

SUGGESTED SOLUTIONS TO PILOT QUESTIONS

SECTION A MULTIPLE – CHOICE QUESTIONS

1. E
2. E
3. D
4. C
5. C
6. A
7. D
8. A
9. E
10. C
11. E
12. A
13. A
14. E
15. B
16. C
17. E
18. A
19. B
20. E

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

TAXATION

SOLUTIONS TO PILOT QUESTIONS

SECTION B

SUGGESTED SOLUTION TO QUESTION 1

MR. PHILIP JAMES

COMPUTATION OF TAX LIABILITY FOR 2015 ASSESSMENT YEAR

	N	N
Basic salary		6,000,000
Leave allowance		600,000
Utility allowance		<u>840,000</u>
		7,440,000
Benefits – in – kind:		
Company accommodation		2,500,000
Official car		<u>180,000</u>
Gratuity		10,120,000
		360,000
Rental income:		4,800,000
Interest on loan	150,000	
Insurance	22,000	
Water rate	18,500	
General repairs	44,650	
Tenement rate	<u>2,900</u>	
		<u>(238,050)</u>
		4,561,950
Capital allowances		<u>(106,000)</u>
		<u>4,455,950</u>
Gross income		14,935,950
Less: Consolidated relief allowance:		
1% of N14,935,950 or N200,000, whichever is higher, plus 20% of N14,935,950		3,187,190
Tax exempt items:		
Gratuity		360,000
Contribution to national housing fund		150,000
Contribution to national pension scheme		643,200
Life assurance premium		<u>600,000</u>
		<u>(4,940,390)</u>
Chargeable income		<u>9,995,560</u>

COMPUTATION OF TAX LIABILITY

	N : K
First N300,000 @ 7%	21,000.00
Next N300,000 @ 11%	33,000.00
Next N500,000 @ 15%	75,000.00
Next N500,000 @ 19%	95,000.00
Next N1,600,000 @ 21%	336,000.00
Next <u>N6,795,560</u> @ 24%	1,630,934.40
<u>N9,995,560</u>	
Total tax liability	<u>2,190,934.40</u>

Tutorial note:

TAXATION OF GRATUITIES

On the 20th day of June, 2019, the Tax Appeal Tribunal (TAT), South East Zone, ruled in the case between Nigeria Breweries Plc (Appellant) and Abia State Board of Internal Revenue (Respondent), that gratuities payable to pensioners are wholly tax exempt under the Personal Income Tax Act Cap P8 LFN 2004 (as amended).

The TAT in reaching its conclusion declared that:

- (a) "It has been settled principle of statutory interpretation that although schedules of a statute can be useful handmaid in construing the provisions of a statute, they cannot however be interpreted to over-rule the plain words in the body of the statute". In other words, the charging provision of the Act which is section 3 of Personal Income Tax Cap P8 LFN 2004(as amended) has not captured gratuity as a chargeable income; and
- (b) The law must be interpreted in the favour of the taxpayer when there are ambiguities in the relevant provisions of the tax law.

Hitherto, some state tax authorities erroneously treated only gratuities not exceeding N100, 000 as tax exempt. Pending when a superior court decides otherwise, gratuities are wholly tax exempt.

MARKING GUIDE (Suggested solution to question 1)

	Mark
Heading	½
Basic salary	½
Leave allowance	½
Utility allowance	½
Benefits – in – kind – Company accommodation	½
– Official car	½
Gratuity	1
Rental income	1
Interest on loan	1
Insurance	1
Water rate	1
General repairs	1
Tenement rate	1
Capital allowances	1
Computation of consolidated relief allowance	1
Identification of tax exempt items – Gratuity	1
– Contribution to national housing fund	1
– Contribution to national pension scheme	1
– Life assurance premium	1
Chargeable income	½
Tax payable – First N300,000	½
– Next N300,000	½
– Next N500,000	½
– Next N500,000	½
– Next N1,600,000	½
– Next N7,275,560	½
Total tax liability	½
	<u>20</u>

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Suggested solution to question 2

