THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2025: PROFESSIONAL EXAMINATION

PTX II: TAX AUDIT AND INVESTIGATION

TUESDAY, 15TH APRIL, 2025 **EXAM NO……………….**

YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

TIME: 3 HOURS.

SECTION A – COMPULSORY QUESTION

Question 1

In the course of carrying out a verification exercise to confirm the level of compliance of payment of taxes by the tax audit team of **Aye Gbogbon Inland Revenue Service**, it was discovered that **Ogbon Aye Nigeria Limited** has not been complying with the payment of taxes and statutory levies as required. An audit exercise was therefore instituted and carried out by the designated team. During the audit, the officer in charge refused to release some vital documents relating to the year under audit. After a careful review of few documents provided the following were later discovered:

a. **Ogbon Aye Nigeria Limited** has been under declaring its income; and
b. There are wide discrepancies between sales reported and bank deposits.

As the leader of the tax audit team, you are required to:

a. Highlight the key steps the team should take during the planning phase of the audit exercise **(8 marks)**
b. Discuss the tax audit procedures your team will follow to obtain the required audit evidences? **(8 marks)**
c. Explain how your team will ensure there is adequate evidence of work done during the tax audit? **(7 marks)**
d. Explain how you will handle the non-compliance with your request for the release of document? **(7 marks)**

(Total 30 marks)

Solution 1

a. **Audit Planning Procedure**
    1. Define Scope and Objectives
    2. Understand the Business
    3. Assess Risk Areas
    4. Develop an Audit Plan
    5. Engage the Taxpayer

1. **Define Scope and Objectives**: Determine the specific tax years and areas of concern (e.g., income tax, VAT, withholding tax).
2. **Understand the Business**: Review prior tax filings, industry trends, and financial records to understand the company's operations.
3. **Assess Risk Areas:** Identify high-risk areas like unusual deductions, unreported income, or inconsistencies in reported turnover
4. **Develop an Audit Plan**: Prepare a detailed plan including team roles, timelines, and procedures.
5. **Engage the Taxpayer**: Send a formal notification to the taxpayer outlining the scope and request for initial documents.

b. **Tax Audit Procedures**
    1. Reconcile Bank Statements
    2. Request Additional Records
    3. Conduct Interviews
    4. Use Indirect Methods
    5. Document Findings

1. **Reconcile Bank Statements**: Compare reported sales to actual bank deposits to identify discrepancies.
2. **Request Additional Records**: Obtain sales ledgers, invoices, and cash register records to corroborate reported figures.
3. **Conduct Interviews**: Interview key personnel to understand any discrepancies or gaps in records.
4. **Use Indirect Methods**: Apply indirect techniques like the net worth method to estimate unreported income.
5. **Document Findings**: Prepare working papers summarizing the analysis, evidence, and results.

c. **Evidence of Work Done**
    1. Maintain Working Papers
    2. Retain Source Documents
    3. Prepare Checklists
    4. Use Analytical Tools

5. Sign-off on Procedures

1. **Maintain Working Papers:** Document all procedures, analyses, and conclusions in organized working papers.
2. **Retain Source Documents**: Attach copies of financial records, bank statements, invoices, and contracts reviewed.
3. **Prepare Checklists**: Use checklists to ensure all audit procedures are completed and documented.
4. **Use Analytical Tools**: Save reports from analytical tools or software used during the audit.
5. **Sign-off on Procedures**: Ensure each team member signs off on completed tasks for accountability.

d. Handling the Non-Compliance

1. Issue Formal Requests
2. Leverage Legal Provisions
3. Escalate the Matter
4. Use Third-Party Evidence
5. Document Non-Compliance

1. **Issue Formal Requests**: Send a written request specifying the required documents and deadlines.
2. **Leverage Legal Provisions**: Refer to tax laws or regulations that compel the taxpayer to comply.
3. **Escalate the Matter**: Notify higher authorities or seek legal remedies, such as obtaining court orders.
4. **Use Third-Party Evidence**: Gather information from banks, suppliers, or customers to fill gaps.
5. **Document Non-Compliance**: Record instances of non-cooperation and report them in the audit findings.

30 MARKS

SECTION B:

YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

Question 2

The Governor of Ogbon Aye State in Nigeria has just been sworn into office, the Governor decided to appoint a seasoned tax professional as the Chairman of Ogbon Aye Internal Revenue Service to help the state in increasing their revenue profile without excessively overburden the citizen of the state. On assumption of office, the new Chairman carried

out a review of the State revenue generated for the last 5 years and discovered that the tax payers have not being complying with payment of relevant taxes.
The new Chairman of Ogbon Aye Internal Revenue Service drafted two new tax professional into the tax audit department to strengthen the tax audit team and commence a back duty audit of all relevant taxpayers in the State.

Required:

a. Highlight various ways the department of Tax Audit and Investigation's role will optimise revenue generation in the state?

(5 Marks)

b. Give a clear distinction between tax audit and tax investigation? **(5 Marks)**

c. Under what condition can an organisation be subjected to tax investigation?

(10 Marks)

(Total 20 Marks)

Solution 2

a. **The Department of Tax Audit and Investigation plays a crucial role in optimizing revenue generation for a state. Below are various ways it can achieve this:**

1. **Enhancing Tax Compliance**
    a) **Regular Audits:** Conducting frequent tax audits to ensure taxpayers comply with existing tax laws. This discourages evasion and fosters a culture of compliance.
    b) **Regular Taxpayer Education**: Educating taxpayers about their obligations and the penalties for non-compliance can improve voluntary tax payments and optimize revenue generation.

2. **Detecting and Combating Tax Evasion**
    a) **Investigation of Fraudulent Activities**: Using investigative tools to identify and address tax evasion, such as underreporting income or overstating deductions etc will combat tax evasion in increase revenue generation
    b) **Leveraging on Technology**: Leveraging technology and embracing the use of data analytical tools to identify discrepancies and patterns that suggest tax evasion will discourage tax evasion and increase revenue generation.

1. **Broadening the Tax Base**
This is not done by increasing the tax revenue items but could be achieved by

a) **Identifying Non-compliant Entities**: Tracking businesses and individuals operating outside the tax net and ensuring they are brought into compliance.
b) **Collaboration with Other Agencies**: Partnering with financial institutions, licensing authorities, and other government agencies to track economic activities and identify new taxpayers.

4. **Improving Efficiency in Revenue Collection**
   a) **Streamlining Processes**: Automating tax audit and investigation processes to reduce errors, improve accuracy, and save time.
   b) **Targeted Audits**: Prioritizing audits for high-risk sectors or taxpayers likely to contribute significantly to state revenue.
5. **Strengthening Legal Framework**
   a) **Enforcing Penalties and Sanctions**: Ensuring strict enforcement of penalties for tax defaulters to deter others from non-compliance.
   b) **Policy Recommendations**: Advising the government on legal reforms that simplify tax administration and close loopholes.
6. **Promoting Transparency and Accountability**
   a) **Publicizing Outcomes of Audits:** Publishing audit findings (within legal boundaries) to create public awareness and build trust in the tax system.
   b) **Independent Oversight:** Ensuring the department operates transparently to maintain credibility and minimize corruption.
7. **Leveraging Technology**
   a) **Tax Intelligence Systems**: Using advanced tools like AI and machine learning to monitor, track, and predict tax fraud.
   b) **E-filing and E-audit Platform:** Implementing online platforms to make audits more accessible, efficient, and taxpayer-friendly.
8. **Reducing Leakages**
   a) **Monitoring Revenue Collectors**: Conducting internal audits of tax officials to prevent collusion and mismanagement.
   b) **Use of Electronic Payment Systems:** Encouraging cashless tax payments to reduce leakages and increase accountability.
9. **Sector-specific Audits**
   a) **Targeting High-risk Industries:** Focusing on industries prone to tax evasion, such as real estate, entertainment, and informal sectors, can yield significant revenue.
   b) **Monitoring Emerging Sectors:** Keeping up with new industries (e.g., digital services) to ensure they are appropriately taxed.

By implementing these measures, the Department of Tax Audit and Investigation can optimize revenue generation, ensure fairness in the tax system, and support the state's fiscal sustainability.

b. Clear distinction between tax audit and tax investigation

1. Definition

Tax Audit: A tax audit is a routine official examination or inspection of an individuals or
completeness of the information provided. The primary aim is to ensure that the related items, and to confirm compliance with tax laws and regulations. Basically there
are two types of tax audit which includes Desk audit and Field Audit

Tax Investigation: A detailed and thorough inquiry conducted when there is suspicion of tax fraud, evasion, or other serious irregularities in a taxpayer's financial activities.

2. Purpose

Tax Audit: To verify the accuracy of tax returns and compliance with tax regulations. It is preventive and aims to maintain general compliance**.**

Tax Investigation: To uncover deliberate non-compliance, fraud, or evasion. It is reactive and seeks to identify intentional violations of tax laws**.**

3. Trigger

Tax Audit: Usually routine and conducted based on random selection, turnover thresholds, or specific criteria set by the tax authority.

Tax Investigation: Triggered by red flags, such as inconsistencies in tax filings, reports from whistleblowers, or suspicious activities identified through data analysis.

4. Scope

Tax Audit: Limited in scope and focuses on specific tax periods, returns, or aspects of the taxpayer's records.

Tax Investigation: Comprehensive and may cover multiple tax periods, financial records, and even non-financial activities.

5. Approach

Tax Audit: Typically follows standard procedures and guidelines with minimal disruption to the taxpayer.

Tax Investigation: Involves in-depth scrutiny, interviews, site visits, and sometimes, forensic analysis of financial documents.

6. Legal Implications

Tax Audit: Findings may result in additional tax assessments, penalties, or interest for underpayment of taxes but rarely lead to criminal prosecution**.**

Tax Investigation: Can lead to severe legal consequences, including fines, penalties, or criminal prosecution, if fraud or evasion is proven.

7. Confidentiality
Tax Audit: Less intrusive and generally maintains a neutral tone with minimal suspicion of wrongdoing.
Tax Investigation: Conducted discreetly to avoid tipping off the taxpayer, as it often involves suspicion of fraud or evasion.

In summary, tax audit is a routine, preventive measure to ensure compliance, while tax investigation is a targeted, reactive process aimed at uncovering intentional tax violations.

c. An organization can be subjected to a tax investigation under the following conditions:

1. Suspicion of Tax Evasion or Fraud
Evidence or suspicion that the organization deliberately underreported its income, overstated expenses, or manipulated its financial records to evade taxes.
e.g. Use of offshore accounts to hide income or assets.

2. Significant Discrepancies in Tax Returns
Inconsistencies between the organization's declared income and its financial records or lifestyle (e.g., significant undeclared revenue).

3. Failure to File Tax Returns
Consistent non-filing of tax returns or delays in submitting returns despite repeated reminders or penalties.
4. Third-party Information
Reports from whistleblowers, employees, competitors, or other stakeholders that suggest tax malpractices.

5. High-risk Sectors or Activities
Engagement in industries or business activities prone to tax evasion (e.g., real estate, entertainment, cash-intensive businesses, or the informal sector).
e.g. Frequent use of cash transactions, making financial activities difficult to track.

6. Abnormal Tax Deductions or Refund Claims

Claiming excessive deductions, tax credits, or refunds that raise red flags with tax authorities.
Patterns of fraudulent VAT claims or input-output mismatches in tax returns.

7. Non-compliance with Tax Audit Findings

Ignoring or disputing findings from a prior tax audit without providing valid evidence or justifications.
Failure to pay additional tax assessments from prior audits.

8. International Transactions and Transfer Pricing Issues

Engaging in suspicious cross-border transactions or transfer pricing practices to shift profits to low-tax jurisdictions.
Failure to disclose or properly document related-party transactions.

9. Red Flags from Data Analytics or Automated Systems

Tax authorities increasingly use data analytics to identify irregularities. Unusual patterns or discrepancies flagged by these systems may trigger an investigation**.**

10. Involvement in Fraudulent Schemes

Discovery of the organization's involvement in illegal financial schemes, such as money laundering, under-invoicing, or round-tripping.

11. Failure to Comply with Tax Laws and Regulations

Non-payment or underpayment of taxes, late filing, or non-disclosure of required information.
Operating without proper tax registration or withholding taxes from employees but failing to remit them.

12. Public Attention or High-profile Cases

High-profile companies or individuals often draw scrutiny, especially if their financial activities appear inconsistent with their declared income.
Tax authorities use these triggers to prioritize which organizations to investigate, aiming to identify and address deliberate non-compliance or fraud effectively.

20 Marks

Question 3

You are the tax consultant to GVG Ltd, the company has recently been notified of a tax investigation exercise. The company's tax compliance was considered very low in comparison to its revenue in the last six years of business operation.

Required:

a. Discuss the nature and importance of tax audit. **(5 marks)**
b. Discuss the nature and importance of tax investigation **(5 marks)**
c. Discuss the types of tax audit **(5 marks)**
d. Discuss the types of tax investigation **(5 marks)**

(Total 20 Marks)

Solutions 3

a. Nature and the importance of tax audit:

A tax audit is an examination of a taxpayer's financial records and tax returns to ensure accuracy, completeness, and compliance with tax laws and regulations. It involves a thorough review of financial statements, accounting records, and other relevant documents to identify any discrepancies, errors, or omissions. The scope of a tax audit may vary depending on the specific objectives and the taxpayer's circumstances.

The primary objectives of a tax audit are:

1. Verification of Tax Compliance: To ensure that taxpayers comply with tax laws and regulations, including accurate reporting of income, deductions, and credits.

2. Detection of Tax Evasion: To identify and prevent tax evasion, including intentional misrepresentation or concealment of income or assets.

3. Assessment of Correct Tax Liability: To determine the correct tax liability of the taxpayer, including any additional taxes, penalties, or interest due.

4. Improvement of Tax Administration: To provide feedback to tax authorities on areas for improvement in tax administration, including simplification of tax laws and procedures.

5. Promotion of Voluntary Compliance: To encourage taxpayers to comply voluntarily with tax laws and regulations, reducing the need for audits and investigations.

6. Tax Education. To provide insight and guide to amendment to tax laws and guidelines or circular as released by the Tax Authorities.

b. Nature and the importance of tax investigation:

A tax investigation is a thorough and formal examination of a taxpayer's financial records and tax affairs to detect and prevent tax evasion, fraud, or other non-compliant behavior. It involves a detailed analysis of financial statements, accounting records, and other relevant documents to identify any discrepancies, irregularities, or anomalies.

The primary objectives of a tax investigation are:

1. Detection of Tax Evasion: To identify and prevent tax evasion, including intentional misrepresentation or concealment of income or assets.

2. Prevention of Tax Fraud: To detect and prevent tax fraud, including false or misleading claims, or other deceptive practices.

3. Recovery of Tax Revenue: To recover any tax revenue lost due to non-compliance, including unpaid taxes, penalties, or interest.

4. Deterrence of Non-Compliance: To deter taxpayers from engaging in non-compliant behavior, including tax evasion or fraud.

5. Improvement of Tax Compliance: To improve tax compliance by identifying and addressing areas of non-compliance and providing guidance and support to taxpayers.

c. Types of tax audit:

1. ***Comprehensive or Full Tax audits*** – The scope of a full tax audit is all-encompassing. It typically entails a comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period. The objective is to determine the correct tax liability for a tax return.
2. ***Limited scope audits*** – Limited scope audits are confined to specific issues on the tax return and/or a particular tax scheme arrangement employed by the taxpayer. The objective is to examine key potential risk areas of noncompliance.
3. ***Single issue audits*** – Single issue audits are confined to one item of potential non-compliance that may be apparent from examination of a taxpayer's return.
4. ***Periodic tax audit:*** Audits can focus on one financial year or accounting period, or be extended to cover multiple fiscal periods
5. **Desk/Office Tax Audit: Under** the self-assessment regime, the tax payer is expected to file its tax returns within the due dates. Once this is done, the Tax Authority will subject the returns to examination and scrutiny. These examinations will be carried out in the tax office. All the returns submitted to the tax office by the taxpayer are expected to be subjected to this audit.
6. **Field Tax Audit:** This type of tax audit involves Tax officers, or sometimes multiple tax auditors, actually coming to the business premises of the tax payer to inspect their books and facility, and better understand how the business works.
7. **Refunds Audit:** This type of audit is undertaken to verify the taxpayer's right to a refund prior to processing the refund in accordance with the provisions of FIRS Establishment Act, section 23.

d. Types of tax investigation:

There are several types of tax investigations, which can be categorized based on their scope, purpose, and methodology. Here are some of the main types of tax investigations:

1. Routine Investigation
A routine investigation is a standard examination of a taxpayer's records and tax returns to ensure compliance with tax laws and regulations.

2. Special Investigation
A special investigation is a more in-depth examination of a taxpayer's records and tax returns, often triggered by a specific issue or anomaly.

3. Fraud Investigation
A fraud investigation is a thorough examination of a taxpayer's records and tax returns to detect and prevent tax fraud, including false or misleading claims.

4. Compliance Investigation
A compliance investigation is an examination of a taxpayer's records and tax returns to ensure compliance with specific tax laws and regulations, such as VAT or PAYE.

5. Transfer Pricing Investigation
A transfer pricing investigation is an examination of a taxpayer's transfer pricing policies and practices to ensure compliance with tax laws and regulations.

6. Tax Evasion Investigation
A tax evasion investigation is a thorough examination of a taxpayer's records and tax returns to detect and prevent tax evasion, including intentional misrepresentation or concealment of income or assets.

7. Forensic Investigation
A forensic investigation is a specialized examination of a taxpayer's records and tax returns using forensic accounting techniques to detect and prevent tax fraud or evasion.

8. Field Investigation
A field investigation is an on-site examination of a taxpayer's records and tax returns, often involving interviews with taxpayers or their representatives.

Question 4

You are the Team Lead in the Federal Inland Revenue Service. The Head of audit has assigned a case to your team. It is expected that the audit will be properly planned and team members, especially new members of the team are well informed on audit planning and the contents of audit plan for an effective tax audit exercise.

Required:

a. Justify the need for planning a tax audit or investigation engagement. **(5 marks)**
b. Discuss the content of a tax audit program **(10 marks)**
c. Discuss risk-based approach to tax audit and investigation **(5 marks)**
(Total 20 Marks)

Solutions 4

a. The need for planning tax audit or investigation engagement: Adequate planning is necessary to help the auditor to:

- devote appropriate attention to important areas;
- identify potential problems and resolve them on a timely basis;
- organise and manage the engagement effectively and efficiently; and
- assign appropriate staff to the audit, direct and supervise them and review their work.

b**. Content of a tax audit program.**

Name

- Taxpayer's Name: The name of the taxpayer being audited, including their business name, individual name, or other relevant identifiers.

- Taxpayer Identification Number (TIN): The taxpayer's unique identifier, such as a Tax Identification Number, or Register of Company (RC) number.

Objects

- The specific types of taxes being audited, such as companies income tax, value-added tax (VAT), PAYE, WHT or other taxes.

Tax Periods:

The specific tax periods being audited, including the dates or fiscal years covered by the audit.

Date

- Audit Start Date: The date on which the audit begins.

- Audit End Date: The anticipated date on which the audit will be completed.

- Deadline for Taxpayer Response: The date by which the taxpayer must respond to audit inquiries or requests for documentation.

Duration

- Estimated Audit Duration: An estimate of the time required to complete the audit, including the time needed for fieldwork and reporting.

- Timeframe for Completion: A specific timeframe for completing each stage of the audit, including the issuance of the audit report.

Accounting System

- Description of Accounting System: A description of the taxpayer's accounting system, including the software used, chart of accounts, and other relevant details.

- Accounting Policies and Procedures: A review of the taxpayer's accounting policies and procedures, including revenue recognition, depreciation, and other significant accounting policies.

Internal Control System

- Description of Internal Control System: A description of the taxpayer's internal control system, including the controls in place to prevent or detect material misstatements.

- Evaluation of Internal Controls: An evaluation of the effectiveness of the taxpayer's internal controls, including any weaknesses or deficiencies identified during the audit.

Preceding Reports

- Previous Audit Reports: A review of previous audit reports, including any findings, recommendations, or adjustments made during prior audits.

