



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA
OCTOBER 2017: PROFESSIONAL EXAMINATION
PT 1: INCOME TAXATION

ATTEMPT ALL QUESTIONS. SHOW ALL WORKINGS. TIME: 3 HOURS.

1. (a) The Profit or Loss Account of High We Go Airways Limited, a company incorporated in Qatar in 2012, shows the following in respect of the year ended 31 December, 2015.

	₦	₦
Income from passenger freight out of Nigeria		1,150,000
Income from passenger freight into Nigeria		1,500,000
Income from passenger freight on other routes		<u>2,800,000</u>
		5,450,000
Deduct:		
Administrative expenses	1,310,000	
Financial expenses	670,000	
Depreciation	794,000	
Other disallowed expenses	<u>590,000</u>	<u>3,364,000</u>
Net profit for the year		<u>2,086,000</u>

The Federal Inland Revenue Service (FIRS) is satisfied that the authority in Qatar computes and assesses the profits of companies operating aircraft on substantially similar basis as in Nigeria.

You are required to:

Compute the profits of High We Go Airways Limited which would be subjected to Nigerian Tax. (10 Marks)

- (b) (i) Explain the basis for computing assessable profits for the first three years of a new business that has just commenced operations. (5 Marks)
- (ii) Explain the rights of election and the time limit for the application and revocation of such rights. (5 Marks)
- (Total 20 Marks)

SOLUTION TO QUESTION 1

(a) **HIGH WE GO AIRWAYS LIMITED**
COMPUTATION OF GLOBAL ADJUSTED INCOME

	₦	₦
Net profit per account		2,086,000
Add: Disallowable expenses:		
Depreciation	794,000	
Other disallowable expenses	590,000	1,384,000
Global Adjusted Profit		3,470,000

$$\begin{aligned} \therefore \text{Global Adjusted Profit Ratio} &= \frac{\text{Global Adjusted Profit} \times 100}{\text{Global Income}} \\ &= \frac{3,470,000}{5,450,000} \times \frac{100}{1} = 63.67\% \end{aligned}$$

(ii) Depreciation Ratio = $\frac{794,000}{5,450,000} \times \frac{100}{1} = 14.5\%$

(iii) Nigeria Income:
Income from passengers freight out of Nigeria = ₦1,150,000

(iv) Nigeria Adjusted Profit = 63.67% x ₦1,150,000 = ₦732,205

(v) 14.57% x ₦1,150,000 = ₦167,555

(vi) Nigeria's Total Income:

	₦
Nigeria Adjusted Profit	732,205
Nigeria Capital Allowance	(167,555)
Total Profit	5,564,650
CIT @ 30%	169,395

(b) (i) The basis for computing assessable profits for the 1st 3 years of a new business that has just commenced operations:

Tax Year	Basis of Assessment
1 st Tax Year	From date of commencement of business to the 31 st December of the year
2 nd Tax Year	From date of commencement to 12 calendar months of operation.
3 rd Tax Year	One year or 12 calendar months ending on the business accounting year end and preceding the 3 rd tax year. If the period is less than 12 calendar months, the 2 nd year basis period and assessable profit will be repeated in the 3 rd tax year.

(ii) Right of Election

A company or individual is entitled to election of the basis periods of assessment for the second (2nd) and third (3rd) years of assessment.

If such decisions **are** taken, the election must be for the two years and not one of the **years**.

For the election, both the second and third years of assessment will be computed on actual basis that is, using the profits of 1st January to December of the year of assessment as against the 1st 12 months and PYB for the 2nd and 3rd years respectively.

Election has to be **applied for** in writing within two years after the second year.

Revoking an election must also be **stated** in writing and within 12 months of the third year.

2. Mr. Franklin Salami is the Public Relations Manager of Pepper Pub Plc. The following information has been provided by Mr. Franklin Salami in respect of 2016 Year of Assessment.

(i) Salary 1 January to 31 March, ₦350,000 per month.

(ii) Salary, 1 April to 31 December, ₦480,000 per month.

(iii) Transport Allowance, ₦840,000 per annum.

(iv) Rent subsidy, ₦1,260,000 per annum.

(v) Statutory contribution.

- National Pension Scheme, 7^{1/2}% of gross emoluments.

- National Housing Fund, 2^{1/2}% of Basic Salary.

(vi) Rental Income received (gross):

	₦
20/07/2014	25,200
02/12/2014	12,600
03/03/2015	21,000
09/08/2015	33,600

(vii) Mr. F. Salami is married with five children. Two of his children are working in different banks while the remaining three are still in school.

(viii) Mr. F. Salami paid an annual premium of ₦72,000 on his third child's life assurance with a sum assured of ₦840,000.

(ix) He has two dependent relatives living with him with no income of their own.

You are required to:

Calculate the income tax payable by Mr. Franklin Salami for 2016 Year of Assessment.
(20 Marks)

SOLUTION TO QUESTION 2

MR. FRANKLIN SALAMI
COMPUTATIONS OF INCOME TAX PAYABLE FOR 2016 YEAR OF
ASSESSMENT

Gross Emolument	₦	₦
Basis Salary:		
Jan. – March 2016 (₦350,000 x 3)	1,050,000	
April – Dec. 2016 (₦480,000 x 9)	4,320,000	5,370,000
Transport allowance		840,000
Rent Subsidy		1,260,000
		7,470,000
Investment Income: (PYB)		
Rental Income Received (Gross)		
3/03/2015	21,000	
09/08/2015	33,600	54,600
		7,524,600
Less: Statutory Deductions:		
Consolidated Relief Allowance (CRA)		
₦200,000 + 20% x ₦7,524,600		
₦200,000 + ₦1,504,920	1,704,920	
National Pension Contribution:		
7½% x ₦7,470,000	560,250	
National Housing Fund		
2.5% x ₦5,370,000	134,250	2,399,420
Taxable Income		5,125,180
Tax Liability:		
1 st ₦300,000 @ 7%		21,000
Next ₦300,000 @ 11%		33,000
Next ₦500,000 @ 15%		75,000
Next ₦500,00 @ 19%		95,000
Next ₦1,600,000 @ 21%		336,000
Next ₦2,195,180 @ 24%		526,843
Tax Payable		1,086,843
Less WHT on Rental Income		(5,460)
		<u>1,081,383</u>

3. (a) Define relevant tax authority in relation to:

- (i) A Partnership.
- (ii) A trustee of any trust or settlement.
- (iii) Sole Proprietor.

(3 Marks)

(b) State any Two (2) conditions under which a Pioneer Certificate granted to a company may be cancelled. (3 Marks)

(c) Tax is usually classified according to who bears the final burden.

Briefly explain the Two (2) main classes of tax based on tax incidence. (6 Marks)

(d) (i) What do you understand by the term “Withholding Tax”. (4 Marks)

(ii) Enumerate Four (4) advantages of Withholding Tax. (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) Relevant tax authority is defined by reference to the type of the tax payer under consideration in such a way that double taxation of persons is avoided as between the various States of the Federation.

The relevant tax authority in relation to the following class of tax payers is defined as follows:

(i) In relation to a **Partnership** – is the Tax Authority of the State in which the principal office or place of business of the partnership in Nigeria is situated on the first day of that year or is first established during that year.

ii) Trustee

In relation to a **Trustee of any Trust or Settlement**, the Relevant Tax Authority is the tax authority of the State in which the seat of administration of the trust or the income of the settlement for a year of assessment is administered, where the income arises in one State. In any other case, where the relevant tax authority cannot be easily determined, it is as determined by the Federal Inland Revenue Service.

