CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2018: PROFESSIONAL EXAMINATION

PT 2: STRATEGY, RISKS& ETHICS

ATTEMPT ALL QUESTIONS. **TIME: 3 HOURS.**

1. (a) Write short notes on Five (5) ethical qualities that a Tax Professional must possess. (10 Marks)

   (b) State Five (5) signals which indicate that a company is involved in money laundering. (10 Marks)

   (Total 20 Marks)

SOLUTION TO QUESTION 1

(a) ETHICAL QUALITIES OF TAX PRACTITIONERS

(i) INTEGRITY

A tax practitioner must have integrity. He must be honest and straightforward in his professional and business dealings.

(ii) OBJECTIVITY

A tax man must not allow his professional or business judgement to be affected by bias (personal prejudice), conflicts of interest and undue influence from others. For tax practitioners in business, this includes undue pressure from the employer (Senior Management).

(iii) PROFESSIONAL COMPETENCE AND DUE CARE

A tax practitioner has a duty to maintain his professional knowledge and skills at a level that enables him/her to provide competent professional service to clients or employer. This includes a requirement to be up to date with developments in areas of taxation, tax laws, etc, that are relevant to the work that he does. They should also act in accordance with relevant technical and professional standards when doing their work for clients or employer.

(iv) CONFIDENTIALITY

Tax practitioners must respect the confidentiality of information obtained in the course of their work. This applies to the confidentiality of information within the firm or employer's organization as well as to confidentiality of information about clients.

(v) TECHNICAL STANDARD

A professional tax practitioners should perform his professional tasks in accordance with the relevant technical and professional standards. They include: standards issued by CITN (i.e. Statement of Taxation Standard STS), International financial reporting standard (IFRS), etc.

(vi) GOOD JUDGEMENTAL SKILLS

He is expected to apply professional judgement in the discharge of his duties.

(vii) LOYALTY TO THE GOVERNMENT

(viii) COURTESY AND DISCIPLINE
Politeness to members of the public and adherence to regulations

(b) SIGNALS INDICATING MONEY LAUNDERING BY A COMPANY

Money laundering can be detected through the following signals:

(i) Large sum of cash not consistent with the company's business;
(ii) Unwillingness to provide complete information on the business;
(iii) Company prefers to always deal in cash instead of using bank;
(iv) Company unwilling to reveal the identity of a third party on whose behalf they are acting;
(v) Company changing accountants regularly without any justifiable reasons;
(vi) Company always paying unusual consulting fees to companies located offshore (not related to it);
(vii) Payment to subsidiaries that are not within the normal course of business;
(viii) Acquisition of assets which are not consistent with the ordinary business practice prevailing in that industry;
(ix) Complex group structure without explanation; and
(x) Inconsistent business activity.

EXAMINER'S REPORT

The question tests the candidates' knowledge of ethical qualification a Taxation Professional must possess and signals that indicate company involvement in money laundering. The question was well attempted. About 90% of the candidates attempted the question and scored above average of the mark allocated.

The commonest pitfall is in the "b" part of the question which few of them misunderstood.

Candidates are advised to study widely while preparing for future examinations.

2. (a) The quality and effectiveness of performance management in organisations depend on the implementation of fundamental principles of management.

Mention and discuss Four (4) of these principles. (10 Marks)

(b) Why is measuring organizational performance important? (10 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) (i) Transparency: Decisions relating to performance improvement and measurement such as planning, work allocation, guidance and counselling, monitoring and performance review e.t.c should be effectively communicated to the managers and other members in the organisation.

(ii) Employee development and empowerment: Effective participation of employees in decision making process and treating them as partners in the enterprise. Recognizing and appreciating employees for their merits, talents and capabilities, rewarding and giving more authority and responsibilities e.t.c., come under the umbrella of these principles.

(iii) Values: A fair treatment and ensuring due satisfaction to the stakeholders of the organisation, empathy and trust and treating people as human beings rather than as mere employees form the basic foundation of effective performance management.

(iv) Congenial work environment: The management need to create a condusive and congenial work culture and climate that would help people to share their experience, knowledge and information to fulfil the employees aspirations and achieve organisational goals.

(v) There must be a clear definition of organisational mission, objectives, values and the development of individuals and teams for better performance.

(b) (i) Measuring organisational performance enhances better asset management. Asset management is the process of acquiring, managing, renewing and disposing of assets as needed and of designing business models to take advantage of the value from these assets.

(ii) It would also lead to an increased ability to provide customer value.

(iii) It also has a positive impact on an organisation's reputation.

(iv) It leads to improvement of organisational knowledge.

(v) It helps to align activities with plans.

(vi) It leads to increase in productivity

EXAMINER'S REPORT

The question tests candidates' knowledge and understanding of the qualities and effectiveness of performance management and reasons for measuring organizational performance. Candidates performed woefully as most of them could not provide correct solution to the question because of lack of understanding of the requirement of the question.

The commonest pitfall is the candidate lack of understanding of the question.

Candidates are advised to read wide and pay more attention to this aspect of the syllabus in preparation for future examination.

3. An argument ensued between the Tax Partner and the Tax Manager of a professional practice over the ideal business strategy to be implemented by a professional practice.

(a) Explain the basis for assessing a business strategy, using the criteria proposed by Johnson and Scholes. (10 Marks)

(b) Explain the "Push Strategy" and the "Pull Strategy". (5 Marks)

(c) Relate (b) above to the current Federal Government's drive for increased tax revenue generation. (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) Johnson and Scholes suggested three criteria for evaluating a proposed business strategy are:

- Suitability;
- Acceptability; and
- Feasibility.

Factors confirming the suitability of a strategy are:

- If the purpose of the strategy is to gain competitive advantage through cost reduction, value addition e.t.c.;
- If the purpose of the strategy is market development and its implementation;
- If the strategy is suitable for market development, product development or diversification; and
- The acceptability of the business risk of the strategy.

Factors confirming the acceptability of a strategy are:

- The expected returns on investment or the risk in relation to the expected returns to shareholders are moderate;
- Investors will not be expected to provide a large amount of additional investment finance; and
- Employees and investors regard the strategy ethical.

Factors confirming the feasibility of a strategy are:

- Sufficiency of funds for the strategy and affordability;
- Achievement of strategy's required quality level;
- If the strategy expected marketing skills reaches the available market position;
- Availability of employees with the necessary skills to implement the strategy;
- Availability of the necessary materials to implement the strategy; and
- Availability of the required technology to implement strategy successfully.