- Other Relevant Reports: A review of other relevant reports, such as financial statements, tax returns, or regulatory filings.

Checking Books

- Description of Books and Records: A description of the taxpayer's books and records, including the ledgers, journals, and other accounting records.

- Reconciliation of Books and Records: A reconciliation of the taxpayer's books and records to ensure accuracy and completeness.

- Verification of Transactions: A verification of specific transactions, such as sales, purchases, or payroll, to ensure accuracy and compliance with tax laws and regulations.

c. **Risk based approach to tax audit and investigation:** A risk-based approach to tax audit and investigation involves identifying and prioritizing taxpayers and tax issues based on their potential risk of non-compliance. This approach allows tax authorities to focus their resources on the most significant risks area and to allocate their resources more efficiently.

Key Principles of Risk-Based Approach:

1. Risk Assessment: Identify and assess the risks of non-compliance associated with taxpayers and tax issues.
2. Risk Prioritization: Prioritize taxpayers and tax issues based on their risk profiles.
3. Targeted Audit and Investigation: Focus audit and investigation efforts on high-risk taxpayers and tax issues.
4. Continuous Monitoring: Continuously monitor taxpayers and tax issues to identify changes in risk profiles.

d. Some ratios used by tax auditors in identifying high risk areas:

1. Gross Margin Ratio: (Gross Profit / Sales) x 100
   - Helps identify potential underreporting of sales or overstatement of costs.
2. Expense-to-Sales Ratio: (Total Expenses / Sales) x 100
   - Helps identify potential overstatement of expenses or underreporting of sales.
3. Debt-to-Equity Ratio: (Total Debt / Total Equity)
   - Helps identify potential thin capitalization or transfer pricing issues.
4. Current Ratio: (Current Assets / Current Liabilities)
   - Helps identify potential cash flow or liquidity issues.
5. Accounts Payable to Sales Ratio: (Accounts Payable / Sales) x 100
   - Helps identify potential underreporting of sales or overstatement of accounts payable.

SECTION C:

YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

Question 5

Your firm has been appointed by a new client who is having difficulty in understanding the Nigeria's Finance Act 2023, specifically the opportunities and challenges that it poses on tax compliance.

Required:

a. Discuss the effect of the Annual Finance Act 2023 in Nigeria on tax audit and investigation. **(10 marks)**

b. Discuss the Information Technology controls that may enhance the confidence of tax auditors in the tax systems of tax payers under audit. **(5 marks)**

(Total 15 Marks)

Solution 5

a. The Finance Act 2023 in Nigeria has significant effects on tax audit and investigation. Here are some key implications:

Changes to Tax Laws and Regulations

1. Amendments to Tax Laws: The Finance Act often amends existing tax laws, introducing new provisions, and modifying or repealing old ones. These changes can impact tax audit and investigation, requiring auditors to adapt to new rules and regulations.

2. New Tax Incentives and Reliefs: The Finance Act may introduce new tax incentives and reliefs, which can affect tax audit and investigation. Auditors must understand these incentives and reliefs to ensure taxpayers are claiming them correctly.

Impact on Tax Audit and Investigation

1. Changes to Tax Audit Procedures: The Finance Act may introduce new tax audit procedures or modify existing ones. Auditors must update their procedures to reflect these changes.

2. New Areas of Focus: The Finance Act may highlight new areas of focus for tax audit and investigation, such as tax evasion, avoidance, or non-compliance.

3. Increased Complexity: The Finance Act can introduce new complexities in tax laws and regulations, making tax audit and investigation more challenging.

Benefits to Tax Audit and Investigation

1. Improved Tax Compliance: The Finance Act can improve tax compliance by introducing new measures to prevent tax evasion and avoidance.

2. Enhanced Revenue Generation: The Finance Act can enhance revenue generation for the government by introducing new tax measures or modifying existing ones.

3. Updated Tax Laws: The Finance Act ensures that tax laws in Nigeria are updated and aligned with international best practices**.**

Challenges to Tax Audit and Investigation

1. Frequent Changes to Tax Laws: The annual changes to tax laws through the Finance Act can create uncertainty and challenges for tax auditors and investigators.

2. Limited Resources: The Finance Act may introduce new requirements or procedures that can strain the limited resources of tax authorities.

3. Complexity and Ambiguity: The Finance Act can introduce complex and ambiguous provisions that can create challenges for tax auditors and investigators.

b. Information technology controls that may enhance the confidence of tax auditors on the accounting system of a company are:

IT General Controls

1. Access controls: Limit access to authorized personnel, ensuring that only approved individuals can modify or delete financial data.

2. Authentication and authorisation: Implement robust authentication and authorisation mechanisms to verify user identities and ensure that users only access data and functions they are authorised to use.

3. Data backup and recovery: Regularly back up financial data and have a disaster recovery plan in place to ensure data integrity and availability.

4. Network security: Implement firewalls, intrusion detection systems, and encryption to protect against unauthorised access and data breaches.

IT Application Controls

1. Input controls: Validate and verify data input into the accounting system to prevent errors or manipulation.

2. Processing controls: Implement controls to ensure that data is processed accurately and completely, such as automated checks and balances.

3. Output controls: Verify that output from the accounting system is accurate and complete, such as through reconciliation processes.

4. Audit trails: Maintain audit trails to track changes to financial data, including who made the change, when, and why.

Other IT Controls

1. Change management: Implement a change management process to ensure that changes to the accounting system are properly authorized, tested, and documented.

2. Segregation of duties: Ensure that no single individual has control over all aspects of the accounting system, reducing the risk of fraud or error.

3. Data integrity checks: Perform regular data integrity checks to ensure that financial data is accurate and complete.

4. Compliance with tax laws and regulations: Ensure that the accounting system is configured to comply with relevant tax laws and regulations.

Question 6

A tax audit is different from a statutory audit and a tax investigation. You have been appointed to represent your firm at a Zonal tax conference where the issues of audit and investigation will be discussed.

Required:

a. Explain and differentiate the major triggers for tax audit and investigation **(10 Marks)**
b. Examine the differences between statutory audit and tax audit **(5 marks)**

(Total 15 Marks)

Solution 6

a. **The major triggers for tax audit and investigation:** Tax audits and investigations are triggered by various factors, which can be categorized into several major triggers. Understanding these triggers can help taxpayers and tax professionals prepare for potential audits and investigations

   Major Triggers for Tax Audit:

   1. Random Selection: Tax authorities may select taxpayers randomly for audit to ensure compliance with tax laws and regulations.
   2. Risk-Based Selection: Tax authorities may identify taxpayers with high-risk profiles, such as those with a history of non-compliance or engaging in aggressive tax planning.
   3. Whistleblower Tips: Tax authorities may receive tips from whistleblowers, such as former employees or business associates, alleging tax non-compliance.

4. Related Examinations: Tax authorities may audit taxpayers related to other taxpayers already under audit, such as business partners or family members.
5. Amended Returns: Tax authorities may audit taxpayers who file amended returns, especially if the amendments result in significant changes to tax liability.

Major Triggers for Tax Investigation:

1. Tax Evasion: Tax authorities may investigate taxpayers suspected of intentionally evading taxes, such as by hiding income or falsifying records.
2. Tax Fraud: Tax authorities may investigate taxpayers suspected of committing tax fraud, such as by making false claims or misrepresenting facts.
3. Aggressive Tax Planning: Tax authorities may investigate taxpayers who engage in aggressive tax planning, such as using complex structures or schemes to avoid taxes.
4. Non-Compliance: Tax authorities may investigate taxpayers who repeatedly fail to comply with tax laws and regulations, such as by failing to file returns or pay taxes.
5. Criminal Activity: Tax authorities may investigate taxpayers suspected of criminal activity, such as money laundering or terrorist financing.

Key Differences between Tax Audit and Investigation Triggers:

1. Purpose: Tax audits focus on ensuring compliance with tax laws and regulations, while tax investigations focus on detecting and preventing tax evasion, fraud, and other criminal activity.
2. Scope: Tax audits typically focus on specific tax returns or periods, while tax investigations may involve a broader scope, including multiple tax years and related taxpayers.
3. Level of Scrutiny: Tax audits typically involve a lower level of scrutiny, while tax investigations involve a more intense and detailed examination of taxpayer records and activities.
4. Consequences: Tax audits may result in additional taxes, penalties, and interest, while tax investigations may result in criminal charges, fines, and imprisonment.

b. Differences between statutory audit and tax audit:

1. Purpose: Statutory audit focuses on financial statement accuracy, while tax audit focuses on tax compliance.
2. Scope: Statutory audit covers financial statements, while tax audit covers tax-related matters.
3. Conducted by: Statutory audit is conducted by independent external auditors, while tax audit may be conducted by tax authorities or internal tax audit teams.

4. Frequency: Statutory audit is typically annual, while tax audit may be random, risk-based, or triggered by specific events.
5. Reporting: Statutory audit reports to shareholders and regulatory bodies, while tax audit reports to tax authorities and management.

Question 7

Tax auditors have the strong believe that information obtained via interview are reliable.

Required:
As tax auditor:
a. Explain briefly the concept of interview? **(5 Marks)**

b. Discuss how interviews help in gathering information during tax audit? **(10 Marks)**
(Total 15 Marks)

Solution 7

a. **Concept of Interview**
An interview is a structured or semi-structured conversation between two or more individuals with the purpose of exchanging information. In the context of tax auditing, interviews are conducted to gather insights, verify facts, and gain an understanding of the taxpayer's financial activities, business operations, and compliance with tax laws. It involves asking targeted questions to key personnel, such as business owners, accountants, or financial officers, to obtain information that may not be readily available in documents.

5 Marks

b. How Interviews Help in Gathering Information During a Tax Audit Interviews

1. **Verification of Data**: They help auditors clarify discrepancies or confirm the accuracy of records and documents.
2. **Contextual Understanding:** Auditors gain a better understanding of the taxpayer's business model, operations, and financial decisions.

3. **Identification of Risks**: Interviews may reveal potential compliance issues, unusual transactions, or areas requiring further investigation.
4. **Supplementary Information**: Certain information, such as explanations for missing records or unusual financial behavior, can only be obtained through personal communication.
5. **Behavioral Insights**: Observing the interviewee's responses and demeanor can provide indirect indicators of honesty and transparency. **10 Marks**

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2025: PROFESSIONAL EXAMINATION

PTX II: INTERNATIONAL TAXATION

TUESDAY, 15TH APRIL, 2025 **EXAM NO……………….**

YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

TIME: 3 HOURS.

SECTION A – COMPULSORY QUESTION

QUESTION 1

Inno Nigeria Limited was registered in 2010 by Mr Innocent Ohagwa who had 80% equity in the company. His wife, Mrs. Caterine Ohagwa and their 18-year-old son Ifeanyi have 15% and 5% equity interest respectively in the shares of the company. In 2020, Mr Ohagwa sold part of his interest to Messrs Inno Canada Inc, a tax resident of Canada. After that disposal Mr. Ohagwa's equity interest reduced to 20%.

Mrs Ohagwa is a construction engineer and one of the directors of OHA Nigeria construction Limited. She has no direct shareholding in the construction company but represents one of the significant shareholders, Messrs. CATOHA Nigeria Limited, on the board of the company. Inno Canada Inc also has controlling equity in Inno AA B.V. of Netherlands and Inno XX Ltd of China. In order to extend its operations to the USA, Inno Canada Inc. acquired 10% equity of OHA Construction USA Inc., a tax resident of the United States of America. OHA Construction USA Inc has only 30% equity interest in OHA Nigeria Construction Limited.

The following transactions occurred during the year 2024:

(i) Inno Nigeria Limited imported 250 tons of cement from Canada at a total cost of $204 million. The importation included One hundred and fifty (150) tons of cement purchased at $150million from Inno Canada Inc and the balance was purchased from Smithy Canada Inc, another reputable cement company resident in Toronto.

(ii) A renowned public rating agency in Canada had certified that the quality of the cement produced by Inno Canada Inc is 80% while that of Smithy Canada Inc. was rated at 70%. In Canada, price of cement is a function of the quality rating but a rating of at least 60% must be attained before the products are allowed into the market.

(iii) Smithy Canada Inc is a new entrant into the cement market and in order to achieve market penetration has offered a discount of 10% to customers who made an order worth $30,000 or more in 2024. Inno Nigeria has taken benefit of the discount.

(iv) OHA Construction USA Inc. won the contract for the construction of US embassy building in Ibadan, Nigeria at a value of $15 million. The company subcontracted the foundation piling work to Messrs OHA construction Nigeria Limited at a total contract sum of ₦10 million. The electrical works was also subcontracted to Julius Berger Nigeria Limited at a contract sum of ₦25 million.

(v) Inno Nigeria Limited supplied cement to several distributors and construction companies in Nigeria including Julius Berger Nigeria Limited and OHA construction Nigeria Limited. Cement in the sum of ₦40 million and ₦50 million was supplied to OHA construction Nigeria Limited and Julius Berger Nigeria Limited respectively for their construction activities.

(vi) Inno Nigeria Limited took dollar denominated loans of $10 million each from First Bank PLC, Inno AA B.V and Inno XX Ltd. The terms of the loans are similar except for the interest charges. The interest charged by First bank PLC, Inno AA B.V and Inno XX Ltd are 12%, 10% and 18% respectively.

(vii) Inno Nigeria Limited disposed some of its old furniture and unserviceable vehicles. Mr Innocent Brown, an expatriate and son of Mr Brown, a British citizen, bought the vehicle during the auction at ₦2 million. Mrs. Ohagwa's bid of ₦3 million was the winning bid for the furniture.

(viii) OHA Nigeria construction Limited declared and paid dividends to shareholders during the year.

Required:

(a)

i) Identify only five controlled transactions in the question, taking into consideration the OECD Transfer Pricing Guidelines and UN Transfer Pricing Manual **(5 Marks)**

ii) Use the most appropriate transfer pricing method to determine the arm's length price of the cement purchased by Inno Nigeria Limited from Inno Canada Inc. based on the available information. **(8 Marks)**

iii) Explain are other critical assumptions that are relevant to your suggested arm's length price. **(2 Marks**)

iv) Identify the factors that you will consider in determining the appropriate transfer pricing method. **(2 Marks)**

v) Explain how you will respond to the transfer pricing audit team if the FIRS proposed to benchmark the interest rate on the loan payable to Inno XX at 10%. **(2 Marks)**

(b) Identify five (5) conditions that will qualify the company for the benefits under the agreement if ABC Nigeria Limited wishes to take benefit of the Nigeria/Belgium tax treaty. **(5 marks)**

(c) Explain how taxing rights can be allocated between the source and resident States in a double taxation agreement. **(6 marks)**

(Total 30 Marks)

Solution 1

(a)

(i) The following are the controlled transactions:

- imported or purchased cement by Inno Nigeria Limited from Inno Canada Inc at a sum of $150 million;
- foundation piling work subcontracted to OHA Construction Nigeria Limited by OHA Construction USA Inc. at ₦10 million;
- supply of ₦40 million worth of cement by Inno Nigeria Limited to OHA construction Limited;
- loan obtained by Inno Nigeria Limited from Inno AA B.V. Netherlands and the interest charges of 10%;
- loan obtained by Inno Nigeria Limited from Inno XX Ltd, China and the interest charges of 18%;
- Mrs. Ohagwa's winning bid of ₦3 million for furniture disposed by Inno Nigeria Limited;
- dividend declared and paid by OHA Nigeria construction Limited to OHA Construction USA Inc; and
- dividend declared and paid by OHA Nigeria construction Limited to CATOHA Nigeria Ltd

(ii) CUP method is the most direct and reliable way to determine the arm's length price to a controlled transaction. This method is recommended for determining the arm's length price of goods, services or property when there is availability of comparable uncontrolled transaction under circumstances that are comparable with the controlled transaction. It is most reliable where an internal CUP exists for a controlled transaction having comparable characteristics with uncontrolled transaction or where reasonably accurate adjustments could be made for the comparability differences.

<u>Determination of transfer price for the 150 tons of cement purchased by Inno Nigeria Limited from Inno Canada Inc.</u>

The most appropriate transfer pricing method is the CUP. This is appropriate because the same kind of products were purchased from the related party and unrelated party. Internal CUP exists since Inno Nigeria purchased goods of the same characteristics from a related party and an unrelated party at the same time from manufacturers operating within the same economy. Although there are differences in quality and business strategies, the information provided in the question are sufficient to make accurate and reliable comparability adjustments to arrive at an arm's length price.

The arm's length price of the cement purchased from Inno Canada Inc using the CUP method is determined as follows.

Determination of price per tonnage of the controlled transaction (80% quality)

150 tons of cement @$150 million amount to $1 million per ton.

Determination of price per tonnage of the uncontrolled transaction after adjustment for discount & quality

100 tons = $54Million (net of discount)

= ($54 million/90) * 100

=$60 million

Price per tonnage (gross of discount) = $60m/100

=$600,000

Adjustment for quality:

Price per tonnage at 70% quality =$600,000/ton

Price per tonnage at 80% quality = ($600,000/70) X 80

= $685,714.29

The transfer price of cement purchased from Inno Canada Inc is benchmarked at $685,714.29 per tonnage amounting to $685,714.29 X 100) = $68, 571,429.00

(iii) This transfer price is based on the assumptions that:

- the controlled and uncontrolled transactions are based on comparable contractual terms
- the controlled and uncontrolled market conditions and product acceptability
- the controlled and uncontrolled transactions are based on comparable payment terms; and
- the controlled and uncontrolled transactions have same level unique and valuable intangible

(iv) To choose the most appropriate transfer pricing method, the following factors should be considered:

- the strength and weaknesses of each method;
- the appropriateness of the method given the nature of the controlled transaction i.e. functional analysis;

- the availability of reliable data;
- the level of comparability between the controlled transactions and the available comparable; and
- ability to make adjustments and the reliability of such adjustments.

(v) Reaction to transfer pricing audit team's proposal to price loan payable to Inno XX at 10%

Inno Nig Limited had the following loan transactions in 2024:

- loan of $10 million from First Bank PLC @ interest of 12% per annum;
- loan of $10 million from Inno AA @ interest of 10% per annum; and
- loan of $10 million from Inno XX @ 18% per annum.

The proposal by the transfer pricing auditors of FIRS to benchmark the loan obtained from Inno XX limited at an interest rate of 10% of the loan obtained from Inno AA Inc. is not appropriate because that approach offends transfer pricing principles. It is against the transfer pricing rule to benchmark a controlled transaction with another controlled transaction. Only uncontrolled transaction could serve as a benchmark for a controlled transaction.

(b) In order to take advantage of the benefits provided by the treaty, the
   (i) taxpayer must be a resident of one or both contracting States;
   (ii) taxpayer must be subject to tax in the treaty country of which he is a resident;
   (iii) tax for which he is seeking benefit must be covered by the treaty;
   (iv) benefit must not be specifically excluded under the treaty; and
   (v) benefit must be claimed within the time stipulated by the treaty.

(c) The ways of sharing taxing rights under a treaty include:
   (i) allocation of the sole or exclusive taxing right to either the source or residence State;
   (ii) concurrent or sharing of taxing right between the source and residence States in agreed proportions; and
   (iii) mutual cooperation and agreement between the competent authorities of the two contracting States.

SECTION B – ATTEMPT ONLY TWO (2) QUESTIONS IN THIS SECTION

QUESTION 2

GlobalTech Ltd, a company resident in the United Kingdom, provides IT consulting services to clients in Nigeria. During the 2024 financial year, GlobalTech Ltd carried out the following activities in Nigeria:

i. maintained a fixed office in Lagos which was used to negotiate contracts and manage client relationships;
ii. employed 5 members of staff who worked exclusively from the Lagos office;
iii. generated total revenue of ₦800,000,000 from Nigerian clients; and
iv. incurred total expenses of ₦500,000,000, including salaries, office rent, and other operational costs.

