)	Machinery	Capital allowance
Rates: %						
I.A	50	50	50	50	50	
A.A	25	25	25	25	25	
Invest allowance	10	10			10	
	₦	₦	₦	₦	₦	₦
2017 (1/1/16 - 31/12/16)						
TWDV	330,000	240,000	345,000			
Cost	-	-	-	600,000		
disposal	-	-	(345,000)	-		
	330,000	240,000	-	600,000	-	
I.A	-	-	-	300,000	-	300,000
A.A	165,000	239,990	-	75,000	-	479,990
						779,990.00
2018 (1/1/17 - 31/12/17)						
TWDV	165,000	10	-	225,000	-	
Additional asset						
Cost	-	-	-	-	400,000	
Disposal	-	(10)	-	(75,000)	-	
I.A	-	-	-	-	(200,000)	200,000
A.A	(164,990)	-	-	(50,000)	(50,000:	264,990
Invest Allowance	-	-	-	-	-	40,000
Capital Allowance						504,990
TWDV	10	-	-	100,000	150,000	

Allocation of assets to tax year

		Tax year
All TWDVs (Plant, equipment and motor vehicle (0)		2017
Additional asset	Date of acquisition	
Motor vehicle (3)	1/01/16 - 1/7/16 - 31/12/16	2017
Machinery	1/01/17 - 1/11/17 - 31/12/17	2018
Disposal	Date of disposal	
Motor vehicle (Old)	1/01/16 - 1/9/16 - 31/12/16	2017
Motor vehicle (New)	1/01/17 - 1/4/17 - 31/12/17	2018
Equipment	1/01/17 - 1/6/17 - 31/12/17	2018

NB: For each tax year, the items of disposal must be considered and treated first, before the computation of capital allowance so that capital allowance is not calculated on any of such assets

4. Balancing charge/allowance
For 2017 and 2018 tax years

Assets	MV(old)	MV (new)	Equipment
2017 (1/10/15 - 30/9/16)			
Sales proceeds	210,000		
TWDV	345,000		
Balancing Allow.	135,000		
2018 (1/10/16 - 30/09/17)			
Sales proceeds		150,000	250,000
TWDV		(75,000)	(10)
		75,000	249,990
		Balancing charge	Balancing charge

5. Computation of gross profit (GP)

Tax year	2017		2018	
	₦	₦	₦	₦
Export sales		600,500		800,000
Local sales		300,000		400,000
		900,500		1,200,000
Deduct direct costs:				
Exploration	150,000		160,500	
Storage and transportation	210,000		230,700	
		(360,000)		(391,200)
Gross profit		540,500		808,800

6. Minimum tax computation

Tax year	2017		2018	
Highest of	₦	₦	₦	₦
0.5% of ₦540,500 (GP)	2,703		-	
0.5% of ₦808,800 (GP)	-		4,044	
0.5% of ₦2,150,000 (NA)	10,750	10,750		
0.5% of ₦2,200,000 (NA)	-		11,000	11,000

0.25% of ₦2,000,000 (SC)	5,000		5,000	
0.25% ₦500,000	1,250		1,250	
Add ₦ (900,500 - 500,000) (excess over revenue of N500,000) 0.125% of ₦400,500		500	-	
₦ (1,200,000 - 500,000) (excess over revenue of N500,000) 0.125% of ₦700,000		-		875
Minimum tax payable		11,250		11,875

Marking Guide

Description	Marks
Letter of advice;	
Letter head	
- Name of the consulting firm	1
- Address of consulting firm	1
Date on the letter of advice	1
Address of client	1
Subject matter of letter	1
Introduction	1
Body of the letter	
- Comments on company tax payable	1
- Comments on small business relief ;	
Less than ₦1,000,000 condition	1
Relief of 20% tax rate	1
- Comment on Minimum tax	1
- Comment on capital allowance	1
- Comment on outstanding tax liability	1
Conclusion of letter	
- For: JAA & co	1
- Name of writer	½
- Designation of writer	½
Workings	
For each ticks aside sub-totals = 0.4 marks	26
	40

Suggested solution to question 2

a. The roles being played by inter-governmental and supranational organisations that shape tax policy

International organisations are organs of institutional agreements amongst members of an international system for the purpose of achieving objectives that will meet the aspirations and concerns of its members. They are important actors in international politics, with power in mediation, dispute resolution, peace keeping, applying sanctions and others. Activities are based on the sovereignty of the nation-state. Examples of these organisations include Organisation for Economic Cooperation and Development (OECD), United Nations (UN), European Union (EU), World Bank, International Monetary Fund (IMF), African Union (AU), Africa Development Bank (AFDB).