(b) "Push Strategy" is aimed at getting distributors to buy the products of a manufacturer for resale in its own supermarket or other retail outlets through low prices and generous credit terms.

While the "Pull Strategy" is aimed at getting the end – consumers yearn for the product, so that they expected their own supermarket or other retail store to have the product available through advertising and sales promotions.

(c) The Push Strategy and Pull Strategy can be related to the current Federal Government drive for increased tax revenue generation in the sense that the current situation where tax consultants are appointed by individuals and business entities to relate with the government and manage their various tax liabilities. This approach is synonymous to the Push Strategy and has only limited tax revenue generation to city centres metropolist and elites.

But the Pull strategy can be related to the evolution of direct assessment and e-tax payment which is really deepening and widening the tax net thereby leading to increased tax revenue generation.

In conclusion the mix of the push strategy and the pull strategy should be used with each one deployed according to the dynamics of the different communities, localities, tribes or ethnic groups, states etc that make up the federation.

EXAMINER'S REPORT
The question tests candidates' knowledge of business strategy implementation and explanation on "Push and Pull Strategy". All the candidates attempted the question but performance was very poor as all the candidates scored below average of the marks allocated.

The commonest pitfall of the candidates was their inability to correctly interprete and analyse the question to provide reasonable solution.

Candidates are advised to make use of relevant text books and the Institute Pathfinder for future examinations.

4. (a) Why is it necessary for organisations and professional bodies to develop and adopt ethical codes of conduct in their dealings? (6 Marks)

(b) Mention Three (3) ways of dealing with unethical business practices.(6 Marks)

(c) Briefly explain the importance of SWOT Analysis in the management of an enterprise. (8 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

a. (i) To improve the confidence of customers, clients, patients and other groups in the quality of service that they may expect from professional and organisations.

(ii) Code of ethics regulates relationship between and among members. It brings out ethical standards between vendors and suppliers in financial institution and government agencies.

(iii) It helps the weak, who if approached to undertake an unethical act, can point to the code to underwrite their refusal.

(iv) It helps to detect unethical behaviours among competitors, employees and group members.

b. (i) Strict Sanctions: This call for imposition of severe and appropriate sanctions against individuals and business organisations that breach business ethics. The sanctions must be prompt and sufficiently strong enough to act as deterrent to other prospective offenders.

(ii) Moral Suasion: This approach calls for the launching of massive campaigns for people to be disciplined in their behaviour.

(iii) Reward for Excellence and Outstanding ethical behaviour: Individuals who exhibit an outstanding act of disciplined behaviour should be rewarded in status and in kind.

(iv) Development of ethical codes for professionals and adhering to such codes should also be promoted.

c. (i) SWOT analysis enables managers to identify firm's strength, weaknesses, environmental opportunities and threats.

(ii) SWOT analysis is an extremely useful tool for understanding the different situations that could confront business organisations.

(iii) It provides a basis for decision making and problem solving for managers.

(iv) SWOT analysis can be used for business planning, competitors' evaluation, and product development and research reports.

(v) SWOT analysis provides a good framework for reviewing strategy, position and direction of a company.

(vi) It allows a firm to discover new business and marketing opportunities.

(vii) It also enables managers to discover their firm's distinctive competencies so that appropriate strategies can be chosen to exploit the unique business strengths.

EXAMINER'S REPORT

The question tests candidates' knowledge of ethical codes and SWOT analysis as a strategic tool. About 90% of the candidates attempted the question and less then 10% of those that attempted the question scored above average, therefore, performance was very poor.

The commonest pitfall of the candidates was their inability to inteprete the question correctly.

Candidates are advised to have indepth coverage of the syllabus while preparing for future examination.

5. (a) Distinguish between "objective risk perception" and "subjective risk perception". (5 Marks)

(b) Differentiate between "related risk factors" and "correlated risk factors". (5 Marks)

(c) Explain the difference between a Risk Dashboard and the ALARP principle. (10 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 5

(a) Objective risk perception is a situation in which it is possible to assign accurate and reliable values to the likelihood and impact of a risk.

Subjective risk perception is a situation in which it is difficult to assign a value to either the likelihood or impact of a risk.

(b) Related risks are those that are often present at the same time while correlated risks are those that vary together. Risks might be positively correlated or negatively correlated which may be due to the risks having a common cause or because one type of risk might give rise to the other.

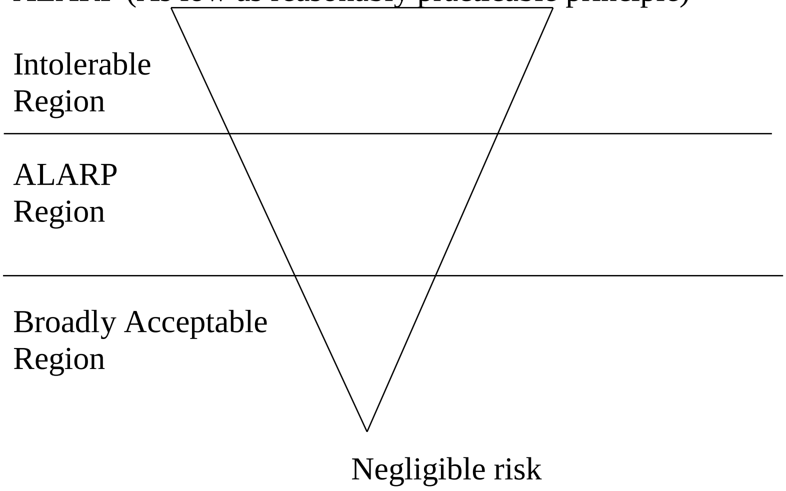
(c) A risk dashboard can be used to identify which risks need further control measures:

Risk Dashboard

Red
Red/Amber
Green/Amber
Green

While ALARP is a term that is associated with safety precautions. It stands for”as low as reasonably practicable” and derives from UK Health and Safety Legislation.

ALARP (As low as reasonably practicable principle)



EXAMINER’S REPORT

The question tests candidates’ knowledge of risk perception, risk factors and ALARP principle. About 70% of the candidates attempted the question but performance was very poor as only about 30% of them scored above 50% of marks allocated.

Most candidates demonstrated lack of understanding of the question thus resulting in their very poor performance.

The commonest pitfall of the candidates was their lack of understanding of the ALARP principle.

Candidates are advised to read wide and make use of relevant textbooks when preparing for future examinations.

CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2018: PROFESSIONAL EXAMINATION

PT 2: INTERNATIONAL TAXATION

ATTEMPT ALL QUESTIONS. **TIME: 3 HOURS.**

1. (a) State and explain the Two (2) main modes of investment which a non-resident company can make in its Nigerian subsidiary from the corporate finance perspective. (10 Marks)

(b) Explain the tax implications of the Two (2) main modes of financing discussed in (a) above. (5 Marks)

(c) What do you understand by the term "Reciprocity" in line with the provisions of Article 8 (Shipping and Air Transport) of the Nigerian avoidance of double taxation agreement? (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 1

(a) The two main modes of investment by a non-resident company in its Nigerian subsidiary from corporate finance perspective are:

(i) Equity Finance
(ii) Debt Finance

(i) **Equity Finance:** Under equity finance, the non-resident company can acquire shares of the company and becomes the owner or part owner of the Nigerian Company depending on the level of its shareholding.

(ii) **Debt Finance:** Through debt finance the non-resident grants a loan to the Nigerian subsidiary. Interest is also charged on the loan.

(b) The tax implications of the two main modes of financing discussed in (a) above is that interest payable on the loan for debt financing is a deductible expenses of the Nigerian Company. On the other hand, dividend payable in respect of equity investment is subject to withholding tax deduction, which is a final tax for the recipient of the dividend. The dividend is also payable from after tax profit.

(c) Reciprocity as provided in Article 8 of the Nigerian agreement for the avoidance of double taxation exists where a Nigerian resident carries on the business of air or sea transportation into a country which also carries on the same business into Nigeria. In other words, a Nigerian company operating in international traffic carries on its operation into a country and a company of that other country also conducts its operation in international traffic into Nigeria. The tax treatment in such a situation is reciprocal exemption from tax, of profits derived from such operations.

However, in the case of non-reciprocity, incomes derived by the enterprise in the other contracting state are subject to tax, but at a discounted rate.

2. (a) What is the importance of residence in bilateral Tax Treaty? (10 Marks)

(b) Briefly state how a professional can be assessed to tax on activities carried out in Nigeria. (10 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) The importance of residence in bilateral tax treaties lies in its role as basis of allocating taxing right between the two Contracting tax jurisdictions i.e. the country of residence and the source country in order to avoid double taxation.

Where the avoidance of double taxation agreement confers the exclusive right to tax on one of the Contracting states, the other country does not tax the income. Therefore, double taxation is eliminated.

Where the source country has the full right to tax, the country of residence has the right to tax but grants credit for the tax paid at source to avoid double taxation.

In addition, in the absence of a tax treaty, residence rule confers taxing right on the Source state where the non-resident stays for a minimum of 183 days.

(b) A professional can be assessed to tax on activities carried out in Nigeria if any of the following is met:

(i) If he is a Nigerian resident he will be liable to tax on the income together with income from other sources worldwide.
(ii) If he is not a Nigerian resident only so much of the income attributable to the fixed base will attract Nigerian tax.
(iii) If he has no fixed base in Nigeria for the performance of the activities, the income will be liable to tax only in the country of residence.

3. (a) The Nigerian Government, worried by the rising incidence of Transfer Pricing abuses by Multinational and Group Companies, issued the Income Tax (Transfer Pricing Regulations) 2012.

(i) Explain Four (4) objectives of the transfer pricing guidelines. (4 Marks)

(ii) Explain what is meant by the terms arm's length principle, advance pricing agreement and safe harbor. (6 Marks)

(b) Pyrotechnics Nigeria Limited was established for the main purpose of providing marketing support services to Pyrotechnics UK Limited, its parent company. Pyrotechnics Nigeria Limited's expenses are reimbursed with a 5% mark-up, which constitutes its total revenue.

(i) What is the best transfer pricing method that can be used to test this transaction? (2 Marks)

(ii) Justify your responses in (i) above and how the method will be applied. (8 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) (i) The Income Tax (Transfer Pricing) Regulations 2012 issued by the Federal Inland Revenue Service had the gazette published in September 2012 as 'The Income Tax (Transfer Pricing) Regulations, No. 1, 2012'. The objectives are stated as:

* To ensure that Nigeria is able to tax on appropriate taxable basis corresponding to the economic activities deployed by taxable persons in Nigeria, included in their transactions and dealings with associated enterprises.
* To provide the Nigerian authorities the tools to fight tax evasion through over or underpricing of controlled transactions between associated enterprises.
* To reduce the risk of economic double taxation.
* To provide a level playing field between multinational enterprises and independent enterprises doing business within Nigeria; and
* To provide taxable persons with certainty of transfer pricing treatment in Nigeria.

(ii) **(a) "Arm's Length Principle"**

"Arm's Length Principle" in relation to a controlled transaction means the results of the transaction is consistent with the results that would have been realized in a transaction between independent persons dealing under the same conditions. In effect, the arm's length principle would be said to be at play where the relationship (or lack of it), existing between parties to an economic transaction, have not impacted on the prices chargeable or payable by the respective party.

Where parties to a transaction are related or otherwise connected, the transactions must be priced as with those between independent enterprises conducted in similar circumstances. An arm's length price for a transaction is what the price of that transaction would be on the open market. The arm's length principle provides the basis for taxing income derivable from transactions between associated enterprises in most countries. This principle is further captured in Article 9 of the OECD and UN Model Tax Conventions as well as OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

(b) "Advance Pricing Agreements"

"Advance Pricing Agreements" are commercial agreements between connected taxable persons (CTPs) that have been pre-approved by FIRS. The threshold is ₦250,000,000 (Two Hundred and Fifty Million Naira) per year per transaction and applicable for maximum of three years. Companies can take advantage of this to increase level of certainty on sensitive TP related transactions.

(c) **"Safe Harbour"**

"Safe Harbour" refers to protection of commercial transactions between connected taxable persons from TP documentation if pricing is based on a Nigerian statutory provision; or pre-approved by the relevant government agencies (e.g. NOTAP, DPR, NNPC, CBN, etc.) In any event, documentation must be prepared to confirm that approved price is at arm's length.

(b) **Pyrotechnics Nigeria Limited**

(i) The most suitable method for the transaction will be the Transaction Net Margin Method (TNMM).

(ii) Pyrotechnics Nigeria Limited is a service provider and it is possible to benchmark the returns that it should earn against the returns earned by independent service providers, using the TNMM. The tested party will determine the Profit Level Indicator (PLI) used. The decision for the tested party will be dependent on a number of factors. A major factor will be the availability of data on both parties to the transaction. The profit level indicator used could be the Mark-Up on Total Costs (MTC) or Operating Margin (OM).

