

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

TAXATION

APRIL 2019

PILOT QUESTIONS

SECTION A            MULTIPLE-CHOICE QUESTIONS

1.     The effect of tax on the production or consumption of a product being taxed is
  - A.     Tax burden
  - B.     Tax incidence
  - C.     Tax impact
  - D.     Tax shift
  - E.     Tax effect
  
2.     The following are purposes of taxation in most countries of the world, **except**
  - A.     Revenue generation
  - B.     Redistribution of income and wealth
  - C.     Management of the economy
  - D.     Improvement in gross national income
  - E.     Improvement in corporate governance in business organisations
  
3.     The following are benefits of taxation of luxury goods in Nigeria, **except**
  - A.     Increase in government revenue
  - B.     Broadening of the tax base
  - C.     Redistribution of wealth from the rich to the poor
  - D.     Mitigation of the consumption of essential goods and services
  - E.     Inducement of economic development

4. The composition of the Joint State Revenue Committee comprises the following, **except**
- A. Chairman of the State Internal Revenue Service
  - B. The directors and heads of departments within the State Internal Revenue Service
  - C. Chairman of each of the Local Government Revenue Committees
  - D. A representative of the Revenue Mobilisation Allocation and Fiscal Commission
  - E. A representative of the Bureau on Local Government Affairs not below the rank of a director
5. Tommy Limited is registered for VAT purposes. In March 2019, the company sold to the final consumer a vatable product worth ₦3,150,000 (VAT inclusive). The total output VAT was
- A. ~~₦~~157,500
  - B. ~~₦~~315,000
  - C. ~~₦~~286,364
  - D. ~~₦~~630,000
  - E. ~~₦~~150,000
6. Which of the tiers of government is responsible for the collection of stamp duties on investments executed by individuals?
- A. State government
  - B. Federal government
  - C. Local government
  - D. Federal Capital Territory
  - E. Local communities

7. The following information relates to Dr. Agbatogun, a university lecturer, for 2018 assessment year:

	₦
Consolidated salary	3,600,000
Benefits-in-kind	720,000
Profit from sale of domestic assets	150,000
Proceeds from state lottery	95,000

How much should Dr. Agbatogun report in his tax returns?

- A. ~~₦~~3,600,000
- B. ~~₦~~4,320,000
- C. ~~₦~~4,470,000
- D. ~~₦~~4565,000
- E. ~~₦~~4,415,000
8. The time limit for payment of tax assessment raised by the Federal Inland Revenue Service on a company is within ..... after the service of the notice upon the company.
- A. 2 months
- B. 3 months
- C. 6 months
- D. 9 months
- E. 18 months

9. What is the time limit for any company that disputes a tax assessment raised on it by the tax authority to seek for revision of the assessment?
- A. 14 days
  - B. 30 days
  - C. 45 days
  - D. 60 days
  - E. 90 days
10. In line with the provision of Section 7 of the Nigeria Customs Establishment Act 2017, one of the following is **not** a member of the Nigeria Customs Service Commission.
- A. A Chairman, who shall be a retired custom officer appointed by the Minister of Finance
  - B. The Comptroller-General, who shall be the Deputy Chairman
  - C. The Chairman of the Federal Inland Revenue Service
  - D. The Chairman, Revenue Mobilisation, Allocation and Fiscal Commission
  - E. A retired Justice of the Supreme Court or Court of Appeal
11. Companies Income Tax Act Cap C21 LFN 2004 (as amended) specifies a penalty of ..... of the tax withheld or not remitted by a person who is obliged to deduct tax on interest, rent, or at source.
- A. 5% per annum
  - B. 10% per annum
  - C. 20% per annum
  - D. 100% per annum
  - E. 200% per annum