The concept in terms of global governance promoted by the international organisations is legitimacy and customs.

b. The concept of tax neutrality

A neutral tax is one that does not motivate firms or individuals to change their behavior. Neutrality is an accepted standard for evaluating taxes. In several cases, the concept of neutrality provides a useful way to cut through some of the debates about tax policy and identify a more economically efficient way to organize the tax system.

The primary purpose of the tax system is to raise the revenue needed to pay for government spending. As such, the goal is to raise this revenue without distorting the decisions that individuals and firms would otherwise make for purely economic reasons.

Non-neutralities in the tax system lead people and firms to devote more socially wasteful effort to transforming the form or substance of their activities to reduce their tax payments, for example, by hiring accountants to structure financial transactions in a manner that minimizes tax liability.

In some cases, deviations from a neutral tax system are unavoidable.

It is widely agreed that tax payments should increase with improvement in standard of living, like income, consumption or wages.

One inevitable consequence of this agreement is that the market consumption of goods and services will be taxed, either directly (as in a consumption tax) or indirectly (as in an income or employment tax, both of which tax the money used to purchase consumption goods).

In other cases, deviations from a neutral tax system reflect the goals of policymakers.

c. Purpose of international tax cooperation

International tax cooperation focuses on bilateral tax treaties, which has the major aim of reducing double taxation. In addition, such cooperation has increasingly looked at setting tax norms to close loopholes and limit the ability of multi-national enterprises (MNEs) to avoid paying taxes.

The United Nations and the OECD are the two principal avenues for the development of international tax norms. These include:

i. The maintenance of model conventions and commentaries;
ii. Codes of conduct and guidance to countries;
iii. Harnessing universal membership by United Nations. The OECD, while not a universal membership body, has worked with the G-20 group of countries and has established

fora open for interested countries to participate, such as, the global forum on transparency and exchange of information for tax purposes, which currently has over 140 members, and the inclusive framework on BEPS, currently with almost 100 members;

iv. The OECD serving as a coordinator and overseer of implementation of its agreements and has designed a number of multilateral conventions and instruments;

v. The United Nations and its agencies which conduct international policy analyses, as the OECD, World Bank and the International Monetary Fund;

vi. The IMF and World Bank which also work at the national level on policy analyses and recommendations;

vii. Examples of norm-setting including model conventions and multilateral treaties. Examples of international policy analysis are research papers, handbooks, BEPS action plan reports. Oversight of implementation includes peer reviews and the assessment of compliance with international standards;

viii. National policy analysis and advice which include surveillance, assessment of tax administrations, and policy proposals; and

ix. Examples of capacity building work which are the OECD/UNDP Tax Inspectors Without Borders Initiative, the Global Tax Program of the World Bank, the UN DESA Capacity Development Unit, the OECD Global Relations programme and IMF technical assistance.

Marking guide

Description	Marks	
a. The roles of inter-governmental and supranational organizations that shape tax policy		
- Introduction	1	
- Sovereignty of state	1	
- Mediation role	1	
- Dispute resolution	1	
- Peace keeping	1	
		5
b. Neutralities		
- Definition/description	1	
- Usefulness to organizing the tax system	1	
- Purpose of tax system's goal	1	
- Expected impact on decisions	1	
- Non-neutralities	1	
- Unavoidable situations of deviations from neutral tax system		
Income	1	
Consumption/wages	1	
- Value adding to goals of policy makers	1	
		8
c. Purpose of international tax cooperation		
Any 7 of the 9 points listed above for 7 marks		7
		20

Suggested solution to question 3(a)

JAK & Co
Firm of Chartered Accountants
(6, King David Close, Mowe, Ogun State)

Date
The Managing Director
Ugochi Ventures Ltd
6, Mayowa Street
Ajegunle, Lagos

Dear Sir,

RE: THE COMPANY’S TAX LIABILITIES FOR THE RELEVANT ASSESSMENT YEARS

Further to your request on the above subject, we write to inform you that the company did not have any companies income tax liability for 2013, 2014 and 2015 tax years. This was because the loss brought forward from the pioneer period amounting to ₦281,000 was relieved against the 2013 assessable profit of N321,000. Additionally, capital allowances which totaled N40,000 was utilized during the year. For 2014 and 2015 tax years, capital allowances utilized reduced the assessable profits to nil, hence, no companies income tax liability for the two assessment years.