(ii) **Sole Proprietors** – In the case of an individual, **the relevant tax authority for a year of assessment, is the tax authority of the State, that is the State Internal Revenue Service (SIRS) in which the Sole Proprietor or the individual is deemed to be resident in that year.**

(b) Conditions under which a pioneer certificates previously granted to a company may be cancelled are:

(i) the minister shall cancel a pioneer certificate where the pioneer company applies for cancellation,

(iii) Where the value of the qualifying capital expenditure is less than ₦50,000 for an indigenously controlled company or ₦150,00 for others.

(iv) Where any of the conditions laid down by the Minister is not satisfied.

(c) **Classification of Tax**

This is important because of its implication on the mode of collection, the ease of collection and cost of collection.

The two main classes are:

- (i) **Direct Taxes** – these are imposed on legal persons either corporate or incorporate. It is paid mainly on income, capital or property.

In direct taxes, the tax incidence (or tax burden) falls directly on the taxpayer. He has nobody to pass it on, so he bears the burden of the tax directly.

Examples are: Personal Income Tax, Companies Income Tax, Petroleum Profit Tax, Capital Gains Tax e.t.c.

- (ii) **Indirect Taxes** – these are impersonal taxes mainly imposed on goods or on services. The incidence (tax burden) of these taxes are not necessarily borne by the taxpayer. Rather, the incidence is passed on to the final consumer of the goods or service, often, in form of higher prices.

Examples are, Value Added Tax (VAT), Excise Duties, Customers Duties, Sales Tax etc.

(d) (i) Withholding Tax

Withholding tax is advance payment of income tax and not a separate tax. It is not a final tax, but a part settlement of income tax until when final tax is determined. Since it is a deduction at source, it gives the taxpayer no option as to whether to pay or not.

Withholding tax is applicable to income like rents and royalties, dividends, directors' fees, consultancy fees.

With effect from January, 1996, withholding tax on interest and dividend are final taxes when suffered by Nigerians.

- (ii) Merits of withholding tax are numerous and these have made the tax more attractive. They include:
- (1) It helps to strengthen the tax machinery by engaging, ex-gratia numerous officials of collection agents in tax work despite the fact that they are not government workers.
 - (2) Withholding tax has made tax collection cost cheaper
 - (3) It brings obscure transactions into the tax net, also unknown taxpayers are brought into the tax net.
 - (4) Withholding tax has also help to broaden the tax bases and increase the total amount of tax collection.
 - (5) Withholding tax reduces the incidence of tax evasion.
 - (6) It helps to educate the taxpayer and the tax agent about taxation.
 - (7) Voluntary compliance is enhanced through the use of withholding tax.
 - (8) Regular flow of tax revenue is ensured through the use of withholding tax.
 - (9) Withholding tax makes tax payment less cumbersome to the taxpayer who may not bother going to the tax office to pay his tax.

4. You are presented with an Incomplete Schedule of Capital Allowances Computations of Sweet Mama Trading Limited, that commenced business on 1 January, 2016.

CAPITAL ALLOWANCES COMPUTATIONS

Asset	Building	Plant & Machinery (Others)	Motor Vehicles	Furniture and Fittings	Capital Allowances
Initial Rates	15%	50%	50%	25%	
Annual Rates	10%	25%	25%	20%	
	₦	₦	₦	₦	₦
Cost	(a)	1,250,000	(g)	225,000	
Initial Allowance	636,075	(625,000)	(740,080)	(56,250)	(2,057,405)
Annual Allowance	(b)	(d)	(h)	(i)	(j)
Investment Allowance	(c)	(e)	Nil	Nil	(k)
Tax Written Down Value (TWDV)	3,243,982	(f)	555,060	84,375	
Total Capital Allowance					(2,917,868)

Additional information:

- (1) Net profit of the business for the year ended 31 December, 2016 is ₦3,347,193.
- (2) Depreciation charged for the year ended 31 December, 2016 is ₦780,557.

You are required to:

- (a) Complete the blank spaces of (a) to (j) in the capital allowances schedule. (11 Marks)
- (b) Compute:
 - (i) The taxable profit of the company. (3 Marks)
 - (ii) Income Tax and Education Tax of the Company for the 2016 years of assessment. (3 Marks)
 - (iii) Calculate the total tax liabilities of the company for the 2016 year of assessment. (3 Marks)(Total 20 Marks)

SOLUTION TO QUESTION 4

Asset	Building	Plant & Machinery (Others)	Motor Vehicles	Furniture and Fittings	Capital Allowances
Initial Rates Allowance	15%	50%	50%	25%	
Annual Rates	10%	25%	25%	20%	
	₦	₦	₦	₦	₦

Cost	4,240,500	1,250,000	1,480,160	225,000	
Initial Allowance	(636,075)	(625,000)	(740,080)	(56,250)	(2,057,405)
Annual Allowance	(360,443)	(156,250)	(185,020)	(33,750)	(735,463)
Investment Allowance	Nil	(125,000)	Nil	Nil	(125,000)
Tax Written Down Value (TWDV)	3,243,982	468,750	555,060	84,375	
Total Capital Allowance					2,917,868

(ii) **SWEET MAMA TRADING LIMITED
COMPUTATION OF TAXABLE PROFIT**

	₦	₦
Net Profit (as per account)		3,347,193
Add: Depreciation		<u>780,551</u>
Adjusted Profit		4,127,750
Capital Allowances		
For the year	2,917,868	
Restricted to 66 ² / ₃ % of N4,127,750	(2,751,970)	(2,751,970)
Capital Allowance Carried Forward	165,716	
Taxable Profit		1,375,780

(iii) **Computation of Tax Liability:**

Income Tax 30% of ₦1,375,780	<u>412,734</u>
Education Tax 2% of ₦4,127,750	<u>82,555</u>

Workings

Total Tax Liability showing basis period of Assessment

Year of Assessment	Basis of Assessment	Tax Liability		
		Education Tax	Company Income	Total
		₦	₦	₦
2016	1/1/2016 – 31/12/2016	82,555	412,734	495,289
2017	1/1/2016 – 31/12/2016	82,555	412,734	495,289
	Total Liability			990,578

Note: Bases on commencement rule principle, the same basis period and same payment for 2016 year of assessment is the same for 2017.

WORKINGS:

Building

(a) Initial Allowance = Cost x Initial Allowance Rate
Cost = $\frac{\text{Initial Allowance}}{\text{Initial All. Rate}} = \frac{636,075}{0.15} = \underline{\underline{N4,240,500}}$

(b) Annual Allowance = $\frac{\text{Cost} - \text{Initial Allowance}}{\text{Estimated useful life of the asset}}$
 $= \frac{N4,240,500 - N636,075}{10}$
 $= \underline{\underline{N360,443}}$

(c) Investment Allowance – This does not apply to building.

(d) **Plant and Machinery**

Annual Allowance = $\frac{\text{Cost} - \text{Initial Allowance}}{\text{Estimated Economic Useful life of Assets}}$
 $= \frac{N1,250,000 - N625,000}{4}$
 $= \underline{\underline{N156,250}}$

(e) Investment Allowance = 10% x N1,250,000 = N125,000

(f) Tax Written Down Value (TWDV)
4 months = $N(1,250,000 - 625,000 - 156,250)$
 $= \underline{\underline{N468,750}}$

Note: Even though investment allowance is an additional capital allowance, it is not deducted from cost when determining the TWDV.

