

## ICAN ADVANCED TAXATION

### PILOT QUESTIONS

#### Question 1

Tobi Ola Ltd commenced the business of mining in 2013. The summary of the company's financial statements for two (2) years are as stated below;

Statement of profit or loss for the years ended	31/12/17	31/12/16
	₦	₦
Export sales	800,000	600,500
Local sales	<u>400,000</u>	<u>300,000</u>
	1,200,000	900,500
Deduct:		
Exploration cost	160,500	150,000
Storage & transportation cost	230,700	210,000
Allowance for doubtful debts	42,000	77,000
VAT paid on revenue expenses	51,300	10,500
VAT paid on purchase of equipment	36,800	21,000
Sales tax	<u>13,600</u>	<u>11,100</u>
Net profit	<u>665,100</u>	<u>420,900</u>

Extract of the statement of financial position as at;

	31/12/17	31/12/16
Share capital	2,000,000	2,000,000
Capital reserve	<u>200,000</u>	<u>150,000</u>
	<u>2,200,000</u>	<u>2,150,000</u>

[This is represented by the net asset of the company]

You are given the following additional information:

1. The loss brought forward to year ended 31/12/16 was ₦200,000
2. The details of allowance for doubtful debts are as follows:

Year ended	31/12/17	31/12/16
	₦	₦
- General provision for doubtful debt c/f	5000	10,000

-	Specific provision for doubtful debt c/f	4,000	6,000
-	Bad debt written off	110,000	64,000
-	Loan to customers written off	6,000	27,000
-	General provision for doubtful debt b/f	(91,000)	(30,000)
-	Specific provision for bad debt b/f	(6,000)	(36,000)
-	Bad debt written off recovered	<u>(70,000)</u>	<u>(118,000)</u>
-	Transferred to statement of profit or loss	<u>(42,000)</u>	<u>(77,000)</u>

3. Position of qualifying capital expenditure:

a. Tax written down value (31/12/16)

	<u>Amount (₦)</u>	<u>Remarks</u>
Plant	330,000	2 years gone
Equipment	240,000	1 year remaining
Motor vehicle	345,000	3 years remaining

b. Qualifying capital expenditure acquired

<u>Assets</u>	<u>Amount (₦)</u>	<u>Date of acquisition</u>
Motor vehicles (3)	600,000	01/07/16
Machinery	400,000	01/11/17

c. Disposal of qualifying capital expenditure

<u>Assets</u>	<u>Disposal value (₦)</u>	<u>Date of disposal</u>
Motor vehicle (old)	210,000	01/09/16
Motor vehicle (1) (New)	150,000	01/04/17
Equipment	250,000	01/06/17

4. The company's paid up capital is ₦2,000,000

5. It was agreed that both the exploration, storage and transportation costs are the relevant direct costs.

Your firm has been appointed as the tax consultant to the company.

**Required:**

Advise the board of directors of Tobi Ola Limited on the tax liabilities of the company for the relevant years of assessment. (40 marks)

## Question 2

Taxation is an international tool for countries around the world to, among other uses, influence their fiscal policies as well as generate revenue. International trade is a great feature of inter country relationship as no country can exist as an island. Consequently, international organisations exist to bridge gaps between countries around the world. They are necessary to activate the gains in terms of knowledge and technical expertise.

### Required:

#### Discuss

- a. The roles played by inter-governmental and supranational organisations that shape tax policy (5 marks)
- b. The concept of tax neutrality (8 marks)
- c. How international tax cooperation affect international tax policies. (7 marks)

**(Total 20 marks)**

## Question 3

Ugochi ventures Ltd commenced business as a pioneer company on January 1, 2010. After three years of operation, the pioneer certificate was not extended.

The following were extracted from the financial records of the company for the first five years of its operations.

Year ended Dec. 31,	Adjusted profit/loss ₦	Research & dev. ₦	Motor vehicle ₦	Agric tractor ₦	Plant and equipment ₦
2010	(380,000)	250,000	60,000	-	750,000
2011	(145,000)	-	-	675,000	
2012	244,000	-	-	-	
2013	321,000	50,000	45,000	-	
2014	355,000	-	-	-	

You are required to:

- a) Advise management on the company's tax liabilities for the relevant assessment years. (15 marks)
- b) Discuss the limitations to the incentives granted to taxpayers under the Industrial development Income Tax Relief Act (5 marks)  
(Note that the company's plant and equipment were also used on plantation)

**(Total 20 Marks)**

#### QUESTION 4

You are the tax controller of Rex Pharmaceuticals (Nigeria) Limited, which has its head office at Ketu in Epe Local Government of Lagos State.

In the past three years, the company was subjected to an array of taxes by different revenue authorities within Lagos State and indeed the entire country.

Apart from the companies income tax, withholding tax is another tax that the company's management is concerned about. The Managing Director is very much worried that this multiplicity of taxes is taking its toll on the company's financials.

The company is already facing myriads of problems ranging from high cost of capital which led to increase in cost of production and attendant reduction in profit. The company's goods are becoming uncompetitive compared with imported similar goods. The long term effect is either reduction in work force or relocation to a more favourable economic environment. The Managing Director has invited you to his office to discuss the following issues:

- (i) Whether as a corporate body, the company ought to be subjected to myriads of taxes beyond the corporate tax;
- (ii) The jurisdictions of the tiers of government in the imposition and collection of taxes;
- (iii) Withholding tax;
- (iv) Pay-As-You-Earn (PAYE) as it affects the staff; and
- (v) Capital gains tax.