However, the company was liable to pay tertiary education tax of ₦6420, ₦6420 and ₦7100 for 2013, 2014 and 2015 tax years, respectively.

Please find attached the relevant tax computations in support of the above stated amounts.

Kindly revert if there is need for further explanation on each aspect of the report.

We thank you for your patronage to date.

Yours faithfully

For: JAK & Co

Tina Chima
Managing Partner

Workings & Notes

Ugochi ventures ltd
Computation of tax liabilities
For 2013 to 2015 tax years

2013 [1/1/13 - 31/12/13]	₦	₦
Adjusted profit		321,000
Net losses b/f	(281,000)	
Net loss relieved	281,000	(281,000)
	=======	40,000
Capital allowance for the year	1,779,375	
Capital allowance utilised	(40,000)	(40,000)
Capital allowance c/f	1,739,375	
	=======	-------------
Total profit		0
		========
Companies income tax @ 30% of total profit		Nil
Tertiary education tax @ 2% of assessable profit		₦6,420
2014 (1/1/13 -31/12/13)		
Adjusted profit		321,000
Capital allowances b/f	1,739,375	
Capital allowance for the year	13,125	
	1,752,500	
Capital allowance utilised	(321,000)	(321,000)
Capital allowance c/f	1,471,460	
	=======	--------------
Total profit		0
		========
Companies income tax @ 30% of total profit		Nil
Tertiary education tax @ 2% of assessable profit		₦6,420
2015 (1/1/14 - 31/12/14)		
Adjusted profit		355,000
Capital allowance b/f	1,471,500	
Capital allowance for the year	13,125	
	1,484,685	
Capital allowance utilised	(355,000)	(355,000)
Capital allowance c/f	1,129,585	
	=======	--------------
Total profit		0
		=========

Companies income tax @ 30% of total profit Nil

Tertiary education tax @ 2% of assessable profit ₦7,100

Note:
Capital allowance is not restricted to 2/3 of assessable profit for agricultural and manufacturing companies.

i. Pioneer period

1/1/2010 - 31/12/2010 - Year 1
1/1/2011 - 31/12/2011 - Year 2
1/1/2012 - 31/12/2012 - Year 3 (End of pioneer period)

ii. Date of commencement of new trade was 1/1/13, that is, a day after the end of the pioneer period.

iii. Relevant tax years and basis period of new trade

Tax year	Basis period
2013	1/1/13 - 31/12/13
2014	1/1/13 - 31/12/13
2015	1/1/14 - 31/12/14

iv. Computation of net loss of pioneer period

Year ended	Adjusted profit/(loss)
	₦
31/12/2010	(380,000)
31/12/2011	(145,000)
31/12/2012	244,000
Net loss	281,000
	=======

The net loss is available for relief against any available assessable profit of the first tax year of the new trade (2013 tax year). Any balance of such net loss that cannot be relieved shall be regarded as lapsed, that is, such loss can only be relieved in the first tax year of the new trade.

v) Capital allowance

All qualifying capital expenditure acquired by a pioneer company during the pioneer period shall be regarded as having been acquired on the first date of commencing the new trade.

Computation of capital allowances

Asset	R&D	MV	Tractor	P&E	C/A
Rate %					
IA	95	50	95	95	

AA	-	25	-	-	-
Invt. All.	-	-	-	10	

2013 (1/1/13-31/12/13)

	₦	₦	₦	₦	₦
Cost	300,000	105,000	675,000	750,000	
I.A	(285,000)	(52,500)	(641,250)	(712,500)	1,691,250
A.A	-	(13,125)	-	-	13,125
Inv.allow (P&E)	-	-	-		75,000
Capital allowance	-	-	-	-	-
					1,779,375
TWDV	15,000	39,375	33,750	37,500	

2014 (1/1/13-31/12/13)

AA	-	13,125	-	-	13,125
Capital allowance					
					13,125
TWDV	15,000	13,125	33,750	37,500	

2015 (1/1/14-31/12/14)

AA	-	13,125	-	-	13,125
TWDV/NV	15,000	10	33,750	37,500	
	=======	=======	======	=======	

Suggested to question 3(b)

Limitations to the incentives granted to taxpayers under the Industrial Development Income Tax Relief Act.