(g) **Motor Vehicle**

Cost = $\frac{\text{Initial Allowance}}{\text{Initial Allowance Rate}}$

= $\frac{N740,080}{0.50}$

= N1,480,160

(h) Annual Allowance = $\frac{N(1,480,160 - 740,080)}{4}$

= N185,020

(i) **Furniture and Fittings**

Annual Allowance = $\frac{\text{Cost} - \text{Initial Allowance}}{\text{Estimated Economic Useful Life}}$

= $\frac{N(225,000 - 56,250)}{5}$

= N33,750

(j) **Capital Allowance**

Total Annual Allowance

$$\begin{aligned} & \text{N}(360,443 + 156,250 + 185,020 + 33,750) \\ & = \underline{\underline{\text{N}735,463}} \end{aligned}$$

(k) Total Investment Allowance = N125,000

This is because, it is only plant and machinery that is entitled to investment allowance only once.

5. (a) Enumerate any Six (6) circumstances when a member of the Federal Inland Revenue Service Board shall cease to hold office in line with the provisions of FIRS (Establishment) Act, 2007. (6 Marks)
- (b) The Federal Inland Revenue Service (Establishment) Act 2007 makes provision for the establishment of a Board saddled with the powers and responsibility of providing overall supervision of the Federal Inland Revenue Service (FIRS).
In accordance with Section 8 of the FIRS (Establishment) Act 2007, state any Five (5) functions of the FIRS. (5 Marks)
- (c) List any Four (4) conditions for obtaining Tax Clearance Certificate (TCC). (4 Marks)
- (d) Specify Five (5) transactions for which Tax Identification Number (TIN) is required. (5 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 5

- (a) A member of the Board shall cease to hold office as a member of the Board:-
- (i) He resigns his appointment as a member of the Board by notice, under his hand, addressed to the President.
 - (ii) He becomes of unsound mind.
 - (iii) He becomes bankrupt or makes a compromise with his creditors.
 - (iv) He is convicted of a felony or any offence involving dishonesty or corruption.
 - (v) He becomes incapable of carrying on the functions of his office either arising from an infirmity of mind or body.
 - (vi) The President is satisfied that it is not in the interest of the service or in the interest of the Public for the Board Member to continue in office and the president removes him from office.
 - (vii) He has been found guilty of contravening the code of Conduct Bureau and Tribunal Act or gross misconduct in relation to his duties.
 - (viii) In the case of a person possessing a professional qualification he is disqualified by a competent authority.
 - (ix) In the case of a person who becomes a member by virtue of the office he occupies, if he ceases to hold such office.
- (b) Section 8 of the FIRS (Establishment) Act 2007 listed twenty (20) functions of FIRS from (a) to (t) five of which are:
- (i) Assess persons including companies, enterprise that are chargeable with tax.
 - (ii) Assess, collect account and enforce payment of taxes as may be due to the government or any of its agencies.

- (iii) Collect, recover and pay to the designated account any tax under the provisions of this Act or any other enactment of the law.
 - (iv) Adopt measures to identify trace, freeze confiscate or seize proceeds derived from tax, fraud or evasion.
 - (v) Collaborate and facilitate rapid exchange of information with relevant national or international agencies or bodies on tax matters.
- (c) Conditions for obtaining Tax Clearance Certificate (TCC) are:
- (i) Application must be made to the relevant tax authority or relevant Tax Office.
 - (ii) Taxpayer must have fully discharged its tax obligation.
 - (iii) Taxpayer must have submitted or rendered all accounts and tax returns (Income Tax, Withholding tax, Value Added Tax Pay As You Earn and computations of capital allowances) to date.
 - (iv) Taxpayer must have responded to letters from tax office and also attend to inquiries made.
- (d) Transaction for which Tax Identification Number (TIN) is required are:
- (i) Opening of Corporate Bank Accounts.
 - (ii) All transactions with other companies.
 - (iii) All correspondences with Ministries and other Government Agencies.
 - (iv) All correspondences with relevant tax authority to be quoted on all tax returns.
 - (v) Obtaining receipts of tax payments.
 - (vi) Application for Tax Clearance Certificate, Tax Refunds, etc.
 - (vii) Bidding for government contracts.
 - (viii) Importation of goods for the purpose of payment of custom duties.



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2017: PROFESSIONAL EXAMINATION

PT 1: INDIRECT TAXATION

1. (a) Customs valuation is used to determine the value of goods when they are being entered into the various customs procedures. The essence is to determine the correct amount of customs duty to be paid on imported goods.

Identify Five (5) methods of valuation applicable to all imported goods.

(10 Marks)

- (b) Destination inspection is one of the strategies of government to simplify trade and improve customs procedures in order to increase revenue generation.

(i) State Five (5) benefits of destination inspection. (5 Marks)

(ii) State Five (5) responsibilities of an importer as required by customs service. (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 1

- (a) **Methods of valuation applicable to all imported goods are:**

- (i) **Transaction Value of Goods Method** – This method is commonly used to determine the value of imported goods for the purpose of ascertaining the duty payable on such goods. The price actually paid or payable is the total payment made or to be made by an importer to or for the benefit of the seller and includes all payments made as a condition of sale of the imported goods by the buyer (importer) to the seller or by the buyer to a third party to satisfy an obligation of the seller.
- (ii) **Transaction Value of Identical Goods Method** – This is the use of an established value for customs duty of identical goods when the transaction value of the goods cannot be ascertained. However, the value of identical goods must be a previously accepted value by the customs.
- (iii) **Transaction Value of Similar Goods** – This method is usually adopted when the transaction value of the imported goods cannot be determined through the transaction value method or the identical goods method. Such transaction value will be determined on the basis of the unit price at which the imported goods or identical or similar goods are sold to an unrelated buyer. The value of such goods must be:
- Closely resembling the goods being valued in terms of component materials and characteristics.
 - Goods which are capable of performing the same functions and are commercially interchangeable with the goods being valued.
 - Goods which are produced in the same country as and by the producer of the goods being valued.

- (iv) **Deductive Value Method** – This method is based on deduction of value from the price of the greatest aggregate of quantity sold. The agreement provides that when customs value cannot be determined on the basis of the transaction value of the imported goods or identical or similar goods, it will be determined on the basis of the unit price at which the imported goods or identical or similar goods are sold to an unrelated buyer in the greatest aggregate quantity in the country of importation. Article 5.1 of the agreement provides the basis for establishing custom value using this method.

- (v) **Computed Value Method** - Computed value is based on a price which is built up from the various elements which contribute to the manufactured goods. Computed value is the sum of the following elements:
 - Production cost = Value of minerals and fabrication
 - Profit and general expenses
 - Other expenses such as transport cost of the imported goods at the port or place of importation, loading, etc.

- (vi) **Fall-Back Method or Residual Valuation** – When the custom value cannot be determined using reasonable means consistent with the principles and general provisions of the agreement, and on the basis of data available in the country of importation. To the greatest extent, this method also considers previously determined values and methods with a reasonable degree of flexibility in the application.

- (b) (i) **Benefits of Destination Inspection**
 - Improvements in trade facilitation to cope with increased demand by traders for faster clearance of goods.
 - Secures of revenue collection.
 - Combats fraud and smuggling
 - Guarantees National security and the fight against terrorism
 - Complies with prevailing international regulations
 - complies with International guidelines in the areas of customs valuation, trade facilitation, conformity and security
 - Addresses congestion at the ports and inland border ports

- (ii) **Responsibilities of Importers in Conformity with Nigeria Customs Service**
 - An importer must first process Form M through any approved Commercial bank regardless of the value and whether payment is involved or not.
 - An importer must ensure that his consignment shall bear the name of products, country of origin, specification and date of manufacture.

- (iii) The importer must ensure that all electronics equipment/items and instruments must carry instructional manual and not diagram and notation on the containers. These items must also carry safety information and/or safety signs.

- (iv) Computer hardware and software must be year 2000 compliant.

- (v) An importer must not supply wrong information that would misrepresent product specification with intent to cheat.

