



CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2025: PROFESSIONAL EXAMINATION

PTX 11: TAX AUDIT AND INVESTIGATION

TUESDAY 14TH OCTOBER 2025

TIME: 3 HOURS

INSTRUCTION

ANSWER QUESTION 1 AND ANY 2 QUESTIONS IN SECTION B AND ANY OTHER 2 QUESTIONS IN SECTION

SECTION A: COMPULSORY

Question 1

Au Revoir Inc. is a multinational logistics company, due to the dynamic in the emerging market environment, they rely on advanced technology to streamline their operations, financial records, operational data, and inventory management systems are hosted on cloud platforms, AI models are used to predict customers' demand, optimise inventory, and flag suspicious transactions. Warehouse inventory counts and last-mile delivery of goods are carried out using drones. Management and key stakeholders are spread across multiple geographic zones, necessitating the use of video conferencing for real-time communication. The company also has millions of daily transactions across its global network.

Due to the information available to the tax audit department, audit was initiated and you have been selected as the Audit team lead, you are tasked with verifying the following:

- a. Accuracy of the company's inventory records;
- b. Compliance with financial and regulatory requirements;
- c. Effectiveness of fraud detection systems; and
- d. Efficiency of communication processes in a distributed workforce.

Required:

- a. Explain how you would identify duplicate transactions, assess revenue recognition practices, and verify the accuracy of financial records using CAATs?
(8 Marks)
 - b. Discuss how you would audit the company's cloud-based systems to ensure data security, availability, and reliability?
(8 Marks)
 - c. How would you evaluate the accuracy of the AI models used for inventory optimisation and fraud detection?
(7 Marks)
 - d. Explain how drones could be used to perform inventory counts and ensure the accuracy of warehouse records?
(7 Marks)
- (Total 30 marks)**

Solution1

- a. **How to identify duplicate transactions, assess revenue recognition practices, and verify the accuracy of financial records using CAATs).**

CAATs can be used to identify duplicate transactions, assess revenue recognition practices, and verify the accuracy of financial records in the following ways:

- i. Use tools such as ACL or IDEA to analyse large transaction datasets;
 - ii. Test for duplicate payments, unusual transaction patterns, and compliance with accounting standards;
 - iii. Conduct trend analysis to detect revenue recognition issues;
 - iv. Identify duplicate invoices by matching fields like invoice numbers, dates, and amounts; and
 - v. Extract journal entries flagged for unusual activity based on materiality thresholds.
- b. The company's cloud-based systems could be audited in the following ways to ensure data security, availability, and reliability:
 - i. Assess the cloud service provider's SOC 1 and SOC 2 reports to ensure data security and system reliability;
 - ii. Perform data integrity checks by reconciling cloud-stored records with locally generated reports;
 - iii. Test access controls to ensure only authorized personnel have access to critical data;
 - iv. Verify backup systems and disaster recovery plans for the cloud environment; and
 - v. Confirm encryption protocols for sensitive financial information.

- c. AI models used for inventory optimisation and fraud detection could be evaluated for accuracy in the following ways:
- i. Review documentation and test the assumptions, inputs, and outputs of AI models to ensure accuracy;
 - ii. Use audit-specific AI tools to scan large datasets for anomalies, such as unapproved journal entries;
 - iii. Assess the fraud detection model by testing its false positive and false negative rates; and
 - iv. Compare the AI-driven inventory forecasts with actual demand to evaluate accuracy.
- d. Drones could be used to perform inventory counts and ensure the accuracy of warehouse records in the following ways:
- i. Use drone-generated footage to perform inventory counts in warehouses.
 - ii. Compare drone data with the company's inventory records.
 - iii. Test drone software for reliability and assess whether environmental factors (e.g., lighting, obstacles) impact data accuracy.
 - iv. Perform sample testing by physically verifying a portion of inventory recorded by drones.

SECTION B: ATTEMPT ANY TWO (2) QUESTIONS FROM THIS SECTION

Question 2

You are a team lead in a tax audit unit. You have been saddled with the responsibility of leading a team for the field audit of KYG Limited. You are informed that some of the members of your audit team are newly qualified CITN members awaiting induction.

Required:

- a. Discuss the concepts of independence as it relates to tax auditors and investigators. **(5 marks)**
- b. Explain taxpayer's rights during tax audit and tax investigation. **(5 marks)**
- c. Discuss the ethical conduct expected of a tax auditor and investigator. **(10 marks)**
- (Total 20 Marks)**

Solutions 2

a. The concepts of independence relating to tax auditors and investigators Independence is a fundamental concept in the field of tax auditing and investigation. It refers to the ability of tax auditors and investigators to perform their duties without being influenced by external factors, such as personal relationships, conflicts of interest, or undue pressure from taxpayers or other stakeholders. The types of Independence are:

- i. Independence of Mind: This refers to the ability of tax auditors and investigators to make objective decisions, free from personal biases or prejudices.
- ii. Independence in Appearance: This refers to the appearance of independence, where tax auditors and investigators avoid situations that may create a perception of lack of independence.
- iii. Organisational Independence: This refers to the independence of the tax audit or investigation function from other functions within the organization, such as tax policy or tax administration.

b. Taxpayer's rights during tax audit and tax investigation

Taxpayers have certain rights during tax audits and investigations, which are designed to protect their interests and ensure that they are treated fairly. Here are some of the key rights of taxpayers during tax audits and investigations:

- i. Right to Notice: Taxpayers have the right to receive notice of the tax audit, including the scope and purpose of the audit;
- ii. Right to Representation: Taxpayers have the right to representation during the audit, including the right to have a tax professional or attorney present;
- iii. Right to Confidentiality: Taxpayers have the right to confidentiality, and tax auditors are required to maintain the confidentiality of taxpayer information;
- iv. Right to Reasonable Audit Procedures: Taxpayers have the right to reasonable audit procedures, including the right to be free from harassment or intimidation; and
- v. Right to Appeal: Taxpayers have the right to appeal the results of the tax audit, including the right to dispute any proposed adjustments or penalties.

c. Ethical Conducts for Tax Auditors: Tax auditors and investigators play a critical role in ensuring compliance with tax laws and regulations. As such, they are expected to adhere to high ethical standard to maintain public trust and confidence in the tax system. Here are some of the key ethical conducts expected of tax auditors and investigators:

- i. Independence and Objectivity: Tax auditors should maintain independence and objectivity in their work, avoiding conflicts of interest and personal biases;

- ii. Confidentiality: Tax auditors should maintain confidentiality of taxpayer information and only disclose it to authorised parties;
- iii. Professional Competence: Tax auditors should possess the necessary skills, knowledge, and expertise to perform their duties effectively;
- iv. Due Care and Diligence: Tax auditors should exercise due care and diligence in their work, ensuring that audits are conducted thoroughly and accurately;
- v. Respect for Taxpayers: Tax auditors should treat taxpayers with respect and professionalism, avoiding harassment or intimidation;
- vi. Integrity and Honesty: Tax investigators should demonstrate integrity and honesty in their work, avoiding deceit or misrepresentation;
- vii. Objectivity and Impartiality: Tax investigators should remain objective and impartial in their investigations, avoiding personal biases or conflicts of interest;
- viii. Compliance with Laws and Regulations: Tax investigators should comply with all relevant laws and regulations, including those related to search and seizure, evidence handling, and taxpayer confidentiality; and
- ix. Accountability and Transparency: Tax investigators should be accountable for their actions and decisions, and maintain transparency in their investigations.

Question 3

You are a team member in the tax audit unit of the Federal Inland Revenue Services. Your Team lead has instructed you to write a letter notifying a taxpayer of a proposed tax audit exercise. Your Team lead has insisted that the letter should be all encompassing to ensure that the taxpayer is aware of the documents requested for the audit.

Required:

- a. Discuss the techniques for obtaining audit evidence by tax auditors and investigators **(10 marks)**
 - b. Discuss the concept of sufficiency and appropriateness of tax audit evidence **(5 marks)**
 - c. Explain the process for tax appeal by taxpayers that raise objections to tax assessments **(5 marks)**
- (Total 20 marks)**

Solutions 3

a. Tax auditors and investigators use various techniques to obtain audit evidence and support their findings. These include:

i. Inspection of Records

- Reviewing financial statements, ledgers, journals, and other accounting records.
- Verifying the accuracy and completeness of records.

ii. Observation

- Observing business operations, processes, and procedures.
- Identifying potential areas of non-compliance.

iii . Inquiry and Interview

- Conducting interviews with taxpayers, employees, and third-party providers.
- Gathering information about business operations, financial transactions, and tax-related matters.

iv . Confirmation

- Verifying information with third-party providers, such as banks, suppliers, and customers.
- Confirming transactions, balances, and other financial information.

v. Physical Examination

- Inspecting physical assets, such as inventory, property, and equipment.
- Verifying the existence and condition of assets.

vi. Analytical Procedures

- Analyzing financial data and ratios to identify unusual trends or patterns.
- Identifying potential areas of non-compliance.

vii. Testing of Transactions

- Selecting a sample of transactions to verify their accuracy and completeness.
- Testing transactions for compliance with tax laws and regulations.

viii. Review of Internal Controls

- Evaluating the effectiveness of internal controls over financial reporting and tax compliance.
- Identifying weaknesses in internal controls.

ix. Use of Technology

- Using computer-assisted audit techniques (CAATs) to analyse large datasets and identify patterns.
- Using data analytics software to identify potential areas of non-compliance.

x. External Data Sources

- Obtaining information from external sources, such as public records, industry reports, and whistleblower tips.
- Using external data to corroborate or contradict taxpayer-provided information.

Techniques for Tax Investigators

i. Undercover Operations

- Conducting undercover operations to gather evidence of tax evasion or other crimes.
- Using undercover agents to pose as taxpayers or business owners.

ii. Surveillance

- Conducting surveillance to gather evidence of tax evasion or other crimes.
- Using surveillance to monitor taxpayer activity and identify potential areas of non-compliance.

iii. Interviews and Interrogations

- Conducting interviews and interrogations to gather evidence and information.
- Using specialized techniques to elicit information from taxpayers and witnesses.

iv. Search and Seizure

- Conducting searches and seizures to gather evidence of tax evasion or other crimes.
- Using search warrants to obtain access to taxpayer records and property.

v. Forensic Analysis

- Conducting forensic analysis of taxpayer records and data to identify potential areas of non-compliance.
- Using specialized software and techniques to analyse large datasets and identify patterns.

b. The concept of sufficiency and appropriateness of tax audit evidence

The concept of sufficiency and appropriateness of tax audit evidence refers to the quality and quantity of evidence gathered during a tax audit to support the auditor's findings and conclusions.

Sufficiency of Tax Audit Evidence: Sufficiency refers to the quantity of evidence gathered. It involves ensuring that enough evidence is collected to support the auditor's conclusions. The evidence should be comprehensive, reliable, and relevant to the tax issues being audited.

Appropriateness of Tax Audit Evidence: Appropriateness refers to the quality and relevance of the evidence gathered. It involves ensuring that the evidence is relevant, reliable, and useful in supporting the auditor's conclusions. The evidence should be directly related to the tax issues being audited and should be capable of withstanding scrutiny

c. **The process for tax appeal by taxpayers that raise objections to tax assessments**

In Nigeria, taxpayers who disagree with their tax assessments can appeal to the relevant tax authorities. A step-by-step guide on the process for tax appeal are as follows:

Step 1: Receipt of Tax Assessment Notice

The taxpayer receives a tax assessment notice from the Federal Inland Revenue Service (FIRS) or the relevant State Internal Revenue Service (SIRS).

Step 2: Review of Tax Assessment

The taxpayer reviews the tax assessment notice to identify any errors, discrepancies, or areas of disagreement.

Step 3: Filing of Objection

The taxpayer files an objection with the FIRS or SIRS, stating the grounds for the objection and providing supporting documentation. This must be done within 30 days of receiving the tax assessment notice.

Step 4: Review of Objection

The FIRS or SIRS reviews the objection and may request additional information or clarification from the taxpayer.

Step 5: Determination of Objection

The FIRS or SIRS decides on the objection, which may result in:

- A revision of the tax assessment; or

- A confirmation of the original tax assessment.

Step 6: Appeal to the Tax Appeal Tribunal (TAT)

If the taxpayer is dissatisfied with the determination, they can appeal to the Tax Appeal Tribunal (TAT) within 30 days of receiving the determination.