12. By virtue of the provisions of Value Added Tax Act Cap V1 LFN 2004 (as amended) the following goods are exempt from tax, **except**
- A. Basic food items
  - B. Oil exports
  - C. Rent/lease of residency property
  - D. Fertilizers locally produced
  - E. Plant, machinery and equipment purchased for utilisation of gas in upstream petroleum operations
13. The following are examples of instruments that are required to be stamped, **except**
- A. Receipts
  - B. Bank notes
  - C. Transactions and sales of properties of a company under liquidation arising from a compulsory winding up by a court or creditors' voluntary winding up
  - D. Settlements
  - E. Notarial acts
14. The power to prohibit or restrict importation of all goods or any specified goods as enshrined in section 55 of the Nigeria Customs Service Management Act 2017 lies in the
- A. Minister of Finance
  - B. President
  - C. Chairman, Nigeria Customs Service Commission
  - D. Chairman, Federal Inland Revenue Service
  - E. Comptroller-General of the Nigeria Custom Service

15. Pursuance to section 2 of Land Use Charge Law 2018, promulgated by Lagos State Government, the collecting authority of land use charge of a property located in Badagry, Lagos State, which is owned by Chief Sunday Posu is
- Federal Inland Revenue Service, Badagry office
  - Lagos State Internal Revenue Service, Badagry office
  - Badagry Local Government Revenue Committee
  - The king of Badagry, on behalf of Badagry community
  - The Minister of Finance
16. A person who receives a gift of personal property by Will is a
- Devisee
  - Annuitant
  - Beneficiary
  - Remainder man
  - Legatee
17. What is the formula for determining adjusted profit ratio in the taxation of profits of shipping companies in Nigeria?
- $\frac{\text{Adjusted profit}}{\text{Global income}} \times 100$
  - $\frac{\text{Net profit}}{\text{Global income}} \times 100$
  - $\frac{\text{Gross profit}}{\text{Global income}} \times 100$
  - $\frac{\text{Profit} - \text{sales}}{\text{Nigerian income}} \times 100$
  - $\frac{\text{Adjusted profit}}{\text{Nigerian income}} \times 100$

18. Which one of the following is **not** a primary responsibility of a Revenue agency which is one of the key stakeholders under National tax policy (NTP), 2017?
- A. Treat the taxpayer as a customer
  - B. Undertake timely audits and investigations
  - C. Articulate, protect and advance taxpayers right
  - D. Establish a robust process to prevent, detect and punish corrupt tax officials
  - E. Facilitate inter-agency cooperation and exchange of information
19. The fundamental principle of ethics which requires a professional accountant not to compromise professional or business judgement because of bias, conflict of interest or undue influence of others is
- A. Objectivity
  - B. Professional competence and due care
  - C. Integrity
  - D. Confidentiality
  - E. Professional behavior
20. Ekpudu Limited commenced business on September 1, 2016 and its accounting year- end is March 31, every year. The basis period for the determination of assessable profit for the third year of assessment shall be
- A. September 1, 2016 – December31, 2016
  - B. April 1, 2017 – March 31, 2018
  - C. April 1, 2016 – March 31, 2017
  - D. September 1, 2017 – August 31, 2018
  - E. September 1, 2016 – August 31, 2017

## PILOT QUESTIONS

### QUESTION 1

The national tax policies provide the fundamental guidelines for the orderly development of a country's tax system. It is in line with this assertion that the National tax policy (NTP), 2017, was developed in Nigeria.

#### Required:

- (a) State **three** objectives of the national tax policy (NTP) 2017. (3 Marks)
- (b) Explain **five** guiding principles of Nigeria tax system. (7½ Marks)
- (c) Highlight **two** responsibilities of professional bodies, tax professionals, consultants and agents in ensuring orderly and sustainable development of the Nigeria tax system. (2 Marks)
- (d) Discuss **five** important machineries government should put in place to ensure an efficient tax administration. (7½ Marks)

**(Total 20 Marks)**



## QUESTION 2

Victor Aminu is an accountant of a leading manufacturing concern, NUASA Nigeria Limited. He received the following remuneration and benefits from his employment with the company:

	Year ended December 31	
	2017	2018
	<del>₦</del>	<del>₦</del>
Basic salary	3,000,000	3,250,000
Transport allowance	240,000	270,000
Rent allowance	350,000	360,000
Utilities allowance	125,500	128,200
Medical allowance	50,000	55,000
Leave bonus – 10% of basic salary		