- (vi) An importer must ensure that every manufactured item including components and spare parts branded and bears manufacturers' name.

- (vii) All goods imported into the country must be labelled in English in addition to any other language.
 - (viii) An importer must ensure that manufactured goods and materials are subject to Standard Organization of Nigeria's certification in accordance with the provisions of its enabling law.
 - (ix) The importer shall ensure that he pays the appropriate customs duty as established on the Clear Report of Inspection to any designated banks.
 - (x) The importer shall advise his supplier on the need to submit, after the completion of inspection, the commercial invoice within 72 hours to the Inspection Agent.
2. (a) Mr. Chinko is the Managing Director/Chief Executive Officer of Chinko Nigeria Limited who has approached you to advise him on the following VAT issues:
- (i) Value of imported goods for VAT purposes.
 - (ii) VAT at point of importation.
 - (iii) Registration of importers.
- As a tax consultant, you are required to give your advice on these issues.
(15 Marks)
- (b) Under what conditions can a company successfully claim a refund of excess input VAT? State the methods of refund available. (5 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 2

- (a) (i) **Value of Imported Goods**
The value of VATable imported goods is the amount which is equal to the price of the imported goods which includes:
- All taxes, duties and other charges levied either outside or by reason of importation into Nigeria, but do not include VAT imposed by the VAT Act.
 - All costs by way of commission, parking, transport and insurance up to the port or place of importation
- (ii) **VAT Point of Import**
- The VAT point of imported goods is the relevant port or border post. Where the goods are imported by post, at the post office or the place where the goods are received in Nigeria.
 - In the case of intangible assets, the VAT point of import is the place in Nigeria where payment is due.

(iii) **Registration of Importers/Goods**

All non-exempted goods imported into Nigeria will be charged with VAT whether or not:-

- The goods have attached customs duty
- The person importing the goods is registered for VAT
- All commercial importers are regarded as making supplies for a consideration in Nigeria, hence they must register for VAT.
- A new commercial importer who has not registered for VAT, he is registrable when his first consignment is cleared at the port for entry purposes.
- Unregistered persons cannot claim VAT refund for VAT paid at importation.
- The importer must register the company name in Nigeria and hence have a certificate of incorporation/register of business name.
- The importer must select a bank of choice in Nigeria to act as the Authorised Dealer Bank (ADB). This is the bank that will process the form M/PAAR as well as mediate among the Nigeria Customs Service (NCS), the importer and the other bodies.

- (b) The Value Added Tax Act Cap. VI LFN 2004 (as amended) permits a VAT able person to claim refund of its excess tax, in the event of input tax exceeding output tax. Refund of VAT is also available to VAT able persons on zero-rated goods and services.

However, refund can only be made on written application backed up by ensuring that appropriate VAT returns Form 002 is duly completed and submitted to the relevant tax office. The Form should clearly and correctly indicate that it is for excess of input tax over output VAT.

VAT refund can be claimed in any of the following ways:

- (i) Credit Method
- (ii) Direct Cash Refund Method
- (iii) By both methods.

3. (a) Calculate the VAT payable to FIRS by Apex G Limited a trading Company from the following transactions.

	₦
Costs of items imported for resale (1 million units)	4,000,000
Costs of machinery and equipment purchased	5,000,000
Direct selling expenses	1,000,000
Input VAT paid to customs on items imported for resale	200,000
Input VAT paid on Equipment and machinery purchased	250,000
Input VAT paid on selling expenses	50,000
Selling price before output VAT (1 million units at ₦6,000 per unit)	6,000,000
Output VAT charged on the sales	300,000
Salaries	1,200,000

Repairs and maintenance	75,000
Other overhead expenses	350,000

(10 Marks)

- (b) State briefly the basis of your calculations in (a) above. (10 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 3

- (a) **Apex G Limited**
Calculation of VAT Payable to FIRS

	₦
Sales of items (1million units @ ₦6.00 without VAT)	<u>6,000,000</u>
Output VAT charged on the items sold	300,000
Less: input VAT paid on items for resale (to customs)	<u>200,000</u>
Excess VAT payable to FIRS	<u>100,000</u>

- (b) Basis or justification for the calculations in 5(a) above:
- Input VAT is claimable only on goods or items bought by a trading company for resale or on raw materials bought by a manufacturing company for production of goods or items to be sold.
 - VAT paid on equipment and machinery ₦250,000 is not recoverable as input VAT but should be added to the cost of the equipment and machinery. Hence, Apex G will carry the total cost of its machinery and equipment at ₦5,250,000 in its books.
 - Input VAT paid on selling expenses – ₦50,000 cannot be recovered as input VAT against the output VAT but should be treated as part of the expenses in the Trading/Profit and Loss Account.

4. The information below relates to Nikki D Soaps Limited.

	₦
Free on Board (FOB)	2,500,000
Freight Insurance	125,000
Cost & Freight	3,000,000

- (a) You are required to calculate the import duty using the data above and show your workings. (10 Marks)
- (b) Inadequate remittance of revenue accruing to Customs as a result of undervalued imported goods has been a concern to the authorities of the Nigerian Customs Service.

You are required to suggest ways to mitigate the effect of inadequate remittance of revenue to the Customs coffer. (10 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) **NIKKI D. SOAPS LIMITED**

Surface Duty at 5% of C and F	150,000
Surcharge at 7% of surface duty	10,500
ETLS (ECOWAS Levy) at 0.5% of C and F	15,000
CISS (inspection) fee at 1% of FOB	25,000
VAT at 5% of all the above + C and F	<u>160,025</u>
	<u>360,525</u>

(b) Measures to mitigate inadequate remittance to the coffers of the Nigeria Customs Service

- (i) Effective measures should continually be introduced to ensure that leakages are curtailed.
- (ii) Effective policing of the land-borders to reduce smuggling.
- (iii) Effective scrutiny of import documents by customs
- (iv) Transparency by Customs Administration will enhance mutual trust between Customs and its customers
- (v) Automation or computerization of Customs processes will improve efficiency and effectiveness and remove any opportunities for corruption.
- (vi) The management team at the Nigerian Customs Service must be committed to high integrity and must be seen to set an example that is consistent with both the letter and spirit of the code of conduct.
- (vii) Regulatory frame work – Customs laws, regulations, administrative guidelines and procedures should be harmonized and simplified.
- (viii) Custom employees should be motivated to act with integrity, while management ensures that career development is given priority in, the management of human resources.

5. (a) Application for an Excise Licence relating to any premises in which goods/items excisable are manufactured shall be in such forms and contain such particulars as the Board may direct.

List Four (4) of such licences for manufacturing of excisable goods. (4 Marks)

(b) State the conditions or reasons for which the Board may in writing revoke or suspend Excise Licences. (6 Marks)

(c) State the effect of revocation or suspension of Excise Licences. (5 Marks)

(d) What is the penalty for contravening any of the conditions? (5 Marks)

SOLUTION TO QUESTION 5

(a) Four (4) Types of Licenses for manufacturing of excisable goods:

- (i) License to manufacture spirits
- (ii) License to manufacture beer
- (iii) License to manufacture tobacco
- (iv) License to manufacture excisable goods

(b) Condition or reasons for which the Board may revoke or suspend Excise Licenses:

- (i) Where the holder has been convicted of an offence under the law (Excise Law)
- (ii) Where the holder has been convicted of any offence involving dishonesty or Fraud
- (iii) Where the holder has become bankrupt or has entered into any arrangement or composition with or for the benefit of his creditors.
- (iv) Where the holder failed to pay any excise duty at the time when it was payable

(c) The effect of revocation or suspension of excise license

- (i) The license holder must forthwith cease to manufacture the goods described or referred to in the license
- (ii) Must pay the outstanding duties on the excisable goods already manufactured under such licenses
- (iii) Must not dispose of any materials on the premises to which such license relates except in accordance with such conditions as the Board may impose.

