

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**PROFESSIONAL LEVEL EXAMINATION – PILOT QUESTIONS**

**ADVANCED TAXATION**

Time Allowed : 3<sup>1/4</sup> hours (including 15 minutes reading time)

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

**SECTION A :                      COMPULSORY QUESTION                      (40 MARKS)**

**QUESTION 1**

Gberigbe Nigeria Limited was incorporated on July1, 2011 but commenced business in January 2012. The company buys and sells household utensils and its business fortune has improved significantly since commencement of operations due to quality of its products.

The Managing Partner of your firm of tax consultants was invited for a meeting by the Managing Director of Gberigbe Nigeria Limited and during the meeting, the issue of improper tax advice obtained by the company in the past was one of the matters discussed. After the meeting, your Managing Partner informed you of matters discussed at the meeting and provided the following information for the year ended December 31, 2018 as obtained from the Chief Finance Officer of Gberigbe Nigeria Limited on the instruction of the Managing Director.

	N'000
Revenue	850,000
Cost of Sales	<u>(450,000)</u>
Gross Profit	400,000
Other Income	<u>120,000</u>
	520,000
Administrative Expenses	<u>(325,000)</u>
Profit for the year	195,000

You are provided with the following additional information:

- i. Other Income is made up of :
- |   |            |
|---|------------|
|   | N          |
| Realised exchange gain  | 75,000,000 |
| Interest on domiciliary accounts                              | 10,000,000 |
| Rental Income from personal property of the Managing Director | 12,500,000 |
| Interest income on foreign placement                          | 17,500,000 |
| Profit on sale of non-current assets                          | 5,000,000  |
- ii. Included in administrative expenses are the following:
- |                         |             |
|-------------------------|-------------|
|                         | N           |
| Audit fees              | 5,500,000   |
| Interest on loan        | 12,250,000  |
| Depreciation            | 85,000,000  |
| Salaries and wages      | 115,000,000 |
| Printing and stationery | 1,550,000   |
| Other expenses          | 98,000,000  |
- iii. Further review of administrative expenses revealed that the following items were included:
- |  |           |
|--|-----------|
|  | N         |
| Refund to Managing Director's tenant being cost of repairs                                       | 650,000   |
| Exchange loss due to foreign currency transactions   | 7,500,000 |
| Insurance premium on the company's non-current assets  | 3,250,000 |
| Write off of misappropriated funds by the Chief Accountant and approved by the Managing Director | 1,100,000 |
| Donation to Boko Haram victims rehabilitation fund   | 1,500,000 |
| Stamp duty on increase in share capital  | 850,000   |
| Penalty for late filing of 2017 returns to Delta State Internal Revenue Service                  | 500,000   |
| IFRS impairment adjustments as approved by the external auditors                                 | 2,500,000 |
| Donation to National advisory council for the blind  | 750,000   |
- iv. Unrelieved loss brought forward from 2018 year of assessment was N15,250,000

- v. Unutilised capital allowance brought forward from 2018 year of assessment was ₦12,500,000. As at end of 2018, the tax written down values of the following assets purchased in 2015 accounting year are :

Plant and Machinery	4,000,000
Furniture and Fittings	7,000,000
Motor Vehicle	6,000,000

During the year 2018, Gberigbe Nigeria Limited purchased the following assets

One 25KVA Generating Set	3,000,000
Two Motor Vehicles	12,500,000
Four Furniture and Fittings	1,200,000

- vi. The non-current assets disposed during 2018 accounting year relates to five (5) motor vehicles that were bought by the company in 2012 accounting year for ₦ 20,000,000. The sales proceeds were ₦ 5,000,050
- vii. It was provided that the interest on foreign placement relates to the company's investment with Citibank London and 60% of the interest was repatriated through Zim Bank Plc
- viii. The following information are also relevant:
- The company's net assets at the end of 2018 accounting year was ₦ 250,000,000
  - The authorized share capital of the company is 2 billion ordinary share of ₦ 0.50 each of which N350,000,000 have been issued and fully paid
  - Dividend paid by the company was ₦ 120,000,000

You are informed by your Managing Partner that the Board of Gberigbe Nigeria Limited is considering listing the company on the Nigerian Stock Exchange in the nearest future and the issue of tax compliance is none of the requirements for this proposed milestone.