Apex Nigeria Limited

Computation of tax liabilities

For 2016 assessment year

	N	N
Net profit per accounts		13,129,600
Add: Disallowable expenses:		
Depreciation	841,600	
Donation to ABC political party	200,000	
Fines for contravening traffic rules	<u>50,000</u>	<u>1,091,600</u>
		14,221,200
Deduct:		
Profit on the disposal of plant	1,500,000	
Interest received on treasury bills	1,800,000	
Interest on foreign currency domiciliary accounts	<u>1,200,000</u>	<u>4,500,000</u>
Assessable profit		9,721,200
Add: Balancing charge		<u>240,200</u>
		9,961,400
Deduct: losses brought forward:		
A. Y. 2014	100,500	
A. Y. 2015	<u>180,000</u>	<u>280,500</u>
		9,680,900
Deduct: Capital allowances:		
Brought forward: A. Y. 2014	182,000	
A. Y. 2015	190,000	
For the year	<u>230,000</u>	<u>(602,000)</u>
Total profit		<u>9,078,900</u>
Companies income tax payable (30% of Total Profit)	=	N <u>2,723,670</u>
Tertiary education tax payable (2% of Assessable Profit)	=	N <u>194,424</u>

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MINIMUM TAX COMPUTATION

i) 0.5% of gross profit	(₦ 20,200,500)	=	<u>₦101,002.50</u>
ii) 0.5% net assets	(₦ 2,500,600)	=	<u>₦ 12,503.00</u>
iii) 0.25% of paid – up capital	(₦ 5,000,000)	=	<u>₦12,500.00</u>
	₦	₦	
iv) 0.25% of revenue (N500,000)	500,000		<u>1,250</u>
0.125% of excess over N500,000	<u>24,500,500</u>		30,625.63
	<u><u>25,000,500</u></u>		
Add: 0.5% of gross profit			<u>101,002.50</u> <u>₦131,628.13</u>

The minimum tax liability is ~~₦~~131,628.13

Given the fact that the companies income tax liability of ~~₦~~2,723,670 is higher than that of minimum tax of N131,628.13, the former becomes payable plus the Tertiary Education Tax of N194,424.

MARKING GUIDE (Suggested solution to question 2)

	Mark
Heading	½
Net profit per accounts	1
Depreciation	1
Donation to ABC political party	1
Fines for contravening traffic rules	1
Profit on disposal of plant	1
Interest received on treasury bills	1
Interest on foreign currency domiciliary account	1
Balancing charge	1
Losses brought forward – A.Y. 2014	1
– A.Y. 2015	1
Capital allowances brought forward – A. Y. 2014	1
– A. Y. 2015	1
Capital allowances for the year	1
Companies income tax (CIT) payable	1
Tertiary education tax (TET) payable	1
Minimum tax computation – Gross profit	1
– Net assets	1
– Paid up capital	1
– Revenue	1
Comparison between CIT and TET payable	½
	<u>20</u>

Suggested solution to question 3

- a) The objectives of taxation include the following:
- i) Revenue generation so as to meet the needs of government, particularly in the provision of infrastructures and public goods;
 - ii) To redistribute income or wealth in order to reduce poverty, inequality and promote social welfare in the society;
 - iii) For social function, such as discouraging the consumption of demerit or harmful goods like alcohol and cigarettes. This is done to reduce external costs (health risks and pollution) to the society;
 - iv) Harmonisation of economic objectives: Harmonisation of diverse trade or economic objectives of different countries can be achieved through a good tax system. For example, tax system can be employed by member states of Economic Community of West African States (ECOWAS) so as to achieve the philosophy of the single market (free movement of people and goods) within the region; and
 - v) Management of the economy: Taxation is important in the planning of savings and investments and by harmonising it with development strategy and changing economic structure, the government can use taxation as a powerful fiscal weapon to plan and develop a country.

The major sources of Nigerian tax laws are:

- i) Customary laws;
- ii) Statutes;
- iii) Case laws or court judgements;
- iv) Circulars issued by and practices of the Revenue;
- v) Opinions of tax experts and authors in so far as the courts take judicial notice of them;
- vi) Budget and pronouncements of relevant ministries; and
- vii) The Constitution of the Federal Republic.