The companies income tax rate in Nigeria applies

Required:

a. Explain Nigeria's significant economic presence rule and how it affect GlobalTech Ltd. **(5 Marks)**

b. Explain the significance of the fixed place of business requirement in determining the existence of a PE. **(5 Marks)**

c. Explain five (5) key criteria for determining whether a dependent agent has the authority to bind the foreign enterprise in contracts. **(5 Marks)**

d. Discuss the five (5) challenges posed by the digital economy to the traditional concept of permanent establishment. **(5 Marks)**

(Total 20 Marks)

Solution 2

a. Explanation on how Nigeria's significant economic presence (SEP) rule affects GlobalTech Ltd.

The significant economic presence (SEP) rule is a provision in Nigeria's tax laws that allows the taxation of foreign companies that have a significant economic presence in Nigeria, even if they do not have a physical presence (PE).

(i) The SEP rule applies to digital business of non-resident companies that derive gross turnover or income of more than 25 million or its equivalent in other currencies, in that year, from any or combination of the following:

- digital transactions: Such as streaming downloading services of digital contents, including but not limited to movies, videos, music, applications, games and e-books to any person in Nigeria;
- transmission of data collected about Nigerian users which has been generated from such user's activities on a digital interface, including website or mobile applications;
- provision of goods or services directly or indirectly through a digital platform to Nigeria; or

- provision of intermediation services through a digital platform, website or other online application that link suppliers and customers in Nigeria.

(ii) Uses Nigerian domain name (.ng) or registers a website address in Nigeria; or

(iii) Has a purposeful and sustained interaction with persons in Nigeria by customising its digital page or platform to target persons in Nigeria, including reflecting the prices of its products or services in Nigerian currency or providing options for billing or payment in Nigeria currency.

GlobalTech Ltd: If GlobalTech Ltd provides IT consulting services digitally (for example, through online platforms) and generates significant revenue from Nigerian clients, it will be subject to taxation under the SEP Rule, even if it does not have a physical office in Nigeria. However, in this case, GlobalTech Ltd already has a permanent establishment (PE) in Nigeria, so the SEP Rule would not apply. The company's tax obligations are already determined under the PE rules.

b. The significance of the fixed place of business requirement in determining the existence of a PE.

A fixed place of business is a crucial concept in determining the existence of a permanent establishment (PE) under international tax laws, particularly as outlined in the OECD Model Tax Convention. A PE is a key factor in determining whether a country has the right to tax the profits of a foreign enterprise.

(i) **Definition of a PE:** A PE generally refers to a fixed place of business through which the business of an enterprise is wholly or partly carried out. This includes places like offices, factories, workshops, or branches.

- The "fixed place" requirement implies a degree of permanence and stability. It must be a distinct place of business that is established for a sufficient period of time.

(ii) Key elements of a fixed place of business

- Physical Location: There must be a physical space, such as an office, factory, or other facilities, where business activities are conducted.
- Permanence: The place must be used for business activities on a continuous or regular basis, not just temporarily or occasionally.
- At the disposal of the enterprise: The place must be at the disposal of the enterprise, meaning the enterprise has control over the space and uses it for its business operations.

(iii) Significance in tax jurisdiction

- Taxable presence: A fixed place of business establishes a taxable presence in a country. If a foreign enterprise has a PE in a country, that country can tax the profits attributable to the PE.
- Avoiding double taxation: The concept helps prevent double taxation by clearly defining when a country has the right to tax a foreign enterprise's profits.

c. The key criteria for determining whether a dependent agent has the authority to bind the foreign enterprise in contracts

The key criteria for determining whether a dependent agent has the authority to bind the foreign enterprise in a contract include:

(i) Dependency:

- Economic and legal dependency: The agent must be dependent on the foreign enterprise, meaning the agent does not operate as an independent entity. This dependency can be economic (reliance on the enterprise for income) or legal (contractual obligations).
- Control: The foreign enterprise must have significant control over the agent's activities, including the terms and conditions under which the agent operates.

(ii) Authority to conclude contracts:

- Habitual exercise of authority: The agent must habitually exercise the authority to conclude contracts on behalf of the foreign enterprise. This means that the agent regularly and consistently enters into contracts that bind the enterprise.
- Binding contracts: The contracts concluded by the agent must be binding on the foreign enterprise. This implies that the enterprise is legally obligated to fulfill the terms of the contracts signed by the agent.

(iii) Nature of the contracts:

- Core business activities: The contracts concluded by the agent should pertain to the core business activities of the foreign enterprise, for example, if the enterprise is in the business of selling goods, the agent should be concluding sales contracts.
- Scope of authority: The agent's authority should cover significant aspects of the business operations, not just minor or ancillary activities.

(iv) Regularity and frequency:

- Regular basis: The agent must exercise this authority on a regular basis, not just occasionally or sporadically. The regularity indicates that the agent is an integral part of the enterprise's business operations in the country.

(v) Lack of independence:

-Independent agent exception: If the agent is acting in the ordinary course of the business as an independent agent, they are not considered a dependent agent. Independent agents typically have multiple clients and operate under their own control and risk.

(vi) Documentary evidence:

- Contracts and agreements: Written agreements between the foreign enterprise and the agent can provide evidence of the agent's authority and the nature of their relationship.
- Operational practices: The actual practices and operations of the agent, including how contracts are negotiated and concluded, can also be indicative of their authority.

(vii) Economic substance:
- Substantial role: The agent should play a substantial role in the business operations of the foreign enterprise, contributing significantly to the enterprise's income and market presence in the country.

d. The challenges posed by the digital economy to the traditional concept of permanent establishment

The digital economy poses significant challenges to the traditional concept of permanent establishment (PE), which was originally designed for brick-and-mortar businesses. The rise of digital technologies and online business models have blurred the lines of physical presence and economic activity, making it difficult to apply traditional PE rules effectively. The key challenges include:

(i) Lack of physical presence:
- Digital-only businesses: Many digital businesses operate entirely online without needing a physical presence in a country, for example, a company can sell software, streaming services, or digital goods to customers worldwide without having an office or employees in those countries.
- Cloud computing: Services delivered via the cloud often do not require a physical presence, challenging the traditional notion of a fixed place of business.

(ii) Significant economic presence without PE:
- Revenue generation: Digital companies can generate substantial revenue from customers in a country without having a PE there. This creates a mismatch between where value is created and where taxes are paid.
- User data and participation: The value created by user data and participation in digital platforms (for example, social media, search engines) often does not align with traditional PE criteria.

(iii) Dependent agents and automated services:
- Automated digital services: Automated systems and algorithms can perform functions that traditionally required human agents, complicating the determination of whether a dependent agent exists.
- Digital intermediaries: Platforms that facilitate transactions between users (e.g., marketplaces, app stores) may not fit neatly into the traditional dependent agent framework.

(iv) Fragmentation of value creation:
- Global value chains: Digital businesses often have fragmented value chains, with different parts of the business (e.g., development, marketing, sales) located in different jurisdictions. This makes it difficult to attribute profits to a specific PE.
- Intangibles and IP: The use of intangible assets like intellectual property (IP) in digital businesses further complicates profit attribution, as these assets can be easily moved or located in low-tax jurisdictions.

(v) Compliance and enforcement:
- Tracking digital transactions: Tax authorities face challenges in tracking and taxing digital transactions, especially when businesses operate across multiple jurisdictions without a physical presence.
- Data privacy and access: Accessing the necessary data to assess and enforce tax obligations can be hindered by data privacy laws and cross-border data flow restrictions.

(vi) International tax rules and coordination:
- Outdated frameworks: Existing international tax rules, including those in the OECD Model Tax Convention, were not designed with the digital economy in mind and may not adequately address the complexities of digital business models.
- Need for global consensus: Achieving a global consensus on how to tax digital businesses is challenging due to differing national interests and the rapid evolution of digital technologies.

QUESTION 3

Double taxation treaties (DTT) are essential tools in international taxation, ensuring fairness, reducing tax barriers, and fostering global economic activity. They are particularly important for multinational corporations, expatriates, and investors operating across borders.

Double taxation treaty (DTT) also known as double taxation agreement (DTA) is a bilateral agreement between two countries designed to prevent the same income from being taxed twice. This occurs when income earned in one country by a resident of another country is subject to taxation in both jurisdictions. Double taxation treaties aim to promote cross-border trade and investment by providing clarity and fairness in tax treatment.

Required:

a. Explain the differences between the exemption method and the credit method for eliminating double taxation under a DTT. **(4 Marks)**

b. Explain how double taxation treaties allocate taxing rights between two countries for five (5) types of income. **(5 Marks)**

c. Explain the mutual agreement procedure (MAP) under a double taxation treaty, and how it helps resolve disputes between tax authorities. **(4 Marks)**

d. Discuss the concept of "treaty shopping" and how double taxation treaties address this issue. **(5 Marks)**

e. Explain how double taxation treaties align with the OECD Model Tax Convention. (**2 Marks)**

(Total 20 Marks)

Solution 3

a) **Difference between the exemption method and the credit method**

Exemption method: Under the exemption method, the resident country exempts foreign-sourced income from taxation if it has already been taxed in the source country. This means the income is only taxed once, in the country where it was earned.
Advantages: Simplifies tax compliance and avoids double taxation entirely.
Disadvantages: The resident country loses tax revenue on foreign income.

Credit method: Under the credit method, the resident country taxes worldwide income but allows a credit for taxes paid in the source country. This ensures that the total tax paid does not exceed the higher of the two countries' tax rates.

Advantages: Ensures fairness by allowing the resident country to tax income while preventing double taxation.

Disadvantages: Can be complex to calculate and administer, especially when tax rates differ significantly.

Major differences:
- The exemption method avoids double taxation by excluding foreign income from taxation in the resident country.
- The credit method avoids double taxation by allowing a credit for taxes paid in the source country against the resident country's tax liability.

b) Allocation of taxing rights under double taxation treaties

Double taxation treaties (DTTs) allocate taxing rights between two countries based on the type of income and the residency of the taxpayer. The general principles are:

(i) Business profits: Taxed in the country where the business has a permanent establishment (PE). If no PE exists, the income is taxed only in the resident country;

(ii) Dividends: Taxed in the resident country of the recipient, but the source country may impose a withholding tax (usually at a reduced rate under the treaty).

(iii) Interest: Taxed in the resident country of the recipient, but the source country may impose a withholding tax (often at a reduced rate);

(iv) Royalties: Taxed in the resident country of the recipient, but the source country may impose a withholding tax (often at a reduced rate);

(v) Capital gains: Typically taxed in the country where the asset is located;

(vi) Employment income: Taxed in the country where the employment is exercised, unless the employee meets specific conditions (e.g., short-term assignments); and

(vii). Pensions: Usually taxed only in the resident country of the recipient.

(c) Mutual agreement procedure (MAP)

The mutual agreement procedure (MAP) is a dispute resolution mechanism under DTTs that allows tax authorities of the contracting States to resolve disputes arising from the interpretation or application of the treaty.
Benefits include:
- prevents double taxation and ensures compliance with the treaty;
- provides a formal mechanism for resolving disputes without litigation; and
- enhances taxpayer confidence in cross-border transactions.

(d) Treaty shopping and how DTTs addresses It

Treaty shopping: Treaty shopping occurs when a taxpayer (often a multinational enterprise) exploits DTTs by establishing a presence in a country solely to take advantage of favourable tax provisions, such as reduced withholding tax rates. It is a tax planning strategy used by businesses to take advantage of favourable tax treaties between countries.

How DTTs address treaty shopping:
(i) Limitation on benefits (LOB) clause: Restricts treaty benefits to residents who meet specific criteria, such as substantive business activities or ownership requirements;
(ii) Principal purpose test (PPT): Denies treaty benefits if obtaining those benefits was one of the principal purposes of a transaction or arrangement;
(iii) Anti-abuse provisions: Includes general anti-avoidance rules (GAAR) to prevent misuse of treaties; and

(iv) Exchange of information: Enhances transparency and cooperation between tax authorities to identify and address treaty shopping.

e) Alignment of DTTs with the OECD Model Tax Convention and Key Differences Between OECD and UN Models

Alignment with the OECD model tax convention: Most DTTs are based on the OECD Model Tax Convention, which provides a framework for allocating taxing rights and preventing double taxation. Countries use the OECD Model as a reference when negotiating treaties, ensuring consistency and alignment with international standards.

Major differences between OECD and UN Model Conventions:

Convention	OECD Model	UN Model
Purpose	Primarily favours capital-exporting (developed) countries.	Focuses on the interests of capital-importing (developing) countries.
Permanent establishment (PE)	Narrower definition, favouring residence-based taxatio	Broader definition, allowing source countries to tax more income
Withholding taxes	Lower rates on dividends, interest, and royalties to promote investment transactions	Higher rates, allowing source countries to retain more taxing right
Business profits	Taxed only if a PE exists in the source country	Broader scope for taxing business profits, even without a PE.
Developing countries	Less favourable to developing countries	More favourable to developing countries, emphasising source-based taxation

QUESTION 4

International tax policy is the framework of rules, principles, and agreements that govern countries tax cross-border economic activities. It addresses the challenges of taxing individuals and businesses that operate in multiple jurisdictions, ensuring fairness, preventing double taxation, and combating tax avoidance and evasion. International tax policy is critical in a globalised economy where businesses and individuals frequently engage in cross-border trade, investment, and employment.

Required:

a. **Explain the key objectives of the OECD's base erosion and profit shifting (BEPS) Project and how it influenced international tax policy.**
(5 Marks)

b. **Explain the concept of economic double taxation and how it differs from juridical double taxation. Provide examples of each.**
(5 Marks)

c. **Discuss the concept of tax neutrality in international taxation and how it differentiates between capital export neutrality (CEN) and capital import neutrality (CIN)**
(5 Marks)

d. **Explain the two-pillar solution proposed by the OECD and the key differences between Pillar One and Pillar Two.**
(5 Marks)

(Total 20 Marks)

Solution 4

(a) Key objectives of the OECD's base erosion and profit shifting (BEPS) project and its influence on international tax policy

The OECD's base erosion and profit shifting (BEPS) project was launched to address tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax jurisdictions. The key objectives of the BEPS Project include:

(i) ensuring that profits are taxed where economic activities generating the profits are performed and where value is created;
(ii) preventing treaty abuse by ensuring that double taxation treaties are not misused to avoid taxation;
(iii) improving transparency through enhanced reporting requirements and data sharing between tax authorities;
(iv) promoting coherence in international tax rules to reduce opportunities for arbitrage between different tax systems; and

(v) enhancing substance requirements to ensure that taxable profits align with real economic activities.

Influence on international tax policy include:

(i) the BEPS project has led to significant changes in international tax rules, including the adoption of the BEPS Action Plan by over 135 countries;
(ii) it has resulted in the implementation of measures such as Country-by-Country Reporting (CbCR), which requires multinational enterprises to report income, taxes paid, and other indicators for each jurisdiction they operate in; and
(iii) the project has also influenced the development of the Two-Pillar Solution (discussed in part d) to address the tax challenges of the digital economy and global minimum taxation.

(b) Concept of economic double taxation vs. juridical double taxation

(i) Economic double taxation: This occurs when the same income is taxed in the hands of different taxpayers. It typically arises in the context of corporate-shareholder relationships.
Example: A company pays companies income tax on its profits, and then shareholders pay personal income tax on dividends received from the same profits.
(ii) Juridical double taxation: This occurs when the same income is taxed by two or more jurisdictions based on their respective tax laws. It arises due to overlapping tax claims by different countries.
Example: A company based in Country A operates in Country B. Country A taxes the company's worldwide income, while Country B taxes the income earned within its borders, leading to the same income being taxed twice.
(iii) Major difference: Economic double taxation involves multiple taxpayers (e.g., corporation and shareholder), while judicial double taxation involves multiple jurisdictions taxing the same taxpayer on the same income.

(c) Concept of tax neutrality in international taxation: CEN vs. CIN

Tax neutrality refers to the principle that tax systems should not distort economic decisions, such as where to invest or how to structure operations. It aims to ensure that taxes do not influence the allocation of resources across borders.

(i) Capital export neutrality (CEN): CEN ensures that taxpayers are indifferent between investing domestically or abroad. It requires that the total tax burden on foreign and domestic investments be equal.
Example: A country allows a credit for foreign taxes paid, so the taxpayer's total tax liability is the same regardless of where the income is earned.
(ii) Capital import neutrality (CIN): CIN ensures that all investors in a country are subject to the same tax rate, regardless of their country of residence. It promotes a level playing field for domestic and foreign investors.

Example: A country exempts foreign investors from certain taxes to ensure they are not disadvantaged compared to domestic investors.

(d) The Two-Pillar Solution proposed by the OECD

The Two-Pillar Solution is a global tax reform framework developed by the OECD to address the tax challenges arising from the digitalisation of the economy and to ensure a fair distribution of taxing rights among countries.

Pillar One: Reallocate taxing rights to ensure that multinational enterprises (MNEs) pay taxes in jurisdictions where they conduct significant business, even if they do not have a physical presence there. It applies to large MNEs with global revenue above €20 billion and profitability above 10%. A portion of the residual profit (profit above 10% of revenue) is reallocated to market jurisdictions based on sales.
Example: A digital company based in Country A generates significant sales in Country B. Under Pillar One, a portion of its profits will be taxed in Country B, even if it has no physical presence there.

Pillar Two: Establish a global minimum tax rate to reduce profit shifting to low-tax jurisdictions. It applies to MNEs with revenue above €750 million. It introduces a Global Anti-Base Erosion (GloBE) rule, which ensures that MNEs pay a minimum effective tax rate of 15% in each jurisdiction they operate in.
Example: If an MNE operates in a jurisdiction with a tax rate below 15%, the home country can impose a top-up tax to bring the effective rate to 15%.

SECTION C – ATTEMPT ONLY TWO (2) QUESTIONS IN THIS SECTION

QUESTION 5

There is a nexus between international tax avoidance and the Nigerian taxation, as international tax avoidance schemes, especially by multinational corporations operating within its borders impacts on the Nigerian tax system. Addressing these issues requires robust domestic policies and international cooperation.

Required:

a. Explain three common strategies used by MNEs to avoid international taxation. **(3 Marks)**

b. Analyse the impact of Nigeria's tax incentives on foreign direct investment (FDI). **(4 Marks)**

c. Explain with examples, how tax havens facilitate international tax avoidance with examples. **(4 Marks)**

d. Evaluate the effectiveness of Nigeria's tax treaties in preventing double taxation and tax avoidance. **(4 Marks)**

(Total 15 Marks)

Solution 5

(a) Three common strategies used by MNEs to avoid international taxation include:

(i) Profit shifting: MNEs shift profits from high-tax jurisdictions (like Nigeria) to low-tax jurisdictions by allocating income to subsidiaries in tax havens or countries with favourable tax regimes.
Example: A Nigerian subsidiary of an MNE pays excessive royalties or service fees to a related entity in a low-tax jurisdiction, reducing taxable profits in Nigeria.

(ii) Transfer pricing manipulation: MNEs manipulate the prices of goods, services, or intellectual property transferred between related entities to reduce taxable income in high-tax jurisdictions.
Example: An MNE sells goods to its Nigerian subsidiary at inflated prices, reducing the subsidiary's profits and tax liability in Nigeria.

(iii) Treaty shopping: MNEs exploit favourable provisions in double taxation treaties by routing investments through intermediary countries with beneficial tax treaties.
Example: An MNE routes investments into Nigeria through a country that has a favourable tax treaty with Nigeria, reducing withholding taxes on dividends, interest, or royalties.

(b) Impact of Nigeria's tax incentives on foreign direct investment (FDI)

Positive impacts include:

(i) Attracting investment: Tax incentives, such as reduced corporate tax rates, tax holidays, and exemptions, can attract foreign investors seeking to minimise their tax burden;

(ii) Economic growth: Increased FDI can lead to job creation, technology transfer, and infrastructure development, contributing to economic growth; and

(iii) Sectoral development: Targeted incentives for specific sectors (for example, oil and gas, agriculture, manufacturing) can stimulate growth in those sectors.

Negative Impacts include:

(i) Revenue loss: Excessive tax incentives can erode Nigeria's tax base, reducing government revenue needed for public services and infrastructure;

(ii) Inequity: Domestic businesses may face a higher tax burden compared to foreign investors, creating an uneven playing field; and

(iii) Abuse by MNEs: Some MNEs may exploit tax incentives without making significant contributions to the economy, engaging in profit shifting or other avoidance strategies.