Step 7: Hearing at the TAT

The TAT holds a hearing to consider the appeal. The taxpayer and the FIRS or SIRS present their cases, and the TAT makes a decision.

Step 8: Appeal to the Federal High Court

If the taxpayer is dissatisfied with the TAT's decision, they can appeal to the Federal High Court within 30 days of receiving the decision.

Step 9: Final Decision

The Federal High Court makes a final decision on the appeal, which is binding on all parties.

Question 4

You are a tax manager in a firm of NGC Tax Practitioners. Your firm has newly recruited some staff and as a standard procedure, the firm has appointed you to facilitate a training programme for them.

Required:

- a. Discuss the importance of ethical behaviours and practice in tax audit in Nigeria.
- b. Highlight challenges to ethical behaviours and practice in tax audit.
- c. Provide recommendations for promoting ethical behaviour and Practice in Tax Audit.

(6 marks)

(6 marks)

(8 Marks)

(Total 20 marks)

Solutions 4

a. Importance of ethical behaviour and practice in tax audit are:

- i. **Maintaining Public Trust:** Tax auditors must maintain public trust by demonstrating ethical behaviour and practice. This trust is essential for the effective administration of taxes and the overall functioning of the tax system;
- ii. **Ensuring Fairness and Impartiality:** Ethical behaviour and practice ensure that tax auditors remain impartial and unbiased in their audit findings and conclusions. This fairness is critical for maintaining the integrity of the tax system;
- iii. **Preventing Corruption and Fraud:** Ethical behaviour and practice help prevent corruption and fraud in tax audits. Tax auditors who demonstrate ethical behaviour are less likely to engage in corrupt or fraudulent activities;
- iv. **Promoting Transparency and Accountability:** Ethical behaviour and practice promote transparency and accountability in tax audit. Tax auditors who demonstrate ethical behaviour are more likely to provide clear and transparent audit findings and conclusions; and
- v. **Enhancing Professionalism:** Ethical behaviour and practice enhance the professionalism of tax auditors. Tax auditors who demonstrate ethical behaviour are more likely to be respected by their peers and the public.

b. Challenges to ethical behaviour and practice in tax audit in Nigeria are:

- i. **Corruption and Bribery:** Corruption and bribery are significant challenges to ethical behavior and practice in tax audit in Nigeria;
- ii. **Lack of Training and Capacity Building:** Tax auditors in Nigeria may lack the necessary skills, training and capacity building to demonstrate ethical behavior and practice;
- iii. **Inadequate Resources and Infrastructure:** Tax auditors in Nigeria may face inadequate resources and infrastructure, which can hinder their abilities to demonstrate ethical behavior and practice; and
- iv. **Cultural and Social Pressures:** Tax auditors in Nigeria may face cultural and social pressures that can compromise their ethical behaviour and practice.

c. Recommendations for promoting ethical behavior and practice in tax audit in Nigeria are:

- i. **Develop and Implement Code of Ethics:** Develop and implement code of ethics for tax auditors in Nigeria;

- ii. Provide Training and Capacity Building: Provide regular training and capacity building for tax auditors in Nigeria to enhance their ethical behavior and practice;
- iii. Ensure Adequate Resources and Infrastructure: Ensure that tax auditors in Nigeria have access to adequate resources and infrastructure to support their work; and
- iv. Encourage Culture of Transparency and Accountability: Encourage culture of transparency and accountability within the tax audit profession in Nigeria.

SECTION C: ATTEMPT ANY TWO (2) QUESTIONS FROM THIS SECTION

Question 5

You are a member of a team that recently concluded several audit cases. Your Team lead has requested you to prepare the final audit reports for the concluded cases.

Required:

- a. Explain the importance of a tax audit report.
- b. Discuss the contents of a tax audit report.

(7 marks)

(8 marks)

(Total 15 marks)

Solutions 5

- a. A tax audit report is crucial in the tax audit process. Its importance includes:
 - i. Communication of audit findings: A tax audit report communicates the audit findings, including any discrepancies, errors, or omissions, to the taxpayer and tax authorities;
 - ii. Basis for tax assessment: The report provides basis for the tax assessment, including any additional taxes, penalties, or interest due;
 - iii. Transparency and accountability: A tax audit report promotes transparency and accountability in tax administration;
 - iv. Improvement of tax compliance: The report helps taxpayers understand tax obligations and improve tax compliance; and
 - v. Support for tax policy decisions: Tax audit reports provide valuable insights into tax policy decisions.

b. A tax audit report typically includes:

- i. Introduction: Background information on the taxpayer, audit objectives, and scope;
- ii. Audit findings: Summary of audit findings, including any discrepancies, errors, or omissions;
- iii. Tax computations: Detailed tax computations, including any additional taxes, penalties, or interest due;
- iv. Recommendations: Recommendations for tax compliance improvements and future audit areas;
- v. Conclusion: Summary of the audit report and its implications;
- vi. Appendices: Supporting documentation, such as audit working papers, tax returns, and financial statements; and
- vii. Audit opinion: Expression of opinion on the taxpayer's tax compliance and financial statements

Question 6

Tax audit exercise involves a thorough examination of taxpayers' financial records and tax returns, to ensure accuracy and compliance with relevant tax laws, by obtaining relevant audit evidence.

Required:

- a. Discuss the procedures involved in obtaining appropriate audit evidence?
- b. Explain how an auditor will evaluate the reliability of such evidence?

(7 ½ Marks)

(7 ½ Marks)

(Total 15 Marks)

Solution 6

- a. The following procedures are involved in obtaining appropriate audit evidence:

i. Planning

- Define the audit objectives.
- Identify the areas with higher risks of material misstatements.
- Determine the type and extent of evidence required.

ii. Understanding the Client and Its Environment.

- Gain knowledge about the business, industry, and internal controls.
- Assess the effectiveness of internal controls and determine if they can be relied upon.

iii. Risk Assessment Procedures.

- Perform inquiries of management and employees.
- Perform analytical procedures to identify unusual trends or anomalies.
- Inspect relevant documentation and records.

iv. Performing Tests of Controls.

- Evaluate the design and operating effectiveness of internal controls.
- Perform walkthroughs, re-perform transactions, or observe control activities.

v. Substantive Procedures.

- Conduct detailed tests of transactions and balances to detect material misstatements. These include:
 - Tests of Details: Verifying specific transactions, account balances, or disclosures.
 - Analytical Procedures: Comparing financial data and ratios to expectations or benchmarks.

vi. Methods of Evidence Collection.

- Inspection: Examining documents, records, or physical assets.
- Observation: Watching procedures or controls being performed.
- Inquiry: Asking questions of knowledgeable individuals within or outside the organisation.
- Confirmation: Obtaining direct verification from third parties (e.g., confirming bank balances or receivables).
- Recalculation: Verifying the mathematical accuracy of records.
- Re-performance: Independently executing processes or controls.
- Analytical Procedures: Evaluating relationships among financial and non-financial data.

vii. Evaluating Audit Evidence.

- Assess the sufficiency (quantity) and appropriateness (quality) of the evidence collected.
- Consider the reliability of the evidence based on its source and nature.

viii. Documentation.

- Properly document the procedures performed, evidence obtained, and conclusions drawn.
- Maintain a clear audit trail for reference and review.

ix. Finalisation and Reporting

- Correlate all the evidence with the audit objectives.

- Conclude whether the evidence supports the auditor's opinion.
- Prepare the audit report summarising the findings.

These steps ensure that the audit evidence is relevant, reliable, and sufficient to form a professional judgment.

b. Procedures to be adopted to evaluate the reliability of audit evidence are

Auditors evaluate the reliability of audit evidence to determine whether it can be relied upon to support their conclusions. The reliability of evidence depends on its source, nature, and how it is obtained. Here are the factors and steps auditors use to assess reliability:

i. Sources of Evidence.

- **External Evidence:** Evidence obtained from independent third parties (e.g., banks, customers, suppliers) is generally more reliable than evidence from internal sources.
- **Internal Evidence:** Evidence generated within the entity (e.g., invoices, records) is less reliable unless the internal controls are strong and effective.
- **Auditor's Direct Knowledge:** Evidence obtained directly by the auditor (e.g., observation, recalculation) is the most reliable.

ii. Nature of Evidence.

- Original Documents:** Original documents are more reliable than photocopies or electronic copies.
- Objective Evidence:** Quantifiable evidence (e.g., physical inventory count, bank statements) is more reliable than subjective evidence (e.g., management's explanations or estimates).

iii. How the Evidence is Obtained.

Evidence obtained through independent procedures by the auditor (e.g., direct confirmation, observation) is more reliable than evidence obtained through inquiry alone.

Evidence obtained from consistent and corroborative sources (e.g., matching supplier invoices with delivery notes) enhances reliability.

iv. Strength of Internal Controls.

If the client's internal controls are effective and reliable, the evidence generated from internal sources is considered more reliable.

Weak or poorly designed controls reduce the reliability of internal evidence.

v. Consistency of Evidence.

Evidence is more reliable when it is corroborated by other sources. For example, if sales invoices match recorded sales and cash receipts, the evidence is deemed consistent.

Contradictions or inconsistencies reduce reliability and may require further investigation.

vi. Competence of Source.

Evidence from knowledgeable, credible, and independent sources is more reliable. For example, legal confirmations from an external lawyer are considered reliable.

vii. Timing of the Evidence.

Evidence obtained closer to the reporting date is more reliable than evidence obtained earlier in the audit period.

viii. Evaluating Relevance Evidence.

The evidence must relate directly to the assertion being tested (e.g., rights and obligations, valuation). Irrelevant evidence, no matter how reliable, cannot support the audit conclusion.

ix. Professional Skepticism.

Auditors should exercise professional skepticism and critically evaluate whether the evidence appears reasonable.

Evidence obtained under suspicious circumstances (e.g., missing documents, reluctance to provide confirmations) should be treated with caution.

Question 7

The Nigerian tax system supports a self-assessment system of filing taxpayer's returns. This necessitates the need for tax audit and investigation.

Required:

- (a) Explain the nature of tax audit. **(5 Marks)**
 - (b) Explain the primary objectives of tax audit. **(5 Marks)**
 - (c) Discuss the significance of tax audit in the Nigeria tax system. **(5 Marks)**
- (Total 15 marks)**

Solution 7

(a) Tax audit is a systematic examination and verification 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.

(b) The primary objectives of tax audit are:

- i. Verification of tax compliance: To ensure that taxpayers comply with tax laws and regulations.
- ii. Detection of tax evasion: To identify and prevent tax evasion and avoidance schemes.
- iii. Assessment of correct tax liability: To determine the correct tax liability of taxpayers.
- iv. Improvement of tax administration: To provide feedback to tax authorities on areas for improvement in tax administration.

(c) Tax audit is significant in the Nigerian tax system because it:

- i. Ensures tax compliance: Tax audit encourages taxpayers to comply with tax laws and regulations;
- ii. Generates revenue: Tax audit helps to identify and recover unpaid taxes, thereby increasing government revenue;
- iii. Promotes transparency and accountability: Tax audit promotes transparency and accountability in tax administration;
and
- iv. Supports economic development: Tax audit helps to create a stable and predictable tax environment, which supports economic development.



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PTX 11: INTERNATIONAL TAXATION

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TIME: 3 HOURS

INSTRUCTION

ANSWER QUESTION 1 AND ANY 2 QUESTIONS IN SECTION B AND ANY OTHER 2 QUESTIONS IN SECTION

SECTION A: COMPULSORY

Question 1

Samagbe PLC, a subsidiary of Samagbe International UK Ltd, was incorporated in Nigeria in the year 2018. The company is into manufacturing of non-alcoholic beverages. Due to rising demands from foreign customers, the company has opened branch offices in Amsterdam, New York and Frankfurt to meet the growing demand.

The result of the company for the immediate past two financial years are as

follows.