- c) Adam Smith (1776) put forward the underlisted as the characteristics, usually called canons of taxation that a modern tax system should have:
- i) **Equity:** This affirms that every taxable person should be taxed according to his ability. Thus, the rich should pay more, while the poor pay less;
 - ii) **Certainty:** The time of payment, the manner of payment, the amount to be paid should be certain and clear to the taxpayer. The determination of tax liability should not be left to the whims and caprices of tax officials;
 - iii) **Convenience:** The social and economic standing of the taxpayer must be taken into consideration. Thus, the time of payment should not inconvenience the taxpayer;
 - iv) **Administrative efficiency:** The process of levying and collection must be administratively efficient, transparent and must not cause economic distortion to the taxpayers;
 - v) **Simplicity:** The tax system should be such that it is simple to understand by the taxpayers;
 - vi) **Productive:** The tax system should be such that brings in sufficient revenue to the government. The cost of administering the tax should be less than the revenue such tax will generate; and
 - vii) **Flexibility and stability:** A good tax system should be flexible enough for changes to be effected by any government of the day. This flexibility, however, must be balanced with the need to have a stable tax system.

MARKING GUIDE (Suggested solution to question 3)

	Marks
a) 2 marks for each of the objectives of taxation subject to a maximum of 3 points	6
b) 2 marks for each source of Nigeria tax laws subject to a maximum of 3 points	6
c) 2 marks for each principle of an ideal tax system subject to a maximum of 4 points	<u>8</u>
	<u>20</u>

Suggested solution to question 4

4(a) The differences between e-commerce and e-business are as follows:

	E – commerce	E – business
(i)	E-commerce involves commercial transactions done over the internet.	E-business is conduct of business process on the internet.
(ii)	E-commerce is use of electronic transmission medium that caters for buying and selling of products and services.	In addition, e-business also includes the exchange of information directly related to buying and selling of products.
(iii)	Those activities which essentially involve monetary transactions are termed "e-commerce".	In addition, it includes activities like procurement of raw materials or goods, customer education, looking for suppliers, etc.
(iv)	E-commerce usually requires the use of just a Website	E-business involves the use of CRM's, ERP's that connect different business processes
(v)	E-commerce involves the mandatory use of internet	E-business can involve the use of internet, intranet or extranet
(vi)	E-commerce is a narrower concept and restricted to buying and selling	E-business is a broader concept that involves market surveying, supply chain and logistics management, and using data mining.

Arising from the above, e-commerce can be viewed as a subset of e-business.

E-commerce refers to buying and selling online, while e-business encompasses all businesses conducted online.

(8 marks)

4(b) (i) Abdulahi James Nigeria Limited
Determination of basis period

Assessment Year	Basis period of assessment	Basis period for capital allowances
2016	1/6/16 – 31/12/16	1/6/16 – 31/12/16
2017	1/6/16 – 31/5/17	1/1/17 – 31/5/17
2018	1/1/17 – 31/12/17	1/6/17 – 31/12/17