(c) How tax havens facilitate international tax avoidance (with examples)

Tax havens are jurisdictions that offer low or zero tax rates, strict secrecy laws, and minimal reporting requirements, making them attractive for tax avoidance. They facilitate international tax avoidance through:

(i) Profit shifting: MNEs shift profits to tax havens by attributing income to subsidiaries or shell companies in these jurisdictions.
Example: A Nigerian MNE transfers intellectual property rights to a subsidiary in the Cayman Islands, where it pays little or no tax on royalties.

(ii) Secrecy and Lack of transparency: Tax havens often have strict secrecy laws that prevent the exchange of financial information with other countries, making it difficult for tax authorities to detect avoidance schemes.
Example: A Nigerian individual or company hides assets in a Swiss bank account to avoid reporting income to Nigerian tax authorities.

(iii) Treaty abuse: MNEs use tax havens to exploit favourable tax treaties, routing income through these jurisdictions to reduce taxes.
Example: An MNE routes dividends from Nigeria through Mauritius (a tax haven with a favourable treaty with Nigeria) to reduce withholding taxes.

d. Effectiveness of Nigeria's tax treaties in preventing double taxation and tax avoidance

Positive aspects include:

(i) Prevention of double taxation: Nigeria's tax treaties allocate taxing rights between Nigeria and treaty partners, reducing the risk of double taxation for businesses and individuals.
Example: A Nigerian company operating in South Africa can claim relief under the Nigeria-South Africa tax treaty to avoid being taxed twice on the same income.

(ii) Promotion of FDI: Tax treaties provide certainty and reduce tax barriers, encouraging cross-border investment and trade.
Example: The Nigeria-Netherlands tax treaty reduces withholding taxes on dividends, interest, and royalties, making Nigeria more attractive to Dutch investors.

Negative aspects include:

(i) Treaty abuse: Some MNEs exploit Nigeria's tax treaties to engage in treaty shopping, routing investments through intermediary countries to minimise taxes.
Example: An MNE routes investments into Nigeria through Mauritius to take advantage of lower withholding tax rates under the Nigeria-Mauritius treaty.

(ii) Limited coverage: Nigeria has a relatively small network of tax treaties, limiting their effectiveness in addressing double taxation and avoidance globally.
Example: The absence of a tax treaty with certain major trading partners may lead to double taxation or tax disputes.

(iii) Weak anti-avoidance provisions: Some of Nigeria's tax treaties lack robust anti-avoidance provisions, making them vulnerable to abuse by MNEs.

Example: The absence of a principal purpose test (PPT) or limitation on benefits (LOB) clause in some treaties allows MNEs to exploit treaty benefits for tax avoidance.

QUESTION 6

Mr. Sabo, a highly skilled neurologist, is a national of Country A. He owns a successful medical practice and other investments in that country. He owns a permanent dwelling home in that country, where his wife and children live. Mr. Sabo also provides consultancy services to patients in Country B and lectures in a prestigious school of medicine in that country. Because he spends most days of the year working in Country B, he recently bought a town house in that country, in addition to the properties he has in country A.

Under the domestic laws of both countries, the criteria for residency include permanent home, habitual abode, economic and family ties. There exists a treaty between the two countries, which is similar to the OECD Model.

Required:

a) Explain the circumstance of Mr. Sabo under the tax treaty between Country A and Country B. **(5 Marks)**

b) Explain the steps the competent authorities of Country A and Country B should take to determine Mr. Sabo's residence for tax purposes. **(10 Marks)**

(Total 15 Marks)

Solution 6

a) Residency for tax purposes is determined based on domestic laws of countries. The criteria adopted often include domicile, domicile plus time threshold, place of habitual abode, place of incorporation, place of effective management or other similar criterion. It is used to determine which State has unlimited right to tax the income of a person under Article 1(3) of the treaty.

Under the domestic laws of both countries and Article 1(1) of the treaty, Mr. Sabo is a resident of countries A & B. This is the case of a dual resident of the contracting States. In that case, his situation needs to be further decided under the treaty tie-breaker rule to prevent a situation where both countries will have unlimited taxing right over his incomes, which will inevitably lead to double taxation.

b) Where an individual is a resident of the two contracting States under a treaty, then his State of resident is determined under the tie-breaker rule:

For a dual resident individual, the rule under Article 4(2) of the treaty are as follows:

(i) Mr Sabo shall be deemed to be a resident only of the State in which he has a permanent home available to him;

(ii) if he has a permanent home available to him in both States, he shall be deemed to be a resident only of the State where his personal and economic relations are closer (center of vital interests);

(iii) if the State in which he has his center of vital interests cannot be determined, or if he has not a permanent home available to him in either State or has permanent home in both States, he shall be deemed to be a resident only of the State in which he has an habitual abode;

(iv) if he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident only of the State of which he is a national;

(v) if he is a national of both States or of neither of them, the competent authorities of the contracting States shall settle the question by mutual agreement.

QUESTION 7

Section 9 of the Companies Income Tax Act Cap. C21 LFN 2004 (as amended) subject income derived from, accruing in, brought into or received in Nigeria to tax under the Act.

Required:

Discuss the nexus rules for subjecting to taxation under the Act, the income of a non-resident company derived from, accruing in, brought into, or received in Nigeria.

(15 Marks)

Solution 7

In accordance with the provisions of section 13(2) of CITA, a non-resident company is taxable in Nigeria if any of the following conditions is met:

i) the presence of a fixed base of business in Nigeria – where the non-resident company has a fixed base of business in Nigeria to the extent that profit is attributable to that fixed base;

ii) authorised agent or stock of goods for deliveries – where the non-resident company or any of its associates habitually operates a trade or business through a person in Nigeria or maintains a stock of goods or merchandise in Nigeria from which deliveries are regularly made by a person on behalf of the company;

iii) electronic digital activity – where the non-resident company derives income from Nigeria through digital activities to the extent that it has a significant economic presence in Nigeria;

iv) execution of any contract for surveys, deliveries, installations or construction – where the trade or business or activities involves a single contract for surveys, deliveries, installations or construction;

v) remote services – where the trade or business involves the furnishing of technical, management, consultancy or professional services to Nigerian residents; and

vi) adjustment of artificial transaction - the trade or business or activities is between the company and a related party, which is considered not at arm's length.

In addition to the above, the following passive income are subject to tax in Nigeria, through withholding tax deduction, where the payment is made by a person authorised to deduct tax:

(i) interest;
(ii) royalties;
(iii) rent; and
(iv) dividend

A person authorised to deduct the tax includes government departments, parastatals, statutory bodies, institutions and other establishments approved for the operation of Pay As You Earn system, and the tax, when paid over to FIRS, is the final tax due from a non-resident recipient of the payment.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2025: PROFESSIONAL EXAMINATION

PTXII: GOVERNANCE AND STRATEGIC TAX PLANNING

WEDNESDAY 16TH APRIL 2025 **EXAM NO…………**

TIME: 3 HOURS

INSTRUCTION
Answer question 1 and any 2 questions in section B and any other 2 questions in section C

QUESTION 1

TechNova Inc.
TechNova Inc. is a leading high-tech company specialising in cutting-edge software solutions, artificial intelligence, and cloud computing services. With a global workforce of over 10,000 employees, TechNova is listed on the prestigious Tech Stock Exchange and serves clients across various industries, including finance, healthcare, and telecommunications. TechNova has two subsidiaries in Nigeria, operating in the Fintech and the Cybersecurity sectors of the economy. Given its rapid growth and the intricate nature of its operations, a robust governance structure is essential for ensuring accountability, strategic oversight, and ethical conduct.

Board of directors
The board of directors at TechNova consists of 10 members, comprising:
- 7 independent directors
- 2 executive directors (CEO and CFO)
- 1 non-executive chairman

Required
a. Describe the governance structure of TechNova Inc., specifying the roles and responsibilities of the board of directors in overseeing technology strategy and risk management. (10marks)
b. Identify and explain at least two key board committees that you expect to find in TechNova Inc. What specific responsibilities do these committees have regarding compliance, cybersecurity, or innovation? (10 marks)
c. How will the board of TechNova Inc. ensure accountability for technology-related decisions made by management? Discuss any reporting mechanisms or

performance metrics that may be used to evaluate success.
(10 marks)

Total: (30 marks)

Solution 1

a. Governance Structure

The governance structure of a typical high-tech company usually includes a Board of directors responsible for providing strategic direction and oversight on various aspects including technology strategy and risk management.
The governance structure of a typical high-tech company is designed to ensure effective oversight and strategic direction, particularly concerning technology strategy and risk management. Below is a breakdown of the essential components:

Board of directors
Composition: Typically includes independent directors (to enhance objectivity), executives from relevant fields (such as technology and finance), and specialists in corporate governance.

Roles and responsibilities: The Board of Directors serves as the highest governing body, providing oversight to ensure that the company operates in alignment with its mission, vision, and strategic goals.
Specifically, the board have the following roles and responsibilities:

- **Strategic direction:** The board plays a crucial role in setting long-term technology strategies that align with overall business goals. This involves evaluating technological trends, assessing competitive threats, and identifying opportunities for innovation.

- **Resource allocation**: The board is responsible for approving budgets for research and development (R&D) projects or tech initiatives ensuring that adequate resources are allocated toward key technological advancements.

- **Performance oversight:** Regularly reviewing performance metrics related to tech initiatives helps assess whether strategic objectives are being met.

- **Stakeholder engagement**: Engaging with stakeholders—including employees, customers, investors, as understanding their perspectives on technology investments can guide decision-making processes.

Roles and Responsibilities Regarding Risk Management

- **Risk assessment:** The board must identify potential risks associated with new technologies or digital transformations including cybersecurity threats, data privacy issues, regulatory compliance risks (e.g., Nigeria Data Protection Act, etc.).

- **Policy frameworks:** Establishing policies surrounding risk management frameworks, to ensures there are protocols in place to mitigate identified risks effectively through compliance measures and operational procedures.

- **Crisis management oversight:** In case of crisis events such as data breaches or major system failures, the board should oversee incident response strategies implemented by management while ensuring thorough communication, both internally and externally during such events.

- **Continuous education and updates:** Given the rapidly changing nature of technology landscapes, a commitment to ongoing education regarding emerging trends helps inform better decision-making processes regarding technological risks versus rewards.

Committees
Various committees may be established to focus on specific areas requiring expertise; common ones include:
- Audit Committee
- Technology/Innovation Committee
- Risk Management Committee
- Nomination/Governance Committee

In summary, the governance structure within a high-tech company emphasizes collaboration among various bodies led by an engaged Board of Directors tasked with oversight responsibilities related not only to setting technology strategies, but also managing associated risks effectively, by balancing innovation drives against potential vulnerabilities inherent in high-paced environments

b. Board committees' functionality

In high-tech companies, specific board committees are established to focus on critical areas such as compliance, cybersecurity, and innovation. Two key board committees typically found in high-tech companies are:

Audit Committee

Responsibilities include:

- **Financial oversight:** The primary responsibility of the Audit Committee is to oversee the integrity of the company's financial statements and compliance with legal and regulatory requirements. This includes reviewing quarterly and annual reports before they are made public.

- **Internal controls:** The committee evaluates internal control systems to ensure effective risk management processes are in place, particularly those that relate to financial reporting.

- **Compliance monitoring:** The Audit Committee assesses adherence to applicable laws, regulations (such as the Financial Reporting Council of Nigeria's Code of Corporate Governance, etc.), industry standards, and ethical practices. They work closely with external auditors to identify any compliance issues.

- **Cybersecurity oversight**: Increasingly, this committee has taken on responsibilities related to cybersecurity by ensuring that adequate measures for data protection are implemented. They review management reports regarding cybersecurity risks, incidents, policies in place for data privacy (e.g., Nigeria Data Protection Act, etc.), incident response plans, and overall IT governance frameworks.

Technology/Innovation Committee

Responsibilities include:

- **Strategic technology direction:** This committee focuses on evaluating emerging technologies that could impact or enhance the company's long-term strategy. They assess trends in technology development relevant to their industry sector.

- **R&D investment oversight:** The Technology/Innovation Committee reviews proposals for research-and-development projects or partnerships aimed at fostering innovation within the organisation while ensuring alignment with strategic goals.

- **Performance metrics and milestones:** Establishing criteria for measuring success related to technology initiatives is crucial, therefore, they monitor progress against these benchmarks regularly.

- **Risk assessment related to innovation:** It also evaluates risks associated with new technologies being developed or adopted, this includes technological feasibility assessments as well as market readiness evaluations which might influence decision-making regarding investments into innovative solutions.

Both the Audit Committee and Technology/Innovation Committee play essential roles in managing aspects of compliance, cybersecurity threats identification/prevention strategies while fostering an environment conducive towards ongoing innovation within high-tech companies. Their oversight ensures that technology strategies align effectively, not only with operational goals, but also maintain robust risk management practices amid a rapidly evolving technological landscape

Note: These two are the correct committees that candidates are expected to mention, however, any candidate that mentions other relevant committees and gives the responsibilities correctly could be awarded half of the marks available.

c. Accountability mechanisms

In a high-tech company, ensuring accountability for technology-related decisions made by management is crucial for aligning technological initiatives with the overall strategic goals of the organization. The board employs several mechanisms, including reporting structures and performance metrics, to achieve this accountability.

Reporting mechanisms

Regular Reports and Updates, which include:

Management presentations: Management teams are often required to present periodic updates on technology projects, initiatives, and strategies to the board. These presentations include current status reports on ongoing projects, challenges faced, and how those challenges are being managed.

Technology roadmaps: Boards may request detailed technology roadmaps from management that outline upcoming projects and how they align with overall business objectives. This roadmap provides clarity regarding timelines, resource allocation, expected outcomes, and linkages to broader strategic goals.

Risk assessments: Regular reports on technological risks—including cybersecurity threats or project-specific risks, enable the board to gauge management's awareness of potential pitfalls associated with their decisions.

Special committees

Technology/Innovation Committee oversight: As discussed previously, having a dedicated committee can focus specifically on evaluating technology-related decisions made by management. This committee can provide regular assessments of emerging technologies' relevance and effectiveness in meeting corporate objectives.

Performance metrics

Key performance indicators (KPIs)
To evaluate success in tech-related initiatives effectively:

Return on investment (ROI): Calculating ROI for specific technology investments helps assess whether resources have been used efficiently towards value creation.

Time-to-market metrics: Evaluating how quickly new products or features are brought to market assesses both innovation speed and operational efficiency.

Customer satisfaction scores: Tracking customer feedback related to new technologies or services provides insight into whether investments meet user needs effectively.

Project milestones
Setting clear milestones for critical technology projects allows boards to monitor progress incrementally:

Milestone completion rates: Measuring whether significant phases of a project are completed on time helps indicate effective project management practices.

Adjustments based on findings: If certain milestones consistently fail or face delays due to unforeseen issues; it triggers deeper scrutiny from the board regarding underlying causes leading up decision-making processes moving forward.

Accountability frameworks

Performance reviews
Board members can participate in performance reviews where executives must account for their strategic choices concerning tech implementation:

- Executives might be evaluated based not only upon financial performance but also along parameters specific, like innovation delivery rates tied directly back into organisational strategy.

- Incentive structures may be designed around these evaluations so that successful outcomes relating directly back into goal achievement reinforce appropriate decision-making cultures within layers of management accountable down through teams executing implementations.

The combination of structured reporting mechanisms along with clearly defined performance metrics forms a robust accountability framework that ensures alignment between technological endeavours undertaken by management within high-tech companies' overarching business strategies, set forth by boards, thus ultimately fostering an environment conducive toward sustainable growth driven through innovation

SECTION B

QUESTION 2

RISK MANAGEMENT – COSO FRAMEWORK

You are the head of Risk Management Division of a multinational company operating in many countries. The operational entities in different countries have different risk management arrangements. The board of the company has directed your division to develop an Enterprise Risk Management approach which will be applicable in all jurisdictions in which the company operates.

You are required to:

a. Recommend an acceptable approach, with justifications. **(5marks)**

b. Discuss the elements of the approach. **(15 marks)**

Total (20 marks)

Solution 2

a. Recommendation - COSO Risk Management Framework 1 mark
Justifications
COSO Risk Management Framework is recommended for the following reasons:
i. It is widely accepted over many jurisdictions;
ii. It is adaptable to many industries and jurisdictions;
iii. It enhances regulatory compliance and reporting;
iv. It incorporates both internal and external stakeholders;
v. It is an integrated approach; and

vi. It's implementation is enhanced by technology and innovation.
4 marks

b. **Elements of the COSO Risk Management Framework**

1. Governance and Culture:
- This element ensures that risk management is embedded into the organizational culture and governance structures.
- Key Components:
- Governance Structure: Clearly defined roles and responsibilities at all organizational levels to enhance accountability.
- Risk Awareness: A culture that promotes a common understanding of risk across all employees.
- Stakeholder Engagement: Involvement of stakeholders in the risk management process to ensure diverse perspectives and interests are considered.

2. Strategy and Objective-Setting:
- Aligning risk management with the organization's strategy and objectives is crucial for ensuring that risks are managed in a way that supports overall goals.
- Key Components:
- Strategic Alignment: The integration of risk factors into strategic planning processes.
- Objective Setting: Clearly defined and measurable objectives that incorporate risk considerations help to guide decision-making.

3. Performance:
- This element involves assessing how risks can impact the ability to meet objectives and measuring performance against established criteria.
- Key Components:
- Risk Tolerance: Understanding the levels of risk the organization is willing to accept in pursuit of its objectives.
- Performance Metrics: Development of metrics to monitor performance, assess risk impacts, and ensure alignment with strategic goals.

4. Review and Revision:
- Organizations need to regularly review and adjust their risk management strategies to adapt to changing internal and external environments.
- Key Components:
- Continuous Improvement: Processes for learning from past experiences

and enhancing risk management practices.
- Feedback Mechanisms: Systems to capture insights and lessons learned that inform future adjustments in strategy and risk management initiatives.

5. Information, Communication and Reporting:
- Effective communication and efficient information sharing across the organization are vital for successful risk management.
- Key Components:
- Data Integrity: Ensuring data used for risk assessment is accurate, timely, and relevant.
- Transparent Reporting: Clear communication of risks and risk management practices to stakeholders, including executives and the board of directors.

15 marks

Total 20 marks

Question 3

Adisco Nigeria Limited is a company operating in the food and beverage sector of the Nigeria economy. The company has been in existence for over ten years and has experienced profitable business for most of the years until the las trading year when the company suffered a loss. The company has, however, recovered and has returned to profitability during its las financial year that ended December 31, 2024.
On January 15, 2021, the company acquired new manufacturing equipment for N200m. The equipment has a useful life of 4 years, and it is depreciated evenly over the four-year period.
The capital allowances granted by the tax authority on this equipment over the four years are:

	₦m
Yr. 1	125,000
Yr. 2	25,000
Yr. 3	25,000
Yr. 4	25,000
	200,000

During the board meeting when the company's financial statement for 2024 was being approved, one of the directors who is not familiar with accounting principles wondered why the profit used for the company's tax computations was different from the actual profit for the year.

Required:

a. You are to provide an explanation to the director the reasons while the profit shown on the tax computation is different from the actual profit for the year. **(8 Marks)**

b. Calculate the deferred tax liability for each of the four years and explain the figures and their implications. **(12 Marks)**

Total (20 Marks)

Solution 3

a. Accounting profit is calculated based on revenues and related costs of doing business. There are several components that go into calculating accounting profit. Gross profit is the difference between revenue and cost of sale, or cost of producing the goods. Companies subtract all other expenses from gross profit to arrive at accounting profit before tax expenses.

Operating expenses include rent, utilities, interest, depreciation, amortization, salaries and other day -to - day costs of running the business. In the accrual method and the matching principle is followed in reporting accounting profit. This principle ensures that the income generated by an output and the expenses incurred for that output are recognized in the same period whether they were paid for or not during the period.

Each company is allowed under the law to select the date for its financial reporting, i.e. its accounting period which may differ from the Government fiscal year. Corporate financial reporting is required to follow accounting standards that have been set by independent accounting standard body. The purpose of these standards is to ensure uniformity of companies' financial statements and accounting methods.