As a Senior Manager in your firm, you are required to:

- a. Compute the tax liabilities of Gberigbe Nigeria Limited for the relevant year of assessment. All workings should be shown. (25 Marks)

- b. Write a letter to the Managing Director of Gberigbe Nigeria Limited on the corporate taxes that should be paid for the relevant year of assessment and the filing processes. (12 Marks)
- c. Explain briefly tax implication of the dividend paid in line with the provision of Section 19 of the Companies Income Tax Act Cap C21, LFN 2004 (as amended) (3 Marks)
- (Total 40 Marks)**

**SECTION B : YOU ARE REQUIRED TO ANSWER THREE OF FIVE QUESTIONS IN THIS SECTION**

**QUESTION 2**

**(a)**

A Nigerian Company, Midas Touch Nigeria Plc is a manufacturer of cornflakes highly consumed by the children. The company has been operating in Nigeria for some years with an agency in UK where its products are highly patronised. The trading results which were based on the business operations in Nigeria and UK for the year ended 30 September 2016 revealed the following:

	UK ₦	Nigeria ₦	Total ₦
Turnover	15,000,000	25,000,000	40,000,000
Other income	1,500,000	2,200,000	3,700,000
	-----	-----	-----
	16,500,000	27,200,000	43,700,000
Less: Cost of sales	5,855,000	9,458,000	15,313,000
	-----	-----	-----
	10,645,000	17,742,000	28,387,000
Less: Expenses:-			
Donation to clubs	-	750,000	750,000
Rent	416,000	1,348,000	1,764,000
Consultancy services	135,000	314,000	449,000
Loss incurred in 2015 financial year	850,000	-	850,000
Depreciation	700,000	1,500,000	2,200,000

Allowance for bad debt	480,000	950,000	1,430,000
Entertainment and travelling expenses	574,000	1,850,000	2,424,000
Property rates, tariffs, duties	250,000	760,000	1,010,000
Foreign exchange loss provision	735,000	-	735,000
Sales commission	1,050,000	1,426,000	2,476,000
Repairs and maintenance	960,000	1,280,000	2,240,000
Miscellaneous expenses	1,413,000	2,350,000	3,763,000
	-----	-----	-----
Net Profit	3,082,000	5,214,000	8,296,000
	=====	=====	=====

Other Information:

- i. The capital allowances for the year as agreed with the Inland Revenue were:-

	Nigeria	UK
Initial	520,000	-
Annual	250,000	375,000
- ii. The company had paid to the UK tax authority the sum of N1,150,000 as tax on income derived from the UK
- iii. Foreign exchange loss provision arose as a result of fluctuation in converted cash balance in Pound sterling in a bank in the UK

**Required:**

Compute the tax liability of the company on the total profits for the tax year bearing in mind the double tax relief. (11 Marks)

(b)

The Companies Income Tax Act CAP C21 LFN 2004 (as amended) provides three tests for determining whether the profits of a non-resident company from any trade or business shall be deemed to be derived from or accrue in Nigeria.

**Required:**

Explain in detail the meaning and implication of each of the relevant tests on liability to tax of a non-resident company. (9 Marks)

(Total 20 Marks)

### QUESTION 3

Highpower Nigeria Limited is a company located on Ekpan Road, Warri, Delta State and has created a niche for itself in the area of manufacturing of a special type of fabric mostly used by the Niger Delta people. In 2009 the company acquired a building for the business within Crown Industrial Estate, Warri at a cost of ₦35,000,000. It also acquired fabric weaving equipment and a generating set at the costs of ₦16,000,000 and ₦ 13,500,000, respectively.

In 2015, the company began to experience difficulty in meeting its customer demand as a result of poor performance of its aging equipment.

To care of the threat from competitors, the company re-strategized and resolved to make a new start in the year 2016 by selling off its assets and use the proceeds to augment the acquisition of new ones.

The building was sold for ₦ 45,000,000 while the equipment and generating set were sold for ₦ 14,000,000 and ₦ 15,300,000, respectively.