(a)

Samagbe PLC				
Financial Data (January – December 2023)				
Branches	Lagos	Amsterdam	New York	Frankfurt
	₦'000	₦	₦	₦
Turnover	5,000,000	100,000	250,000	300,000
Direct Cost	3,200,000	67,000	145,000	187,000
Opex	1,200,000	23,000	55,000	93,000

Profit Before Tax	600,000	10,000	50,000	20,000
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(b)

Samagbe PLC				
Financial Data (January – December 2024)				
Branches	Lagos	Amsterdam	New York	Frankfurt
	₦'000	₦	₦	₦
Turnover	7,500,000	150,000	345,000	260,000
Direct Cost	4,400,000	102,000	175,000	152,000
Opex	1,800,000	34,000	75,000	64,000
Profit Before Tax	1,300,000	14,000	95,000	44,000

Other information about the company and its financial position for the year ended 31st December, 2023 and 2024 are as follows.

- i. Included in the direct cost of the Lagos branch is the sum of ₦700,000,000 and ₦1,200,000,000 for 2023 and 2024 respectively. These amounts were costs of raw materials procured from Samagbe International UK Ltd, a tax residence of the UK and the parent company of Samagbe PLC.
- ii. The transfer pricing auditors have reviewed the controlled transactions and found that 20% of the cost offends the arm's length principle.
- iii. In the financial year 2023, the branch in New York supported Kamala Harris & Donald Trump's campaign organisations with a sum of \$10,000 each. The same amount was also paid to their campaign funds in 2024.
- iv. The company's policy is to charge 10% of the revenue of each branch as depreciation. This amount has been included in the financial position.

v. Capital allowances are as follows:

Branches	Lagos	Amsterdam	New York	Frankfurt
	₦'000	₦	₦	₦
2024 YOA	320,000	8,000	13,000	18,000
2025 YOA	480,000	12,000	18,000	15,000

- vi. The Nigerian company paid interest of ~~N~~1Billion and ~~N~~1.5 billion in 2023 and 2024 financial years respectively, out of which N800 Million and ~~N~~1.1 Billion respectively were paid to Sam Agbeluyi International UK Ltd.
- vii. The exchange rates for the two years are stable at \$1 to ~~N~~1,500 and €1 to ~~N~~1,650

Samagbe PLC Computation of tax payable in 2024 YOA									
Branches	Amsterdam		New York		Frankfurt				
	₦'000		₦'000		₦'000				
Revenue	100		250		300				
Direct Cost	67		145		187				
Operating Expenses	23		55		93				
PBT	10		50		20				
			'b		'c		'd=a+b+c	'e	F=d+e
	Amsterdam		New York		Frankfurt		Total Foreign branches	Lagos Office	SA PLC Global Income
		€1=N1650		\$1=N1500		€1=N1650			
	€	₦'000	\$	₦'000	€	₦'000		₦'000	₦'000
PBT	10,000	16,500	50,000	75,000	20,000	33,000	124,500	600,000	724,500
Less: other allowable costs:									
Foreign tax paid									(50,100)
Add: Disallowed cost									
TP adjustment								140,000	140,000
Donations to politicians			20,000	30,000			30,000		30,000

Excess Interest (7 th schedule)							-	302,980	302,980
Depn (10*Rev)	<u>10,000</u>	<u>16,500</u>	<u>25,000</u>	<u>37,500</u>	<u>30,000</u>	<u>49,500</u>	103,500	500,000	603,500
Assessable Profit	20,000	33,000	95,000	142,500	50,000	82,500	258,000	1,542,980	1,750,880
Capital Allow	<u>(8,000)</u>	<u>(13,200)</u>	<u>(13,000)</u>	<u>(19,500)</u>	<u>(18,000)</u>	<u>(29,700)</u>	<u>(62,400)</u>	<u>(320,000)</u>	(382,400)
Total Profit	<u>12,000</u>	<u>19,800</u>	<u>82,000</u>	<u>123,000</u>	<u>32,000</u>	<u>52,800</u>	<u>195,600</u>	<u>1,222,980</u>	<u>1,418,580</u>
Tax Rate	30%	30%	30%	30%	25%	25%			30%
Tax due	3,600	5,940	24,600	36,900	8,000	13,200	56,040		425,574
Double Taxation relief:									
Tax Paid in Amsterdam									5,940
Tax Paid in Frankfurt (No relief because there was no DTA between Nigeria & Germany)									-
Tax Paid in New York (No relief because there was no DTA between Nigeria & USA)									=
Tax Due in Nigeria after Double Taxation Relief									419,634

- viii. Nigeria and the Netherlands have a double taxation agreement, with Article 23 of the agreement providing the use of credit method for the elimination of double taxation.
- ix. All the branches met the taxable nexus requirement in the country of their operation.
- x. The tax rates in the Netherlands are 30% for revenue up to €100,000 and 40% for revenues above €100,000. The tax rate in USA is 30% and Germany is 25%
- xi. The tax laws of the jurisdictions of the branch offices have similar tax rules with Nigeria.

Required:

Compute the tax payable by Samagbe PLC in Nigeria and the three other jurisdictions in 2024 and 2025 tax years. **(25 Marks)**

Explain the reason for any difference in your determination of DT relief allowable by Nigeria in the two years. **(5 Marks)**

(Total: 30 Marks)

Solution 1 A

Sam Agbeluyi PLC Computation of Tax Payable in 2025 YOA									
Branches	Amsterdam		New York		Frankfurt			Lagos	
	€		\$		€			₦'000	
Revenue	150		345		260			7,500,000	
Direct Cost	102		175		152			4,400,000	
Operating Expenses	34		75		64			1,800,000	
PBT	14		95		44			1,300,000	
	'a		'b		'c		'd=a+b+c	'e	F=d+e
	Amsterdam		New York		Frankfurt		Total Foreign branches	Lagos Office	SA PLC Global Income
		€1=N1650	\$	\$1=N1500	€	€1=N1650			
	€	₦'000		₦'000		₦'000	₦'000	₦'000	₦'000
PBT	14,000	23,100	95,000	142,500	44,000	72,600	238,200	1,300,000	1,538,200

Maximum Credit Relief Allowed under the DTA (N28,050,000 * 30%)				8,415
Tax Due in Nigeria after Double Taxation Relief				755,663
Tax Paid in the Netherlands not allowed for credit relief in Nigeria (N11,220 – N8,415) =N2,805				2,805

WORKINGS			
DETERMINATION OF EBITDA (i.e. TAX EBITDA)		2024	2025
		₦'000	₦'000
Profit Before Tax		600,000	1,300,000
Add back Interest		1,000,000	1,500,000
Less Allowable Foreign tax		(50,100)	(81,863)
Add: Disallowed items:			
TP Adjustment		140,000	240,000
Donation to political parties		30,000	30,000
Depreciation (10% of Revenue)		603,500	869,400
EBITDA		2,323,400	3,857,538
30% of EBITDA		698,020	1,157,261
INTEREST ALLOWABLE TABLE		2024	2025
		₦'000	S'000
Interest BF		-	302,980
Amount of Interest		<u>1,000,000</u>	<u>1,500,000</u>
Interest Available for Claim		1,000,000	1,802,980
Maximum Interest allowable (30% of EBITDA)		<u>697,020</u>	<u>1,157,261</u>
Interest CF		302,980	645,719
Excess interest charged above the maximum allowed in 7th Schedule to CITA		302,980	342,739

Max interest allowed -2025: (N645,719 – N302,980) = N342,739

b:

In 2024 YOA, Sam Agbeluyi PLC enjoyed full credit relief under the DTA between Nigeria & the Netherlands in respect of the tax paid on its profits from that country. This is because Netherlands taxed the profits at the rate of 30%, which is the same rate at which Nigeria taxed the profits.

In 2025, Netherlands taxed the profits at 40%, which is higher than Nigeria's tax rate of 30%. The credit allowed in Nigeria in 2025 YOA will be limited to the amount of tax chargeable by Nigeria on the income of €150,000 derived by Sam Agbeluyi PLC from the Netherlands. The entire tax of ₦11,220,000 paid in the Netherlands could not enjoy full relief, as Nigeria could only provide relief to the extent of the maximum amount of ₦8,415,000 tax chargeable on the income by Nigeria. The excess amount of ₦2,805,000 could not be relieved under the DTA.

SECTION B: ANSWER ANY TWO (2) QUESTIONS FROM THIS SECTION

Question 2

CORNERSTONE Nigeria Ltd, a subsidiary of a foreign company, purchases raw materials from its parent company and sells finished goods to independent customers.

The following data relates to the 2024 financial year:

	₦
Revenue.	1,550,000,000
Purchase of Raw Materials from Parent Company.	650,000,000
Freight in.	50,000,000
Direct labour.	100,000,000
Factory overhead.	50,000,000
Cost of Goods Sold (COGS):	850,000,000
Salaries and wages.	100,000,000
Marketing and distribution cost.	70,000,000
Office rent.	60,000,000
Depreciation	20,000,000
Operating Expenses.	<u>250,000,000</u>
Net Profit Before Tax:	<u>450,000,000</u>

- The Nigerian tax authority conducted a transfer pricing audit and determined that the arm's length price for the raw materials purchased from the parent company should be ₦500,000,000.
- Capital allowances agreed with the revenue was ₦16,500,000

Required

- (a)
- i. Calculate the transfer pricing adjustment required for the purchase of raw materials.
 - ii. Recompute the taxable profit after the transfer pricing adjustment.
 - iii. Compute the additional corporate income tax liability arising from the transfer pricing adjustment (assuming a corporate tax rate of 30%).
- b. Explain the Arm's Length Principle and its significance in transfer pricing.
- c. Compare and contrast the Comparable Uncontrolled Price (CUP) Method and the Transactional Net Margin Method (TNMM)
- d. Discuss the challenges multinational enterprises face in complying with transfer pricing regulations.
- e. Explain Advance Pricing Agreement (APA), and how it benefits multinational enterprises? **20 Marks**

Solution 2

a. Transfer pricing adjustment required for the purchase of raw materials

- i. The transfer pricing adjustment is the difference between the actual price paid for raw materials and the arm's length price determined by the tax authority.

CORNERSTONE LIMITED

Computation of transfer pricing adjustment	₦
Actual purchase price of raw materials	650,000,000
Arm's length price	<u>(500,000,000)</u>

Transfer pricing adjustment 150,000,000

ii. Re-computation of the total profit after transfer pricing adjustment

There was an increase in the cost of goods sold (COGS) of ₦150,000,000, which reduced the total profit. The transfer pricing adjustment would address the issue of the high cost of sales.

CORNERSTONE LIMITED

Re-computation of total profit after transfer pricing adjustment

	₦'000	₦'000
Revenue		<u>1,550,000</u>
Cost of sale		850,000
Add: transfer pricing adjustment		<u>(150,000)</u>
Adjusted cost of sale		700,000
Less: Operating expenses and depreciation		<u>250,000</u>
Revised net profit before tax		450,000
Add: Depreciation		<u>20,000</u>
Adjusted profit		470,000
Capital allowances		<u>(16,500)</u>
Total Profit		<u>453,500</u>

- Companies' income tax liability (30% of total profit) ₦136,050,000
- Tertiary education tax liability (3% of adjusted profit) ₦14,100,000
- Minimum tax computation:
0.5% of gross turnover (1,550,000,000) ₦7,750,000

b) Arm's length principle and its significance in transfer pricing

- **Arm's length principle (ALP):** This is a global standard component of transfer pricing rules in taxation that requires transactions between related companies (parties). The core idea is that the price for goods, services, or intellectual property should be equivalent to what unrelated companies would charge each other in similar circumstances.

- **Significance**

- i. Prevents profit shifting: Ensures that multinational enterprises (MNEs) do not manipulate prices and move their profits to low or non-tax jurisdictions.
- ii. Fair taxation: Ensures that each country receives its fair share of tax revenue from cross-border transactions.
- iii. Compliance with international standards: Aligns with OECD guidelines and local tax regulations, reducing the risk of disputes and penalties.

c) Comparison of CUP Method and TNMM

Aspect	Comparable uncontrolled price (CUP) method	Transactional net margin method (TNMM)
Definition	Compare the price charged in a controlled transaction to the price charged in a comparable uncontrolled transaction.	Compare the net profit margin of a controlled transaction to the net profit margin of comparable uncontrolled transactions.
Application	Used when reliable comparable uncontrolled transactions are available.	Used when reliable comparable transactions are scarce or when the CUP method is not applicable.
Focus	Focus on the price of goods or services.	Focus on the profitability (net margin) of the transaction.
Data requirements	Requires detailed data on comparable transactions.	Requires data on net profit margins of comparable companies or transactions.
Advantages	Simple and direct when comparables are available.	More flexible and applicable to a wider range of transactions.
Disadvantages	Limited applicability due to the difficulty of finding reliable comparables.	Rely heavily on subjective adjustments and may not always reflect true arm's length conditions.

d) Challenges Faced by Multinational Enterprises in Adhering to Transfer Pricing Regulations

- i. Complexity of regulations: Transfer pricing rules vary across jurisdictions, making compliance challenging for MNEs operating in multiple countries.