(d) Penalty for contravening any of the conditions or sanctions described in 5c above:

Any person who contravenes any of the conditions or provisions or sanctions shall be liable to a fine of ₦1,000 (One Thousand Naira Only) and any plant, equipment, excisable goods and materials in respect of which such offence has been committed shall be forfeited.



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA
OCTOBER 2017: PROFESSIONAL EXAMINATION
PT 1: QUANTITATIVE TECHNIQUES

ATTEMPT ALL QUESTIONS. SHOW ALL WORKINGS. TIME: 3 HOURS.

1. (a) The distribution of daily amount of money (in thousands of Naira) deposited by 30 filling stations in a particular bank are given below:

Amount deposited (₦'000)	Number of filling stations
100 but less than 200	4
200 but less than 300	7
300 but less than 400	2
400 but less than 500	6
500 but less than 600	8
600 but less than 700	3

Calculate the:

- (i) Mean daily deposit (8 Marks)
 - (ii) Modal daily deposit (5 Marks)
 - (iii) Median daily deposit (5 Marks)
 - (iv) Based on your results, comment on the nature of the distribution of daily deposits. (2 Marks)
- (Total 20 Marks)

SOLUTION TO QUESTION 1

Cross Interval	f	Cf	X	fX
100 but less than 200	4	4	150	600
200 but less than 300	7	11	250	1,750
300 but less than 400	2	13	350	700
400 but less than 500	6	19	450	2,700
500 but less than 600	8	27	550	4,400
600 but less than 700	3	30	650	1,950
	<u>30</u>			<u>12,100</u>

(i)
$$\text{Mean} = \frac{\sum fX}{\sum f} = \frac{12,100}{30} = 403.333 = 403.333 \times \text{₦}1,000$$

$$\Rightarrow \text{₦}403,333$$

(ii)
$$\text{Mode} = LM_0 + \left(\frac{\Delta_1}{\Delta_1 + \Delta_2} \right) C$$

Modal class = 500 but less than 600 (Class with the highest frequency of 8)

LM_0 = Lower class boundaries of modal class = 500

Δ_1 = Difference between the frequency of the modal class and frequency before it

$$\Delta_1 = 8 - 6 = 2$$

Δ_2 = Difference between the frequency of the modal class and frequency after it.

$$\Delta_2 = 8 - 3 = 5$$

C = Class size = 100

$$\begin{aligned}\text{Modal deposit} &= 500 + \left(\frac{2}{2+5}\right)100 \\ &= 500 + 28.57 \\ &= 528.57 \\ &= 528.57 \times \text{N}1,000 = \text{N}528,570\end{aligned}$$

$$(iii) \quad \text{Median} = LMe + \frac{\left(\frac{N}{2} - \sum fme\right)C}{fme}$$

$$\text{Median position} = \frac{N}{2} = \frac{30}{2} = 15th$$

Median class = 400 but less than 500

Lme = Lower class boundaries of median class = 400

$\sum fme$ = Cumulative frequency before median class = 13

Fme = Frequency of the median class = 6

C = class size = 100

$$\begin{aligned}\text{Median deposit} &= 400 + \left(\frac{15-13}{6}\right)100 \\ &= 400 + 33.33 \\ &= 433.333 \\ &= 433.333 \times \text{N}1,000 \\ &= \text{N}433,333\end{aligned}$$

Since the median (~~N~~433,333) is more than the mean (~~N~~403,333), the distribution of daily deposits made to the banks can be said to be negatively skewed or skewed to the left.

EXAMINER'S REPORT

The question tests candidates' knowledge of application of measures of central tendency as a tool for management decisions. About 60 percent of the entire candidates who attempted the question scored more than 10 marks out of 20 marks allocated.

However, candidates seemed not to know how to apply these measures to take management decision which is shown by their performance in section (iv) of the question. Candidates are advised to read wide and cover all areas of the syllabus when preparing for future examination.

2. (a) What is carrying costs under inventory control? (3 Marks)
- (b) State Six (6) of such carrying costs. (6 Marks)
- (c) State Six (6) reasons for holding cost. (6 Marks)

(d) Give Five (5) assumptions of an EOQ model.

(5 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) **Carrying Costs**

These are costs incurred whenever an inventory is stored, they are incurred because the firm has decided to maintain inventory. The larger the size of inventory held, the higher the carrying costs that will be incurred.

(b) Examples of Carrying Costs are:

- (i) Cost of capital tied down;
- (ii) Costs of insurance;
- (iii) Warehouse upkeep;
- (iv) Store labours and administration costs;
- (v) Damages and pilferages;
- (vi) Deterioration and obsolescence;
- (vii) Storage cost which may include rent;
- (viii) Interest on money borrowed to buy stock; and
- (ix) Documentation cost e.g. stock taking.

(c) Reasons for Holding Stocks are:

- (i) To meet regular demand;
- (ii) To ensure smooth/uninterrupted production run;
- (iii) To even out seasonal variation in demand;
- (iv) To act as buffer when demand is higher than anticipated or when the lead time is longer than expected;
- (v) To take the benefit of unanticipated scarcity in the product e.g. when there is unanticipated breakdown in the production facility which may affect the supply;
- (vi) To meet the technical requirements of a production system;
- (vii) Taking advantages of bulk purchase discounts; and
- (viii) To allow flexibility in activity scheduling.

(d) Assumptions of a basic economic order quantity (EOQ) model are:

- (i) Demand rate is constant and can be ascertained;
- (ii) There is zero lead-time on orders i.e. lead time is certain;
- (iii) The ordering cost per order is known;
- (iv) The annual holding cost per item can be determined and is constant;
- (v) Instantaneous delivery of stocks;
- (vi) Stock outs are not allowed and the safety or buffer stock can be ignored; and
- (vii) The purchase price per unit is constant and hence quantity discounts are not allowed.

EXAMINER'S REPORT

The question tests the candidates' understanding of inventory control, costs associated with inventory control, importance and assumptions involved in inventory control. The performance of the candidates in this question clearly shows that the question is friendly and well understood by the candidates without any confusion.

3. A company which specializes in making soaps has three production operations plants in Lagos, Ibadan and Benin. The production capacity of each of these plants for the next 6-month planning period for the soaps are as follows:

Plant	Six-month production capacity
Lagos	5,000 units
Ibadan	6,000 units
Benin	2,500 units

Suppose the company distributes through four regional distribution centres located in Sagamu, Warri, Kaduna and Port Harcourt and that the 6-month forecasted demands for the distribution centres are as follows:

Distribution	Forecasted 6months demand
Sagamu	6,000 units
Warri	4,000 units
Port Harcourt	2,000 units
Kaduna	1,500 units

Management has compiled the transportation cost per unit from each of the plants to each of the distribution centres as shown in the table below:

Centre Plant	Sagamu ₦	Warri ₦	Port Harcourt ₦	Kaduna ₦
Lagos	3	2	7	6
Ibadan	7	5	2	3
Benin	2	5	4	5

- (a) Create an initial feasible solution showing how many units of its products should be transported from each plant to each distribution centre using the:
- Vogel's Approximation Method
 - North-West Corner Rule Method. (18 Marks)
- (b) Which of the two methods would you consider more profitable? (2 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) (i) Vogel's Approximation Method