(ii) Abdulahi James Nigeria Limited
Computation of capital allowances

	Building	Plant and machinery	Furniture and fittings	Motor vehicle	Cost	Total capital allowances
Initial allowance (%)	15	50	25	50		
Annual allowance (%)	10	25	20	25		
	N	N	N	N	N	N
Assessment Year 2016						
Cost	25,800,000	18,750,000	1,360,000	0	<u>45,910,000</u>	
Allowances:						
Initial	(3,870,000)	(9,375,000)	(340,000)	0		13,585,000
Annual (7 months)	<u>(1,279,250)</u>	<u>(1,367,188)</u>	<u>(119,000)</u>	<u>0</u>		<u>2,765,438</u>
	20,650,750	8,007,812	901,000	0		16,350,438
Investment	<u>0</u>	<u>(1,875,000)</u>	<u>0</u>	<u>0</u>		<u>1,875,000</u>
W.D.V. c/f to A.Y. 2017	20,650,750	8,007,812	901,000	0		<u>18,225,438</u>
Assessment Year 2017						
Cost	0	0	0	2,800,000	<u>2,800,000</u>	
Allowances:						
Initial	0			(1,400,000)		1,400,000
Annual	<u>(2,193,000)</u>	<u>(2,343,750)</u>	<u>(204,000)</u>	<u>(350,000)</u>		<u>5,090,750</u>
W.D.V. c/f to A.Y. 2018	18,457,750	5,664,062	697,000	1,050,000		<u>6,490,750</u>
Assessment Year 2018						
Addition				3,200,000	<u>3,200,000</u>	
Initial	0	0	0	(1,600,000)		1,600,000
Annual – Old	<u>(2,193,000)</u>	<u>(2,343,750)</u>	<u>(204,000)</u>	<u>(350,000)</u>		<u>5,090,750</u>
– New	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>(400,000)</u>		<u>400,000</u>
W.D.V. c/f to A.Y. 2019	16,264,750	3,320,312	493,000	1,900,000		<u>7,090,750</u>

MARKING GUIDE (Suggested solution to question 4)

	Marks	Marks
(a) 1 mark for each difference stated under each category subject to a maximum of 4 points per category		8
(b) (i.) Heading	$\frac{1}{3}$	
2016 assessment year	$\frac{1}{3}$	
2017 assessment year	$\frac{1}{3}$	
Basis period – Assessment (1/3 mark each for any current basis period)	1	
– Capital allowances (1/3 mark each for any current basis period)	<u>1</u>	3
(ii.) Heading	$\frac{1}{3}$	
<u>Assessment year 2016</u>		
Correct allocation of cost for each heading at 1/3 mark each	1	
Initial allowance – 1/3 mark for each correct computation	1	
Annual allowance	1	
Investment allowance	$\frac{1}{3}$	
Capital allowances for the year	$\frac{1}{3}$	
<u>Assessment year 2017</u>		
Cost of motor vehicle	$\frac{1}{3}$	
Initial allowance	$\frac{1}{3}$	
Annual allowance – 1/3 mark for each correct computation	$1\frac{1}{3}$	
Capital allowances for the year	$\frac{1}{3}$	
<u>Assessment year 2018</u>		
Cost of motor vehicle	$\frac{1}{3}$	
Initial allowance	$\frac{1}{3}$	
Annual allowance (old) – 1/3 mark for each correct computation	$1\frac{1}{3}$	
Annual allowance (new)	$\frac{1}{3}$	
Capital allowances for the year	<u>$\frac{1}{3}$</u>	<u><u>9</u></u>
		<u><u>20</u></u>

Suggested solution to question 5

(a) (i) **Resident individual**

An individual is regarded as resident in Nigeria in an assessment year if he is:

- Domiciled in Nigeria;
- Sojourns in Nigeria for a period or periods in all amounting to 183 days or more in a 12 – month period; or
- Serves as a diplomat or diplomatic agent of Nigeria in a country other than Nigeria.

(ii) **Non – resident individual**

A non–resident individual is a person who is not domiciled in Nigeria or who stays in Nigeria for less than 183 days in a 12 – month period but derives income or profit from Nigeria.

A non–resident individual becomes liable to tax in Nigeria from the day he commences to carry on trade, business, vocation or profession in Nigeria. In the case of employment income, he is liable to tax in Nigeria when he becomes a resident.

(iii) **Residence and nationality**

Residence should not be confused with nationality. The Nigerian tax laws attach importance to residence and not nationality. Therefore, whether a taxpayer is a citizen of Nigeria or a citizen of another country, the same standards apply to the taxpayer as far as he is resident in Nigeria. The same condition will also apply to an individual who is not resident in Nigeria whether he is a Nigerian or a foreign national.

(iv) **Place of residence**

Place of residence in relation to an individual means a place available for his domestic use in Nigeria on a relevant day, and does not include any hotel, rest–house or other place at which he is temporarily lodging, unless no more permanent place is available for his use on that day.