- ii. Documentation requirements: MNEs must maintain extensive documentation to demonstrate compliance with the arm's length principle, which is time-consuming and costly.
- iii. Finding reliable comparable: Identifying comparable transactions or companies for benchmarking purposes can be difficult, especially in unique industries.
- iv. Risk of double taxation: Disputes between tax authorities in different jurisdictions can lead to double taxation, increasing the financial burden on MNEs.
- v. Frequent regulatory changes: Transfer pricing regulations are frequently updated, requiring MNEs to continuously monitor and adapt their policies.
- vi. Penalties and disputes: Non-compliance can result in significant penalties, audits, and lengthy disputes with tax authorities.

e) Advance pricing agreement (APA) and its benefits

Advance pricing agreement (APA): An APA is a proactive agreement between a taxpayer and one or more tax authorities that determines the transfer pricing methodology for future transactions. It provides certainty on the application of the arm's length principle for a specified period.

Benefits to multinational enterprises

- i. Certainty and predictability: Reduces the risk of transfer pricing disputes and adjustments by providing clarity on acceptable transfer pricing methods.
- ii. Avoids double taxation: Ensures that transactions are taxed consistently across jurisdictions, minimizing the risk of double taxation.
- iii. Reduces compliance costs: Simplifies compliance by eliminating the need for frequent adjustments and documentation for covered transactions.
- iv. Improves relationships with tax authorities: Fosters a cooperative relationship between MNEs and tax authorities, reducing the likelihood of audits and disputes.
- v. Enhances financial planning: Provides stability for financial planning and budgeting by locking in transfer pricing arrangements for a set period.

Question 3

The integration of national economies and markets have increased substantially in recent years putting a strain on the international tax framework which was designed more than a century ago. The current international tax rules created opportunities for MNEs to shift profits to low or no tax locations where they have little or no economic activities. Thus, enabling them to achieve negligible effective tax rates on their worldwide income, to the detriment of the countries of their operation. In response, the OECD/G20 set up the BEPS 15 action plan project, the report of which was released in 2015.

Required:

Discuss BEPS, the BEPS 15 action plans and list the action plans that address the gaps and mismatches in the international tax system. **(20 Marks)**

Solution 3

Globalisation has created gaps and mismatches in international tax rules, allowing multinational enterprises (MNEs) to legally but aggressively shift profits to low or no-tax jurisdictions. However, international tax rules have not always kept up with developments in the world economy. By 2013, base erosion and profit shifting (BEPS) practices were conservatively estimated to cost countries between USD 100 billion and 240 billion annually in lost revenues, representing an equivalent to 4% to 10% of global corporate income tax revenue.

BEPS refers to tax planning strategies that exploit loopholes in tax rules to reduce tax costs by shifting profits to locations where little or no real activity takes place. The tax advantage derived is that profits are shifted from high tax jurisdictions to where they are lightly taxed, resulting in little or no overall corporate tax being paid.

The socio-economic consequence of such planning is that BEPS reduces the tax revenue of government and increases compliance cost. Additionally, it harms the people because, individual taxpayers must shoulder a greater share of the tax burden left behind by MNEs that pay low or no tax, thereby increasing the need for countries to cooperate to protect their sovereignty on tax matters.

In July 2013, in response to growing concerns expressed by political leaders, media outlets, and civil society around the world about tax planning by MNEs, the Organisation for Economic Co-operation and Development (OECD), at the request of the G20, published an Action Plan on Base Erosion and Profit Shifting (BEPS Action Plan, OECD, 2013). This report set a timeline of

2015 for developing tax measures that will ensure MNEs report profits and are taxed where economic activities are carried out and value is created.

The 15 Action Plans were organised around the following three main pillars:

- (i) The coherence of corporate tax at the international level;
- (ii) A realignment of taxation with substance; and
- (iii) Transparency, coupled with certainty and predictability.

The Action Plans call for the development of international standards to ensure the coherence of corporate taxation at the international level. This relates to the need to complement existing rules to prevent double taxation with rules that prevent double non-taxation. It also calls for targeted work in the area of the digital economy, which cuts across all the three pillars but also presents a number of specific unique issues.

The overall aim of the BEPS measures is to close the gaps in international tax rules that exacerbate BEPS. The 15 final outputs of the BEPS Project were delivered in October 2015, two years after its launch.

The 15 action plans on BEPS are as follows:

- Action 1: Addressing the tax challenges of the digital economy;
- Action 2: Neutralise the effects of hybrid mismatch arrangements;
- Action 3: Strengthen controlled foreign companies (CFC) rules;
- Action 4: Limit base erosion via interest deductions and other financial payments;
- Action 5: Counter harmful tax practices more effectively by improving transparency; including spontaneous exchange on rulings relating to preferential regimes;
- Action 6: Prevent treaty abuse through double non-taxation;
- Action 7: Prevent the artificial avoidance of PE status by developing changes to the definition of PE;
- Action 8: Develop rules on intangibles and updating guidance on cost contribution arrangements;
- Action 9: Develop rules on transferring risks and allocating capital to group members to prevent inappropriate allocation of returns;
- Action 10: Develop rules on high-risk or unusual transactions;
- Action 11: Establish methodologies to collect and analyse data on BEPS and the actions to address it;
- Action 12: Require taxpayers to disclose their aggressive tax planning arrangements;

- Action 13: Re-examine transfer pricing documentation to enhance transparency;
- Action 14: Make dispute resolution mechanisms more effective by reinforcing Mutual agreement procedure (MAP) and introducing arbitration; and
- Action 15: Developing a multilateral instrument to modify bilateral tax treaties.

Question 4

You are a tax consultant working for a multinational corporation (MNC) that operates in both Nigeria and the United States. The MNC is facing an audit from the tax authorities in Nigeria, who are questioning the transfer pricing methods applied to the transactions between the Nigerian subsidiary and the US parent company. The transaction in question involves the sale of customized machinery.

Required:

(a) Discuss the arm's length principle and explain its significance in transfer pricing. **(5 Marks)**

(b) Identify and explain the five comparability factors that should be considered in choosing comparables for benchmarking to determine whether the transfer prices applied by the MNC are at arm's length. **(15 marks)**

(Total 20 Marks)

Solution 4

(a) Explanation and significance of the arm's length principle

The arm's length principle is the foundation of transfer pricing rules. It requires that transactions between related or connected parties (associated enterprises) be conducted on terms similar to those that would have been agreed upon by independent parties under comparable circumstances.

Arm's length principle is significant in transfer pricing analysis for the following reasons:

- provide an appropriate basis for taxing transactions and dealings between related persons, corresponding to the economic activities deployed by taxable persons;
- ensures fair allocation of taxable profits across jurisdictions;
- prevents profit shifting and tax base erosion;
- provide a level playing field for both multinational enterprises and independent enterprises; and

(v) curtail illicit financial flows (IFFs) by acting as a tool to fight tax evasion that may arise through trade mispricing (over or under pricing of transactions between related persons).

(b) The five comparability factors that should be considered in choosing to benchmark whether the transfer prices applied by the MNC are at arm's length are:

(i) Characteristics of the property or services

This factor examines the specific attributes of the goods or services being transferred. Detailed aspects include:

- physical features: Attributes such as size, weight, design specifications, and technical capabilities;
- quality and reliability: Standards of durability, performance, and brand reputation;
- intellectual property: Involvement of patents, trademarks, proprietary technology, or special know-how; and
- economic value: Market valuation, rarity, and degree of customization.

Example: If the machinery has unique features like advanced robotics or specialised functions, these characteristics would significantly affect the transfer price and comparables for benchmarking should possess similar features.

(ii) Functions performed by the parties

This factor considers the roles and responsibilities undertaken by the parties involved in the transaction. It includes:

- research and development (R&D): Activities related to innovation, product improvement, and technology advancement;
- production and manufacturing: The actual processes of assembling, constructing, and creating the product;
- marketing and sales: Efforts to promote, market, and sell the product, including advertising and customer engagement;
- logistics: Handling of storage, transportation, and distribution activities; and
- management and support services: Involves administrative functions, managerial oversight, and strategic planning.

Example: The Nigerian subsidiary might be responsible for manufacturing the machinery, while the US parent company handles R&D and marketing efforts.

(iii) Contractual terms

Contractual terms define the agreed conditions of the transaction between the parties. Key elements include:

- pricing terms: The set price or pricing formula agreed upon for the transaction;
- payment terms: Conditions regarding payment schedule, currency, financing arrangements, and payment methods;
- delivery conditions: Shipping terms, delivery timelines, risk of loss during transportation, and any additional costs; and

- warranties and guarantees: Promises regarding product quality, performance, and after-sale services.

Example: The contract may stipulate that the machinery is sold at a predetermined price, with a 30-day payment period and a one-year warranty.

(iv) Economic circumstances

Economic circumstances evaluate the macroeconomic and microeconomic conditions that can affect the transaction. Important aspects involve:

- market conditions: Level of competition, supply and demand dynamics, and availability of alternative products;
- economic stability: Factors like inflation rates, currency exchange rates, and interest rates that influence the economic environment; and
- geographic location: Country-specific economic policies, trade regulations, and costs associated with labour, materials, and production.

Example: If Nigeria is experiencing moderate inflation and fluctuating exchange rates, these economic conditions would impact the assessment of the transfer price.

(v) Business strategies

Business strategies encompass the long-term goals and approaches adopted by the parties involved. These strategies may include:

- market penetration: Efforts to increase market share through competitive pricing, promotions, and aggressive sales tactics;
- product differentiation: Creating unique selling propositions through superior product quality, features, or branding;
- cost management: Strategies aimed at minimizing production costs and maximizing efficiency; and
- expansion plans: Plans to enter new markets, scale production, or invest in R&D for future growth.

Example: If the MNC's strategy is to penetrate the Nigerian market with competitively priced machinery to gain market share, this goal will influence the transfer pricing analysis.

By thoroughly analysing each of these five comparability factors, one can assess whether the transfer prices applied by the MNC are consistent with the arm's length principle, ensuring compliance with tax regulations and reducing the risk of transfer pricing adjustments by tax authorities.

SECTION C: ATTEMPT ANY TWO (2) QUESTIONS IN THIS SECTION

Question 5

Offshore judicial decisions can have far-reaching effects on global business practices, legal frameworks, and international relations. Their impact is often felt across multiple dimensions, including corporate governance, financial regulation, dispute resolution, and economic stability. As such, these decisions are closely monitored by stakeholders worldwide, including governments, corporations, and international organizations.

Required

- a. Critically assess the role of offshore judicial rulings in addressing tax evasion and avoidance. What are the challenges in enforcing such decisions across jurisdictions? **(5 marks)**
 - b. Discuss how offshore judicial decisions can influence the corporate governance structures of multinational corporations. Provide examples of cases where offshore rulings have led to significant changes in global compliance strategies **(5 marks)**
 - c. Evaluate the role of offshore judicial decisions in fostering international cooperation in areas such as tax information exchange and anti-corruption efforts. **(5 marks)**
- (Total 15 marks)**

Solution 5

(a) Role of offshore judicial rulings in addressing tax evasion and avoidance

Positive roles include:

- (i) Clarification of legal principles: Offshore judicial decisions can clarify complex legal issues, such as the interpretation of tax treaties or the application of anti-avoidance rules, aiding tax authorities in combating evasion and avoidance, and
- (ii) Deterrence: High-profile rulings against tax evasion or avoidance can deter MNEs and individuals from engaging in such practices.

Challenges ARE:

- (i) Jurisdictional conflicts: Offshore jurisdictions often have different legal frameworks and priorities, leading to conflicting rulings that hinder global enforcement efforts;
- (ii) Lack of transparency: Some offshore jurisdictions have opaque legal systems, making it difficult for other countries to access information or enforce rulings; and

(iii) Limited enforcement mechanisms: Even when offshore courts rule against tax evasion or avoidance, enforcing these decisions across jurisdictions can be challenging due to differences in legal systems and lack of cooperation.