These include:

i. Losses of the pioneer period shall be relievable against the assessable profit of the 1st tax year of the new trade only if the loss has been certified by the relevant tax authority. This means that for such loss to be acceptable to the tax authority, it must be an adjusted loss acceptable to the relevant tax authority;

ii. Qualifying capital expenditure (QCE): All QCE acquired during the pioneer period, used for the purpose of the pioneer business shall be treated as newly acquired assets of the company on the first day of the new business commenced after the pioneer period. However, the relevant tax authority must agree with the pioneer company on the values stated; and

iii. Dividend declared by a pioneer business to its shareholders during the pioneer period shall be exempted from withholding tax provided that such dividend is not declared out of loss. This is stated in section 17 of the relevant Act. Profits made in any of the pioneer years are credited to this account while losses made are debited to the account. At the point of declaring dividend, the balance of this account must cover the amount declared. Otherwise, such dividend shall be subjected to the principle of tracing to individual recipient for the purpose of charging withholding tax.

Marking guide

Description	Marks	Marks
Letter of advice;		
Letter head		
- Name of the consulting firm	1	
- Address of consulting firm	1	
Date on the letter of advice	1	
Address of client	1	
Subject matter of letter	1	
Introduction	1	
Body of the letter		
- Comment on company income tax	½	
- Comments on education tax	½	
Conclusion		
- For: JAA & co	1	
- Name of writer	½	
- Designation of writer	½	
Workings		
- For each ticks of 60 aside sub-totals = 0.1 mark	6	15
b. the tax office is only interested in adjusted losses and not 'net profit'	1	
- The QCE must be certified by the tax authority	1	
- Reference to section 17 account	1	
- Description of the use of section 17 account	2	5
		20

Suggested solution to question 4

MEMORANDUM

(a) Date: October 15, 2017
To: The Managing Director
From: Tax Controller
Subject: Re: Tax Matters

With reference to our discussion in your office on October 10, 2017, I wish to comment as follows:

i. Double/multiple taxation

Double taxation occurs when a taxpayer is outside his own country and is subject to tax in both his country and country of residence. For instance, income brought into Nigeria would have been subjected to tax in the foreign country in accordance with that country's tax laws. If the same income is further subjected to tax in Nigeria, this will amount to double taxation.

Similarly, income accruing in Nigeria to a non-resident would have been taxed in accordance with the Nigerian tax laws and if also taxed in the foreign country where the taxpayer is domiciled, this amounts to double taxation.

Multiple taxation is a situation in which more than one tier of government charges tax or levies on the same income, assets or financial transactions of a taxpayer.

ii. Double taxation treaty

Where a Nigerian company earns foreign income which is included in its chargeable profit for a year of assessment, and is subjected to Nigerian tax, the foreign income received in Nigeria in most cases, would have been taxed in the country where the income is derived from and also in Nigeria where it is received. This results in double taxation as it would appear that the company receiving the income is being penalized for earning foreign income.

In order to minimize the negative effect on international trade, and to attract foreign investment, Nigeria has signed bilateral taxation treaties with many countries. Such treaties provide reliefs to Nigerian companies earning foreign income already taxed.

iii. Multiple taxation in Nigeria

This is a tax regime in which more than one tier of government levies or taxes the same income, assets or financial transactions. An example is a situation in which the Federal Inland Revenue Service assesses and collects Value Added Tax (VAT) on taxpayers and some States Internal Revenue Service also impose sales tax on the same taxpayer.

Multiplicity of taxes in Nigeria is affecting companies negatively to the extent that a number of companies are either reducing their work force or relocating to a more favourable economic environment.

iv. Measures put in place to reduce cases of Multiplicity of Taxes

The Taxes and Levies (Approved list for collection) Act, Cap T2, Laws of the Federation of Nigeria, 2004, was amended by a Schedule to the Taxes and Levies (Approved List for Collection) (Act Amendment) Order, 2015, to accommodate more taxes and levies collectible by each tier of government in order to reduce cases of multiplicity of taxes.