However, tax rules are contained in tax laws as promulgated by the country's legislature and are mostly different from requirements of accounting standards. Therefore, it is possible for the financial reports of a company to differ from the tax returns submitted to tax authority because of the different accounting methods.

The tax law contains provisions on allowable and disallowable expenses for tax purposes. Whereas, as long as these expenses are incurred for the purpose of generating the income being reported, they are taken into consideration before arriving at the accounting profit.

The differences between book and tax income generally results from three categories of differences:

i. Temporary differences;
ii. Permanent differences; and
iii. Loss carry forwards / carry backs.

Temporary differences are defined by the accounting standard as being differences between the carrying amount of an asset (or liability) within the statement of Financial Position and its tax base, i.e., the amount at which the asset (or liability) is valued for tax purposes by the relevant tax authority.

Permanent differences occur as a result of differences between income as reported in the financial statement and income as reported based on tax law, as a result of some expenses that are disallowed for tax purposes but included in the determination of income in the financial statement. Also, there are some expenses and or income reported on the tax return which are never reported on the income statement.

A deferred tax liability is defined as being the amount of income tax payable in future periods in respect of taxable temporary differences. Simply put, a deferred tax is tax that is payable in the future. Taxable temporary differences are those on which tax will be charged in the future when the asset (or liability) is recovered (or settled).

The most common course of temporary differences which results in deferred tax are:

i. Depreciation of non-current assets; and
ii. Revaluation of non-current assets.

Within the financial statements, non-current assets with a limited economic life are subject to depreciation. However, within tax computations, non-current assets are subject to capital allowances (also known as tax depreciation) at rates set within the relevant tax law. Where at the year-end the cumulative depreciation charged and the cumulative capital allowances claimed are different, the carrying value of the asset (cost less accumulated depreciation) will then be different to its tax base (cost less accumulated capital allowances) and thus a taxable temporary difference arises.

b. Calculation of deferred tax liability

As stated above, deferred tax liabilities arise on taxable temporary differences, i.e. those temporary differences that result in tax being payable in the future as the temporary difference reverses. So, how does the above illustration result in tax being payable in the future?

Companies pay income tax on their taxable profits. When determining taxable profits, the tax authority start by taking the profit before tax (accounting profits) of a company from their financial statements and then make various adjustments – for example, depreciation is considered a disallowable expense for taxation purposes but instead tax relief on capital

expenditure is granted in the form of capital allowances. Therefore, taxable profits are arrived at by adding back depreciation and deducting capital allowances from the accounting profits, companies are then charged tax at the appropriate tax rate on these taxable profits.
The carrying value, the tax base of the equipment, and therefore the temporary difference at the end of each year are:

Yr	Carrying Value (cost accumulated depreciation)	Tax base (cost accumulated capital allowances)	Diff
	₦	₦	₦
1	150,000	75,000	75,000
2	100,000	50,000	50,000
3	50,000	25,000	25,000
4	Nil	Nil	Nil

In the above, calculation, when the capital allowances are greater than the depreciation expense in year 2021 to 2022, the company has received tax relief early.

This is good for cash flow in that it delays (i.e. defers) the payment of tax. However, the difference is only a temporary difference and so the tax will have to be paid in the future, in 2024, when the capital allowance for the year was less than the depreciation charged, the company is being charged additional tax, and the temporary difference is reversing. Hence the temporary differences can be said to be taxable temporary differences.

Candidates should notice that overall, the accumulated depreciation and accumulated capital allowances both equal N200,000 – the cost of the asset – so over the four – year period, there is no difference between the taxable profits and the profits per the financial statements.

At the end of 2021, the company has a temporary difference of N75m, which will result in tax being payable in the future (in 2023 and 2024). In accordance with the prudence concept, a liability is therefore recorded equal to the expected tax payable.

Assuming that the tax rate applicable is 30%, the deferred tax liability that will be recognized at the end of 2021 is 30% X N75m = N22.5m. This will be recorded by crediting (increasing) a deferred tax liability in the statement of financial position and debiting (increasing) the tax expenses in the statement of profit or loss.

By the end of 2022, the company has a taxable temporary difference of N50m. The liability, therefore, is now 30% X N50m = N15m. The deferred tax

liability now needs reducing from N22.5m to N15m and so is debited (a decrease) by N7.5m. Consequently, there is now a credit (a decrease) to the tax expense of N7.5m.
At the end of 2023, the company's taxable differences decreased to N25m. Therefore, the deferred tax liability needs to be reduced from N50m to N25m X 30%, i.e. N7.5m. So, the deferred tax liability is debited (a decrease) by N7.5m and the tax expenses is credited (a decrease) by N7.5m.
At the end of year 4, there are no taxable temporary differences since now the carrying value of the asset is equal to its tax base. Therefore, the opening liability of N22.5m was completely removed at the end of 2024. This is summarised as follows:

Year	1	2	3	4
	₦	₦	₦	₦
Opening deferred tax liability	0	22,500	15,000	7,500
Increase / (Decrease) in the year	22,500	(7,500)	(7,500)	(7,500)
Closing deferred tax liability	22,500	15,000	7,500	0

The closing figures are reported in the statement of financial position as part of the deferred tax liability.

Question 4
TechDynamics Nigeria Plc.
TechDynamics Nigeria Plc is a public fintech company based in Lagos, specialising in software development and IT services for the financial services industry. Founded in 2020, TechDynamics has rapidly grown and is now listed on the Nigeria Exchange Limited (NGX). Its board of directors and institutional shareholders play a critical role in corporate governance, ensuring oversight, accountability, and strategic direction.

Required:
a. Discuss the oversight functions of the board of Techdynamic. **(8 Marks)**
b. Discuss the oversight functions of the institutional investors of TechDyanamic. **(6 Marks)**
c. Discuss three oversight challenges that TechDynamic may experience. **(6 Marks)**
Total (20 Marks)

Solution 4

Effective corporate governance is critical to the success and sustainability of organisations. The oversight functions of the board of directors and institutional shareholders play significant roles in ensuring accountability, strategic direction, risk management, and ethical conduct within organisations. The following are the oversight functions that the board and the institutional shareholders are expected to play in TechDynamic Nigeria Plc:

a. **Board of directors**

i. **Strategic planning and direction**
- Oversight of strategic initiatives: The board regularly reviews strategic plans and ensures alignment with market trends and company goals.
- Long-term goals: The board sets long-term objectives beyond immediate financial performance, emphasizing sustainability and innovation.

ii. **Financial oversight**
- Monitoring financial performance: The board reviews quarterly financial reports and key performance indicators to ensure financial health and accountability.
- Audit oversight: The audit committee conducts regular meetings with internal and external auditors to address financial reporting concerns, ensuring adherence to GAAP (Generally Accepted Accounting Principles).

iii. **Risk management**
- Risk assessment framework: The board, particularly the Risk Management Committee, develops a comprehensive risk management framework that identifies key operational, financial, and market risks.
- Crisis response planning: The board ensures the establishment of crisis management protocols and business continuity plans, essential during unforeseen disruptions.

iv. **Performance evaluation**
- Assess CEO performance; and
- Set executive compensation structures aligned with company goals

v. **Compliance and ethics**
- Ensure compliance with laws/regulations; and
- Ensure that ethical standards upheld within the company.

vi. **Corporate governance**
- Governance standards implementation: The board governs itself according to established best practices and regulatory requirements.

The Nominations Committee regularly evaluates board effectiveness and diversity, leading to proactive changes in composition.

- Shareholder engagement: The board collaborates with shareholders, especially institutional investors, to address concerns and reflect shareholders' interests in governance practices.

b. Institutional Shareholders

i. Voting power and corporate governance

Institutional shareholders leverage their voting rights to influence key decisions, including board appointments and executive compensation. Following a push from stakeholders, the board may transition to a more performance-based compensation structure for executives.

ii. Engagement and dialogue

Regular meetings between the board and institutional investors are to be institutionalised, fostering open dialogue around performance, strategy, and governance. This engagement allows shareholders to influence decisions based on their insights into industry trends and investor expectations.

iii. Shareholder proposals

Institutional shareholders may submit proposals for shareholder votes, driving the board to address emerging concerns such as climate change, diversity, and social responsibility.

iv. Proxy advisory recommendations

Institutional shareholders often follow proxy advisory firms, which provide recommendations on governance issues. TechDynamics may need to regularly assesses these recommendations, adapting where feasible to align the interests of shareholders with governance practices.

c. Challenges in oversight

i. Conflicting interests

The board must balance interests between various stakeholders, including institutional investors with short-term performance expectations and long-term strategic goals.

ii. Shareholder activism

Increasing shareholder activism can pressure the board to make decisions that prioritise immediate returns over long-term value creation. The board must remain committed to its strategic vision, even amidst such pressures.

iii. Diversity and inclusion

As societal expectations around diversity grow, the board faces challenges in ensuring representation. Institutional investors increasingly demand diverse boards, pushing TechDynamics to prioritise inclusion without compromising competence.

SECTION C

QUESTION 5

Many jurisdictions offer various incentives to attract multi-national companies (MNCs) to invest in their economies.

You are required to:

Discuss tax and fiscal incentives granted to MNCs in Nigeria, and the challenges encountered in their implementation.

(15 marks)

Solution 5

Nigeria, aiming to attract foreign direct investment (FDI) and stimulate economic growth, offers a range of tax and fiscal incentives to multinational corporations (MNCs). However, the effectiveness and accessibility of these incentives are subject to ongoing debate and require careful navigation. These incentives and challenges are discussed below:

I. **Tax Incentives**:

Pioneer Status: Companies establishing new industries or engaging in pioneering activities within specified sectors (often prioritized industries like agriculture, manufacturing, and technology) can receive a tax holiday, usually for a period of between 2-5 years. This means exemption from company income tax (CIT) during that period. The application process, however, can be complex and requires meeting some stringent conditions.

Capital Allowances: Enhanced capital allowances are provided to incentivize investment in fixed assets. This allows for accelerated depreciation, leading to reduced taxable income. The specifics of allowable rates and qualifying assets vary and are subject to change. Certain industries may receive preferential treatment.

Tax Credits: While less common than allowances, specific tax credits might be offered for activities deemed beneficial to national development, such as research and development (R&D) or investment in certain geographical locations (e.g., incentives for locating in less developed regions).

Import Duty Exemptions/Concessions: Depending on the nature of the investment and the sector, MNCs may benefit from exemptions or reductions in import duties on capital goods and raw materials needed for their operations. This significantly reduces operational costs.

Double Taxation Avoidance Agreements (DTAAs): Nigeria has signed DTAAs with several countries, aimed at preventing double taxation on income earned by MNCs operating in both countries. This reduces the overall tax burden for these companies. 5 marks

II. **Fiscal Incentives**:

Export Processing Zones (EPZs): Businesses operating within designated EPZs receive significant tax and non-tax benefits, including tax holidays, exemption from import duties on raw materials and equipment, and simplified customs procedures. These zones are designed to stimulate export-oriented manufacturing.

Free Trade Zones (FTZs): Similar to EPZs, but often with a broader focus on logistics and trading activities. They offer streamlined regulations and attractive fiscal incentives to attract businesses involved in international trade. **Government Grants and Subsidies**: The Nigerian government may offer direct grants or subsidies to support specific projects deemed strategically important for national development. These are typically competitive and subject to rigorous application processes.

Infrastructure Development Incentives: Incentives may be offered to businesses investing in infrastructure projects that contribute to national development, such as power generation or transportation networks. This often takes the form of tax breaks or guaranteed returns. 5 marks

III. **Challenges and Considerations**:

Complexity and Bureaucracy: Navigating the application processes for incentives can be challenging due to bureaucratic hurdles and inconsistent implementation. This often requires engaging local consultants with expertise in Nigerian tax laws.

Lack of Transparency: The lack of readily available, clear, and consistently updated information regarding incentives can hamper investor confidence.

Enforcement and Consistency: Inconsistent implementation and enforcement of incentives across different regions and government agencies can create uncertainty for investors.

Political Risk: Changes in government policies and regulatory frameworks can affect the stability and predictability of incentives.

Corruption: Corruption remains a significant challenge in Nigeria, which can impact the accessibility and fairness of tax and fiscal incentives.
5 mark

Total 15 marks

Question 6

Adebsco Manufacturing Limited. is a leading producer of automotive components with a global supply chain. As the company expanded its operations, it recognised the need for a comprehensive risk management strategy to mitigate potential threats across its operations. Therefore, the company recently implemented a robust risk management framework with the roles of the various actors in the risk management process properly spelt out.

Required:

Identify all the actors you will expect to be included in Adebsco Manufacturing Limited's risk management framework and their key roles and responsibilities.

(15 marks)

Solution 6

Actors in Risk Management

a. **Board of directors**

Role: The Board sets the overall risk appetite and establishes governance policies regarding risk management.

Responsibilities

i. Approving the Adebsco's risk management framework.
ii. Monitoring key risks that could impact strategic objectives.
iii. Ensuring appropriate resources are allocated for effective risk management practices.

b. **Risk Management Committee**

Role: A dedicated committee that oversees enterprise-wide risk management efforts.

Responsibilities

i. Developing and implementing Adebisco's risk management policy.
ii. Regularly reviewing and assessing risks, including operational, financial, compliance-related, and reputational threats.
iii. Reporting findings to the Board on emerging risks and suggested mitigation strategies.

c. **Chief Risk Officer (CRO)**

Role: A senior executive responsible for identifying, analysing and responding to potential internal or external risks.

Responsibilities

i. Leading the development of a comprehensive enterprise-wide risk framework.
ii. Conducting regular assessments of organizational risks while maintaining an updated register of identified hazards faced by different departments

iii. Ensuring communication regarding potential challenges faced between teams fostering transparency accountability promoting collaboration solve issues as they arise effectively

d. Department Heads (e.g., Operations, Finance, HR)

i. Operations
Role: Oversee day-to-day operations while managing associated operational risks
Responsibilities: Identifying specific vulnerabilities inherent processes implementing controls mitigating impacts arising ensuring sustainability productivity levels maintained aligned organisational goals

ii. Finance
Role: Manage financial performance while monitoring fiscal-related exposures impacting profitability
Responsibilities: Assessing credit market liquidity conducting stress tests anticipate adverse economic conditions developing budgets aligning resource allocation strategies effectively optimise returns investments made

iii. Human Resources
Role: Address workforce-related challenges considering labour laws employee wellbeing
Responsibilities: Implement training programmes to educate staff about safety regulations, compliance obligations to protect Adebisco from lawsuits and penalties for violations due to negligence.

iv. Internal Audit Team
Role: An independent unit evaluating effectiveness internal controls assessing adequacy measures implemented managing identified vulnerabilities
Responsibilities:
Conduct audits focusing on high-risk areas across departments providing insights and recommendations for improving processes, thus facilitating continuous compliance with standards and established regulations governing industry practices.

e. Employees

Role: Frontline workers who encounter daily tasks assess their environment identify immediate concerns impacting productivity safety
Responsibilities: Adhering with protocols established and reporting any anomalies encountered.

EXAMINER'S REPORT

The question tested candidates' knowledge of Risk Management/ candidates are required to identify all the actors in risk management framework and their roles and responsibilities.

Many candidates abstained from the question as only 47% of them attempted. The performance was average.

The commonest pitfall is the inability of some candidate to know the actors in risk management frameworks as well as their roles and responsibilities.

Candidates are advised to study in-depth all areas of the syllabus and make adequate us of the CITN Study pack for future examinations.

Question 7

GlobalTech Inc. is a multinational technology company headquartered in the United States, with operations across Europe, Asia, and Latin America. The company specialises in software development and cloud computing solutions. With its diverse international presence, GlobalTech faces various tax obligations and regulations that can lead to significant tax risks.

Required:

Discuss the potential factors that may lead to GlobalTech Inc exposure to tax risk and tax audit risk. **(15 marks)**

Solution 7

The objective of this case study is to evaluate the tax risk exposure of GlobalTech Inc., focusing specifically on compliance risks, transfer pricing strategies, audit risks from tax authorities across different jurisdictions, and potential implications for financial reporting.

Key factors that may expose GlobalTech to tax risks and tax audit risks are:

a. **Regulatory compliance**
   How does GlobalTech ensure compliance with varying national and international taxation laws?
   Are there recent changes in legislation that may impact current practices?

b. **Transfer pricing policies**
   Does GlobalTech have robust transfer pricing documentation to support intercompany transactions?

Are transfer prices aligned with market conditions?

c. **Tax planning strategies**
What strategies are currently employed by the company to minimise its overall effective corporate tax rate?
Is there a risk associated with aggressive planning tactics or reliance on uncertain positions?
Are transfer of goods, services and properties within GlobalThec group done at arm's length?

d. **Audit risk exposure**
Which jurisdictions present higher audit risks based on historical data or recent scrutiny by local authorities?
Has the company experienced any significant audits or disputes recently? If so, what were the outcomes?

e. **Cross-border transactions**
How does GlobalTech handle withholding taxes on cross-border payments (e.g., royalties)?
Are there systems in place to track changes in double taxation treaties affecting transactions between subsidiaries?

f. **Internal controls and governance**
What internal controls exist surrounding taxes—are they sufficient to detect errors before they reach external parties?
How frequently do senior management review these controls for efficacy?

g. **Technological integration risks**
How well integrated are automated processes used for managing compliance reporting versus manual efforts potentially leading oversight errors compromising accuracy!

h. **Financial reporting implications**
How does the company's approach toward taxation affect earnings per share (EPS) forecasts presented investors influencing perceived fiscal health overall responded timely against challenges faced adapting accordingly adds layers complexity needing adequately addressed upfront ensuring sustainable growth achieved continually over time!

i. **Documentation and record keeping practices**
Does each of the subsidiaries maintain adequate and accurate records of financial transactions:

Is there adequate documentary evidence of transactions within the group?

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2025: PROFESSIONAL EXAMINATION

PTX II: EXTRACTIVE INDUSTRIES TAXATION

WEDNESDAY, 16TH APRIL, 2025 **EXAM NO..................**

YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

TIME: 3 HOURS.

SECTION A – COMPULSORY QUESTION

QUESTION 1

Sunburn E & P Limited is a Nigerian owned oil company, a holder of PML 7001, 8001 and 9001. The following information are extracted from the Audited financial statements for the year ended 31st December, 2023:

Income:	
Crude oil sold: 2.2m bbls @ ₦1,150 per bbl	₦
Liquid Natural Gas Liquid sold	60,500,000
Field Condensate sold	181,500,000
Gas sales	280,800,000
Finance and other income	45,000,000
Balancing Charge	4,500,000
Expenses:	₦
Royalty incurred and paid	127,500,000
Gas royalty	10,500,000
Production allowance	366, 400,000
Concession rentals	60,500,000
1st & 2nd Appraisal wells	900,000,000
Capital Allowance bf	219,000,000
Capital Allowance for the year	267,000,000
Gas production cost	137,500,000
Host Community Fund contributions:	57,000,000
NDDC levy:	76,000,000
Bank charges and interest	754,000
Interest on loan:	58,000,000
Administrative expenses	51,500,000

The company operates in the shallow and onshore areas.