(b) Influence of offshore judicial decisions on corporate governance structures

Impact on corporate governance include:

- (i) Compliance strategies: Offshore judicial decisions can force MNEs to revise their compliance strategies to align with legal requirements and avoid penalties, for example, rulings on transfer pricing or permanent establishment can lead to changes in how MNEs structure their operations;
- (ii) Risk management: MNEs may strengthen their risk management frameworks to address the legal and reputational risks associated with offshore rulings; and
- (iii) Board oversight: Boards of Directors may increase their oversight of tax planning activities to ensure compliance with evolving legal standards.

(c) Role of offshore judicial decisions in fostering international cooperation

Tax information exchange include:

- (i) Legal precedents: Offshore judicial decisions can set precedents that facilitate the exchange of tax information between jurisdictions. For example, rulings that uphold the validity of information requests under tax treaties or agreements like the Common Reporting Standard (CRS) can strengthen global transparency; and
- (ii) Pressure for compliance: High-profile rulings against tax evasion can pressure offshore jurisdictions to comply with international standards for information exchange.

Anti-corruption efforts include:

- (i) Asset recovery: Offshore judicial decisions play a critical role in recovering assets stolen through corruption, for example, rulings that freeze or repatriate illicit funds can support anti-corruption efforts; and
- (ii) Legal frameworks: Offshore courts can interpret and enforce international anti-corruption laws, such as the UN Convention against Corruption (UNCAC) fostering cooperation among jurisdictions.

Question 6

The **digital economy, as we know today**, refers to economic activities that rely on digital technologies, including the internet, data, and digital platforms. It encompasses e-commerce, online services, fintech, cloud computing, artificial intelligence, and other digital innovations that drive modern business and economic interactions.

Required:

- a. Discuss the concept of "digital presence" and its implications for international tax rule **(3 marks)**
- b. How do digital businesses exploit gaps in international tax rules to minimize tax liabilities? **(3 marks)**
- c. State five (5) features of digital economy. **(3 marks)**
- d. Explain the concept of "digital services taxes" (DSTs) and why some countries have implemented them. **(3 marks)**
- e. Discuss the role of the United Nations in shaping global tax policies for the digital economy. **(3 marks)**

Solution 6

(a) Concept of digital presence and Its Implications for international tax rules

Digital presence refers to the ability of a business to engage in economic activities and generate revenue in a country without having a physical presence there. This is particularly relevant for digital businesses, such as e-commerce platforms, streaming services, and software providers, which can operate globally through digital infrastructure.

Implications for international tax rules include:

- (i) Challenges traditional nexus rules: Traditional tax rules rely on physical presence (e.g., offices, factories) to establish taxing rights. Digital businesses can operate in a country without a physical presence, making it difficult for countries to tax them under existing rules;
- (ii) Erosion of tax base: Countries where digital businesses generate significant revenue may lose out on tax income if these businesses are not taxed locally; and
- (i) Need for New Rules: The digital economy has prompted reforms, such as the OECD's Two-Pillar Solution, to reallocate taxing rights and ensure that digital businesses pay taxes where they generate value, even without a physical presence.

(b) How digital businesses exploit gaps in international tax rules to minimize tax liabilities

Digital businesses often exploit gaps in international tax rules through the following strategies:

- (i) Profit shifting: They shift profits to low-tax jurisdictions by allocating intellectual property (IP) or other intangible assets to subsidiaries in those jurisdictions;
- (ii) Transfer pricing manipulation: They manipulate transfer pricing to allocate profits to low-tax jurisdictions by charging inflated fees for intra-group services or IP licensing;
- (iii) Lack of physical presence: They avoid creating a taxable presence (permanent establishment) in high-tax jurisdictions by operating remotely through digital platforms;

- (iv) Hybrid mismatches: They exploit differences in tax treatment between jurisdictions to achieve double non-taxation or reduced taxation; and
- (v) Tax treaty shopping: They structure their operations to take advantage of favorable tax treaties, even if they have minimal economic substance in the treaty country.

(c) Five features of the digital economy include:

- (i) Borderless operations: Digital businesses can operate and reach customers globally without the need for physical infrastructure in each market;
- (ii) Reliance on data: The digital economy thrives on the collection, analysis, and monetization of user data;
- (iii) Network effects: Digital platforms often grow exponentially as more users join, creating value through interconnectedness (e.g., social media, e-commerce platforms);
- (iv) Intangible assets: Digital businesses heavily rely on intangible assets like software, algorithms, and intellectual property; and
- (v) Scalability: Digital products and services can be scaled rapidly with minimal marginal costs, enabling rapid growth and global expansion.

(d) Concept of digital services taxes (DSTs) and why some countries have implemented them

Digital services taxes (DSTs) are levies imposed on revenues generated by digital businesses from activities such as online advertising, digital marketplaces, and user data monetization). DSTs are typically applied at a low rate (for example, 2-3%) on gross revenues.

Reasons for implementation include:

- (i) Addressing tax base erosion: DSTs aim to capture tax revenue from digital businesses that generate significant income in a country without a physical presence;
- (ii) Interim measure: Some countries have implemented DSTs as a temporary solution while waiting for a global consensus on digital taxation (e.g., the OECD's Two-Pillar Solution);
- (iii) Fairness: DSTs are seen as a way to ensure that digital businesses contribute to the tax base in countries where they operate and generate value; and
- (iv) Revenue generation: Governments view DSTs as a source of revenue to fund public services, especially in the face of declining tax revenues from traditional businesses.

Examples: Countries like France, Italy, and the UK have implemented DSTs, often targeting large tech companies like Google, Facebook, and Amazon.

(e) Role of the United Nations in shaping global tax policies for the digital economy

The United Nations (UN) plays a significant role in shaping global tax policies, particularly for developing countries, through the following initiatives:

- (i) UN Tax Committee: The UN Committee of Experts on International Cooperation in Tax Matters provides guidance and develops frameworks to address tax challenges, including those posed by the digital economy;
- (ii) Promoting inclusive dialogue: The UN ensures that developing countries have a voice in global tax discussions, which are often dominated by OECD member countries;
- (iii) Model tax conventions: The UN has developed its own Model Double Taxation Convention between Developed and Developing Countries, which includes provisions relevant to the digital economy;
- (iv) Capacity building: The UN provides technical assistance and capacity-building programs to help developing countries implement effective tax policies and combat tax avoidance; and
- (v) Advocating for equity: The UN emphasizes the need for fair and equitable tax rules that consider the unique challenges faced by developing countries in taxing digital businesses.

Question 7

The implementation of the recommendations contained in the reports on the 15 action plans of the OECD/G20 Base Erosion and Profit Shifting (BEPS) brought about a need to renegotiate the more than 3,000 bilateral treaties that were in force. Due to constraints in time and resources, it became necessary to adopt a process for a swift amendment to the agreements, without the need to expend resources renegotiating each treaty bilaterally.

(a) Identify the Action Plan that allows countries to swiftly modify their existing **bilateral tax treaties** to incorporate BEPS measures? **(5 Marks)**

(b) State or give five reasons why this Action plan is important? **(10 Marks)**

(Total 15 Marks)

Solution 7

(a) The relevant action plan is Action 15: Developing a Multilateral Instrument (MLI) to modify bilateral tax treaties:

Under the action plan, a Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("Multilateral Instrument" or "BEPS MLI") was developed, which allows countries to modify existing bilateral tax treaties in a synchronised and efficient manner to implement the tax treaty measures developed during the BEPS Project, without the need to expend resources renegotiating each treaty bilaterally. In November 2016, over 100 jurisdictions concluded negotiations on the BEPS MLI that will swiftly implement a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance by

multinational enterprises. The BEPS MLI already covers over 100 jurisdictions and entered into force on 1 July 2018. The BEPS MLI would save countries from the burden of bilaterally negotiating tax treaties, the “MLI” results in more certainty and predictability for businesses and a better functioning international tax system.

(b) Action Plan 15 is important because of the following reasons:

- i. enables countries to update multiple bilateral tax treaties simultaneously rather than renegotiating each treaty individually, saving time and resources;
- ii. ensures consistent implementation of BEPS measures across various tax treaties, promoting coherence in international taxation;
- iii. helps countries to swiftly address tax avoidance strategies by incorporating anti-abuse provisions, PE rules, and improved dispute resolution mechanisms;
- iv. provides countries the option to adopt provisions that suits their specific needs and treaty networks; and
- v. Promotes greater clarity and predictability in international tax rules.



CHARTERED INSTITUTE OF TAXATION OF NIGERIA
OCTOBER 2025: PROFESSIONAL EXAMINATION
PTX II: GOVERNANCE AND STRATEGIC TAX PLANNING
WEDNESDAY 15TH OCTOBER 2025

TIME: 3 HOURS

INSTRUCTION

ANSWER QUESTION 1 AND ANY 2 QUESTIONS IN SECTION B AND ANY OTHER 2 QUESTIONS IN SECTION C

SECTION A: COMPULSORY

Question 1

Panacea International Bank Incorporated is a publicly listed bank in Nigeria with operations across Africa, Asia, and Latin America. It has subsidiaries in insurance and pension fund administration. Due to its diversified and expansive operations, a robust corporate governance framework is essential to ensure transparency, accountability, and compliance with regulatory requirements in all jurisdictions where it operates.

Board structure and governance issues

The bank's Board of directors consists of 11 members, as follows:

- 8 Independent directors;
- 2 Executive directors (Chief Financial Officer and Chief Operating Officer); and
- 1 Executive Chairman/Chief Executive Officer (CEO).

Recently, Panacea Bank has faced regulatory scrutiny due to the following corporate governance lapses:

- Absence of female representation on the Board (violating Nigeria's Corporate Governance Code);

- Combined role of Executive Chairman and CEO (contrary to best practices);
- Breach of Central Bank of Nigeria's regulations due to its interests in insurance and pension fund administration; and
- Allegations of tax evasion and financial misreporting.

The Board has engaged your firm as Governance and Tax Consultants to assess and realign its corporate governance framework with regulatory requirements.

Required:

a) Discuss non-compliance issues by Panacea International Bank Incorporated in Nigeria and analyse the threats to effective corporate governance arising from these breaches. **(10 Marks)**

b) Identify specific corporate governance codes applicable to Panacea Bank and its subsidiaries (given its diversified interests in Nigeria) and recommend five (5) best practices to ensure legal and regulatory compliance. **(10 Marks)**

c) Discuss the roles and responsibilities of the Audit Committee of the Board of Panacea. International Bank Inc. with respect to sound corporate governance practices. **(10 Marks)**

(Total 30 Marks)

Solution 1

a). Effective corporate governance ensures ethical operations, transparency, and compliance with laws and regulations. Panacea International Bank's recent regulatory scrutiny highlights non-compliance with laws and regulations (NOCLAR), which undermines stakeholder trust and exposes the bank to legal, reputational, and operational risks. Below, we analyse the bank's breaches and their governance implications.

Identifiable non-compliance issues in Panacea Bank's key governance lapses include:

i. Violation of Nigeria's Corporate Governance Code

Absence of female representation on the Board: The Nigerian Code of Corporate Governance (2018) mandates gender diversity to promote inclusive decision-making. The all-male board signals exclusionary practices, potentially leading to groupthink and reduced stakeholder confidence.

ii. Combined role of Executive Chairman and CEO

Concentration of power: Best practices (e.g., OECD Principles, SEC Nigeria) discourage combining these roles to ensure checks and balances.

The current structure risks:

- Weak oversight: The CEO/Chairman dominates board agendas, undermining independent directors' ability to challenge management.
- Conflict of interest: The Chairman may prioritize executive interests over shareholder accountability.

iii. Breach of Central Bank of Nigeria (CBN) regulations

Unauthorised interests in insurance and pension administration: CBN restricts banks from owning non-core financial subsidiaries to prevent conflicts of interest and systemic risks. Panacea's structure may enable:

- Self-dealing: The bank could favor its subsidiaries in transactions (e.g., directing clients to its insurance arm).
- Regulatory arbitrage: Operating across jurisdictions complicates compliance with sector-specific rules.

iv. Tax evasion and financial misreporting

Legal and ethical violations: Misreporting finances and evading taxes attract penalties under Nigeria's Companies Income Tax Act and Financial Reporting Council Act. This suggests:

- Weak internal controls: Failure to detect or prevent fraud indicates governance deficiencies.
- Ethical culture deficit: Management may prioritize short-term gains over long-term sustainability.