You have also been provided with the following information:

- The company's technical agreement with the foreign head office and the need to remit funds;
- Non-resident directors are to receive ₦2,500,000;
- Staff P.A.Y.E has been centralised;
- Dividend was paid to shareholders in different parts of the country, and those resident in Kogi State of Nigeria, received ₦375,000;
- Land for a factory in Abuja was purchased from Alhaji Garuba Maito who resides in Kano;
- The company received ₦4,500,000 as net dividend from an associated company, Laiketop Limited, for the year ended September 30, 2014;
- In the audited financial statements of Rex Pharmaceuticals for the year ended December 31, 2015, a dividend of ₦9,500,000 was proposed. Out of this amount, ₦3,500,000 was from dividend received from Laiketop Limited while the balance was from a total profit of ₦22,500,000 from other trading activities; and
- Out of the thirty employees in Abuja, five are resident in Suleja, Niger State.

**You are required to:**

Prepare a memo to the Managing Director explaining the following:

- |     |                             |                  |
|-----|-----------------------------|------------------|
| (a) | i. Double/multiple taxation | <b>(2 marks)</b> |
|     | ii. Double taxation treaty  | <b>(2 marks)</b> |

- iii. Multiple taxation in Nigeria (2 marks)  
 iv. Measures put in place to reduce cases of multiple taxation in Nigeria (2 marks)  
 v. Withholding tax with respect to (i) to (v) (2 marks)  
 vi. Penalty for non-deduction/remittance of withholding tax. (2 Marks)
- (b) The arms of government empowered to legislate on tax matters by the Constitution. (4 marks)
- (c) Relevant tax authority and the withholding tax due, if any. (4 marks)
- (Total 20 marks)**

### Question 5

Ekoro Oil (Nig.) Ltd is an oil producing company. Crude oil lifting for 2014 accounting period was at the rate of 4,000 barrels per day. The company confirmed that 95 percent of the crude oil lifted was exported while the remaining 5 percent was sold in the home market (i.e. domestic sales). Other relevant details are as follows:

- i) Posted price of crude oil of 35° was ₦20.55 during the period under review and it was agreed with the Federal Government that for every degree decrease in the API gravity of crude oil exported, the posted price was to be reduced by ₦0.11 kobo. The API gravity of crude oil exported was 30°.

- ii) Sale of crude oil

	₦	₦
Export		26,353,000
Domestic		<u>1,095,000</u>
Less: Production cost	584,000	
Transportation	<u>1,500,000</u>	
		<u>2,084,000</u>
		25,364,000
Deduct:		
Salaries	500,000	
General overheads	70,000	
Bank charges and interest	75,000	
Interest on bills payable	93,000	
Interest on loan from subsidiary company at commercial rate	160,000	
Loss on disposal of property, plant and equipment	25,000	
Depreciation	1,450,000	
Royalties and producing rentals	6,500,000	
Non-producing rentals	60,000	
Customs duties	30,000	
Harbour dues	<u>24,000</u>	

	<u>8,987,000</u>
Profit before taxation	<u>16,377,000</u>

- iii) The company has capitalised intangible drilling costs amounting to ₦1,500,000.
- iv) Capital allowances for the year were:
 

Annual	1,700,000
Balancing charge	15,000
- v) Petroleum investment allowance as agreed was ₦200,000
- vi) Capital allowances brought forward from previous year were ₦250,000
- vii) The company executed the production sharing contract (PSC) with the Nigerian National Petroleum Corporation (NNPC) in 1993. The proportion of the percentage of profit oil split was 30% and 70% for NNPC and Ekor Oil Nigeria Ltd, respectively.
- viii) Other income from ocean going tankers transportation was ₦4m. The related expenses amounted to ₦1.5m.
- ix) An asset costing ₦500,000 some years ago with a book value of ₦200, 000 was disposed for ₦1.1m.

**You are required to compute:**

- a. Adjusted posted price of crude oil exported (1½ marks)
  - b. The assessable profit for the accounting period (10 marks)
  - c. Chargeable petroleum profit (2½ marks)
  - d. Assessable petroleum profit tax (1 mark)
  - e. Chargeable tax. (3 mark)
  - f. Total tax payable (2 marks)
- (Total 20 marks)

### Question 6

Mr. Goodygoody is a proud owner of so many properties. The following relates to three of his buildings, which were disposed of:

	<b>Property A</b>	<b>Property B</b>	<b>Property C</b>
	<b>₦</b>	<b>₦</b>	<b>₦</b>
Cost	50,000	70,000	90,000
Tax written down value	10,000	5,000	12,000
Expenses of sales (all allowable)	2,000	-	3,500
Additional cost	30,000	25,000	15,000

#### **Notes:**

- i) Property A was acquired in 2014. After refurbishing the asset at a cost of ₦5,500, it was disposed of in 2015 for ₦150,000.
- ii) Property B was acquired in 2010. One half of the asset was disposed for ₦100,000 in February 2014 when the market value of the part not disposed was ₦70,000. The remaining part was disposed in March 2015 for ₦80,000
- iii) Property C was disposed to Mr. Goodygoody's brother-in-law for the sum of ₦150,000 in January 2013. The market value of the asset as at the date of disposal was ₦200,000.

#### **You are required to:**

- a. Compute the capital gains tax payable for relevant years of assessment. (16marks)
  - b. Under what circumstances will a person be deemed to be connected to another person for the purpose of computing capital gains tax? (4marks)
- (Total 20 marks)