The following additional information is provided by Mr. Aminu:

- (i) Mr. Aminu is entitled to a fixed entertainment allowance of N12,000 per month.
- (ii) His employer provided him with an official Honda salon car, which cost N4,500,000 at the time of purchase.
- (iii) A generator set costing N750,000 was provided for the private use of Mr. Aminu.
- (iv) Dividends received (gross) from investments in some blue-chip companies:

	<del>₦</del>
Paid on April 12, 2017	48,000
Paid on December 20, 2017	53,000
Paid on March 6, 2018	60,000
Paid on July 1, 2018	66,000
Paid on November 15, 2018	72,000

- (v) He took two life assurance policies for which he pays annual premium of N240,000 on a capital sum of N8,000,000 for self and annual premium of N50,000 on a capital sum of N2,000,000 on his eldest child..
- (vi) He contributes to both pension and housing schemes at the rate of 8% and 2½% of gross emoluments, respectively. These schemes were approved by the Joint Tax Board.
- (vii) He takes care of his aged parents with N250,000 per annum. His parents have no income of their own.
- (viii) Mr. Aminu is married with five children, all of school-going age.

**Required:**

- (a) Compute the income tax liability of Mr. Aminu for 2018 assessment year. (16 Marks)
- (b) State **four** non-allowable deductions as provided for in section 21 of Personal Income Tax Act Cap P8 LFN 2004 (as amended) (4 Marks).

**(Total 20 Marks)**

### QUESTION 3

- (a) Withholding tax is a tax deducted at source from payments made to a taxable person for the supply of goods and provision of services.

**Required:**

- (i) List **three** objectives of withholding tax in Nigeria. (3 Marks)
- (ii) State the relevant tax authorities for the collection of withholding tax in Nigeria. (2 Marks)
- (iii) State **five** contents of withholding tax returns/ payment schedule. (5 Marks)

- (b) The Nigeria Customs Service is one of the major revenue agencies for the Federal Government of Nigeria.

**Required:**

- (i) State **three** powers of the Nigeria Customs Service as provided for in section 4 of the Nigeria Customs Establishment Act 2017. (3 Marks)
- (ii) State **five** functions of the Nigeria Customs Service. (5 Marks)
- (iii) What is the penalty for failure to make a report in such form and manner the Customs Service may direct of every ship, goods carried and vehicle entering Nigeria? (2 Marks)

**(Total 20 Marks)**

#### QUESTION 4

Cookey Shipping Company Limited was incorporated in 2007 in South Africa with 2 million Rand as its share capital, but engages in freight business in Nigeria and some other countries. The company commenced business on January 1, 2008 and makes up its financial statements to December 31, every year. Its global financial reports (after conversion to Nigerian currency) for the year ended December 31, 2017 revealed the following:

	N'000	N'000
Income from passenger freight earned on transit terms		2,500,000
Income from passenger freight into Nigeria		3,400,000
Income from passenger freight out of Nigeria		4,700,000
Income from passenger freight on other routes		<u>7,900,000</u>
		18,500,000
Less: Operating expenses:	2,300,000	
Depreciation	1,100,000	
Salaries and wages	4,250,000	
General provision	300,000	
Other disallowable expenses	<u>80,000</u>	
		<u>8,030,000</u>
Net profit		<u>10,470,000</u>

Assume that the Federal Inland Revenue Service is satisfied that the tax authority in South Africa computes and assesses tax on similar basis with Nigeria and has received certification of the appropriate ratio.