To	Sagamu	Warri	PH	Kaduna	Supply Capacity	
Lagos	3 1,000	2 4,000	7 --	6 --	5,000 1,000	1, 2, - - - -
Ibadan	7 2,500	5 --	2 2,000	3 1,500	6,000 3,500 1,500	1, 1, 1, 1, 1, 2
Benin	2 2,500	5 --	4 --	5 --	2,500	2, 2, 2, - - -
Demand Requirement	6,000 5,000 2,500	4,000	2,000	1,500	13,500	
	1	3	2	2		
	1	-	2	2		
	5	-	2	2		
	7	-	2	3		
	-	-	2	3		
	-	-	2	-		

Distribution Schedule Obtained by Vogel Approximation Method (VAM)

From	To	Quantity	Unit Cost (₦)	Transportation Cost (₦)
Lagos	Sagamu	1,000	3	3,000
Lagos	Warri	4,000	2	8,000
Ibadan	Sagamu	2,500	7	17,500
Ibadan	PH	2,000	2	4,000
Ibadan	Kaduna	1,500	3	4,500
Benin	Sagamu	2,500	2	5,000
				<u>42,000</u>

(ii) North West Corner Rule (NWCR)

To	Sagamu	Warri	PH	Kaduna	Supply Capacity
Lagos	3 5,000	2 --	7 --	6 --	5,000
From Ibadan	7 1,000	5 4,000	2 1,000	3	6,000 5,000 1,000
Benin	2	5	4 1,000	5 1,500	2,500 1,500
Demand	6,000 1,000	4,000	2,000 1,000	1,500	13,500

Distribution Schedule Obtained using the NWCR

From	To	Quantity	Unit Cost (₦)	Transportation Cost (₦)
Lagos	Sagamu	5,000	3	15,000
Ibadan	Sagamu	1,000	7	7,000
Ibadan	Warri	4,000	5	20,000
Ibadan	PH	1,000	2	2,000
Benin	PH	1,000	4	4,000
Benin	Kaduna	1,500	5	<u>7,500</u>
				<u>55,500</u>

- (b) Vogel's Approximation method is more profitable since the total transportation cost (₦42,000) is less than that of North West Corner Method (₦55,000).

EXAMINER'S REPORT

The question tests the candidates' knowledge of application of two major methods of transportation problems to arrive at a best decision. Candidates demonstrated good understanding of North West Corner method and poor knowledge of Vogel Approximation method, hence, the general performance of the candidates on the question is on the average 8 marks out of 20 marks allocated to the question. Candidates are advised to cover all areas of the syllabus when preparing for future examination.

4. In an investigation to determine the popularity of three brands of vegetable oil A, B and C, 120 housewives were interviewed. The following results were obtained:

45 housewives claimed to have used brand A.

54 housewives claimed to have used brand B.

56 housewives claimed to have used brand C.

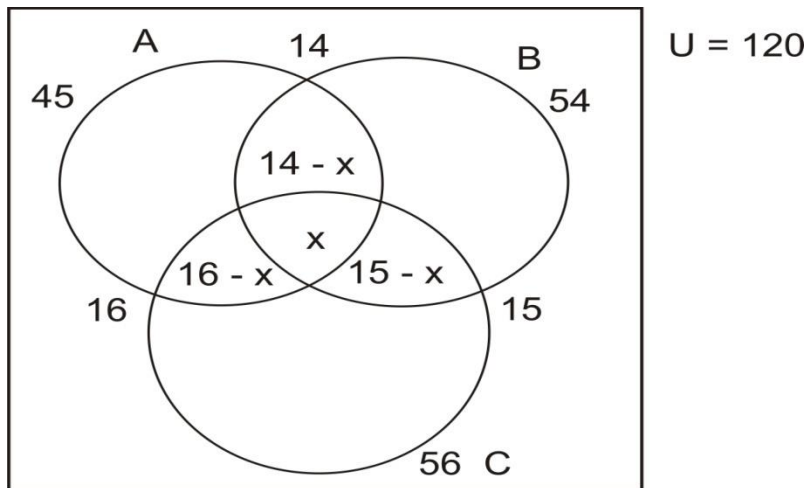
14 housewives claimed to have used brand A and B.

15 housewives claimed to have used brand B and C, while

16 housewives claimed to have used brand A and C.

- (a) Draw the Venn diagram to show the information above. (8 Marks)
- (b) Use your diagram to determine the number of housewives who have used:
- (i) All the three brands. (4 Marks)
- (ii) Two brands only. (4 Marks)
- (iii) One brand only. (4 Marks)
- (Total 20 Marks)

SOLUTION TO QUESTION 4



- (b) (i) Let the number of house wives who have used all the brands be x .

Then $n(A \cup B \cup C) = n(A) + n(B) + n(C) - n(A \cap B) - n(A \cap C) - n(B \cap C) + n(A \cap B \cap C)$.

$$n(A) = 45 - (16 - x + x + 14 - x) = 15 + x$$

$$n(B) = 54 - (14 - x + x + 15 - x) = 25 + x$$

$$n(C) = 56 - (16 - x + x + 15 - x) = 25 + x$$

$$\therefore 120 = 15 + x + 14 - x + 25 + x + 15 - x + 25 + x + 16 - x + x$$

$$120 = 110 + x$$

$$120 - 110 = x$$

$$10 = x, \text{ i.e. } 10 \text{ housewives}$$

- (ii) The number of house wives who have used two brands only = $n(A \cap B \cap C')$ + $n(A \cap B' \cap C)$ + $n(A' \cap B \cap C)$.

i.e. numbers in A and B but not in C or numbers in A and C but not in B or numbers in B and C but not in A = $(14 - x) + (16 - x) + (15 - x)$

$$= (14 - 10) + (16 - 10) + (15 - 10)$$

$$= 4 + 6 + 5$$

$$= 15 \text{ housewives}$$

- (iii) The numbers of house wives who had used one brand only: i.e. A only or B only or C only = $n(A \cap B' \cap C') + n(A' \cap B \cap C') + n(A' \cap B' \cap C)$
- $$= (45 - 4 - 10 - 6) + (54 - 4 - 10 - 5) + (56 - 5 - 10 - 6)$$
- $$= 25 + 35 + 35$$
- $$= 95 \text{ housewives}$$

EXAMINER'S REPORT

The question is on the application of Set Theory and Venn Diagram for taking management decisions. The candidates, although demonstrated good knowledge of the topic, could not draw the Venn Diagram which would have enabled them to solve the problem. The general performance was poor. Candidates are advised to cover all areas of the syllabus when preparing for future examination.

5. (a) Explain briefly what you understand by:
- (i) Regression analysis; and
- (ii) Correlation analysis as they are related to management. (4 Marks)
- (b) Give Four (4) examples of pairs of variables that can be said to be related. (4 Marks)
- (c) The table below shows the records of sales and profits by eight departments in a company.

Departments	1	2	3	4	5	6	7	8
Sales (₦' m)	50	60	54	36	110	24	32	46
Profits (₦' m)	24	32	18	16	50	14	20	22

- (i) Derive the least square regression line of the profits on sales. (10 Marks)
- (ii) Use your regression line in c (i) above, to predict the profit for a similar department with sales of ₦42million. (2 Marks)
- (Total 20 Marks)

SOLUTION TO QUESTION 5

- (a) (i) Regression analysis is concerned with the study of relationship between two or more variables.
- (ii) Correlation analysis is concerned with the study of direction and degree of relationship between two related variables.
- (b) Pairs of Related Variables are:
- Price and demand for a commodity;
 - Monthly income and monthly expenditure;
 - Interest rate and volume of trade;
 - Weight of a parcel and tax paid;
 - Annual profit and tax paid; and
 - Number of units sold and revenue generated.