You are required to compute for the relevant assessment year, the company's:

a. Hydrocarbon tax payable; (15 Marks)
b. Company income tax; and (13 Marks)
c. Tertiary education tax (2 Marks)
(Total 30 Marks)

Solution 1
(a) SUNBURN EXPLORATION AND PRODUCTION LIMITED

COMPUTATION OF HYDROCARBON TAX LIABILITY UNDER PIA FOR THE YEAR ENDED 31ST DECEMBER 2023

	₦'000	₦'000
Fiscal value of crude oil sold		2,530,000
Liquid Natural Gas Liquid sold		60,500
Field Condensate sold		181,500
Gross Revenue		**2,772,000**
Balancing charge		4,500
Total Revenue		**2,776,500**
Less: Allowable deductions (Section 263):		
Royalty incurred and paid	127,500	
Concession rentals	60,500	
NDDC Levy	76,000	
Host Community Fund contributions	57,000	
1st & 2nd appraisal well	900,000	
Total allowable cost	**1,221,000**	
CPR limit @ 65% of Gross Revenue	**1,801,800**	
Total cost allowed	(1,221,000)	(1,221,000)
Adjusted profit		1,555,500
Less: Cost relief		Nil
Assessable profit		**1,555,500**
Less: Section 266 and 6th schedule deductions:		
Capital allowances:		
For the year	267,000	
b/f	219,000	
Production allowance	366,400	852,400
Chargable profit		703,100
Hydrocarbon tax @ 30%		210,930

(15 Marks)

(b) SUNBURN EXPLORATION AND PRODUCTION LIMITED

COMPUTATION OF COMPANY INCOME TAX LIABILITY FOR 2024 ASSESSMENT YEAR

	NGN'000	NGN'000	
Fiscal value of crude oil sold		2,530,000	
Liquid Natural Gas Liquid sold		60,500	
Field Condensate sold		181,500	
Fiscal value of associate natural gas sold		280,800	
Finance and other Income		45,000	
Gross Total Income		**3,097,800**	
Less: **Allowable deductions**			
Royalty incurred and paid	127,500		
Other operating costs **(wk 2)**	1,093,500		
CITA allowable cost **(wk 3)**	258,254	(1,479,254)	
Assessable profit before Balancing charge		**1,618,546**	
Add: balancing Charge		4,500	
Assessable profit after Balancing charge		**1,623,046**	
Capital allowance bf	467,000		
Capital allowance for the year	519,000		
Total capital allowance available	986,000		
Capital allowance utilized	(986,000)	(986,000)	
Capital allowance cf	Ni		
Total Profit		**637,046**	
CIT at 30%		**191,113.8**	**(13 Marks)**
TET @ 3% of assessable profit of ₦976,146		**29,284.38**	**(2 Marks)**
			(Total 30 Marks)

Workings 1

Computation of CPR Limit for the year ended 31st December 2023

Gross Revenue	**₦'000**
Fiscal value of crude oil sold	2,530,000
Liquid Natural Gas Liquid sold	60,500
Field Condensate sold	181,500
Gross Revenue	**2,772,000**
(i) CPR Limits (65%) of Gross Revenue (Max allowance)	**1,801,800**

(ii) Computation of eligible Total Allowable Cost:

		₦'000
Royalty incurred and paid		127,500
Concession rentals		60,500
Capital Allowance		467,000
Capital Allowance bf		519,000
Host Community Fund contributions		57,000
1st & 2nd Appraisal wells		900,000
NDDC levy		76,000
		2,207.000
Less: Section 261 (i) exemptions:		
Royalty incurred and paid	127,500	
Concession rentals	60,500	
Host Community Fund contributions	57,000	
NDDC levy	76,000	321,000
		1,886,000

Max allowable is the lower of (i) and (ii) = N1,801,800,000

Workings 2

Schedule of other operating cost	**₦'000**
Concession rentals	60,500
NDDC Levy	76,000
Host Community Fund contributions	57,000
1st & 2nd Appraisal wells	900,000
Total	**1,093,500**

Workings 3

Schedule of CITA allowable cost	**₦'000**
Gas royalty	10,500
Gas production cost	137,500
Interest on loan	58,000
Bank charges and interest	754
Administrative expenses	51,500
	258,254

SECTION B – ATTEMPT ONLY TWO (2) QUESTIONS IN THIS SECTION

QUESTION 2

a. Zaloro host Communities has protested to Niger Delta Development Commission (NDDC) on the issue of funding for its petroleum host communities development trust and matters on which the funds may be utilised. As the head of the NDDC, you are to advise the host communities on:

(i) the sources of funding for petroleum host communities' development trust (5 Marks)

(ii) the duties and functions of the Board of Trustee (5 Marks)

b. Zaloro exploration Limited is obligated to contribute a percentage of its annual operating expenditure of the preceding financial year in the upstream petroleum operations to the host communities development trust fund. The company has presents its annual operating expenditure for the following financial years:

Year	Operating expenditure ($)
2022	103,750,000
2023	152,200,000
2024	123,500,000
2025	171,819,000

It was stated that 15 per cent of the above cost relates to downstream petroleum operations.

Required:

(i) Determine the company's annual actual operating expenditure. (5 Marks)

(ii) Determine the annual contribution to the Zaloro host community's development trust fund for the years 2023 and 2024. (5 Marks)

(Total 20 Marks)

Solution 2

ZAROLO host Communities

(i) As the head of the NDDC, I have pleasure to speak on the sources of funding for petroleum host communities development trust which includes the following as set out in Section 240 of the Petroleum Industry Act. (PIA)

(a) Each settlor shall make annual contribution to the applicable host communities development trust fund of an amount equal to 3% of its actual annual operating expenditure of the preceding financial year in the upstream petroleum operations affecting the host communities for which the applicable host communities development trust fund was established.

(b) Each host communities development trust may receive donations, gifts, grants or honoraria that are provided to such host communities development trust for the attainment of its objectives.

(c) Profits and interest accruing to the reserve fund of host communities development trust shall also be contributed to the applicable host communities development trust fund. (5 Marks)

ii) The duties and functions of the Board of Trustee

The Board of Trustees shall be responsible for:

(a) determining the criteria, process and proportion of the host communities development trust fund to be allotted to specific development programs

(b) approving the projects for which the host communities development trust fund shall be utilised;

(c) providing general oversight of the projects for which the host of the communities development trust fund shall be utilised;

(d) approving the appointment of fund managers for purposes of managing the reserve.

(e) set up the management committee of the host communities development trust and appoint its members.

(f) determining the allocation of funds to host communities based on the matrix provided by the settlor

(g) the general management of the host communities development trust fund.

(5 Marks)

(b) ZAROLO Exploration limited

(i) Determination of the company's annual actual operating expenditure.

Year	2022 ($)	2023 ($)	2024 ($)	2025 ($)
Operating Expenditure	103,750,000	152,200,000	123,500,000	171,819,000
Less 15% downstream expenditure	15,562,500	22,830,000	18,525,000	25,772,850
Annual actual operating expenditure	88,187,500	129,370,000	104,975,000	146,046,150

(5 Marks)

(i) Determination of Annual contribution to the Zaloro host community's development trust fund for 2023 and 2024 assessment years

Year	2023 ($)	2024 ($)
Annual actual operating expenditure	88,187,500	129,370,000
Annual contribution = 3% of annual actual preceding operating expenditures	2,645,625	3,881,100

Thus, the contributions for 2023 and 2024 assessment years are $2,645,625 and $3,881,100. (5 Marks)

(Total 20 Marks)

QUESTION 3

Candid Oil & Gas Exploration and Production Ltd, an operator of PML 888 on behalf of itself and NNPCL, having 40% Equity interest on the Lease has provided the following data to the Commission for the determination of its royalty payable for the months of November 2024 to January 2025.

Months	Field Area Number	Onshore Volume (PODB)	Field Area Number	Shallow water 100m Volume (PODB)
November 2024	1006	250,000	703	500,000

December 2024	1006	300,000	703	700,000
	1007	15,000	704	20,000
January 2025	1006	400,000	703	750,000
	1007	25,000	704	30,000

The fiscal oil price as determined at the measurement point by the Commission for crude blend produced from fields numbers 1006 and 703 for the three months was $75.00 per barrel while the price of the new blend produced from Fields number 1007 and 704 was $50.00 per barrel.

Required:

(a) Compute the royalties payable by Candid Oil & Gas Exploration and production Limited for each of the three months. (16 Marks)

(b) State the penalty applicable to a default in the payment of royalty due. (4 Marks)

(Total 20 Marks)

Solution 3

(a) CANDID OIL & GAS EXPLORATION AND PRODUCTION LTD

COMPUTATION OF ROYALTIES PAYABLE FOR THE MONTHS OF

NOVEMBER 2024, DECEMBER 2024 AND JANUARY 2025

NOVEMBER 2024:	$
Royalty based on Production	90,000,000.00
Royalty based on Price	16,875.000.00
Total Royalty Payable	106,875,000.00

DECEMBER 2024	$
Royalty based on Production	126,557,500.00
Royalty based on Price	12,012,500.00
Total Royalty Payable	138,570,000.00

JANUARY 2025	**$**
Royalty based on Production	147,172,500.00

Royalty based on Price	12,090,000.00
Total Royalty Payable	157,262,500.00

(16 Marks)

WORKINGS:

CANDID OIL AND GAS EXPLORATION AND PRODUCTION LTD										
CALCULATION OF ROYALTY BASED ON PRODUCTION										
Nov-24										
FIELD NO	**TERRAIN**	**PODB**	**NUMBER OF**	**POMB**	**FISCAL**	**CHARGABLE**	**ROYALTY**	**ROYALY**	**CANDID**	**RORALTY**
			DAYS		**PRICE ($)**	**VOLUME ($)**	**RATE**	**$**	**EQUITY**	**DUE ($)**
1006	Onshore	250,000	30	7,500,000	75.00	562,500,000.00	15.00%	84,375,000.00	40%	33,750,000.00
703	SHALLOW WATER	500,000	30	15,000,000	75.00	1,125,000,000.00	12.50%	140,625,000.00	40%	56,250,000.00
ROYATY BASED ON PRODUCTION										90,000,000.00
	ROYALTY BASED ON PRICE									
1006	Onshore	250,000	30	7,500,000	75.00	562,500,000.00	2.50%	14,062,500.00	40%	5,625,000.00
703	SHALLOW WATER	500,000	30	15,000,000	75.00	1,125,000,000.00	2.50%	28,125,000.00	40%	11,250,000.00
ROYALTY BASED ON PRICE										16,875,000.00
	CANDID OIL AND GAS EXPLORATION AND PRODUCTION ROYALTY PAYABLE FOR NOVEMBER 2024									**106,875,000.00**

Note:-

Since the fiscal price of crude oil is $75 pbbl which falls to the category of < $50 to $100 the royalty based on price rate is 5%

Determining the rate applicable to fiscal crude oil price of $75 per barrel is to be determined based on linear interpolation which is 50% of 5% that is 2.5%

Dec-24										
FIELD NO	**TERRAIN**	**PODB**	**NUMBER OF**	**POMB**	**FISCAL**	**CHARGABLE**	**ROYALTY**	**ROYALY**	**CANDID**	**RORALTY**
			DAYS		**PRICE ($)**	**VOLUME ($)**	**RATE**	**$**	**EQUITY**	**DUE ($)**
1006	Onshore	300,000	31	9,300,000	75.00	697,500,000.00	15.00%	104,625,000.00	40%	41,850,000.00
703	SHALLOW WATER	700,000	31	21,700,000	75.00	1,627,500,000.00	12.50%	203,437,500.00	40%	81,375,000.00
1007	Onshore	15,000	31	465,000	50.00	23,250,000.00	15.00%	3,487,500.00	40%	1,395,000.00
704	SHALLOW WATER	25,000	31	775,000	50.00	38,750,000.00	12.50%	4,843,750.00	40%	1,937,500.00
ROYATY BASED ON PRODUCTION										**126,557,500.00**
	ROYALTY BASED ON PRICE									
1006	Onshore	250,000	31	7,750,000	75.00	38,750,000.00	2.50%	968,750.00	40%	387,500.00
703	SHALLOW WATER	500,000	31	15,500,000	75.00	1,162,500,000.00	2.50%	29,062,500.00	40%	11,625,000.00
1007	Onshore	15,000	31	465,000	50.00	23,250,000.00	0.00%	-	40%	-
704	SHALLOW WATER	25,000	31	775,000	50.00	38,750,000.00	0.00%	-	40%	-
ROYALTY BASED ON PRICE										**12,012,500.00**
	CANDID OIL AND GAS EXPLORATION AND PRODUCTION ROYALTY PAYABLE FOR DECEMBER 2024									**138,570,000.00**

Note:-

Since the fiscal price of crude oil for crude oil produced from Field 1006 & 703 is $75 pbbl which falls to the category of < $50 to $100 the royalty based on price rate is 5%
Determining the rate applicable to fiscal crude oil price of $75 per barrel is to be determined based on linear interpolation which is 50% of 5% that is 2.5%
Since the fiscal price of crude oil produced from Fields 1007 and 704 is $50 per barrel, the royalty rate is 0%

Jan-25										
FIELD NO	**TERRAIN**	**PODB**	**NUMBER OF DAYS**	**POMB**	**FISCAL PRICE ($)**	**CHARGABLE VOLUME ($)**	**ROYALTY RATE**	**ROYALY $**	**CANDID EQUITY**	**RORALTY DUE ($)**
1006	Onshore	400,000	31	12,400,000	75.00	930,000,000.00	15.00%	139,500,000.00	40%	55,800,000.00
703	SHALLOW WATER	750,000	31	23,250,000	75.00	1,743,750,000.00	12.50%	217,968,750.00	40%	87,187,500.00
1007	Onshore	20,000	31	620,000	50.00	31,000,000.00	15.00%	4,650,000.00	40%	1,860,000.00
704	SHALLOW WATER	30,000	31	930,000	50.00	46,500,000.00	12.50%	5,812,500.00	40%	2,325,000.00
ROYATY BASED ON PRODUCTION										**147,172,500.00**
	ROYALTY BASED ON PRICE									
1006	Onshore	250,000	31	7,750,000	75.00	46,500,000.00	2.50%	1,162,500.00	40%	465,000.00
703	SHALLOW WATER	500,000	31	15,500,000	75.00	1,162,500,000.00	2.50%	29,062,500.00	40%	11,625,000.00
1007	Onshore	20,000	31	620,000	50.00	31,000,000.00	0.00%	-	40%	-
704	SHALLOW WATER	30,000	31	930,000	50.00	46,500,000.00	0.00%	-	40%	-
	ROYALTY BASED ON PRICE									12,090,000.00
										159,262,500.00

Note:-
Since the fiscal price of crude oil for crude oil produced from Field 1006 & 703 is $75 pbbl which falls to the category of < $50 to $100 the royalty based on price rate is 5%
Determining the rate applicable to fiscal crude oil price of $75 per barrel is to be determined based on linear interpolation which is 50% of 5% that is 2.5%
Since the fiscal price of crude oil produced from Fields 1007 and 704 is $50 per barrel, the royalty rate is 0%

(b) The penalty and interest applicable to a default in the payment of royalty within two months after the month in which the royalty is due are:

1) A sum equal to 10% of the amount of the royalty payable which shall be added to the royalty;
2) In the case of foreign currency transactions, the outstanding payments due shall incur interest at the prevailing LIBOR plus 10%-point basis;
3) In the case of Naira transactions, the outstanding payments due shall incur interest at the prevailing NIBOR plus 10%-point basis;
4) N10,000,000 or US Dollar equivalent on the first day the failure to pay the royalty occurs; and,
5) N2,000,000 or US Dollar equivalent for each day the failure continues. (4 Marks)

(Total 20 Marks)

QUESTION 4

The Nigeria Extractive Industries Transparency Initiative (NEITI) is a government agency established to promote transparency and accountability in the extractive sector of Nigeria, which include oil, gas, and solid minerals.

Required:

(a) Discuss the scope and administration of the Nigeria Extractive Industries Transparency Initiative (NEITI) Act, 2007 (12 Marks)

(b) Discuss the environmental considerations and rights of host communities (8 Marks)

(Total 20 Marks)

Solution 4

(4A)

The scope of NEITI includes:

1. **Ensuring Transparency**: NEITI ensures that payments made by extractive industry companies to the government are transparent and publicly accessible.
2. **Monitoring Revenue**: NEITI monitors and ensures accountability in the revenue receipts from extractive industry companies.
3. **Eliminating Corruption**: NEITI works to eliminate corrupt practices in the determination, payments, receipts, and posting of revenue from extractive industries.
4. **Promoting Accountability**: NEITI ensures that the government is transparent and accountable in the application of resources from payments received from extractive industry companies.
5. **Conforming to EITI Standards**: NEITI ensures that Nigeria conforms to the principles of the Extractive Industries Transparency Initiative (EITI), a global standard for the governance of oil, gas, and mineral resources

NEITI conducts thorough audits, including financial, physical, and process audits, to generate vital data on revenue flows between the government and companies in the extractive sector. The goal is to promote dialogue, debate, and informed discussions around these issues

The Nigeria Extractive Industries Transparency Initiative (NEITI) is administered by a governing body known as the National Stakeholders Working Group (NSWG). The administration of NEITI involves several key components:

1. **National Stakeholders Working Group (NSWG):** This group provides policy and strategic direction, guidance, monitoring, and oversight of the EITI process in Nigeria. It is chaired by the Secretary to the Government of the Federation and includes representatives from various sectors, including government, civil society, and the extractive industries1.
2. **Executive Secretary**: The Executive Secretary is the chief executive officer of NEITI and is responsible for the day-to-day administration and implementation of NEITI's policies and programs. The current Executive Secretary is Dr. Orji Ogbonnaya Orji1.
3. **Independent Auditors**: NEITI appoints independent auditors to conduct audits of the extractive industries to ensure transparency and accountability in revenue receipts.
4. **Publications and Reports**: NEITI publishes regular reports on the findings of its audits, which are made available to the public to promote transparency and informed discussions.
5. **Collaboration with Other Agencies**: NEITI collaborates with other government agencies, such as the National Bureau of Statistics and the Economic and Financial Crimes Commission (EFCC), to enhance its effectiveness and reach.
6. **Beneficial Ownership Portal**: NEITI maintains a Beneficial Ownership Portal, which contains information on the real beneficial owners of extractive assets in Nigeria.
7. **Financial Provisions**: NEITI has its own financial provisions and audited accounts to ensure its operations are transparent and accountable.

These components work together to ensure that NEITI effectively promotes transparency and accountability in Nigeria's extractive industries. (12 Marks)

(4B)

Environmental considerations and the rights of host communities are crucial aspects of mining operations in Nigeria. Here's an overview:

Environmental Considerations:

1. Environmental Impact Assessments (EIA): Before mining operations begin, companies must conduct EIAs to evaluate the potential environmental effects and propose mitigation measures.
2. Rehabilitation and Reclamation: Mining companies are required to rehabilitate the land after mining activities, restoring it to its natural or predetermined state.
3. Pollution Control: Measures must be taken to control air, water, and soil pollution caused by mining activities.

4. Sustainable Practices: Adoption of sustainable mining practices to minimize environmental degradation and promote conservation.

Rights of Host Communities:

1. Community Development: Host communities have the right to benefit from mining activities through community development projects, such as infrastructure, education, and healthcare.
2. Employment Opportunities: Local communities should have access to job opportunities created by mining operations.
3. Environmental Protection: Communities have the right to a clean and safe environment, and mining companies must take steps to protect the environment.
4. Participation in Decision-Making: Host communities should be involved in decision-making processes related to mining activities to ensure their interests are considered.
5. Compensation for Damages: Communities have the right to compensation for any damages or losses caused by mining activities.

These considerations and rights are designed to ensure that mining activities are conducted in such a way that benefits the host communities. (8 Marks)

(Total 20 Marks)

SECTION C – ATTEMPT ONLY TWO (2) QUESTIONS IN THIS SECTION

QUESTION 5

a. Explain the following fiscal/operating arrangements in the upstream petroleum sector:

i. Joint venture; (2 Marks)
ii. Production sharing contract; (2 Marks)
iii. Risk service contract; and (2 Marks)
iv. Marginal field operators (2 Marks)

b. Discuss the right of the Federal Inland Revenue Service in the administration and collection of revenue in the petroleum industry (4 Marks)

c. Discuss accounting period in oil and gas industry in line with the provisions of PIA 2021.

(3 Marks)

(Total 15 Marks)

Solution 5
(5A)

i. **Joint venture;** A partnership between the Nigerian government (typically through NNPC Limited) and private oil companies to explore, develop, and produce oil and gas resources. The profits and costs are shared according to the agreed terms of the JV.
The government (through NNPC) typically owns the majority stake, while the international oil companies (IOCs) hold the remaining shares.
Both parties share the risks and costs of exploration and production, while the government retains significant control. (2 Marks)

ii. Production sharing contract;
A contractual arrangement where the government (or its national oil company) engages an oil company to explore, develop, and produce oil and gas. The oil company bears all the risks and costs, and if successful, it recoups its expenses from production (cost oil), with the remaining production (profit oil) split between the company and the government.