A new building was acquired on Airport Road for the same business at ₦ 75,000,000 while the equipment and new generating set were acquired for ₦ 17,500,000 and ₦ 13,000,000, respectively.

You are required to compute:

- |     |  |           |
|-----|--|-----------|
| (a) | The Capital Gains                        | (6 marks) |
| (b) | The roll-over reliefs available (if any) | (7 marks) |
| (c) | Capital Gains tax payable                | (7 marks) |

(Total: 20 marks)

## QUESTION 4

The International Tax Department of Federal Inland Revenue Service (FIRS) recently organised a workshop as part of its stakeholders' engagement with respect to the Income Tax (Transfer Pricing) Regulations 2018 and Income Tax (Country by Country Reporting) Regulations 2018.

As a Senior Manager in First Choice Professional Services (Chartered Accountants) and coupled with the fact that you are the head of Multinational enterprises team, you attended the workshop and a report on issues discussed at the workshop was presented by you to the Partners of your firm.

The Partners were so impressed with your presentation and highlighted some of the key areas of the regulations that will serve as guide to the professional employees of your firm to enhance the quality of services rendered to clients.

You are required to prepare a technical briefing for the professional employees explaining the following key areas highlighted by the Partners:

- (a) Objectives of Income Tax (Transfer Pricing) Regulations, 2018  
(3 Marks)
  - (b) Objectives of Income Tax (Country by Country Reporting) Regulations, 2018  
(3 Marks)
  - (c) Contents of Transfer Pricing Disclosure form to be submitted by companies to FIRS.  
(4 Marks)
  - (d) Description of Three(3) Transfer pricing methods  
(6 Marks)
  - (e) Penalty for failure to disclose controlled transactions and penalty for late filing of Country by Country returns.  
(4 Marks)
- (Total 20 Marks)**

## QUESTION 5

(a)

You are the Managing Partner of your firm, Legacy Tax Consultants known for quality tax consultancy services by most organisations operating in Kano metropolis. Your firm has been the tax consultant for many years to Hammadan Kriesman Nigeria Limited, a company

owned by Asberjan family of Lebanese origin. You submitted the company's income tax returns for 2018 year of assessment to the Federal Inland Revenue Service, Kano Medium Tax Office on 25 June 2018. Your client makes up account to 31 December each year.

On 15 July 2018, the company forwarded to your office an assessment notice served on it on 14 July 2018 but dated 10 June 2018 and numbered LC/00444/2018.

The computations which you submitted on behalf of your client showed income tax liability of ₦11,500,000 as payable but the assessment notice showed a total profit of ₦50,000,000 and tax payable of ₦15,000,000. The assessment which is for the 2018 year of assessment was described as "Best of Judgement."

As a tax practitioner with many years of experience, you are required to:

- i. Write a letter of objection to the tax authority on the assessment (7 Marks)
- ii. How would you advise your client on the necessary actions to take should the Federal Inland Revenue Service reply your letter and insist that your client must pay the assessment because it had been raised before you submitted the tax returns (5 Marks)

(b)

In recent times, the Federal Government of Nigeria has noted with concern the increase in the incidence of "tax avoidance" and "tax evasion" especially amongst Multinational Enterprises (MNEs). This has led to erosion of tax base and shifting of profits to other tax jurisdictions.

You are required to discuss any four (4) techniques that could be used to achieve these tax avoidance strategies by MNEs. ( 8 Marks)

**(Total 20 Marks)**

## QUESTION 6

- a) You are the tax consultant to Flakehills Group of companies, as a results of improved business performance of all the subsidiary companies over the year, the Group Managing Director of the company recently gave you a hint that the organisation



intends to diversify into mining operation in Nigeria and desirous to know tax incentives available to such a venture in Nigeria.

You are required to prepare a report of the tax incentives available to companies engaged in mining operation in Nigeria that will form the basis of your discussion with the Group Managing Director during your meeting with him. (14 Marks)

- b) Briefly explain the tax implications of a company merging with another company, where one of them inherits all the assets and operations of the merging companies (6 Marks)

**(Total 20 Marks)**