The 1999 Constitution also provides in Part II, that no tax should be imposed on the same person by more than one state.

v. Withholding tax

This is an advance payment of tax which is deducted at source on certain transactions and later applied (where it is not a final tax) as tax credit to settle the income tax liability of the year to which the payment that suffered the deduction relates.

Withholding tax is deductible at the point of payment or when credit is taken whichever comes earlier. Tax withheld is to be remitted within 21 days from the date the duty to deduct arose or when it was deducted, whichever is earlier.

vi. Penalty for non-deduction/non-remittance

For non-deduction or non-remittance within 21 days from the date the duty to deduct arose or when it was deducted, whichever is earlier, the company or individual shall be liable to a penalty of 10% in addition to the amount of tax not deducted/remitted plus interest at the prevailing commercial rate.

(b) Legislative powers on tax matters

The power to legislate on taxation rests on the National Assembly (Senate and House of Representatives) and the State Assemblies.

(c) Deduction of withholding tax/ PAYE and relevant tax authority

i. Fees on technical agreement -	Withholding tax payable to Federal Inland Revenue Service
ii. Non - executive directors -	Withholding tax on fees payable to State Internal Revenue where such directors are resident.
iii. Non - resident director -	Withholding tax is the final tax and it is payable to Federal Inland Revenue Service.
iv. Dividend payable to shareholders -	Withholding tax to State Internal Revenue Service where such individual shareholders are

resident and Federal Inland Revenue Service in case of corporate bodies.

v. **Dividend payable to individuals in Kogi State** - Withholding tax of ₦37,500 payable to Kogi State Internal Revenue Service (KSIR)

vi. **Land purchased from Alhaji Garuba in Abuja**- Capital gains tax to Kano State Internal Revenue Service

vii. **Five employees in Suleja** - PAYE payable to Niger State Internal Revenue Service.

MARKING GUIDE

		Marks	Marks
a.	Explanation of the following;		
	Double/multiple taxation	2	
	Double taxation treaty	2	
	Multiple taxation in Nigeria	2	
	Measures put in place to reduce multiple taxation	2	
	Withholding tax	2	
	Penalty for non-deduction	2	12
b.	Legislative powers on tax matters		4
c.	Withholding tax/relevant authority (One mark each for any four points)		4
			20

Suggested solution to question 5

Ekoro Oil (Nig.) Ltd

a. Computation of adjusted posted price

	₦
Posted price	20.55
Adjustment	(0.55)
Adjusted posted price	20.00

Computation of chargeable tax for 2014 tax year

		₦
Value of crude oil export:		
Fiscal value of oil as computed (w1)		27,740,000
Value of oil as stated in accounts		26,353,000
Fiscal value of oil (higher of the two above)		27,740,000
Add domestic sales		1,095,000
Net fiscal value of chargeable oil		28,835,000
Balancing charge		15,000
Total income		28,850,000
Deduct:		
Production cost	584,000	
Transportation cost	1,500,000	
Salaries	500,000	
General overhead	70,000	
Bank charges and interest	75,000	
Interest of bills payable	93,000	
Interest on loan from subsidiary company at commercial rate	160,000	
Non-producing rent	60,000	
Customs duties	30,000	
Harbor due	24,000	
Royalties and producing rentals	6,500,000	
Intangible drilling cost	1,500,000	
Royalties on domestic fees	292,000	
Tertiary education tax	223,294	
		11,611,294
Assessable profit		17,238,706
Tax relief		-

		17,238,706
b.	**Assessable profit**	
	Capital allowance	(2,150,000)
c.	**Chargeable profit**	15,088,706
d.	**Assessable tax @ 85%**	12,825,400
	Less: Investment tax credit (ITC) (50% of chargeable profit)	(7,544,353)
e.	**Chargeable tax**	5,281,047
	Share of chargeable tax:	
	NNPC (30%	1,584,314
	Ekoro (70%)	3,696,733

f. **Total tax payable by Ekoro Oil (Nig) Ltd**	₦	₦
Petroleum profits tax		
Chargeable tax		3,696,733
Tertiary education tax		223,294
Companies income tax (CIT)		
Income from oil transportation	4,000,000	
Less: Expenses	1,500,000	
	2,500,000	
CIT @ 30%		750,000
Tertiary education tax		50,000
Capital gains tax		
Proceeds from disposal of asset	1,100,000	
Cost of asset	(500,000)	
Capital gains	600,000	
Capital gains tax @10%		60,000
Total tax liabilities		4,780,027