#### Required:

- (a) Prepare a statement showing the total profit of Cookey Shipping Company Limited for Nigerian tax purposes. (11 Marks)
- (b) Compute the income tax liability of the company for Nigerian tax purposes. (3 Marks)
- (c) State the tax provisions as regards the taxation of non-Nigerian companies engaged in shipping or air transport in Nigeria in accordance with section 14 of Companies Income Tax Act Cap C21 LFN 2004 (as amended). (6 marks)

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**(Total 20 Marks)**

## QUESTION 5

(a) Explain the following terms:

- (i) Settlement (1 Mark)
- (ii) Estate (1 Mark)
- (iii) Intestate (1 Mark)

(b) Mr. Uche Kokumo was a successful businessman and lived in one of the major cities in the western part of Nigeria. After a brief illness, he died on February 13, 2017. He had appointed Mr. Garuba as the trustee to administer his estate. Mr. Kokumo was survived by his four children.

The following information was made available by Mr. Garuba in respect of the estate:

(i) Profits of the business as adjusted for tax purposes are as follows:

	₦
Year ended December 31, 2014	12,500,000
Year ended December 31, 2015	18,150,000
Year ended December 31, 2016	23,720,000

(ii) Capital allowances for the business as agreed by the tax authority are as follows:

Tax year	₦
2014	2,100,000
2015	2,400,000
2016	3,450,000
2017	3,600,000

Other relevant information given is as follows:

- (i) Each of the four children- Sunny, Gbengulo, Kemmy and Funmmy is entitled to one-fifth of the net distributable income .
- (ii) Interest on debt repayment by the trustee amounted to ₦255,000.
- (iii) Fixed annuity to a Sunny is ₦700,000 per annum.
- (iv) The remuneration of the trustee is fixed at ₦500,000 per annum plus 1% of computed income.
- (v) The allowable expenses of the trustee amounted to ₦1,120,000.
- (vi) The trustee made the following discretionary payments to the children as follows:

	₦
Sunny	660,000
Gbengulo	680,000
Kemmy	650,000
Funmmy	560,000

**Required:**

- a. Compute the income tax payable by the trustee on the income for 2017 year of assessment. (13 Marks)
- b. Compute the income of the estate chargeable to tax in the hands of each of the children. (7 Marks)

**(Total 20 Marks)**

## QUESTION 6

Messrs. Olabisi, Oworu and Babatolu have been in partnership business for many years sharing profits and losses in the ratio 2:1:1, respectively. The abridged statement of profit or loss of the partnership for the year ended December 31, 2017 is as follows:

	N	N
Income		22,250,000
Less: Direct expenses		<u>8,500,000</u>
Gross profit		13,750,000
Deduct: Other expenses:		
Staff salaries and wages	1,450,000	
Rent and rates	430,000	
Travelling	355,000	
Professional fees	210,000	
Bank charges	138,000	
Audit fees	280,000	
Depreciation	192,000	
General provision for bad debts	365,000	
Interest on capital:		
Olabisi	250,000	
Oworu	125,000	
Babatolu	125,000	
Passages and leave allowances:		
Olabisi	60,000	
Oworu	50,000	
Babatolu	40,000	
Partners' salaries:		
Olabisi	1,200,000	
Oworu	1,000,000	
Babatolu	1,000,000	

Interest on loan paid to Olabisi	35,000	
Purchase of equipment	750,000	
Miscellaneous expenses	<u>225,000</u>	
		<u>8,280,000</u>
Net profit		<u>5,470,000</u>

The following information is relevant:

- (i) A sum of N75,000 included in miscellaneous expenses was expended on Olabisi to take care of domestic matters.
- (ii) Capital allowances agreed for tax purposes for the year is N628,000.
- (iii) Olabisi is married with three children, all in private institutions of learning. He also maintains an aged uncle who is over 70 years old. He spent N180,000 on his uncle during the year.
- (iv) Oworu is married with a three-year old son, who is in a private kindergarten school.
- (v) Babatolu is unmarried. He, however, maintains his fiancée with N200,000 per year.
- (vii) Olabisi, Oworu and Babatolu contribute N600,000; N450,000 and N350,000 per annum, respectively to an approved national pension scheme.

**Required:**

- (a) Calculate the distributable profit of the partnership for the year ended December 31, 2017. (5 Marks)
- (b) Calculate the income tax liability of each of the partners for the relevant assessment year. (15 Marks)

**(Total 20 Marks)**