A search will be performed to identify a set of independent companies that could be used to determine an appropriate arm's length range of return on marketing support services. The independent companies should be in the same industry/similar industry and in similar markets as the tested party, and services rendered should be similar.

The search process will involve the examination of the companies in the database, the elimination of non-comparable companies, and the selection of those companies that are believed to be suitable as a benchmark for marketing support services. As a result of the search, a set of independent companies will be identified as comparable, which may be used as benchmark for the return that Pyrotechnics Nigeria Limited should earn from the marketing support services.

4. (a) State Three (3) features of thin capitalization. (6 Marks)

(b) Dr. John Traveller is an individual who has worked in many countries. Many of his admirers regard him as a "Great man". He had worked in Ghana, South Africa, Zimbabwe, United Kingdom, Canada, Germany, Netherlands and United States of America.

His annual income is earned piecemeal from each country where he visited. Form his itinerary in 2013 as provided by his Personal Assistant, he had visited more than fifteen Countries including Nigeria, and in some cases, stayed for more than two (2) months in few of the countries visited. He is faced with how to determine his taxable income in each of the countries visited as well as tax payable in Nigeria where he permanently resides. You have been appointed as the Tax Consultant to Dr. John Traveller.

Required:

Advise him on the relevant provisions of the tax laws that will mitigate the possible effect of paying tax on the same income in Two (2) or more countries.

(14 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) Features of Thin Capitalization are (any 3 of these points):

- (i) Thin capitalization is where a company is heavily financed by debt as against equity capital.
- (ii) Where a company has higher proportion of debt to equity capital, the taxable profits of the company will be eroded by the interest expense.
- (iii) Where the debt is provided by a foreign parent company then more of the profits is repatriated out of the country.
- (iv) As a result of the high level of interest expense, the taxable profit of the company will be eroded, which will ultimately reduce the tax revenue due to the government.

(b) Since Dr. John Traveller permanently resides in Nigeria, his tax liability and reliefs will be primarily based on the provisions of the Nigeria Personal Income Tax Act. In addition the provisions of the tax treaties between Nigeria and some or all other countries will be relevant if they have tax treaties with Nigeria.

The relief or credit claimable in respect of foreign tax suffered by Dr. Traveller's income will be applicable to those countries where tax treaties subsist. Where there is no tax treaty, the income derived in such countries will be subject to the full provisions of those countries as well as in Nigeria.

5. Mide-Lomlu Limited imports jewelries and has been in business for some years now. The company is doing very well and the Directors are impressed with the growth. The company's Chief Executive Officer is a member of Kwara State Fitness Center. On June 1, 2017, after the morning exercise, a friend of the CEO narrated how the company he works for plans for tax in their annual projections.

As a proactive move, the company inquired from seasoned Tax Practitioners and your firm, Dimlola & Co., Chartered Accountants was mentioned to him. As the Managing Partner, you are to make a presentation that will address the following:

(i) Brief explanation of what you understand by the term tax avoidance and tax evasion. (10 Marks)

(ii) Five (5) differences between Tax Avoidance and Tax Evasion. (10 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 5

(i) Tax avoidance refers to a situation where the taxpayer arranges his/her financial affairs in such a way as would make him/her pay the least possible tax. The taxpayer after a critical review of the existing tax laws exploits loopholes in the tax laws, which would enable him/her avoid or minimize tax liability. It should be added that tax avoidance is legal once it is done within the limits permissible by the tax laws.

Tax evasion on the other hand is the act whereby a taxpayer takes unlawful steps to minimize his/her tax liabilities. Tax evasion involves outright breach of the law, which is fraudulent and deceitful, such as deliberate omission of a source of the taxpayer's income from the filed returns. The tax authority views any case of evasion seriously and if discovered the tax authority will proceed to reopen the relevant assessments of such a taxpayer, beyond the official statutory limit of six years. This is a case for tax investigation to ascertain the amount of tax loss due to the taxpayer's evasive acts.

(ii) Differences between Tax Avoidance and Tax Evasion

TAX AVOIDANCE	**TAX EVASION**
1. Legal	Illegal
2. Achievable through the exploitation of loopholes in the tax laws	Achievable through deliberate action of fraud and deceit or rendering incorrect returns.
3. Results in the taxpayer paying minimum tax possible without breaking the provisions of existing tax laws	Results in taxpayer paying incorrect tax or paying tax through illegal means or not paying at all
4. Supported by the Law Courts in decided cases	Not supported by the law courts
5. No criminal liability	Tax evader is criminally liable and could be charged to court with consequent fines, penalties and sometimes imprisonment.
6. If stretched to the extreme the scheme could be disregarded by the Tax Authorities	At any level, Revenue Service will frown at tax evasion.
7. Revenue Service Investigation and prior years' assessment will not be reopened	Revenue Service Investigation will be instituted and has the power to reopen prior years' assessments beyond the statutory limit of six years.

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

(1) (a) The statement of financial position of a taxpayer has a substantial figure as outstanding receivables as at year ended 31 December, 2017.

You are required to draw up an audit programme to confirm the genuineness and correctness of the amount of the receivables. (12 Marks)

(b) What is vouching? Why is it necessary in a tax audit exercise? (8 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 1

(a) Trade Debtors - Audit programme.
Our objective is to confirm the completeness, existence and accuracy of debtors balances and to obtain relevant information that will enable us arrive at reasonable conclusion that the trade debtors balance are correct as stated in the financial statements.

S/N	TASKS TO PERFORM	Working Paper Ref. (WP Ref.)	Done By
i.	Obtain a list of all the company's debtors as at 31/12/2017		
ii.	Agree debtors balances to the sales ledger, sales day book and other relevant transaction records		
iii.	Write out the invoices and respective amount of each that resulted in the debtors balances for significant accounts		
iv.	Vouch record of debtors to subsequent cash receipt after year end		
v	Perform reasonability tests by obtaining sales by month, by products and/or service and compare with prior periods and budgets, Obtain satisfactory explanations for significant variances.		
vi.	Do critical examination of invoices that are doubtful, for nature of transactions, size, product and test payment in respect of these		

vii.	Determine the Sales/Trade debtors payment cycle, confirm reasonableness of closing year balances		
viii.	Confirmation of balances with the respective trade debtors either by circularization, telephone calls or other prudent means		
ix.	Check movement in debtors balances (Balances b/f + Current year transactions less payment received this year) closing balance.		
x	Check cashflow statements against trading account and statement of Value Added for correlation.		
xi.	The age analysis of the debts should be done		

(b) Vouching means the examination of the transactions of a business, together with documentary and other evidences of sufficient validity to satisfy a tax auditor that such transactions are in order, have been properly authorised and are correctly recorded in the accounting records. By this means the auditor goes behind the accounting records and traces the entries to their sources, and it is in this way that he can ascertain the full meaning and circumstances of the various transactions.