(v) **Principal place of residence**

Principal place of residence in relation to an individual with two or more places of residence on a relevant day, both not being within one territory means:

- In the case of an individual with no source of income other than a pension in Nigeria, that place or those places in which he usually resides;
- In the case of an individual who has a source of earned income other than a pension in Nigeria, that place or those places which on a relevant day is nearest to his usual place of work; and
- In the case of an individual who has a source or sources of unearned income in Nigeria, that place or those places in which he usually resides.

(b) **Alhaji Abubakar Bako**

Computation of chargeable rent for 2016 assessment year

	₦	₦
Rent received		3,600,000
Deduct: Allowable expenses:		
Tenement rate	30,000	
Estate agent's commission	360,000	
Water rate	42,000	
Cost of advertising for tenants	120,000	
Insurance premium paid	48,000	
Interest on money borrowed	490,000	
Repairs and maintenance on the building	<u>72,000</u>	<u>1,162,000</u>
Assessable rent		2,438,000
Deduct: Capital allowances		<u>225,000</u>
Chargeable rent		<u><u>2,213,000</u></u>

MARKING GUIDE (Suggested solution to question 5)

	Marks	Marks
(a) Heading	$\frac{1}{2}$	
Rent received	1	
Tenement rate	1	
Estate agent's commission	1	
Water rate	1	
Cost of advertising for tenants	1	
Insurance premium paid	1	
Interest on money borrowed	1	
Repairs and maintenance of the building	1	
Capital allowances	1	
Chargeable rent	<u>$\frac{1}{2}$</u>	10
(b) Resident individual (1 mark for each of the 3 points)	 3	
Non – resident individual (1 mark for each of the 2 points)	 2	
Residence and nationality	1	
Place of residence	1	
Principal place of residence (1 mark for each of the 3 points)	 <u>3</u>	 <u>10</u>
		<u>20</u>

Suggested solution to question 6

- a) (i) VAT inspectors from the local VAT office, from time to time, visit the premises of every vatable person for the following purposes:
- To ensure compliance with the VAT law;
 - To ensure that amounts deducted as VAT are promptly accounted for;
 - To examine method of keeping transactions and offer suggestions where necessary; and
 - To educate VAT agents on new developments in the system.
- (ii) The merits of value added tax are as follows:
- It is a reliable source of government revenue;
 - It eliminates the narrow scope and cascading effect of the repealed sales tax;
 - It is a consumption tax, hence very easy to collect;
 - Fairness is established because consumers pay the tax in line with their consumption of goods and services received; and
 - It can be used as a tool of fiscal policy. Items can be exempted; tax rate can be charged to achieve specific economic objective.
- (iii) The demerits of value added tax are as follows:
- High administrative cost on the part of the government
 - High cost of keeping records by the companies / agents
 - Injustice in the distribution of the VAT proceeds
 - Corruption on the part of tax officials can render VAT ineffective
 - Problem of inadequate information can make VAT administration ineffective.
- b) (i) The functions of a Commissioner of Stamp Duties are as follows:
- He is the administrative head;

- **Assessments:** He has the duties of assessing documents on appropriate duties and imposing penalties where applicable;
 - **Stamping or embossments:** This can be by way of embossment with dies, affixing adhesive stamps, affixing postage stamps in lieu of adhesive stamps and printing on the instrument;
 - **The custody of dies and stamps:** These are security materials being kept by the Commissioner to avoid misuse or loss; and
 - **Adjudication:** A commissioner may be required to express opinion on the amount of duty to be paid on any executed instrument.
- (ii) The stamping of duties can be effected through the under listed methods:
- Affixing adhesive stamp;
 - Affixing postage stamp in lieu of adhesive stamp;
 - Embossing with dies; and
 - Printing on the instruments.

MARKING GUIDE (Suggested solution to question 6)

	Marks
(a) (i) 1 mark for each purpose of VAT subject to a maximum of 3 points	3
(ii) 1 mark for each merit of VAT subject to a maximum of 4 points	4
(iii) 1 mark for each of the 4 demerits of VAT	4
(b) (i) 1 mark for each of the functions of a Commissioner of Stamp Duties	5
(ii) 1 mark for each of the methods of stamping of duties	<u>4</u>
	<u>20</u>