Workings

1. **Computation of net fiscal value of oil**

   4,000 barrels x 365 days = 1,460,000

   Export 95% | Local

   Barrel 1,387,000 | 73,200

   Fiscal value of chargeable oil using the adjusted posted price

   1,387,000 barrels X ₦20 = ₦27,740,000.

2. Tertiary education tax

(₦28,850,000 – ₦11,388,000 – 0) x 2/102

= ₦223,294.

3. Capital allowance

Lower of

	₦
Capital allowance b/f	250,000
Add annual allowance	1,700,000
	1,950,000
Add Petroleum investment allowance	200,000
	2,150,000
And	
85% of assessable profit	
85% x ₦17,194,118	14,615,000
Less 170% x ₦200,000	340,000
	14,275,000

Marking guide

Description		Marks
a.	Calculation of adjusted posted price ½ for each of the 3 ticks	1½
b.	Assessable profit: ½ mark for each of 20 ticks	10
c.	Chargeable profit/ capital allowance ½ mark for each of 5 ticks	2½
d.	Assessable tax	1
e.	Chargeable tax	
	- Investment tax credit	1
	- Share of NNPC	1
	- Share of Ekoro Oil (Nig) Ltd	1
f.	Total tax payable	
	- ¼ mark for each of 8 ticks	2
		20

Suggested solution to question 6a.

MR. GOODYGOODY
COMPUTATION OF CAPITAL GAINS TAX
FOR 2013, 2014 AND 2015 TAX YEARS

	₦	₦
Property A (2015 tax year)		
Consideration received		150,000
Deduct Incidental selling exp.		2,000
		148,000
Deduct cost of acquisition:		
Cost	50,000	
Additions	30,000	80,000
Capital gains tax		68,000
		======
Capital gains at 10%		₦6,800
		======
Property B (2014 tax year)		
Consideration received		100,000
Deduct cost of acquisition		
[_A_] x C; ₦100,000 x (₦95,000)		
[A+ B] [₦100,000 + ₦70,000]		55,882
Capital gains		44,118
		=======
Capital gains tax at 10%		₦4,411.8
		=======
Property B (2015 tax year)		
Consideration received		80,000
Deduct cost of property; ₦(95,000 - 55,882)		39,118
Capital gains		40,882
Capital gains tax at 10%		₦4,088.2
		=====
Property C (2013 tax year)		
Market value of property C		200,000
Deduct: Incidental selling exp.		3,500
		196,500
Deduct cost of property		
Cost	90,000	
Additional cost	15,000	(105,000)
Capital gain		91,500
		======
Capital gains tax at 10%		₦9,150
		======

Suggested solution to question 6b

A person is deemed to be connected to another person for the purpose of computing capital gains tax when:

(i) The individual is connected with his/her spouse and with his/her relatives and their spouses;

(ii) The trustee of a settlement is connected with the settlor of that settlement, and with any person connected with the settlor;

(iii) The partner is connected with the person with whom he is in partnership and with the spouse or relative of that person;

(iv) The company is connected with another company if –
  - The same person controls both, or
  - One is controlled by a person who has control of the other in conjunction with persons connected with him, or
  - A person controls one company and persons connected with him control the other or
  - The same group of persons controls both, or
  - The companies are controlled by separate group which can be regarded as the same by interchanging connected persons.

(v) The company is connected with another person who (either alone or with persons connected with him) has control of it; and

(vi) Persons acting to secure or exercise control of a company are treated in relation to that company as connected with each other and with any other person acting on the direction of any of them to secure or exercise such control.

'Relative' is also defined in the Act as meaning, brother, sister, ancestral or lineal descendant.

Marking guide

Description	Marks	Marks
a. computation of capital gains tax payable		
- identification of the taxpayer ½	½	
- identification of tax years ½	½	
CGT computation process		
- ¾ mark for each tick of 20 ticks	15	16
b. ½ mark for each of 8 ticks		4
		20