Relevant transactions documents are examined critically to authenticate validity of the entries in the accounting records, and the ledgers. Vouching is very necessary in tax audits as it provides the basis for the understanding and agreement of both simple and complex transactions of an organisation.

EXAMINER'S REPORT

The question tests candidates' understanding of audit programme and vouching.
Performance was very poor as only about 20% of the candidates scored above 50% of the allocated marks.

The candidates' commonest pitfall was lack of understanding of what an audit programme is.
Candidates are advised to study all areas of the syllabus when preparing for future examination.

(2) (a) Explain the reasons why it is important for a tax auditor to seek sufficient knowledge of the taxpayer's business activities before carrying out a tax audit? (6 Marks)

(b) List any Eight (8) matters on which tax auditors can make judgements in the course of a tax audit exercise. (8 Marks)

(c) Write short notes on Audit Risk. (6 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 2

a. It is essential that a tax auditor should seek sufficient knowledge and information about a taxpayer to be audited for the following reasons:

(i) The tax auditor needs to assess the audit risks and identify likely challenges of the business and industry in which the taxpayer operates. Risks are essentially present in every business and industry, the seasonal and cyclical changes, weather, infrastructural needs, personnel and labour practices that are prevalent, input and raw materials supplies etc.

Knowledge of the taxpayer to be audited is essential because it will assist in audit planning and performing the audit effectively and efficiently. The approach to audit of stock broking firms, hotels, hospitals, aviation, engineering, manufacturing, pharmaceutical and such other businesses should identify the peculiarities and needs of each.

Audit Planning includes time to carry out audit, personnel that will form the audit team, time frame or span of the audit and allocation of different segments of the audit to experienced and competent hands knowledgeable in the area allocated. The more complex and large or sophisticated the organization is, so also is the need to assign the appropriate resources for quality audit and high level output and results.

(ii) Sufficient knowledge of the taxpayer is essential in evaluating audit evidence provided in support of claims and annual returns received annually. Management retreat, sales promotion, Nigeria Stock Exchange reports news bulleting publication may be some audit evidence in support of advertisement costs, project that are on-going, corporate social responsibility matters etc.

b. Eight matters on which tax auditors make judgements in course of tax audit include:

(i) Consideration of risks pertaining to the entity's business and the directors' response thereto;
(ii) Identifying areas where special audit considerations and skills may be necessary;
(iii) Evaluating accounting estimates and representation by the directors and management;
(iv) Developing the over -all audit planning and the audit programme to use;
(v) Assessing the inherent and control risks of the audit exercise;
(vi) Assessing and agreeing audit evidences to establish its appropriateness and the validity of related financial statements assertions;
(vii) Determining a materiality level and assessing whether the materiality level chosen remains appropriate;
(viii) Considering the complexity of the entity's information systems and any effect on the audit approach;
(ix) Making informed enquiries and assessing the reasonableness of answers;
(x) Considering the appropriateness of accounting policies and financial statement disclosures;
(xi) Recognising conflict of information (for example contradictory representations statement of cashflow, statement of income, statement of financial positions, statement of value added, must all flow together and none should contradict the other; and

(xii) Recognising unusual circumstances (for example undisclosed related transactions, possible fraud, non-compliance with Acts or regulations and unexpected relation of statistical operation data with financial result.

c. AUDIT RISK

Risk is the potential loss to an enterprise due to error, fraud inefficiency , failure to comply with statutory requirements or actions which bring disrepute to an entity. It is synonym for all adverse consequences organization wish to avoid and the probability that such consequences will occur having their magnitude and imminence in mind.

Audit risk therefore refers to the risk arising from audit work, the risk that the FIRS will suffer loss as a result of giving an inappropriate audit opinion on the entity that is being audited. The loss could be in the form of damage to revenue and the resulting financial/income loss or in the form of monetary compensation for damages to the organisation being audited or indeed both. It is the probability that the audited financial statements contain a significant error or misstatement that could lead to loss of income by the revenue, the risk that the tax auditor will provide an unqualified opinion on the financial statements that contain material misstatements. Audit risk could be normal or higher than normal.

A tax auditor may give an appropriate opinion, for example, by stating that the financial statements which he had audited show true and fair view, that they are correct as presented when in actual fact they do not, this may arise from:

- Not gathering appropriate and sufficient audit evidences to back up analysis, summary, conclusion or opinion contrary to earlier assessment;
- Misinterpreting the evidence gathered by drawing inappropriate conclusions; and
- Being deliberately misled by those providing the evidences in a manner that would have led to a different opinion or those who falsify the evidences.

EXAMINER'S REPORT

The question tests candidates' knowledge of reasons why an auditor must have knowledge of his client's business and audit risks.

Performance was very poor as only about 10% of the candidates scored up to 50% of the allocated marks.

The commonest pitfall of the candidates was lack of understanding of the audit risks.
Candidates are advised to cover all the areas of the syllabus when preparing for future examination.

3. (a) List any Five (5) sources of income of an individual under the Personal Income Tax Act (PITA), 2011. (2½ Marks)

(b) How is the chargeable income of an individual determined under the Personal Income Tax Act (PITA), 2011? (2½ Marks)

(c) You are to examine the tax returns of Osumah Enterprises and report on any back duty payable (if any). In the file of the employer maintained by the tax station, you obtained the following data, in respect of the year ended 31 December, 2017.