C(i)

Sale (X)	Profit (Y)	XY	X ²
50	24	1,200	2,500
60	32	1,920	3,600
54	18	972	2,916
36	16	576	1,296
110	50	5,500	12,100
24	14	336	576
32	20	640	1,024
46	22	1,012	2,116
412	196	12,156	26,128

$$\hat{y} = \hat{a} + \hat{b}x$$

$$\hat{b} = \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sum x^2 - \frac{(\sum x)^2}{n}} = \frac{12,156 - \frac{(412)(196)}{8}}{26,128 - \frac{(412)^2}{8}}$$

$$= 0.42$$

$$\hat{a} = \frac{\sum y}{n} - \hat{b} \frac{\sum x}{n}$$

$$= \frac{196}{8} - 0.42 \left(\frac{412}{8} \right)$$

$$= 2.87$$

∴ The regression line is $y = 2.87 + 0.42x$

(ii) When x is equal to 42, the estimate of y is,

$$\hat{y} = 2.87 + 0.42(42)$$

$$= 20.51 \times \text{N}1,000,000$$

$$\Rightarrow \text{N}20,510,000$$

EXAMINER'S REPORT

The question tests candidates' understanding of the difference between regression and correlation analyses and their ability to compute and apply regression model to predict future values. About 80 percent of the candidates demonstrated that they know how to compute and obtain regression model but lacked the ability to use it for predicting future values. Also, about 70 percent of the candidates could not differentiate between correlation analysis and regression analysis. Therefore, performance was below average. Candidates are advised to cover all areas of the syllabus when preparing for future examination.



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA
OCTOBER 2017: PROFESSIONAL EXAMINATION
PT 1: REVENUE LAW

ATTEMPT ALL QUESTIONS. SHOW ALL WORKINGS. TIME: 3 HOURS.

1. The Church of Salvation of Sinners with its headquarters at Abuja has about 500 parishioners. It has 3 Pastors and 10 workers. Each of the Pastors received ₦250,000 as monthly salary, while 5 of the workers, including the Organist are paid ₦150,000 each as salary per month. 3 of the remaining 5 workers are paid ₦120,000 each as monthly salary while the remaining 2 who are not full time workers are given allowance of ₦80,000 each per month.

The Church's average income from ecclesiastical activities is ₦2.5million per month.

The Church is having a large hall which is usually used for evangelism. It is rented out to members for marriage and burial ceremonies at a discounted rate of ₦150,000 per day when it is not used for evangelism. The rental occurred only on Thursdays and Saturdays every week.

There has been serious arguments between the Tax Authority and the Church Pastors on whether they should pay tax or not. The tax authority has actually raised an assessment on the church and the staff of the church. The General Overseer concluded that it is illegal under appropriate revenue law for the tax authority to raise an assessment on them. They have decided to go to court.

You have been consulted as an expert in revenue law to:

- (a) Advise them on whether they are liable to pay tax or not. State the basis of your advice and support your advice with appropriate sections of the law. (10 Marks)
 - (b) State the appropriate Tax Authority to collect the tax payable, if any. (2 Marks)
 - (c) Calculate the exact assessable income, if any, that are taxable under the law. (5 Marks)
 - (d) State the items or events, if any, that are taxable in the above scenario. (3 Marks)
- (Total 20 Marks)

SOLUTION TO QUESTION 1

(a) BASIS OF ADVISE:

The following are the basis of the advice to the church:

- (i) Section 1 of the Personal Income Tax Act states that tax shall be imposed on the income:
 - a. Of individuals, communities and families; and
 - b. Arising or due to a trustee or Estate, which shall be determined under and be subject to the provisions of the tax law

Income Tax is payable on anything that can be described as an income. The law specifically defines persons chargeable to include every individual, corporate, sole or body of individuals deemed to be residents for that year in the relevant state.

- (ii) **Rental Income**
The general rule as regard rent for the use or occupation of property under any lease or assignment is that such rent shall be deemed to have accrued to the recipient from day to day over the period for which such rent have been paid and such income is taxable.
- (iii) **Income Exempted**
One of the income exempted are listed in the 3rd Schedule is:
 - (a) The income from any ecclesiastical, charitable or educational institution of a public character in so far as such income is not derived from a trade or business carried on by such institution.

ADVISE TO THE CHURCH CHURCH INCOME

- (i) The church's income arising from ecclesiastical activities is exempted from tax as provided for under the 3rd schedule of the Personal Income Tax Act and reproduced in (iii) under basis above.
However, any church income from trading or business activities such as rental income is not tax exempt as they are taxable. See basis No (ii).
- (ii) **Salary Paid to the Staff**
 - (a) The salary paid to the staff is a remuneration of an employment and they are derived from Nigeria. The duties are wholly performed in Nigeria. The law reproduced in (i) required that such remuneration of employee are taxable. Therefore, the salaries of the employee of the church are taxable.
 - (b) The allowance of ₦80,000 paid to each of the remaining two workers is also taxable because it is an income in the hand of the two workers.
 - (c) The salary of the Pastors are remunerations and based on the same argument that salary paid to them are income, then they are taxable. The remunerations of Pastors are taxable in the hands of the Pastors as personal income to them.
- (iii) **Income from Hall Hire**
The income from hall hire is an income derived from trade or business carried on by the church, hence the church income from these sources are taxable.

In conclusion, the church should note that all income from ecclesiastical activities are all exempted from tax, hence it will be wrong for tax authority to assess tax on them.

Also, the remuneration paid to the staff shall be taxed and all income derived from rent of hall are taxable.

The church, in a court action, has the right to challenge the assessment stating the grounds of objection as analysed above.

- (b) The appropriate/relevant tax authority is the Federal Inland Revenue Service because the church is resident and operate at Federal Capital Territory.

ASSESSABLE INCOME

(a)	Remuneration of staff	Per month	Per Annum
	5 workers @ 150,000 = 5 x 150,000	750,000	9,000,000
	3 workers @ ₦ 120,000 = 3 x 120,000	360,000	4,320,000

- (b) Hall Hire
 ₦150,000 per day for
 Thursday & Saturday = ₦300,000 per week
 and ₦300,000 x 52 weeks = ₦ 15, 600,000

- (c) Salary of the Pastors/Allowance for part time workers

3 pastors at ₦250,000
 3 x ₦250,000 = ₦750,000 per month
 ₦750,000 x 12 = **₦9,000,000**

- 2 part time workers received ₦80,000
- 2 x ₦80,000 = ₦160,000 per month
 ₦160,000 x 12 = **₦1, 920,000 per annum**

- (d) The persons or items that are taxable are

1. Hall hire
2. Salaries of the church workers
3. Salaries of the Pastors
4. Allowance of part time workers

2. (a) Briefly explain the following:

- (i) Balancing Allowance. (5 Marks)
- (ii) Balancing Charge. (6 Marks)
- (iii) Chargeable Capital Gains (5 Marks)
- (iv) Artificial Transactions. (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

- (a) (i) **Balancing Allowance**

Where in its basis period for a year of assessment a Company owning an asset, which has incurred in respect thereof qualifying expenditure wholly, exclusively, necessarily and reasonably for the purposes of a trade or business carried on by it, disposes of that asset, an allowance called “balancing allowance” shall be made to that Company for that year of the excess of the residue of that expenditure, at the date such asset is disposed of, over the value of that asset at that date. The asset must be is use by the Company immediately before the disposal.

(ii) Balancing Charges

Where in its basis period for a year of assessment a Company owning an asset, which has incurred in respect thereof qualifying expenditure wholly, exclusively, necessarily and reasonably for the purposes of a trade or business carried on by it disposes of such asset, a charge called balancing charge shall be made on that Company for that year of the excess of the value of that asset, at the date of disposal, over the residue of that expenditure at that date.