The oil company is responsible for exploration and production costs, which it recovers from a portion of the oil produced. The remaining oil is divided based on the contract terms.

Reduces financial burden on the government, as the oil company provides all the investment and assumes the exploration risks.
Can be complex to negotiate and administer, especially regarding cost recovery and profit-sharing. (2 Marks)

iii. Risk service contract;
A contractual arrangement where the government (or its national oil company) engages an oil company to explore, develop, and produce oil and gas. The oil company bears all the risks and costs, and if successful, it recoups its expenses from production (cost oil), with the remaining production (profit oil) split between the company and the government.
The oil company is responsible for exploration and production costs, which it recovers from a portion of the oil produced. The remaining oil is divided based on the contract terms.
Reduces financial burden on the government, as the oil company provides all the investment and assumes the exploration risks.
Can be complex to negotiate and administer, especially regarding cost recovery and profit-sharing. (2 Marks)

iv. Marginal field operators

Marginal Fields Operators: Marginal Fields are fields discovered usually by large international oil companies but which because of focus on larger and more profitable fields were not developed and yet not relinquished. The marginal field in Nigeria is estimated to hold an aggregate estimate of 2 billion barrels in reserve.

Below are the conditions for identifying companies (mostly local companies) that likely to be successful in operating the marginal fields as well as further developing the Nigerian oil industry:

(a) At least 51% of the beneficial interest of the company must be owned by Nigerian citizens;

(b) No single shareholder may own more than 25% of the shares in the company;

(c) The company must have upstream oil and gas experience; and

(d) The company's Memorandum and Articles of Association must authorise the company to conduct oil and gas exploration and production activities.

(2 Marks)

(5B)

The Federal Inland Revenue Service (FIRS) plays a crucial role in the administration and collection of revenue in Nigeria's petroleum industry. Here are some of the key rights and responsibilities of the FIRS in this sector:

Rights and Responsibilities

1. **Hydrocarbon Tax:** FIRS is responsible for assessing and collecting Hydrocarbon Tax (HT) from companies engaged in upstream petroleum operations. This tax applies to profits from crude oil, field condensates, and natural gas liquids.
2. **Tertiary Education Tax:** FIRS collects the Tertiary Education Tax from companies operating in the petroleum industry**.**
3. **Companies Income Tax (CIT):** FIRS administers and collects CIT from petroleum companies, ensuring they comply with tax regulations and pay the appropriate taxes on their profits.
4. **Petroleum Profit Tax (PPT):** Although the Petroleum Profit Tax Act (PPTA) governs PPT, FIRS is responsible for its administration and enforcement. PPT is levied on profits from upstream petroleum operations, with different tax rates for joint ventures and production sharing contracts**.**
5. **Regulatory Compliance**: FIRS ensures that petroleum companies comply with tax laws and regulations, including the submission of accurate tax returns and payment of due taxes.

6. **Audit and Investigation:** FIRS has the authority to conduct audits and investigations to verify the accuracy of tax returns and detect any tax evasion or fraud.
7. **Taxpayer Education:** FIRS educates taxpayers, including petroleum companies, on their tax obligations and provides guidance on compliance with tax laws.

These rights and responsibilities help ensure that the Nigerian government receives a fair share of revenue from the petroleum industry, promoting transparency, accountability, and economic growth (4 Marks)

(5C)

The Nigerian oil and gas industry follows a specific accounting period framework.

- Actual Year Basis (AYB): Incomes from petroleum operations are assessed on an actual year basis. This means that companies must report their income and expenses based on the calendar year or their adopted accounting year

- Accounting Period for Tax Purposes: For tax purposes, the accounting period is typically 12 months, or a period less than in case of commencement or cessation. (3 Marks)

(Total 15 Marks)

QUESTION 6

In line with the Nigerian Minerals and Mining Act 2007 (as amended), explain the underlisted terms:

(a) Mineral resources (3 Marks)
(b) Mining Licence (3 Marks)
(c) Applicable Taxes and Rates (3 Marks)
(d) Solid Mineral Royalty (3 Marks)
(e) Define the term Economic Rent as it relates to taxation of solid minerals
(3 Marks)
(Total 15 Marks)

Solution 6

a) **Mineral resources** is defined as any substance whether in solid, liquid or gaseous form occurring in or on the earth, formed by or subjected to geological processes including occurrences or deposits of rocks, coal, coal bed gases, bituminous shales, tar sands, any substances that may be extracted from coal, shale or tar sands, mineral water, and mineral components in tailings and waste piles, but with the exclusion of petroleum and waters without mineral content."

(3 Marks)

b) **Mining Licences:** There are various types of mining Licenses/leases, which are issued under the Nigerian Minerals and Mining Act by the Minister based on the recommendation of the Mining Cadastral Office.

Entry Permit, Exclusive Prospecting Licenses {EPLs), Special Exclusive Prospective Licenses (SEPLs), Mining Leases (MLs), Quarry Licenses (QLCs) and Quarry Leases (QLSs). Specifically, these are grouped into:

-Reconnaissance Permit: a non-exclusive permission to search for Mineral Resources; no area limits.

-**Exploration License**: the right to explore [discover, determine characteristics and evaluate the economic value of

Mineral Resources] on an exclusive basis for all Mineral Resources within the title area. This has a typical duration of 3 years, renewable for 2 further periods of 2 years each.

- **Small-Scale Mining Lease**: right to exclusively carry out small-scale mining operations [Mining Operations involving low-level technology or methods not requiring substantial expenditure] within the title area. A five-year lease period is applicable for all alluvial/artisanal leases, renewable for further periods of 5 years each; for other small-scale mining operations; the lease period is 10 years, renewable for further periods of 10 years.

- **Mining Lease:** an exclusive right to carry out all Mining Operations within the Mining Lease area. All Mining leases are for 25 years, renewable every 20 years. -. Quarry Lease: an exclusive right to carry out quarry operations within the Quarry Lease area. Quarry leases are for a duration of 10 years.

- **Water Use Permit**: an exclusive right to obtain and convey water; occupy the land for the conveyance of water (3 Marks)

c) **Applicable taxes and rates are:**

- **Company Income Tax** - Companies engaging in mining activities in Nigeria are obligated to pay an income tax of 30% or 20% of their assessable profit.

-**Education Tax** - Companies engaging in mining activities in Nigeria are obligated to pay an education tax of 3% of their assessable profit.

Value Added Tax- A mineral titleholder is expected to charge VAT at the rate of 7.5% on all minerals sold locally. Minerals exported from Nigeria are, however, zero-rated based on the provision of the VAT Act.

-Capital Gains Tax (CGT) The Capital Gains Tax Act (CGTA), LFN 2007 (as amended) regulates payment of CGT in Nigeria. The rate of tax is currently 10% on all applicable chargeable transactions. (3 Marks)

d) **Solid Mineral Royalty** refers to the payments made by mining companies to the government for the right to extract and sell minerals from the country. These royalties are typically calculated as a percentage of the market value of the minerals extracted. The rates can vary depending on the type of mineral being mined.

For example, as of the latest updates, the royalty rates for different minerals are as follows:

- **Gold**: 3% of the market value per ounce
- **Lead/Zinc Concentrate**: 3% of the market value per tonne
- **Coal**: 3% of the market value per tonne
- **Baryte**: 5% of the market value per tonne

These royalties are part of the broader framework of duties, taxes, and fees that mining companies must pay to operate in Nigeria

The major types of mining royalty instruments are;

1. Unit-based royalty
2. Value-based royalty (ad valorem)
3. Profit and income-based royalty (3 Marks)

e) **Economic rent** is the amount by which the payment received in return for an action- bringing to market an ounce of gold, for instance- exceeds the minimum required for it to be undertaken. It is the difference between the payments received by a resource owner and the opportunity cost of the resource. In other words, the payment received by a resource owner over and above the minimum needed to produce the goods. It is this rent that should be taxed by the government.

Any fiscal system that taxes more than the economic rent would be unfavourable and discouraging to investors as it would force them to operate at loss levels. (3 Marks)

(Total 15 Marks)

QUESTION 7

(a) Wagogo Miners Limited engages in mining of Gypsum. For the year ended 30 September 2021, the company had the following mining and business transactional records.

Ore Body obtained	30 million Tonnes
Mill Capacity	2.250 million Ore tonnes per annum
Price per Smelter return	12,000 (Assume ₦6/pound and 2000 pound/tonne)
Average Ore grade	3.25 per cent
Mill recovery	90 per cent
Smelter recovery	98 Per cent
International price premium	2.5% of the price per tonne
Fixed Royalty rate	₦0.25 kobo per pound

Other costs information per tone of Gypsum includes:
Mining ₦7; Milling ₦10; Overhead ₦15; Freight ₦6; Total ₦38.

You are required to compute Royalty payable using the under listed methods:

a. Unit/Production royalty (3 Marks)
b. Ad-valorem (Net Smelter Returns Times percentage) (3 Marks)
c. Profit based royalty (assume royalty rate of 7.5 per cent). (3 Marks)

(b) Discuss the Gas Tax credits and Gas Tax Allowance for non-associated gas greenfield developments in onshore and shallow water locations as provided in the Oil & Gas Companies (Tax Incentives, Exemption, Remissions, etc) Order. (6 Marks)

(Total 15 Marks)

Solution 7
Calculation of Royalties

7A) Unit-based or Production Royalty

2,250,000 tonnes x (Price of smelter Return x Average Ore Grade X Mill Recovery Rate x smelter recovery)

= (2,250,000 x (12000/6) X (3.35/100) x (90/100) x (98/100) pounds of Gypsum
=2,250,000 x 2000 x 0.0335 x0.9 x 0.98 = 132,961,500 pounds of Gypsum
So, Royalty fee rate = 0.25 kobo per pound
Thus Unit based Royalty = 132,961,500 x 0.25 = ₦ 33,240,375

(3 Marks)

B) Royalty – Ad-valorem (Net Smelter Returns Times percentage)

From a) above, Gypsum Unit chargeable to royalty = 132,961,500 pounds

Price of Smelter return = 12,000/2000 = ₦6

Royalty fee rate = 0.25 kobo per pound

Ad-Valorem Value = 132,961,500 pounds x ₦6 = 797.769,000

Therefore, Ad-Valorem Royalty = 132,961,500 pounds x ₦6 x 0.25 kobo per pound

= ₦199,442,250 (3 Marks)

C) Royalty – Profit based

From a) above, Gypsum Unit chargeable to royalty = 132,961,500 pounds

Ad-Valorem Value = 132,961,500 pounds x ₦6 = 797.769,000

Less Costs: Freight (₦7 x 2,250,000) = 15,750,000		
Processing cost (mining, milling & Overhead)		
(31 x 2,250,000)	69,750,000	85,750,000
	Profit for Royalty	712,269,000

Royalty = 712,269,000 x 7.5% = 53,420,175 (3 Marks)

(7b)

(i) Gas Tax Credit

This incentive applies to NAG greenfield developments in onshore and shallow water locations with first gas production on or before January 1, 2029. (1 Mark)

- **Gas Tax Credit (GTC)** at the rate of **US$1.00** per thousand cubic feet or 30% of the fiscal gas price (whichever is lower) if Hydrocarbon Liquids (HCL) content does not exceed 30 barrels per million standard cubic feet (SCF). (1 Mark)

- If HCL exceeds 30 barrels per million SCF but does not exceed 100 barrels per million SCF, a GTC at the rate of **US$0.50** per thousand cubic feet or 30% of the fiscal gas price is applicable. (1 Mark)

Note: The GTC for NAG operations applies for a **maximum of 10 years**, after which it becomes a gas tax allowance (GTA) claimable at the outlined rates. (1 Mark)

(ii). Gas Tax Allowance:

For other greenfield NAG projects with first commercial production after January 1, 2029 a Gas Tax Allowance is provided at a rate of:

- US$0.50 per thousand SCF or 30% of the fiscal gas price (whichever is lower), provided that HCL content does not exceed 100 barrels per million SCF.

(2 Marks)

(Total 15 Marks)

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2025: PROFESSIONAL EXAMINATION

PTX II: TEST OF PROFESSIONAL COMPETENCE

THURSDAY, 17TH APRIL, 2025 **EXAM NO………………**

TIME: 3 HOURS.

INSTRUCTION

A. PRE – EXAMINATION

- Print your examination slip/ docket containing your exam link, username & password.
- Review the **pre-seen document/information** below.
- Get acquainted with the **pre-seen** ahead of the examination.
- It is crucial that you conduct sufficient research and analysis on your own to gain a thorough understanding of the pre-seen part of the examination.
- Conduct any study or research that you know about the areas of taxation discussed in the pre-seen.

B. DURING THE EXAMINATION

- You **MUST NOT** have in your possession any jottings, summary, note or the "pre seen" document received before the examination. This will be provided along with additional **exhibits** and information during the examination.

Assessment/Marking modalities:

Marks are awarded for the demonstration of professional competence as follows:

Assessment criteria	**Score (%)**
Assimilating and using information	20%
Understanding & Application of relevant tax laws and regulations	20%
Substantiated conclusions and relevant advice	20%
Logical Consistency and Presentation	10%
Demonstration of experience, knowledge, and skills	10%

Preparation of an Executive Summary & treatment of ethical issues	20%

- Candidates should note that marks are not awarded for just simply restating facts from the scenario. Scores are awarded for the demonstration of professional competence, technical depth and substantiated conclusion and relevant recommendations in terms of tax advice. To earn maximum mark, candidates are therefore required to:

  (i) Demonstrate adequate understanding of the scenario/exhibits;
  (ii) Demonstrate knowledge of ethical principles and organisational ethics, which include accountability, fairness, honesty, integrity and social responsibility (where necessary);
  (iii) Carry out appropriate research, identify the tax issues, and analyse the tax issues involved;
  (iv) Make informed judgments based on the analysis of the tax issues and relevant tax laws and regulations; and
  (v) Present a substantiated conclusion and offer relevant advice

April 2025 Test of Professional Competence examination
List of exhibits

1. About you (Dan Kabir) and your employer, Olugbile, Suberu Chukwu & Co,
2. Client profile

Exhibit 1
About you (Dan Kabir) and your employer, Olugbile, Suberu Chukwu & Co, a firm of Chartered tax practitioners.

You are Dan Kabir, writing the Professional level of CITN examination. You are employed as a Trainee consultant by Olugbile, Suberu, Chukwu & Co. You are reporting to Michael Olugbile, Partner in charge of high-net-worth individuals within the firm.

Your responsibilities include:

- Preparation of tax memoirs to guide your various clients on tax matters;
- Assisting your clients to structure their tax affairs in such a way that will optimise their tax liabilities;
- Assisting your clients to prepare their annual tax returns and file the same on their behalf;
- Providing your clients with relevant tax planning advice to optimise their tax liabilities while at the same time complying with relevant laws and regulations; and
- Providing your clients with annual updates on changes in tax laws and regulations.

These responsibilities demand that you keep yourself abreast of changes in the tax space and maintaining close contact with tax authorities.

Exhibit 2

Client profile

Client:	James Chukwuma Oliseh and Dorcas Chidinma Oliseh
Date and place of birth:	James was born on February 5, 1961 in Onitsha Dorcas was born on December 16, 1966 in Onitsha
Marital status:	James married Dorcas in April 1, 1999
Children:	Dr. Lucas Oliseh – lives in UK Maria Oliseh – lives in Lagos Thomas Oliseh – a PhD student in USA John Oliseh – lives in Canada
Residency:	James and Dorcas' wills live in Lagos
Wills:	Both James' and Dorcas' wills are written such that their respective estates pass to the surviving spouse on either of their deaths.

James Chukwuma Oliseh – Assets Schedule at March 1, 2024

1. 23 Toyin Street, off Allen Avenue
   Residential property purchased April 6, 2020 for ₦200million
   This is where James and Dorcas live.
2. 25 Opebi Street, Ikeja
   Residential property, purchased March 15, 2016 for ₦250million
   Let out on an annual rent of ₦24m
3. 18 Adeniyi Jones, Ikeja, residential property, purchased June 20, 2018 for ₦150million.
   Let out on an annual rent of ₦15million
4. 33 Aina Street, Ojodu, Ikeja, residential property, purchased May 15, 2022 for ₦200million.
   Let out on an annual rent of ₦18million
5. 14 Liberty Street, River Valley Estate, Ojodu Berger, Ikeja, residential property, purchased January 18, 2023 for ₦180million.
   Let out on an annual rent of ₦15million
6. Shares in blue chip companies as follows:
   a. Nigerian Breweries Plc. 500,000 shares, valued at ₦10million by March 1, 2024.
      The shares were bought for ₦7.5 million in 2020. James received a gross dividend of ₦1million in January 2024;

b. Zenith Bank Plc, 250,000 shares valued at ₦6,25million by March 1, 2024.
   The shares were bought for ₦5million in 2022. James received a gross dividend of ₦625,000 in February 2024,

c. Federal Government of Nigeria 3-year saving bond, due December 31, 2025, ₦100million. Interest is paid quarterly on the bond at 18% per annum.

Dorcas Chidinma Oliseh – Assets schedule at March 1, 2024

1. 65 Adeniyi Jones, Ikeja, a warehouse purchased April 10, 2020 for ₦150m. Let out on an annual rent of ₦20million.
2. Shares in blue chip companies:
   a. Vitafoams Nigeria Plc., 100, 000 shares, valued at ₦500,000 by March 1, 2024. Dorcas received a gross dividends of ₦100,000 on the share in January 10, 2024.
   b. Nigeria Flour Mill, 500,000 shares, valued at ₦7.5million by March 1, 2024. Dorcas received a gross dividends of ₦500, 000 on the shares in February 2024.

Tax returns 2024

James Chukwuma Oliseh

	₦
Employment income	60,000,000
Rent from properties	72,000,000
Dividends – Gross	1,625,000
Interest from FGN bond	18,000,000
	151,625,000
Less:	
Dividends	1,625.000
Pension	4,000,000
Personal allowance	27,720,000
	33,345,000
Taxable income	118,280,000

Tax payable:

First N300, 000	@ 7%	=	21,000
Next N300,000	@ 11%	=	33,000
Next N500,000	@ 15%	=	75,000
Next N500,000	@ 19%	=	95,000

Next N1,600,000	@	21%	=	336,000
Above N3,200,000	@	24%	=	27,619,200
Tax payable				**28,179,200**

Dorcas Chidinma Oliseh

	₦
Business income	25,000,000
Rent	20,000,000
Dividends	600,000
	45,600,000

Less:	
Frank investment income	600,000
Personal allowance	9,450,000
	10,050,000
Taxable income	35, 550,000

Tax payable:

First N300, 000	@	7%	=	21,000
Next N300,000	@	11%	=	33,000
Next N500,000	@	15%	=	75,000
Next N500,000	@	19%	=	95,000
Next N1,600,000	@	21%	=	336,000
Above N3,200,000	@	24%	=	7,764,000
Tax payable				**8,324.000**

UNSEEN

TEST OF PROFESSIONAL COMPETENCE

EXAMINATION INSTRUCTIONS
PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT

1. The Examinations will be conducted using the Remote Online Proctoring Platform and will require the following: A reliable internet connection, computer with functional Webcam, and the Examination Docket.

2. You must complete an environmental scan of the room where you will take the examination. Please note that you must NOT leave the room during the examination for any reason.

3. Ensure there are no materials or books laying around such as phones, electronic storage device, headset/ ear pod/ earbud/ earpiece, programmable device, calculators, books or any form of written material. Other gadgets/smart devices/watches should not be found within 360 degrees scanning of your environment.

4. You MUST NOT have in your possession any jottings, summary, note or the "Pre seen" document received before the examination

5. All rough writing works are to be done only on the plain (A4) sheet which you scanned during the 360 degrees environmental check.

6. No other person is allowed to enter the room while you are taking the proctored examination. You are to be alone in the room.

7. You must sit at a clean desk or table. Ensure that you DO NOT have any prohibited items on you while taking the examinations as this will be treated as examination malpractice and will attract appropriate sanction.