Names of Employees	Designation	Gross Incomes
		₦
Mr. Osumah John	General Manager	3,416,000
Mr. Ayodeji Kenneth	Supervisor	1,445,000
Mr. Abdullahi Taiwo	Sales Manager	817,550
Mr. Akpan Okon	Warehouse Manager	499,950
Miss. Okechukwu Rhoda	Accountant	928,000
Mrs. Ovie Whiskey	Front Desk Officer	480,000
		7,586,500

The company made monthly tax remittances from its payroll which totalled ₦426,000 for the year just ended. Your analysis of the payroll indicated deductions made from employees' emoluments as follows:-

Tax Deductions made	₦
Mr. Osumah John	240,000
Mr. Ayodeji Kenneth	96,000
Mr. Abdullahi Taiwo	24,000
Mr. Akpan Okon	12,000
Miss. Okechukwu Rhoda	42,000
Mrs. Ovie-Whiskey	12,000
	426,000

Prepare in tabular form, a presentation to show, for each employee –

(i) Consolidated Relief Allowance (CRA)
(ii) Chargeable Income
(iii) Tax Payable
(iv) Back duty from each employee.
(v) Total back duty collectable from Osumah Enterprises.
(Ignore penalty and Interest) (15 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

a. Sources of income of an individual under the Personal Income Tax Act 2011 (as amended) include:

i. Trade, Business, Profession, vocation etc;
ii. Employment;
iii. Pension, Annuity, Gratuities;
iv. Income received in or brought into Nigeria from all sources outside Nigeria;
v. Dividends from Nigeria Companies, and other dividend;
vi. Interest received from deposits, savings;
vii. Rent received;
viii. Income in respect of other projects arising from sources not included above; and
ix. Benefit in kind.

b. Chargeable Income of an individual is derived or arrived at by.

- Determining the aggregate income from all sources, and deducting.
- The Consolidated Relief Allowance which is the higher of 1% of the gross income or ₦200,000 plus 20% of the gross income.

c.

Name of Employees	Designation	Gross Income ₦	Consolidated Relieve Allowance ₦	Chargeable Income ₦	Tax Payable ₦	Actual Tax Payment ₦	Back Duty ₦
John Osumah	General Manager	3,416,000	200,000 683,200 883,200	2,532,800	419,888	240,000	**179,888**
Kenneth Ayodeji	Supervisor	1,445,000	200,000 289,000 489,000	956,000	107,400	96,000	**11,400**
Taiwo Abdullahi	Sales Manager	817,550	200,000 163,510 363, 510	454,040	37,944.40	24,000	**13,944.40**
Okon Akpan	Warehouse Manager	499,950	200,000 99,990 299,990	199,960	13,997.20	12,000	**1,997.20**
Rhoda Okechuku	Account	928,000	200,000 185,600 385,600	542, 400	47, 664	42,000	**5,664**
Mrs Ovie Whiskey	Front Desk Officer	480,000	200,000 96,000 296,000	184,000	12,880	12,000	**880**
	Total	7,586,500			621,111	426,000	**213,773.60**

Back duty assessment payable by Osumah Enterprises is ₦213,773.60.

EXAMINER'S REPORT

The question tests candidates' ability to calculate personal income tax and determination of backduty tax payable.

The candidates demonstrated adequate knowledge of the question and performance was impressive.

4. You have been appointed as the tax consultant to Backward Never Nigeria Limited. The Chairman of the company invited you to a crucial meeting in his office to shed more light on some of the issues that were brought to his attention in relation to back duty assessment.

   In view of the above, you are required to:-

   (a) Explain in details the meaning of Back Duty Assessment. (6 Marks)

   (b) Highlight Four (4) reasons for instituting Back Duty Assessment. (10 Marks)

   (c) Define and explain the following terms:-
   (i) Audit Cycle. (2 Marks)

   (ii) Final Tax Audit Report. (2 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

a. The relevant Tax authority either under the provision of the Companies Income Tax Act of 1979 or the Personal Income Tax Act of 2011 (as amended) may from time to time and as long as it wishes carry out a back duty audit on a tax payer. The law in fact allows the relevant tax authority to go back as far as six years or even more before the year of examination. During the course of back duty audit, the records of the taxpayer are audited to examine the truth in the information that were earlier provided on the annual returns or tax computations.

It is to confirm that income has not been materially understated and that expenses have not been overstated.

It also seeks to determine whether all the expenses included in the tax computation are allowable for tax purposes.

During the course of the audit, the values of the qualifying capital expenditure would be confirmed. This is to check that the basis of capital allowance computation is reliable. If the rates applied in capital allowance and tax computation are correct, the tax computation is reviewed based on the findings from the audit exercise. This is subsequently compared to the tax computation earlier submitted and on which remittance was previously based. The shortfall on a yearly basis is determined and this forms the basis of an addition assessment.

b. Reasons for instituting Back Duty Assessment. Back duty audit may be instituted on the happening of one or more of the following events:

- Error or omission in the assessment or collection of taxes due to deliberate intention of the taxpayer.
- Failure to disclose or include in full any income or earning in returns made available to the tax office.
- Tax has been charged or assessed at less than what ought to have been charged or assessed.

c. **(i) Audit cycle**

An audit cycle is the accounting process that auditors employ in the review of a company’s financial information. The audit cycle includes the steps that an auditor will take to ensure that the company’s financial information is valid and accurate before releasing any financial statements.

(ii) Final Tax Audit Report

The audit report is very important and should be rendered immediately an audit is completed. It contains all important items about the company and the audit work done. Audit reports tend to expose system’s weaknesses and shoddy audit job is also easily revealed. The report will state the findings and details of tax liabilities, if any. An audit report should always be completed with the auditors’ recommendation, such recommendation may include the need for extended audit special investigation and even prosecution based on the minutes and outcome of the reconciliation meetings. The final audit report will be written by audit team leader. The report which should be addressed to the regional/headquarters audit, will state in detail, the additional assessment agreed at the reconciliation meeting as well as those disputed. The report should also state the details of settlements of the additional taxes in full or part, if any.

The report should indicate details of how each additional assessments was arrived at. The management will consider the audit report within a reasonable time of its receipt and issues clear directives for issuance of notices of additional assessments, amended assessments and notice of refusal to amend assessments, as appropriate.

EXAMINER'S REPORT

The question tests candidates' knowledge of backduty assessment, audit report and audit cycle.

Performance was very good as more than 80% of the candidates scored above 60% of the allocated marks.

5. Explain the procedures for the Tax Audit or Investigation of any Four (4) of the followings as they relate to individuals or private companies.

   They are:

   - Non-Current Assets (5 Marks)
   - Inventory (5 Marks)
   - Foreign Exchange Loss or Gain (5 Marks)
   - Insurance (Life and Motor Vehicles) (5 Marks)
   - Loans and Overdrafts (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 5

(a) Non – Current Assets: This comprise of Property, Plant and Equipment (PPE), Land & Building, Furniture & Fitting etc.

(1) Procedure for the Tax Audit/Investigation of non-current Assets.

(i) Obtain the schedule of Non-Current assets to determine their opening balances, year of acquisition, disposal, if any, depreciation rates/balances and end year balances.