(iii) Chargeable Capital Gains:

This arises when the sale proceeds of a used asset is in excess of the original purchase price of the asset. The excess is the capital gains which will attract Capital Gains tax.

Illustration: An asset purchased for ₦120,000.00 was sold for ₦140,000.00

Sale proceed	140,000.00
Original Purchase price (Historical cost)	<u>120,000.00</u>
Capital Gain	<u>20,000.00</u>

(iv) Artificial Transaction

Where the Board of FIRS or any relevant tax authority is of the opinion that any disposition (trust, grant, covenant, agreement or arrangement) is not in fact given effect to or that any transaction which reduces or would reduce the amount of any tax payable is artificial or fictitious, it may disregard any such position or direct that such disposition or direct that such adjustments shall be made as respects liability to tax as the Board considers appropriate so as to counteract the reduction of liability to the tax effected or reduction which would otherwise be affected, by the transaction and any company concerned shall be assessable accordingly.

3. (a) Enumerate the circumstances which may lead to tax refunds to taxpayers by the Federal Inland Revenue Service (FIRS). (10 Marks)
- (b) Briefly explain the process of refund of tax as stipulated in Section 23(1), (2) and (3) of the Federal Inland Revenue Service (Establishment) Act, 2007. (6 Marks)
- (c) State Two (2) functions of the Technical Committee of the Board of Federal Inland Revenue Service (FIRS) as provided for in section 10 of the Federal Inland Revenue Service (Establishment) Act, 2007. (4 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 3

- (a) Circumstances which may lead to tax refunds to taxpayers are:
- (i) Outright overpayment of taxes
 - (ii) Over assessed tax by FIRS or taxpayer
 - (iii) Input Value Added Tax in excess of output Value Added Tax
 - (iv) Errors committed by collecting banks
 - (v) Errors in tax computations
 - (vi) Excess of withholding tax credits
 - (vii) A taxpayer may use a wrong tax rate to arrive at tax payable; and

(viii) A court of competent jurisdiction may order refund of tax by a tax authority to a taxpayer.

(b) Tax Refund Process

- (i) Taxpayer shall apply for the refund from the relevant tax authority with all supporting documents.
- (ii) The tax authority will conduct proper auditing to ascertain that there was an overpayment.
- (iii) The Tax Authority shall decide on the eligibility for the refund subject to such rules and conditions as may be approved by the board.
- (iv) Any tax refund shall be made within 90 days of the decision of the service, with the option of setting off against future tax by taxpayer.

(c) Functions of the Technical Committee of the FIRS Board;

The Technical Committee shall;

- (i) Consider all tax matters that require professional and technical expertise and make recommendations to the Board.
- (ii) Advise the Board on any aspect of the functions and powers of the service under this Act, and
- (iii) Attend to such other matters which may, from time to time, be referred to it by the Board,

4. (a) Distinguish between Customs Duties and Excise Duties. (2 Marks)

(b) State the composition of the Board of Nigeria Customs Service (NCS). (11 Marks)

(c) State the functions of the Nigeria Customs Service (NCS). (7 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) DISTINCTION BETWEEN CUSTOM DUTIES AND EXCISE DUTY

(i) CUSTOM DUTIES

Customs duties are tariffs or taxes imposed on goods when transported across international borders. Payment is at the point of entering into or dispatch from the country respectively.

(ii) EXCISE DUTY

Excise duty is payable on goods or items manufactured or produced within the country and classified as chargeable.

(iii) STATUTORY BASIS

The rates of customs and excise duties can be found in the Customs Tariffs Acts and the taxes are collected through the Nigeria Customs Service established by the Customs and Excise Management Act (CEMA). The taxes are Federal taxes.

(b) COMPOSITION OF THE BOARD OF CUSTOMS AND EXCISE

The Board is composed of the following members;

- i. Minister of Finance as Chairman;
- ii. The Comptroller - General of Customs as Vice Chairman

- iii. A representative of Federal Ministry of Commerce
- iv. A representative of Federal Ministry of Transport
- v. A representative of Federal Ministry of Industries
- vi. A representative of Federal Ministry of Finance
- vii. A representative of National Universities Commission
- viii. Chairman Federal Inland Revenue Board
- ix. The legal adviser of Nigeria Custom Service and;
- x. Secretary to the Board
- xi. Serving Deputy Comptroller-Generals of Customs

(c) **FUNCTIONS OF NIGERIA CUSTOMS SERVICE**

Core Functions:

- 1. Collection of Revenue, i.e. import and excise duties and accounting for same.
- 2. Prevention and suppression of smuggling

Other Functions

- 3. Implementation of Government fiscal measures
- 4. Generation of statistical data for planning purpose
- 5. Trade Facilitation
- 6. Implementation of bilateral and multilateral agreement entered into by Government
- 7. Collection of levies and charges
- 8. Collaborate, functions with government agencies including Central Bank of Nigeria, Police, National Drug Law Enforcement Agency, Standard Organisation of Nigeria, National Agency for Food and Drug Administration and Control, Federal Inland Revenue etc.

The service also supports the combating of:

- 9. Illegal commercial activities and trade in illicit goods, e.g., import of fake and substandard goods
 - 10. Infraction on intellectual property rights
 - 11. Illegal international trade in endangered species
 - 12. Illegal trade in arms and ammunition
 - 13. Money laundering
 - 14. Traffic of illicit drugs
 - 15. Illegal trade in cultural artefacts
 - 16. Importation of pornographic materials and;
 - 17. Importation of toxic and hazardous substances
5. (a) A good taxation system should be built upon numerous rules and principles referred to as the canons of taxation.

Briefly explain Five (5) of those canons. (10 Marks)

(b) Explain the following terms:

(i) Amended Assessment. (5 Marks)

(ii) Revised Assessment. (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 5

(a) CANON OF TAXATION

- (i) Equality
- (ii) Certainty
- (iii) Convenience
- (iv) Economy
- (v) Productivity
- (vi) Simplicity
- (vii) Elasticity
- (viii) Flexibility
- (ix) Diversity

- (i) **Equality:-** Does not mean everyone should pay the exact equal amount of tax but that the rich people should pay more taxes and the poor pay less. The tax payable should be in proportion to the abilities of the taxpayer.
- (ii) **Certainty:-** The taxpayers should be well-aware of the purpose, amount and manner of the tax payment. The taxpayer should have full knowledge about his tax payment i.e. amount, mode and the due date.
- (iii) **Convenience:-** The manner time and mode of payment should be easy, convenient and taxpayer-friendly, otherwise it may lead to tax evasion and corruption.
- (iv) **Economy:-** Cost of collecting taxes should be as minimum as possible. There should be no leakage in the way of collecting the taxes.
- (v) **Productivity:-** It is better to have fewer taxes with large revenue, rather than more taxes with lesser amount of revenue.
- (vi) **Simplicity:-** The entire process should be simple, non – technical and straightforward.
- (vii) **Elasticity:-** An ideal system of Taxation should consist of those types of taxes that can easily be adjusted. Taxes which can be increased or decreased according to the demand of the revenue are considered ideal for the system.
- (viii) **Flexibility:-** The entire tax system should be flexible enough that the taxes can easily be increased or lowered, in accordance with the government needs.
- (ix) Being heavily dependent on a single tax source can be detrimental to the economy. So, diversifying the tax sources is essential in order to be more prudent and flexible.

- (b) (i) An amended assessment. This is a new assessment that is issued as a result of a valid (successful) objection to an original assessment. The original assessment is discharged and the amended assessment issued.
- (ii) Revised assessment. This is an assessment that is issued at the discretion of the tax authority which could be reviewed upward or downward. It is not issued as a result of agreed tax liability between the taxpayer and the tax authority as it is in amended assessment.