Threats to effective corporate governance

i. Erosion of Stakeholder Trust

- Shareholders and investors may doubt the board's integrity, leading to capital flight.
- Regulators (e.g. CBN, SEC) could impose stricter sanctions, limiting operational flexibility.

ii. Legal and Financial Liabilities

- Fines and penalties: Tax evasion and regulatory breaches may result in significant monetary sanctions.
- Personal liability for directors: Nigerian law (e.g., CBN BOFIA Act 2020) holds board members accountable for gross negligence.

iii. Reputational Damage

- Loss of customer confidence: Depositors and clients may switch to competitors due to perceived instability.
- Difficulty attracting talent: Top professionals avoid organizations with poor governance records.

iv. Operational Disruptions

- Forced restructuring: The bank may need to divest non-compliant subsidiaries, disrupting revenue streams.
- Increased compliance costs: Implementing corrective measures (e.g., gender diversity policies, tax audits) strain resources.

v. Heightened Regulatory Scrutiny

- Enhanced supervision: Persistent breaches may trigger intrusive oversight, such as mandatory board reconstitution or frequent audits.
- Sector-wide repercussions: Other banks may face tighter regulations due to Panacea's misconduct.

In conclusion, Panacea Bank's governance failures - ranging from diversity gaps to regulatory breaches—threaten its stability and stakeholder trust. Addressing these requires board restructuring, stronger compliance frameworks, and ethical realignment to mitigate legal, reputational, and operational risks.

b) Applicable Corporate Governance Codes for Panacea Bank & Subsidiaries

Given its operations in banking, insurance, and pension administration, Panacea Bank must comply with the following Nigerian and international governance codes:

Banking Sector (Primary Operations)

i. CBN Code of Corporate Governance for Banks & Discount Houses (2014)

- Mandates board independence, separation of Chairman/CEO roles, and risk management frameworks.
- Prohibits banks from owning non-core subsidiaries without regulatory approval.

ii. Banks and Other Financial Institutions Act (BOFIA) 2020

Requires strict compliance with corporate governance, anti-money laundering (AML), and financial reporting standards.

Insurance Subsidiary

iii. National Insurance Commission (NAICOM) Code of Good Corporate Governance (2021)

Emphasises board diversity, policyholder protection, and solvency margins.

Pension Fund Administration Subsidiary

iv. Pension Reform Act (PRA) 2014 & PENCOM Guidelines

Ensures fiduciary responsibility, transparency in fund management, and separation of roles.

Cross-Sectoral & International Standards

v. Nigerian Code of Corporate Governance (NCCG) 2018

Applies to all Nigerian companies, mandating gender diversity, stakeholder engagement, and sustainability reporting.

vi. OECD Principles of Corporate Governance Global benchmark for board accountability, disclosure, and shareholder rights.

Five Best Practices to Ensure Compliance

i. Strengthen Board Composition & Independence

- Action: Appoint at least 30% female directors (per NCCG 2018) and separate Chairman/CEO roles (CBN Code).
- Rationale: Mitigates concentration of power and enhances decision-making diversity.

ii. Implement Robust Compliance Frameworks

- Action: Establish a Group Compliance Unit to monitor adherence to CBN, NAICOM, and PENCOM rules.
- Rationale: Prevents regulatory breaches like unauthorized subsidiary operations.

iii. Enhance Disclosure & Transparency

- Action: Publish annual governance reports aligned with NCCG 2018 and IFRS standards.
- Rationale: Builds stakeholder trust and reduces risks of financial misreporting.

iv. Regular Governance Audits & Training

- Action: Conduct quarterly audits and train directors on BOFIA 2020 and PRA 2014.
- Rationale: Ensures ongoing compliance and reduces ignorance-driven violations.

v. Stakeholder Engagement & Whistleblowing Mechanisms

- Action: Adopt whistleblowing policies (per SEC Nigeria Rules) and hold annual stakeholder forums.
- Rationale: Encourages early detection of fraud/tax evasion and aligns with OECD principles.

c). Roles and responsibilities of the Audit Committee of Panacea International Bank Inc. with respect to sound corporate governance practices: The Audit Committee is a critical component of corporate governance, ensuring transparency, accountability, and regulatory compliance in financial reporting and risk management. It acts as an independent oversight body, safeguarding stakeholders' interests by promoting ethical conduct and financial integrity.

Composition of the Audit Committee

- i. Independence:** Majority (or all) members must be independent non-executive directors to avoid conflict of interest.
- ii. Financial Expertise:** At least one member should be a financial expert (e.g., ICAN, ANAN, ACCA, or experienced in banking/finance).
- iii. Diversity:** A mix of skills (risk management, accounting, legal) enhances oversight effectiveness.

Key Roles and Responsibilities

Area of Responsibility Key Functions

- i. Financial Reporting Oversight - Reviews quarterly/annual financial statements before board approval.
 - Ensures compliance with IFRS/GAAP and regulatory standards.
 - Scrutinises management's significant accounting judgments (e.g., loan provisions, asset valuations).
- ii. Internal Controls & Risk Management - Evaluates effectiveness of internal controls to prevent fraud/misreporting.
 - Oversees risk management frameworks, particularly financial and operational risks.
- iii. Internal Audit Function - Approves appointment/removal of Chief Internal Auditor.
 - Reviews internal audit plans, findings, and management responses.
 - Ensures independence and objectivity of internal auditors.
- iv. External Auditor Relations - Recommends appointment/removal of external auditors.
 - Assesses auditor independence (e.g., non-audit services).
 - Approves audit fees and engagement terms.
- v. Regulatory & Legal Compliance - Monitors adherence to banking laws, Basel norms, and anti-money laundering (AML) regulations.
 - Ensures compliance with Central Bank guidelines.
- vi. Whistleblower & Ethical Conduct - Oversees whistleblower mechanisms for reporting fraud/misconduct.
 - Ensures protection against retaliation and promotes an ethical culture.
- vii. Reporting & Communication - Submits regular reports to the Board on audit findings and compliance issues.
 - Maintains minutes of meetings documenting key decisions.

Conclusion

The Audit Committee strengthens corporate governance by ensuring accurate financial reporting, robust risk management, and regulatory adherence. Its oversight fosters investor confidence, operational integrity, and long-term sustainability for Panacea International Bank Inc.

SECTION B: ANSWER ANY TWO (2) QUESTIONS FROM THIS SECTION

Question 2

The Board of Green Energy Solutions Ltd. has executed a corporate restructuring to adopt a formal holding company structure. The parent entity, now incorporated as Green Energy Holdings Plc (GHPLC), remains the listed vehicle on the Nigerian Exchange Limited (NGX) and is headquartered in Lagos. It oversees the following subsidiaries:

- A Pioneer-status solar manufacturer;
- A R&D-focused battery developer;
- A domestic EPC contractor; and
- A Ghana-based regional operator leveraging a favourable tax treaty. This structure optimises tax efficiency, ring-fences risk and enhances governance across the group's West African operations.

Required

- a) Using the case of Green Energy Holdings Plc. (GHPLC) as an example, explain the concept of holding company structure and analyse four advantages and disadvantages each, this structure presents for corporate governance and operational risk management
- b) Discuss the key tax planning advantages afforded by the holding company structure and analyse the significant tax-related challenges the group is likely to face from regulatory authorities in Nigeria and abroad.

(10 Marks)

(10 Marks)

(Total 20 Marks)

Solution 2

a). A holding company is a parent corporation that is established primarily to own and control a portfolio of subsidiary companies. It does not typically engage in its own day-to-day operational business activities (e.g., producing goods or providing services). Instead, its core function is to manage its investments, provide strategic direction, and exercise governance over its subsidiaries by virtue of owning a controlling interest in their equity shares.

This structure can be implemented in two primary forms:

- Pure Holding Company: Exists solely to manage investments in subsidiaries without conducting any independent business operations.
- Mixed Holding Company: Engages in its own business activities while also owning and controlling other subsidiary entities.

Advantages of a Holding Company Structure (Illustrated with GreenEnergy Holdings Plc)

Risk Management and Ring-Fencing of Liability

- i. Explanation: The principle of separate legal entity ensures that the liabilities of one subsidiary are legally distinct from those of the holding company and other subsidiaries.
- ii. GreenEnergy Illustration: If GreenGrid Electrification Projects Ltd. (the domestic EPC contractor) undertakes a failed project leading to significant debts or litigation, those liabilities are confined to that subsidiary. The valuable assets of GreenSolar Manufacturing Ltd. (with Pioneer status) and the holding company itself are protected from creditors of the failing subsidiary.

Operational Synergy and Strategic Focus

- i. Explanation: Each subsidiary can be managed by specialists focused on its specific market, technology, and operational challenges, leading to greater efficiency and expertise.
- ii. GreenEnergy Illustration: The management of GreenPower Storage Solutions Ltd. (R&D-focused) can concentrate on innovation without being distracted by the manufacturing or EPC operations. Furthermore, GHPLC can mandate group-wide synergies, such as requiring the EPC and regional operators to source solar panels from GreenSolar Manufacturing Ltd. at a preferential transfer price, boosting overall group profitability.

Strategic Flexibility and Ease of Divestment/Investment

- i. Explanation: The holding structure makes it simpler to buy, sell, or restructure specific business units without disrupting the entire corporation.
- ii. GreenEnergy Illustration: If GHPLC decides to exit the manufacturing business to focus on service provision, it can easily sell its shares in GreenSolar Manufacturing Ltd. to a third party. Conversely, it can attract strategic investment specifically for its high-growth battery R&D subsidiary without diluting ownership in its other stable operations.

Enhanced Corporate Governance and Control

- i. Explanation: The holding company board can establish and enforce group-wide policies on ethics, risk management, financial reporting, and compliance, ensuring a consistent standard across all operations.
- ii. GreenEnergy Illustration: GHPLC, headquartered in Lagos, can implement uniform governance frameworks for both its Nigerian subsidiaries and GreenEnergy West Africa Ltd. in Ghana, ensuring all entities adhere to the group's strategic objectives and regulatory requirements.

Disadvantages of a Holding Company Structure

- i. **Administrative and Compliance Complexity:** Each subsidiary is a separate legal entity requiring its own board meetings, statutory records, audited financial statements, and corporate tax filings. This significantly increases legal, accounting, and administrative costs for the group.
- ii. **Increased Regulatory Scrutiny:** The group becomes subject to complex regulations, particularly Transfer Pricing rules. Tax authorities like the FIRS will scrutinize transactions between subsidiaries (e.g., sale of panels from Manufacturing to Ghana) to ensure they are conducted at "arm's length" prices. Thin Capitalisation rules may also limit interest deductions on intra-group loans.
- iii. **Potential for Minority Shareholder Conflicts:** In subsidiaries that are not wholly-owned, conflicts can arise between GHPLC (the majority shareholder) and minority shareholders over dividend policies, reinvestment strategies, and the appointment of directors, potentially leading to disputes and litigation.
- iv. **Risk of Abuse and Reduced Transparency:** The parent company could potentially abuse its control by forcing subsidiaries to trade on non-commercial terms (e.g., dictating unfavourable transfer prices) or by imposing its chosen directors and policies, which may not be optimal for the subsidiary's specific market. This complex structure can also make it harder for external investors and analysts to assess the true financial health of the entire enterprise.

b. Discussion of Holding Companies' Tax Planning Advantages and Challenges

Tax Planning Advantages of a Holding Company Structure (Illustrated with Green Energy Holdings Plc)

- i. **Optimisation of Income Streams and Group Relief:** The holding company can act as a central treasury unit, receiving dividends from profitable subsidiaries and channeling them to fund loss-making or capital-intensive ones. Illustration- Tax-free dividend income from the profitable Green Solar Manufacturing Ltd. (potentially exempt under Nigerian law) can be used by GHPLC to provide equity funding or loans to Green Grid Electrification Projects Ltd. in its loss-making start-up phase, improving cash flow without immediate tax burdens.
- ii. **Isolation and Utilisation of Tax Shields:** Losses are contained within the subsidiary that incurs them. These losses can be carried forward to offset future taxable profits of the same subsidiary. Illustration- Initial trading losses incurred by Green Grid Electrification Projects Ltd. can be carried forward within that entity. Once it becomes profitable, it can use these accumulated losses to reduce its own corporate income tax liability, a benefit that might be lost if operations were merged in a single entity.
- iii. **Efficient harnessing of Specific Tax Incentives:** Different subsidiaries can be structured to maximize eligibility for specific tax incentives without "contaminating" the benefits with other non-qualifying activities. Illustration- GreenSolar Manufacturing Ltd. can fully enjoy its Pioneer Status tax holiday in Nigeria. Simultaneously, GWest Africa Ltd. in Ghana can leverage the favourable terms

of the Ghana-Nigeria tax treaty (e.g., reduced withholding taxes on dividends). A single merged entity would not be able to isolate these distinct advantages.