(ii) Agree comparative figures with previous year working papers and financial statements.

(iii) Agree the list or schedule to the asset register, trial balance and accounts.

(iv) Obtain schedule of all additions suitably classified into asset categories.

(v) Ascertain existence of the asset categories.

(vi) Ascertain the ownership by reference to documents of acquisition, registration, insurance, purchase agreement, e.t.c.

(b) Inventory

(i) Obtain Schedules of inventory under each category i.e. stock of raw material, work-in-progress and finished goods to determine the cut off – examining the balance brought forward.

(ii) Observe the physical inventory count to the general ledger i.e. verify physical existence.

(iii) Test high value items to examine accuracy

(iv) Test inventory in transit and ascertain ownership.

(v) Test the costs and evaluate realizable value.

(c) Foreign Exchange Loss or Gain
- (i) Determine the amount of gain or loss.
- (ii) Ascertain whether the exchange rate used for conversion conforms with the prescribed standard
- (iii) Calculate to ascertain the accuracy of the amount of gain or loss.
- (iv) Obtain the schedule

(d) Insurance (Life and Motor Vehicle)
- (i) Obtain the schedule of insurance policy in operation to ascertain the existence.
- (ii) Obtain the insurance policy statement or agreement between the insurance company and customer.
- (iii) Obtain evidence of premium payments.
- (iv) Determine the cut off period or expiration of the policy.

(e) Loan and Overdraft
- (i) Obtain the list of loans and overdraft and their compliance with the entries made in the journals and ledgers.
- (ii) Vouch the evidence of payments of the loans or overdrafts via the bank statement and relevant documentations.
- (iii) Obtain and review the loan agreement for terms and conditions, rate and loan agents collateral security, tenor etc.
- (iv) Obtain security documents for review to determine its reasonability.
- (v) Obtain the board of directors' resolution that approve the loan or overdraft.

EXAMINER'S REPORT

The question tests candidates' understanding of audit procedures for non-current assets, inventory, insurance, loan and overdraft and foreign exchange loss/gain.

The candidates demonstrated lack of understanding of the question as only about 25% of the candidates scored up to 50% of the allocated marks.

The candidates' commonest pitfall was poor understanding of audit procedures for these items of the financial statements.

Candidates are advised to study all areas of the syllabus when preparing for future examination.

CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2018: PROFESSIONAL EXAMINATION

PT 2: TAXATION OF E-COMMERCE

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

1. Digital Economy has been described as the basis for electronic commerce. You are required to:

(a) Describe Digital Economy. (5 Marks)

(b) Outline the features of a Digital Economy. (5 Marks)

(c) Identify Five (5) advantages of e-filing of taxes. (10 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 1

(a) Digital Economy is an economy characterized by the use of information and communication technology and internet facilities in carrying out transactions. It emphasizes the use of technologies to transact business and commerce across the border of a country. Digital economy has given rise to virtual currencies that can be used to purchase goods and services from business that agree to accept them, acting as alternative to payment services. It is also called internet or Web economy.

(b) Features of Digital Economy

- Mobility in the use of software business functions and end-users.
- Internet supported communication system.
- Reliance on electronic data.
- Volatility due to low barriers to entry and rapidly evolving technology.
- High speed trading.
- Electronic payment system.
- Cross border establishment.
- Dependence on computer and telecommunication networks.

(c) Advantages of e-filling of taxes

- Reduces conventional cost of processing, storing and handling of tax returns.
- It saves time of tax payers efforts and reduces calculation errors on tax returns.
- It is easier avenue to prepare and pay taxes and thus increase tax compliance rate.
- Reduced incidents of tax corruptions likely to occur due to more frequent contact with tax administrative workers.
- Ease of tax processing using e-tax software.
- It is a convenient method of tax assessment by doing the tax in the comfort of home at any time.
- It saves time of moving and waiting in tax office.

- Reduced tax touts.
- Cost saving to both taxpayer and tax authorities.
- Instant provision of filling receipt and serial number.
- It ensures greater accuracy of tax returns and filling since-software calculates the tax liabilities.
- Tax refund is faster with e-filling.
- It helps record keeping of tax returns on tax payers' computers.
- Flexibility in payment options.

EXAMINER'S REPORT

The question tests candidates' understanding of digital economy.

Candidates' demonstrate a good knowledge of the question and 70% of the candidates scored more than 50% of the allocated marks.

2. System Software is used to perform basic tasks in managing a Computer System.

Required:

(a) What is an Operating System? (2 Marks)

(b) Enumerate Five (5) functions of an Operating System. (10 Marks)

(c) List Four (4) examples of an Operating System. (4 Marks)

(d) Mention Four (4) data collection techniques that you know. (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) An Operating System is an intermediary between users and computer hardware. An operating system controls the allocation of resources and services such as memory, processors and devices.

(b) Functions of an Operating System

(i) Memory management.
(ii) Processor management.
(iii) Device management.
(iv) File management.
(v) Security.
(vi) Coordination between other software and uses.
(vii) Allocation peripherals to work.
(viii) Scheduling jobs.

(c) Examples of Operating System

Ms Dos, Unix, Xenix, Window XP, Window 7, Window 8, Window 10, Window Vista, Window 98, and Android.

(d) Data Collection Techniques

- Questionnaires/Surveys.
- Interview.
- Experiment.
- Observations.

- Record inspection/Documents.
- Focus groups.
- Oral History, case studies.

EXAMINER'S REPORT

The question tests candidates' understanding of operating system and data collection techniques. Candidates' understanding of the question was impressive and 65% of the candidates scored more than 50% of the allocated marks.

3. Electronic Data Interchange (EDI) has become one of the tools that enhance e-business. It is useful for Companies that want to set up an inter–organisation pipeline with their suppliers. The use of EDI has greatly benefitted both the organisations and suppliers. This made Companies that use EDI to have competitive advantage over non users.

Required:

(a) Define the term Electronic Data Interchange (EDI). (2 Marks)

(b) Mention Three (3) benefits of EDI to users. (6 Marks)

(c) Identify Two (2) problems associated with use of EDI. (4 Marks)

(d) What do you understand by Competitive advantage? (2 Marks)

(e) Define Data Integrity. (2 Marks)

(f) Mention any Two (2) ways by which Data Integrity can be compromised. (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) Electronic Data Interchange (EDI)

This is a direct computer to computer transfer of transaction information contained in a standard business documents such as invoices and purchase orders in a standard format. It facilitates parties transacting such instruments without having to make special arrangements.