8. You are expected to show details of all calculations and reasons for your conclusions.

9. Do NOT write anything on your docket. Ensure there is enough light in the room.

10. Your solutions MUST BE typed and submitted on the System.

11. Any candidate that writes his or her name/phone number or statements with the intent to cajole/implore/appeal to the Examiner will be penalised, as appropriate

Assessment/Scoring modalities:

Marks are awarded for the demonstration of professional competence as follows:

Assessment criteria	**Score (%)**
Assimilating and using information	20%
Understanding & Application of relevant tax laws and regulations	20%
Substantiated conclusions and relevant advice	20%
Logical Consistency and Presentation	10%
Demonstration of experience, knowledge, and skills	10%
Preparation of an Executive Summary & treatment of ethical issues	20%

Candidates should note that marks are not awarded for just simply restating facts from the scenario. Scores are awarded for the demonstration of professional competence, technical depth and substantiated conclusion and relevant recommendations in terms of tax advice. To earn maximum mark, candidates are therefore required to:

i. Demonstrate adequate understanding of the scenario/exhibits;
ii. Demonstrate knowledge of ethical principles and organisational ethics, which include accountability, fairness, honesty, integrity and social responsibility (where necessary);
iii. Carry out appropriate research and analysis of the tax issues involved, identify the issues;
iv. Make informed judgments based on the analysis of the tax issues and relevant tax laws and regulations; and
v. Present a substantiated conclusion and offer relevant advice.

Exhibit 3

The requirement

You are Dan Kabir, a Trainee consultant with Olugbile, Suberu, Chukwu & Co. You are reporting to Michael Olugbile, Partner in charge of high-net-worth individuals within the firm.

Your clients, James Chukwuma Oliseh and Dorcas Chidinma Oliseh have attended a meeting with your partner in charge of high-net-worth individual group in your firm, Michael Olugbile. At the meeting, they explained that they are planning to transfer their assets to their children in the most tax efficient way to their children and to themselves.
James also informed your partner his intention to retire from his employment in Tothefem Oil Services Nigeria Limited, and the offer of a contract by Tothefem to him as a contract engineer. He wants your firm's advice on the most tax efficient way to structure the contract.

Michael has asked you to prepare a report to advise James and Dorcas on the tax implications of their proposals and the most tax efficient way for Michael to structure the contract offer by his company.

The following exhibits are provided to assist you:
Exhibit 2: Details about James and Dorcas assets and their 2024 tax returns, we already have this on our file in the office.
Exhibit 4: File note of a meeting between Michael Olugbile, James Chukwuma Oliseh and Dorcas Chidinma Oliseh on their plans and the market values of their properties.
Exhibit 5: Email from James on the contract with Tothefem.

Requirement:
Prepare a report to James and Dorcas advising on the tax implications of their plans and recommend the most tax efficient way to achieve their objectives.

Your report should include an executive summary, while all the detail computations must be attached as appendices.

Exhibit 4

File notes of a meeting between Michael Olugbile, James Chukwuma Oliseh and Dorcas Chidinma Oliseh

Present: Michael Olugbile
James Chukwuma Oliseh
Dorcas Chidinma Oliseh

Date: March 2, 2025

James' employment

James has given notice to his current employer, Tothefem Oil Services, of his intention to retire from employment effective from April 1, 2025. He is retiring on an annual gross emolument of ₦60million.

However, the company has offered him an opportunity to still work for the company on contract, depending on how James wants the contract to be structured. The contract fee is expected to be ₦45million per annum, and James is to be available on call throughout the year to attend to any emergency. But where there is no emergency, he is to report in the office once weekly. He would be allowed six weeks in a year during which he may not need to report except if there is an emergency.

Market value of James' properties

The properties were valued by a registered property valuer in January 2025 and the values of the properties were put as follows:

Property	**Market value**
	₦m
23 Toyin Street	265
25 Opebi Street	325
18 Adeniyi Jones	185
33 Aina Street	245
14 Liberty Street	205

Selling expenses for any of the properties is estimated to be 5% of the market value. There are ready buyers for each of the properties, if they are offered for sale.

Dorcas' business

Dorcas is running a superstore at the ground floor of their residential building, 23 Toyin Street, Off Allen, Ikeja. Her estimated annual taxable profit from the business is always in the region of ₦20m to ₦25m. Her annual turnover is in the region of ₦100m to ₦120m. She is trading under a business name, Dorcas Superstores Enterprise.

James plans

James is looking at the following alternative plans:

a. James' wish is to distribute his properties to his children before he dies because he has been diagnosed to have a terminal disease and only have few years to live. So, he is considering the most tax efficient plan, either to:
   i. sell the properties and distribute the proceeds among his children; or
   ii. transfer the properties, one by one to his four children; or
   iii. set up a property management company and make his children directors of the company, while he acts as chairman until his death.

b. James wishes to dispose his shares and:
   i. distribute the proceeds equally among his children; or
   ii. Use the proceeds to buy shares in the names of his children equally.

c. James wishes to
   i. transfer the proceeds of the FGN bond to his children equally, when it matures in October 1, 2025; or
   ii. Invest in a new FGN bond in his children's names.

James is not sure whether any of his three sons will ever come back to live in Nigeria.

Dorcas plans

Dorcas wishes to concentrate on her superstores business, as she felt she could no longer run around as before. So, she wishes to dispose of the warehouse at 65 Adeniyi Jones and distribute the proceeds to her children equally. Or, on the other hand, if James decides on setting up a property company, then she can transfer the property to the company for her children.

Market value of Dorcas' property

The recent valuation, January 15, 2025, of the property, 65 Adeniyi Jones, a warehouse, was put at ₦205m.

The property also has a ready buyer, if offered for sale. Estimated selling expenses is 5% of sales value.

Dorcas's shares

Dorcas is also contemplating, like her husband to dispose her shares and:

i. distribute the proceeds equally among her children; or
ii. Use the proceeds to buy shares in the names of her children equally.

Exhibit 5

Email from James on the contract with Tothefem

From: James Chukwuma Oliseh
To: Michael Olugbile -
Date: March 6, 2025

Tothefem contract offer

As I intimated you during our last meeting in your office, I have agreed to take up the offer.

However, I am not sure of the most tax efficient way to structure the contract. I am between two opinions, either to:

i. Set up a limited liability company, and make myself and my wife directors and execute the contract in the company's name; or
ii. Set up a firm as consulting engineer under a business name to execute the contract.

I am very sure that other contracts will come on board from other companies, as soon as I start the contract. So, I am sure of an annual turnover in the region of ₦100million to ₦120million.

The estimated running costs for executing any of the contract is 30% of the contract fee.

James

Test of Professional Competence (TPC 2501)
April 2025 examination
Marking key

Notes on the marking key

1. Candidates are required to develop each of the contents highlighted below into:
   - Executive summary;
   - Main report; and
   - Appendices that show detailed calculations of figures used in their report.

2. The marking key comprising 14 boxes, and marks allocated per box varies as follows:
   - Executive summary: Maximum of 4 marks per box, given a total of 16 marks for the 4 boxes in the executive summary;
   - Requirement: Maximum of 8 marks per box, given a total of 64 marks for the 8 boxes in the requirement; and
   - Overall report: Maximum of 8 marks each for structure under the overall report, and maximum of 12 marks for the appendices, given a total of 20 marks for the overall report.

A. EXECUTIVE SUMMARY

1. General

- State the term of reference
- State the information being relied upon
- State the relevant tax laws
- State assumptions and reservations, if any

2. Issues and options

- Transfer of the properties will be treated as sales by the tax authority and therefore, capital gains tax will become payable.
- Stamp duty is payable on transferring of properties to the children.
- No capital gains tax is payable on the disposal of the shares.
- No capital gains tax is payable on the FGN's 3-year saving bond.
- No capital gains tax is payable on transferring shares to the children.
- Using a business name for the execution of the contract is more tax efficient than registering a limited liability company because the highest personal income tax rate is 24%, whereas, companies income tax rate that will be applicable will be 30% plus tertiary education tax of 3%.

- Stamp duty will be payable on the authorised share capital of the company being proposed by James.

3. Substantiated conclusions

- Setting up a property company is the most tax efficient of the three options.
- Transferring the shares to his children will not result in any immediate tax obligations for James or his children.
- Buying a new FGN bond with the proceeds of the FGN Saving bond that is due will not result in any immediate tax payment by James or his children.
- Additional personal income tax payable by James, if he uses a business name to execute the contract.
- Using a business name is the more tax efficient means of carrying out the contract.

3. Recommendations/Advice

- James should use the option of setting up a property company, it is the most tax efficient.
- James should transfer his shares to his children, this is the most tax efficient option.
- Dorcas should transfer her property to the proposed property company by James, this is the most tax efficient option.
- James should buy a new FGN bonds in the name of his children, this is the most tax efficient option.
- James should use a business name to carry on the contract, instead of a limited liability company, as it is more tax efficient.

REQUIREMENT

1. Uses of information appropriately

- Uses Exhibit 2
- Uses Exhibit 3
- Uses Exhibit 4
- Uses exhibit 5

2. Identifies the relevant tax laws and regulations

- Identifies that the Personal Income Tax Act, as amended, is applicable.
- Identifies that Withholding Tax Regulation is applicable.
- Identifies that the provisions of the Stamp Duty Act, as amended, are applicable.

- Identifies that knowledge of the provisions of CAMA 2020 is relevant.
- Identifies that the knowledge of the provisions of the various Finance Acts is applicable.
- Identifies that the Companies Income Tax Act, as amended is applicable.
- Identifies that the Tertiary Education Tax Act, as amended, is applicable.

3. Applies the relevant tax laws

- Applies the provisions of the Personal Income Tax Act, as amended.
- Applies the provisions of the Withholding Tax Regulations.
- Applies the provisions of CAMA, as necessary.
- Applies the provisions of the Companies Income Tax Act, as amended.
- Applies the provisions of Tertiary Education Tax, as amended.
- Applies the provisions of relevant Finance Acts.
- Applies the provisions of the Stamp Duty Act.

4. Calculates the relevant incomes/gains and taxes

- Calculates CGT payable at the disposal of James' properties
- Calculates the likely personal income tax each of James' children will suffer, if the proceeds from the sale of the properties are distributed to them.
- Calculates the stamp duty payable if the properties are transferred to James' children.
- Calculates the likely personal income tax each of James' children will pay, if the proceeds from the sales of shares are transferred to them.
- Calculates the likely personal income tax each of James' children will pay, if the proceeds from FGN 3-year saving bonds is distributed to them.
- Calculates CGT payable at the disposal of Dorcas' property
- Calculates the likely personal income tax each of James' children will suffer, if the proceed from the sale of her property is distributed to them.
- Calculates the stamp duty payable if Dorcas' property is transferred to James' proposed property company.
- Calculates the likely personal income tax each of the children will pay, if the proceeds from the sales of shares of Dorcas are transferred to them.
- Calculates the likely personal income tax of James, if he executes the contract, using a business name.
- Calculates the CIT payable if James set up a limited liability company to execute the contract.
- Calculates the TET payable if James sets up a limited liability company to execute the contract.

5. Recognises issues and options

- Recognises that the transfer of the properties will be treated as sales by the tax authority and therefore, capital gains tax will become payable.
- Recognises that stamp duty is payable on transferring of properties to the children.
- Recognises that no capital gains tax is payable on the disposal of the shares.
- Recognises that no capital gains tax is payable on the FGN's 3-year saving bond.
- Recognises that no capital gains tax is payable on transferring shares to the children.
- Recognises that using a business name for the execution of the contract is more tax efficient than registering a limited liability company because the highest personal income tax rate is 24%, whereas, companies income tax rate that will be applicable will be 30% plus tertiary education tax of 3%.
- Recognises that stamp duty will become payable on incorporation of a limited liability company.
- Recognises that stamp duty will be payable on the authorised share capital of the company being proposed by James.

6. Application of professional ethics

Candidates must be ethical in their conclusions and recommendations. Assessors are to ensure that candidates are ethical in their comments and advice offered before awarding marks in this box.

7. Substantiated conclusions

- Concludes that setting up a property company is the most tax efficient of the three options.
- Concludes that transferring the shares to his children will not result in any immediate tax obligations for James or his children.
- Concludes that buying a new FGN bond with the proceeds of the FGN Saving bond that is due will not result in any immediate tax payment by James or his children.
- Concludes on the additional personal income tax payable by James, if he uses a business name to execute the contract.
- Concludes on the more tax efficient means of carrying out the contract.

8. Relevant advice and recommendations

- Advises James to use the option of setting up a property company as this is the most tax efficient.
- Advises James that transferring his shares to his children is the most tax efficient option.

- Advises Dorcas that transferring her property to the proposed property company by James is the most tax efficient option.
- Advises James that buying a new FGN bonds in the name of his children is the most tax efficient option.
- Advises that James should use a business name to carry on the contract, instead of a limited liability company, as it is more tax efficient.

OVERALL

1. Appendices

    - Shows CGT payable at the disposal of James' properties
    - Shows the likely personal income tax each of James' children will suffer, if the proceeds from the sale of the properties are distributed to them.
    - Shows the stamp duty payable if the properties are transferred to James' children.
    - Shows the likely personal income tax each of James' children will pay, if the proceeds from the sales of shares are transferred to them.
    - Shows the likely personal income tax each of James' children will pay, if the proceeds from FGN 3-year saving bonds is distributed to them.
    - Shows CGT payable at the disposal of Dorcas' property
    - Shows the likely personal income tax each of James' children will suffer, if the proceeds from the sale of her property is distributed to them.
    - Shows the stamp duty payable if Dorcas' property is transferred to James' proposed property company.
    - Shows the likely personal income tax each of the children will pay, if the proceeds from the sales of shares of Dorcas are transferred to them.
    - Shows the likely personal income tax of James, if he executes the contract, using a business name.
    - Shows the CIT payable if James set up a limited liability company to execute the contract.
    - Shows the TET payable if James sets up a limited liability company to execute the contract.

2. The report structure
    - Overall format
    - Introduction and conclusion
    - Clear layout with headings and subheadings
    - Flow of answer
    - Appropriate style
    - Grammar, spelling and punctuation
    - Appropriate sentences and paragraphs

- Suitable language for the receiver
- Lack of irrelevant materials
- Disclaimer as appropriate

Appendices

Evaluation of tax implications of James' plan

Disposal of properties and distribution of proceeds to children:
The disposal will attract capital gains tax as follows:
Market value of properties:

	₦m	₦m
25 Opebi street	325	
18 Adeniyi Jones	185	
33 Aina street	245	
14 Liberty street	205	960
Less:		
Costs of acquisition:		
25 Opebi street	250	
18 Adeniyi Jones	150	
33 Aina street	200	
14 Liberty street	180	
	780	
Cost of disposal – 5%	48	828
Capital gains		132
Capital gains tax @ 10%		**13.2m**

Personal income tax after distribution of proceeds to his children:

Net proceeds (960m – (48m + 13.2m)		898.8
Shared equally as follows:		
	Lucas	224.7
	Maria	224.7
	Thomas	224.7
	John	224.7

Personal income tax payable will depend on the other income of each of the children, but here we assume 24%, after personal allowance, as follows:

Amount	224,700,000
Less personal allowance (22, 700,000 X 21%)	47,187,000
	177,513,000
Tax payable ₦(177,513,000 X 24%)	**42,603,120**

Each of the children will pay personal income tax as above.

Transferring the properties to each of his children:

The transfer will be treated as sale, so will attract capital gains tax, as calculated.
However, stamp duty of 1.5% of the market value will be paid on the properties to effect the transfer, as follows:

	₦m	₦m
25 Opebi street	325	4.875
18 Adeniyi Jones	185	2.775
33 Aina street	245	3.675
14 Liberty street	205	3.075
		14.4

Set up a property company
The transfer of the properties to the new company will be treated as a sale, so it will attract capital gains tax as calculated above. Stamp duty will also become payable, as calculated above.

	₦
Capital gains tax	13.2
Stamp duty	14.4
	27.6

At incorporation, stamp duty will also be paid on the authorised share capital of the new company at the rate of 0.75%, together with other incorporation expenses.

Shares in companies:
a. Dispose the shares and divide the proceeds among his children:
Disposal proceeds:

Nigerian Breweries	10
Zenith	6.25
	16.25

No capital gains is payable on the capital gains.
However, when the proceed is distributed to his children, each will have to pay personal income tax on amount received, depending on the level of his/her other incomes.
We assume that they are on high income bracket, we use 24% tax rate as follows:

Amount received each (₦16.25m/4)	4,062,500
Less personal allowance (4,062,500 X 21%)	853,125
	3,209,375
Tax payable (₦3,209,375 X 24%)	**770,250**

b. Use the proceeds to buy shares and distribute to his children.
He is advised to simply transfer the shares to his children without disposing the shares.
No tax is payable on the transfers.

FGN 3 – year saving bond

a. Transfer the proceeds to his children at maturity.

Value of the bonds	₦100
Shared equally (₦100m/4)	25

The transfer will be treated as income in the hands of the children and each will be required to pay personal income tax on the amount received, as follows

Assuming the children have other incomes and are in the highest tax rate bracket:

Amount of income	₦25,000,000
Less personal allowance (₦25,000,000 X 21%)	5,250,000
	19,750,000
Tax payable (19,750,000 X 24%)	₦4,740,000

b. Invest in new FGN saving bond in his children name.
This move does not attract any tax.

Evaluation of tax implications of Dorcas' plan

a. Disposal of properties and distribution of proceeds to children:
The disposal will attract capital gains tax as follows:
Market value of properties:

	₦m
65 Adeniyi Jones	205
Less:	
Costs of acquisition	150
Capital gains	55
Cost of disposal (205 X 5%)	10.25
Chargeable to tax	44.75
CGT payable @ 10%	**4.475**

Personal income tax after distribution of proceeds to his children:
Net proceeds ₦(205m – (10.25m + 4.475m) ₦190.275
Shared equally as follows:

	₦
Lucas	47,568,750
Maria	47,568,750
Thomas	47,568,750
John	47,568,750

Personal income tax payable will depend on the other income of each of the children, but here we assume 24%, after personal allowance, as follows:

Amount	₦47,568,750.0
Less personal allowance (22, 700,000 X 21%)	9,989,437.5
	37,579,312.5
Tax payable (37,579,312.5 X 24%)	**₦9,019,035.0**

Each of the children will pay personal income tax as above.

b. Transfer the property to the property company to be incorporated by James

Tax payable will be the capital gains tax, as calculated above.	₦4,475,000
Stamp duty will also become payable on the transfer, that is (205m X 0.75%	1,537,500
`	**₦ 6,012,500**

Shares in companies:

a. Dispose the shares and divide the proceeds among his children:
Disposal proceeds:

	₦
Vitafoam	500,000
Nigeria Flour	7,500,000
	8,000,000

No capital gains is payable on the capital gains.
However, when the proceed is distributed to his children, each will have to pay personal income tax on amount received, depending on the level of his/her other incomes.
We assume that they are on high income bracket, we use 24% tax rate as follows:

Amount received each (8,000,000/4)	₦2,000,000
Less personal allowance (2,000,000 X 21%)	420,000
	1,580,000
Tax payable (₦1,580,000 X 24%)	**379,200**

b. Use the proceeds to buy shares and distribute to her children.
She is advised to simply transfer the shares to her children without disposing the shares.
No tax is payable on the transfers

Calculation of tax on contract:

A. Using business name: a firm of engineers:

	₦	₦
Contract fee	100,000,000	120,000,000
Less expenses 30%	30,000,000	36,000,000
Net income	70,000,000	84,000,000
Less Renewal Allowance 21%	14,700,000	17,640,000
Taxable	55,300,000	66,360,000
Tax @ 24%	13,272,000	15,926,400

Note: John is already on the topmost rate, so any additional income will be taxed at 24%.

B. Using a limited liability company

	₦	₦
Net profit as computed above	70,000,000	84,000,000
CIT @ 30%	21,000,000	25,200,000
TET @ 3%	2,100,000	2,520,000
	23,200,000	27,720,000

Notes:

1. John will pay stamp duty of 0.75% on the authorised capital stated in the company's memorandum of association, when incorporating the company.
2. If at the end of the year, Johnson chooses to distribute the profit as dividends, he will pay an additional withholding tax of 10% on the amount declared as dividends from the profit.
1. The turnover of the company is up to ₦100million, so tax rate is 30%.