- iv. **Tax-Efficient Exit Strategies:** Disposing of a business by selling the shares of the subsidiary (rather than its assets) can be more tax-efficient under certain regimes, such as those offering participation exemptions on capital gains from substantial shareholdings. Illustration- If GHPLC decides to divest the R&D unit, selling the shares of GreenPower Storage Solutions Ltd. could potentially be exempt from capital gains tax, whereas selling its underlying patents and assets would likely attract immediate tax liabilities.

Challenges Faced in Tax Planning

Transfer Pricing Compliance

- i. **Challenge:** This is the foremost challenge. The Nigerian Federal Inland Revenue Service (FIRS) and the Ghana Revenue Authority will rigorously audit all inter-company transactions (e.g., management fees, sale of goods, IP licensing) to ensure they are priced at arm's length.
- ii. **Implication:** Failure to maintain contemporaneous and robust transfer pricing documentation can lead to significant tax adjustments, penalties, and double taxation.

Application of Controlled Foreign Company (CFC) Rules

- i. **Challenge:** Nigerian CFC rules are designed to counteract profit shifting to low-tax jurisdictions. If GreenEnergy West Africa Ltd. in Ghana is profitable and subject to a low effective tax rate, the FIRS may attribute its income back to GHPLC in Nigeria to be taxed immediately.
- ii. **Implication:** This can completely negate the tax efficiency sought by establishing operations in a treaty-favourable jurisdiction, requiring very careful structuring and substance creation.

Thin Capitalisation Rules

- i. **Challenge:** If GHPLC funds its subsidiaries excessively through debt (loans) rather than equity (share capital), tax authorities may reclassify the interest payments as non-deductible dividends.
- ii. **Implication:** deductions for interest expenses claimed by the subsidiary would be disallowed, leading to a higher taxable profit and a higher tax bill.

Double Taxation and Withholding Tax Complexities

Challenge: While Nigeria operates a territorial tax system, navigating the withholding tax implications on cross-border payments of dividends, interest, and royalties within the group is complex. The application of tax treaties (like the one with Ghana) must be carefully analysed to minimise withholding tax leaks.

Scrutiny under General Anti-Avoidance Rules (GAAR)

- i. Challenge: The entire holding structure must demonstrate commercial substance (e.g., real offices, employees, decision-making) in each jurisdiction.
- ii. Implication: If the structure is perceived by the FIRS as being primarily for tax avoidance with no commercial rationale, it can be challenged under GAAR, leading to the disregard of the structure and the imposition of taxes and penalties.

Question 3

In the realm of taxation, there are often fine lines between legitimate tax planning, tax avoidance, and tax evasion. These concepts are fundamental to strategic tax planning and are critical for a tax professional's ethical conduct.

Required:

- a) Explain the concept of 'tax planning'.
- b) Differentiate 'tax planning' from 'tax avoidance' and 'tax evasion', providing an example for each.
- c) Discuss the ethical responsibilities of a tax professional in dealing with these three concepts.

(4 Marks)

(8 Marks)

(8 Marks)

(Total 20 marks)

Solution 3

a) The Concept of Tax Planning

Tax planning is the lawful and legitimate arrangement of one's financial affairs to minimise tax liability. It involves making use of the various reliefs, allowances, exemptions, and incentives provided for by tax laws to reduce the amount of tax that would otherwise be payable. It is a proactive and forward-looking activity that is a core part of strategic financial management.

b) Differentiation and Examples

i. **Tax Planning:** This is a legal and ethical activity. It involves structuring transactions to take advantage of specific provisions in the tax code as intended by the legislature.

Example: A company invests in a new factory in a specific zone to qualify for a government-provided tax incentive, such as a pioneer status or a tax holiday.

ii. **Tax Avoidance:** This involves using legal loopholes or ambiguities in the tax laws to reduce tax liabilities, often in a manner that defeats the intended purpose of the law. While it is not illegal, it is generally considered against the spirit of the law and can carry significant reputational risks.

Example: A multinational company sets up a complex corporate structure in a low-tax jurisdiction with no real economic activity to shift profits from a high-tax jurisdiction using manipulated transfer pricing.

iii. **Tax Evasion:** This is the illegal act of deliberately not paying taxes. It involves fraudulent and dishonest practices, such as concealing income, falsifying records, or inflating expenses, with the intent to defraud the tax authorities. Tax evasion is a criminal offence punishable by fines and/or imprisonment.

Example: A business owner does not declare a portion of their cash sales to the tax authority and keeps two sets of books to hide the true income.

c) Ethical Responsibilities of a Tax Professional

A tax professional has a critical ethical responsibility to navigate the fine line between these concepts. Their duties include:

i. **Integrity:** They must be honest and straightforward. This means they cannot facilitate or assist in tax evasion under any circumstances.

ii. **Professional Competence:** They must have the technical knowledge to provide sound advice and understand the difference between legitimate tax planning and aggressive avoidance schemes.

iii. **Due Care:** They must advise clients on the risks associated with certain tax structures, including the risk of a tax authority challenging an avoidance scheme and the potential for reputational damage.

iv. **Legal and Professional Obligation:** A professional's duty is not just to the client but also to the law and the integrity of the tax system. They should decline to act on behalf of a client who insists on engaging in illegal or unethical practices.

Question 4

NexGen Technologies Nigeria Ltd. is a leading indigenous information technology company headquartered in Lagos, with operations across West Africa. The company specialises in software development, cloud computing solutions, and IT consulting services for corporate and government clients.

In recent years, NexGen has faced several governance and tax-related challenges: The Federal Inland Revenue Service (FIRS) has questioned the company's transfer pricing arrangements with its subsidiary in Ghana and shareholders have raised concerns about weak board oversight following a failed IT project that resulted in significant financial losses.

As the company prepares for an initial public offering (IPO) within the next two years, the Board of Directors has engaged your consultancy firm to review and strengthen its corporate governance framework and tax planning strategies.

Required:

a) Explain the fundamental principles that can enhance good corporate governance and sustainable development in NexGen Technologies and its host jurisdictions. **(10 Marks)**

b) Compare and contrast the roles of the internal auditor and external auditors in ensuring good governance at NexGen Technologies. **(10 Marks)**

(Total 20 Marks)

Solution 4

a). Fundamental Principles to Enhance Good Corporate Governance and Sustainable Development in NexGen Technologies

Good corporate governance is critical for NexGen Technologies to address its governance challenges (e.g., weak board oversight, tax disputes) and ensure sustainable growth, especially as it prepares for an Initial Public Offer (IPO). The following principles will strengthen its governance framework and align with best practices in its host jurisdictions (Nigeria, Ghana, and West Africa):

Accountability and Transparency

i. Board Accountability: The Board must oversee management effectively, ensuring decisions align with shareholder interests. Transparent reporting on financial performance, risks, and project failures (e.g., the failed IT project) is essential.

ii. Disclosure Requirements: Regular, clear disclosures on transfer pricing policies, related-party transactions, and tax strategies to regulators (e.g., FIRS) and stakeholders will mitigate legal risks.

Rule of Law and Regulatory Compliance

- i. Adherence to Tax Laws: Implement fair and compliant transfer pricing policies with the Ghana subsidiary, ensuring alignment with OECD/Nigeria's FIRS regulations to avoid penalties.
- i. Corporate Governance Codes: Comply with Nigeria's SEC Code of Corporate Governance (2018) and Ghana's Companies Act, ensuring board independence and audit committee effectiveness.

Ethical Conduct and Integrity

- i. Anti-Corruption Measures: Establish a Code of Ethics and whistleblowing mechanisms to prevent fraud and conflicts of interest.
- ii. Responsible Tax Practices: Avoid aggressive tax avoidance schemes; instead, adopt sustainable tax planning that balances compliance with business efficiency.

Stakeholder Inclusivity and Responsiveness

- i. Shareholder Engagement: Address investor concerns through regular AGMs, transparent communication on governance reforms, and risk management strategies.
- ii. Community Impact: Align IT solutions with social sustainability (e.g., digital inclusion initiatives in West Africa) to enhance corporate reputation.

Board Competence and Independence

- i. Skilled Directors: Appoint independent, tech-savvy directors with expertise in IT governance, risk management, and IPO readiness.
- ii. Performance Evaluation: Regular board assessments to ensure effectiveness in oversight and strategic guidance.

Risk Management and Internal Controls

- i. Project Governance: Strengthen oversight of IT projects via stage-gate reviews and external audits to prevent financial losses.
- ii. Tax Risk Framework: Proactively assess tax exposures (e.g., cross-border transactions) and engage tax consultants for dispute resolution.

Innovation and Long-Term Sustainability

- i. Technology Governance: Embed AI and cybersecurity oversight into board agendas to align innovation with risk management.
- ii. ESG Integration: Adopt Environmental, Social, and Governance (ESG) reporting to attract IPO investors focused on sustainability.

Sound Financial and Tax Governance

- i. IPO Readiness: Implement IFRS-compliant accounting and robust internal audits to meet listing requirements.
- ii. Transfer Pricing Documentation: Maintain detailed records to justify intercompany transactions and avoid FIRS audits.

Conclusion

By embedding these principles, NexGen Technologies will strengthen governance, restore stakeholder trust, and position itself as a sustainable, compliant, and attractive investment ahead of its IPO. This framework also ensures alignment with Nigeria's National Corporate Governance Policy and Ghana's regulatory standards, fostering cross-border operational resilience.

b). Good governance at NexGen Technologies relies on both internal and external auditors, who play complementary but distinct roles in ensuring accountability, transparency, and compliance. Below is a structured comparison of their functions, similarities, and differences:

Roles of Internal Auditors

Internal auditors are employees or outsourced professionals who focus on operational efficiency, risk management, and internal controls. Their role is continuous and advisory, ensuring governance mechanisms function effectively.

Key Responsibilities include:

- i) Risk Management: Assess and improve risk frameworks to mitigate financial, operational, and compliance risks (e.g., IT project failures).
- ii) Internal Controls: Evaluate controls over financial reporting, IT systems, and procurement to prevent fraud.
- iii) Compliance Monitoring: Ensure adherence to company policies, Nigerian laws (e.g., FIRS tax regulations), and international standards.
- iv) Operational Audits: Review business processes (e.g., software development lifecycle) to enhance efficiency.
- v) Governance Support: Advise the board and management on governance gaps (e.g., weak board oversight).

Reporting Line:

- i) Reports to the Audit Committee and senior management.
- ii) Provides real-time feedback for corrective actions.

Roles of External Auditors

External auditors are independent third-party firms (e.g., PwC, KPMG) hired to verify financial statements and provide an objective opinion for stakeholders. Their role is periodic and regulatory.

Key Responsibilities:

- i) Financial Statement Audit: Examine NexGen's financial records to ensure compliance with IFRS and Nigeria's Companies and Allied Matters Act (CAMA).
- ii) Material Misstatement Detection: Test transactions for fraud or errors affecting IPO readiness.
- iii) Internal Control Evaluation: Assess controls but do not design them (unlike internal auditors).
- iv) Audit Opinion: Issue a public report (unqualified/qualified) to shareholders, regulators, and potential IPO investors.
- v) Tax Compliance Review: Verify transfer pricing documentation for FIRS compliance.
- vi) Reporting Line: Reports to shareholders and regulators.
- vii) Limited interaction with daily operations; focuses on historical data accuracy.