(b) Benefits Achievable Through EDI

- Automation of data exchange.
- Reduction in paper work.
- Quick processing of accurate business documents.
- Saves time in handling task.
- Reduction of data entry errors (accuracy).
- Competitive advantage over non-users.
- Lower transaction cost.
- Increase in efficiency.
- Enables real-time visibility into transaction status.

(c) Problems associated with the use of EDI

- Hardware acquisition cost is high (initial outlay is high).
- Need for maintenance and update.

- Conformity with EDI standard.
- Network issues.
- Lack of technical skills of personnel.
- Security and confidentiality issues.
- User error.
- Network problem.
- Virus attack and hacking attack.
- Inadequate back up.
- Requires IT expert.

(d) Competitive Advantage

This is the provision of product or service in a way that customers value more than the competitor's. It is a condition or circumstance that puts a company in a favourable or superior business position. It results from matching core competencies to the opportunities present in the environment.

(e) Data Integrity

This refers to the consistency and accuracy of the data stored in a data base over its lifecycle i.e. validity of data. It is assurance that data is consistent and correct.

(f) Ways by which data integrity can be compromised

- Human errors during inputting.
- Errors during data transfer.
- Software virus, worms and bugs attack.
- Hardware malfunctions.

EXAMINER'S REPORT

The question tests candidates' understanding of Electronic Data Interchange (EDI).

Candidates demonstrated a fair understanding of the question and about 53% of the candidates scored more than 50% of the allocated marks.

The candidates' commonest pitfall was inability to properly define Electronic Data Interchange (EDI).

Candidates are advised to study well when preparing for future examination.

4. (a) Auditing e-commerce transaction is a challenge globally. Explain the following components as it relates to e-commerce auditing:

(i) Information Bases. (4 Marks)

(ii) Website. (4 Marks)

(iii) Internet Economy. (4 Marks)

(b) Give Four (4) examples of online retailing companies. (8 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) (i) Information bases – Use of information bases to make tax administration more efficient. However, many countries generally operate with a small tax base, which means large scale evasion by those outside the tax net. E-governance projects address the issue through outline filing of tax returns, bill of entry, registrations, licenses etc., thus creating a growing information base that significantly enhances the tax administrations ability to widen the tax bases.

(ii) Website – A web presence that provides information and other services is an important interface with the citizen and many tax authorities operate such website. Online sites provide online tax forms, jurisdictional information, tips on tax avoidance, the services of lawyers or accountants etc. A website is a collection of web pages used to display information and promote product on the internet.

(iii) Internet Economy – The internet economy refers to business conducted through markets whose infrastructure is based on the internet and World Wide Web. It is also referred to as the ".com economy" or "dot-com economy".

The internet economy is making economic activity more efficient, faster, cheaper and extending social interaction in unparalleled ways. Also, the internet has brought unprecedented user and consumer empowerment. Individual have greater access to information, which facilitates comparisons and creates downward pressure on prices.

(b) Examples of online retailing companies include:

(i) Amezon – Ali Express
(ii) Dell – Mall for Africa
(iii) Staples
(iv) Jumia
(v) Konga
(vi) Yadala

EXAMINER'S REPORT

The question tests candidates understanding of information bases, websites and internet economy as they relate to auditing of e-commerce.

Candidates' displayed lack of understanding of the question. Most of the candidates scored less than 50% of the allocated marks.

The commonest pitfall of the candidates' was lack of understanding of information bases and internet economy as they relate to auditing of e-commerce.

Candidates' are advised to study all areas of the syllabus adequately when preparing for future examination.

5. (a) Outline the dual residency problem a company may have due to difference in definition of residency by different countries. (5 Marks)

(b) Dr. J. F. Ajayi is a medical doctor with a multinational medical service company, Medicare Limited. He was recruited by a branch in Ibadan, Nigeria on global operations. In 2017, he spent 210 days in Liberia fighting Ebola outbreak .The total salary and allowances received from the company during the year was ₦2,000,000 converted from foreign currencies. He is happily married with 2 children and an aged mother. He also claimed, with supporting documents, to have paid about ₦100,000 tax liability abroad during the year.

Required:
Compute his tax liability to Nigeria Tax Authorities with the application of Double Taxation Relief.

Ignore transport and housing allowances because Dr. J. F. Ajayi uses official car and the company's guest house whenever he works in Nigeria. (15 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 5

(a) In respect of companies, there may be an international dual residency problem arising from the difference in the definition of residency.

Under the Nigerian tax provision, a company is deemed to be resident in Nigeria, if it is incorporated in Nigeria. This means that residence is defined based on the place of incorporation. On the other hand, there are certain countries of the world where residence is defined as the place of residence of the directors. The problem of dual residency is usually resolved through the application of the double taxation provisions.

(b) **Dr. J. F. Ajayi**
Computation of Tax Liability

	₦
Total/Global income	2,000,000
Less: Consolidated Relief Allowance @ ₦200,000 plus 20% of ₦2m	(600,000)
Chargeable Income	1,400,000
Taxable Table	
First ₦300,000 @ 7%	21,000
Next 300,000 @ 11%	33,000
Next 500,000 @ 15%	75,000
Next 300,000 @ 19%	57,000
Tax due in Nigeria	186,000
Less: Double Taxation Relief	(50,000)
Net Tax due in Nigeria	136,000

Workings

(a) Nigerian Tax Rate

$$\frac{150,000}{2,000,000} \text{ x } 100 = 7.5\%$$

(b) Common Wealth Tax Rate

$\frac{150,000}{2,000,000}$ x 100 = 5%

Dr. J. F. Ajayi was out of Nigeria for 210 days, so he is a non resident individual rate of relief.

(c) However, Commonwealth Rate is lesser than Nigeria rate, so the rate of relief shall be one half of the commonwealth rate.
i.e. 5% X ½ = 2.5%

(d) Double Taxation Relief
= Income x rate of relief
= ₦2,000,000 x 2.5% = 50,000

(e) Calculation of Consolidated Relief

i.e. Gross income 2,000,000 x 20% =	400,000
Add	200,000
Total Compound Relief	600,000

EXAMINER'S REPORT

The question tests candidates' understanding of dual residence and computation of double taxation relief. Candidates' demonstrated lack of adequate understanding of the question therefore, performance was below average.

The candidates' commonest pitfall was lack of understanding of how e-commerce affects dual citizenship and double taxation relief.

Candidates' are advised to familiarize themselves with all aspect of the syllabus when preparing for future examination.