Comparison: Similarities and Differences

Aspect	Internal Auditors	External Auditors
Objective	Improve governance, risk, and controls.	Verify financial statement accuracy.
Scope	Broad (operations, compliance, IT, fraud).	Narrow (financial records, internal controls over financial reporting).
Independence	Independent of management but employed by the company.	Fully independent (external firm).
Frequency	Continuous (ongoing audits).	Annual (aligned with financial year-end).
Reporting Audience	Management, Audit Committee.	Shareholders, SEC, FIRS, IPO investors.
Regulatory Mandate	Not legally required but best practice.	Legally required for public companies (post-IPO).

Focus Governance	on	Proactive (recommends improvements).	Reactive (verifies compliance).
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How Both Auditors Enhance Governance at NexGen

Internal Auditors:

- Mitigate risks from failed IT projects by reviewing project governance.
- Strengthen tax compliance ahead of IPO through proactive audits.
- Advise the board on governance weaknesses (e.g., oversight gaps).

External Auditors:

- Boost investor confidence by certifying IPO financial statements.
- Ensure FIRS compliance in transfer pricing to avoid penalties.
- Provide credibility to sustainability reports (ESG disclosures).

Conclusion

While internal auditors act as continuous governance watchdogs, external auditors provide independent validation for stakeholders. Both are essential for NexGen's IPO success:

- i. Internal audit ensures operational resilience and risk mitigation.
- ii. External audit safeguards financial integrity, critical for regulatory and investor trust.

By leveraging both functions, NexGen can achieve transparency, compliance, and sustainable growth in line with Nigeria's SEC Code and global best practices.

SECTION C: ANY TWO (2) QUESTIONS FROM THIS SECTION

Question 5

Miller Nigeria Limited is experiencing high staff turnover. A recent staff survey revealed that high personal tax burden is a key reason for attrition, especially among mid-level managers. The Board is considering a comprehensive overhaul of the compensation policy but is concerned about

the potential scrutiny from the Federal Inland Revenue Service (FIRS). Furthermore, the Company Secretary has warned that any new benefits for directors must comply with strict disclosure requirements under CAMA 2020.

You are required to:

Advise the Board on a holistic and sustainable compensation strategy that addresses the following objectives and simultaneously: improving employee retention by increasing net disposable income; managing the company's overall tax cost without increasing risk; ensuring full compliance with corporate governance and disclosure laws.

(15 Marks)

Solution 5

To: The Board of Directors, Miller Nigeria Limited

From: Tax Adviser

Date: 5th September, 2025

Subject: Strategic Advisory on Optimising Employee Compensation for Tax Efficiency

1.0 Introduction and Executive Summary

The Board has sought advice on structuring employee compensation strategies to optimise the tax liabilities of both Miller Nigeria Limited ("the Company") and its employees. This objective, while fiscally prudent, must be pursued within a robust governance framework that ensures full compliance with the provisions of the Companies and Allied Matters Act (CAMA) 2020, the Finance Act(s), the Personal Income Tax Act (PITA), and the Pension Reform Act (PRA) 2014.

This advisory outlines a strategic, multi-faceted approach. The core principle is to shift the compensation structure from purely cash-based remuneration to a tax-efficient mix of benefits, allowances, and long-term incentives. This strategy can legally reduce the company's liability to Pay-As-You-Earn (PAYE) and Tertiary Education Tax (TETFund), while simultaneously increasing the net disposable income of employees, thereby enhancing morale and retention. (TETFUND)

2.0 Governance and Legal Framework

Before delving into specific strategies, it is imperative to establish the governing principles:

- i) Board Approval: Any change to the compensation policy must be formally approved by the Board and minuted, demonstrating informed decision-making.
- ii) Policy Documentation: All tax-efficient benefits must be codified in a formal Employee Compensation Policy or Staff Handbook to ensure consistency, fairness, and audit defence.

iii) Arm's Length Principle: Remuneration for directors and key management personnel must be justifiable as commercially reasonable to avoid challenges by the Federal Inland Revenue Service (FIRS) under transfer pricing or thin capitalisation rules.

iv) Disclosure: Certain benefits, especially for directors, may require disclosure in the Company's annual financial statements in line with IFRS and CAMA requirements.

3.0 Strategic Recommendations for Tax-Efficient Compensation

The following strategies are recommended, categorised by their primary beneficiary.

3.1 Strategies Primarily Beneficial to the Company (Reducing Cost-to-Company)

i) Pension Contributions: Employer contributions to approved Pension Fund Administrator (PFA) are a deductible expense for Companies Income Tax (CIT) purposes but are not treated as taxable income in the hands of the employee up to the statutory limit. This reduces the Company's CIT and TETFund liability.

ii) Staff Training and Development: Costs incurred for training and upgrading the skills of employees are fully tax-deductible for the Company. Investing in this area improves human capital without creating a taxable benefit for the employee.

iii) Restructured Leave Allowance: Rather than a large, taxable annual lump sum, consider a monthly pro-rata accrual that is utilised to offset costs for official company-approved leave trips. If structured correctly, this can be treated as a business expense for the company.

3.2 Strategies Beneficial to Both Company and Employee (Win-Win)

i) Non-Cash Benefits (Fringe Benefits): Certain benefits provided to all employees can be exempt from tax in the hands of the employee and remain deductible for the company. These include:

Reframe as: and recorded in the minutes' book. This will demonstrate documenting with a view to making informed decisions.

- Housing: Provision of residential accommodation (subject to the official value rules in PITA).
- Transportation: Provision of dedicated staff buses or transport allowances up to the FIRS-approved tax-exempt threshold.
- Meal Subsidies: Operation of a canteen or provision of lunch vouchers.
- Health Insurance: Premiums paid for group health insurance schemes are tax-deductible for the company and not taxable on the employee.

ii) Retirement Gratuity: Establishing a formal, approved gratuity scheme. Accruals are a deductible expense for the company, and the eventual payout is largely tax-free for the employee upon retirement.

3.3 Strategies Primarily Beneficial to the Employee (Enhancing Net Pay)

i. Loan Agreements: Providing low-interest or interest-free staff loans (e.g., for housing, car purchase) under a formal agreement. The benefit is the interest savings, which can be more tax-efficient than a higher gross salary used to service a commercial loan. Note: The official interest rate must be considered to avoid a taxable benefit.

- ii. Reimbursable Allowances: Moving from fixed allowances to reimbursed expenses for costs wholly, exclusively, and necessarily incurred in the performance of duties (e.g., travel, entertainment with clients). These reimbursements are not taxable if backed by receipts and a robust expense policy.
- iii. Flexible Work Arrangements: Supporting remote work can allow employees to claim legitimate home-office expenses against their income, reducing their overall tax burden.

Utilising tax-advantaged compensation structures

- i. Bonuses and performance incentives: Structure performance bonuses and incentives in a way that they may be tax-deductible for the company. Ensure they are related to coherent performance metrics.
- ii. Retirement contributions: Offer retirement savings plans (e.g., contributory pension schemes) that not only provide tax deferrals for employees but also allow the company to deduct contributions made on behalf of employees.
- iii. Options and equity compensation: Consider stock option plans or employee equity ownership plans, which can defer taxes for employees until they realise a gain (i.e., when they sell their shares).

Fringe benefits and allowances

- i. Tax-Free Benefits: Offer fringe benefits that are exempt from taxation, such as:
 - Health insurance premiums;
 - Meal vouchers; and
 - Transportation to and from office.
- ii. Education and Training: Sponsoring further education or training for employees (such as tuition reimbursements) can often be tax-deductible for the company and provide tax-free benefits to employees, provided they meet certain criteria.

Flexible benefit plans

Cafeteria plans: Implementing flexible benefits (or cafeteria plans) can allow employees to choose the benefits that best suit their needs. This personalised approach can lead to tax savings if employees select items that are tax advantaged.

Payroll taxes optimisation

- i. Salary structuring: Evaluate the balance between salary and benefits. For instance, consider a lower cash salary combined with enhanced benefits that might incur lower payroll taxes.
- ii. Employee contributions: Allow employees to make contributions toward certain benefits (e.g., health insurance premiums) through salary sacrifices to reduce taxable income.

Tax-Effective work arrangements

- i. Remote work allowances: If applicable, provide tax-efficient allowances for employees who work remotely. This could include utilities or internet costs that may be tax-deductible under certain conditions.
- ii. Commuting and travel allowances: Implement travel compensations that fall below the thresholds for taxation while encouraging efficient commuting choices.

Regular tax compliance checks

- i. Tax reviews: Conduct regular reviews of the compensation strategy and fringe benefits to ensure compliance with the latest tax laws and maximize allowable deductions.
- ii. Engage tax professionals: Consult with experienced tax advisors to remain updated on any potential tax changes that could impact employee compensation strategies.

Incentivising long-term employment

- i. Retention bonuses: Provide bonuses tied to long-term employment that can be structured to be tax-efficient and encourage employee loyalty.
- ii. Deferred compensation plans: Explore deferred compensation arrangements that can be tax-efficient for both the company and the employees, providing that these plans comply with current regulations.

Employee education and training

- i. Financial literacy programs: Promote financial education regarding compensation structures to employees, helping them understand the value of their total compensation package, including tax implications.
- ii. Communication on tax benefits: Ensure transparency about the tax benefits associated with different parts of the compensation strategy. This can help to enhance employee satisfaction regarding their compensation packages.

4.0 Implementation Roadmap and Risk Mitigation

To achieve this objective effectively, the Board is advised to:

- i. Conduct a Cost-Benefit Analysis: Model the current "cost-to-company" for key employees under the existing structure versus the proposed new structure to quantify the savings for both parties;
- ii. Engage a Pension Fund Administrator (PFA) and Health Maintenance Organisation (HMO) to get structured proposals;
- iii. Revise Governing Documents: Instruct Legal/HR to draft amendments to the Employment Contracts and Staff Handbook to incorporate the new benefits policy;
- iv. Communicate Transparently: Roll out the new strategy with clear communication to employees, highlighting the increase in their net take-home pay and overall benefits package; and
- v. Maintain Meticulous Records: Ensure all transactions, especially reimbursements and benefit provisions, are properly documented, receipted, and able to withstand regulatory scrutiny.

5.0 Conclusion

Optimising employee compensation for tax purposes is a sophisticated but highly effective strategy that aligns corporate financial goals with employee welfare. By adopting a structured, policy-driven approach as outlined above, Moteco Nigeria Limited can achieve significant tax savings, improve its competitive edge in talent attraction and retention, and reinforce its reputation as a compliant and strategically astute corporate citizen.

We are available to present these recommendations in greater detail and assist with the implementation process.

Respectfully submitted,

Dory Bernard
Chartered Tax Advisor

Question 6

The board of Secured-world Security Wires Company is concerned about maintaining strategic control, ensuring ethical conduct and attracting further investment amidst allegation of unethical information handling in one of its sections. To balance efficiency and maintain the company's key objectives, the board needs to look critically into the core elements of its enterprise governance.

You are required to:

Discuss:

- i. The nature of enterprise governance **(1 Mark)**
 - ii. The key components of enterprise governance **(8 Marks)**
 - iii. The core elements of enterprise governance **(6 Marks)**
- (Total 15 marks)**

Solution 6

a. The nature of enterprise governance

Enterprise governance refers to the framework of rules, practices, and processes by which an organisation is directed and controlled. It involves a set of relationships between the organisation's management, its board, shareholders, and other stakeholders. The primary objective of enterprise governance is to ensure that the organisation operates in a manner that is transparent, accountable, and aligned with its strategic goals.

b. Key components of enterprise governance

Board of directors: The board plays a pivotal role in governance by overseeing the management's activities, making strategic decisions, and ensuring that the organisation adheres to its ethical standards and legal obligations;

Management: The management team is responsible for implementing the board's decisions and running the organisation's day-to-day operations. Effective governance requires a clear delineation of responsibilities between the board and management;

Stakeholders: Stakeholders include shareholders, employees, customers, suppliers, and the broader community. Their interests and expectations must be considered in the governance process to ensure fairness and transparency.

Policies and procedures: Governance is guided by a set of policies and procedures that establish the organization's ethical standards, risk management practices, and compliance requirements.

c.. The core elements of enterprise governance

- Structure: Governance structures define roles and responsibilities. This includes boards of directors with committees (e.g., audit committee) responsible for oversight;
- Processes: The mechanisms through which decisions are made within the enterprise; these include decision-making protocols that ensure input from relevant parties;
- Policies: Policies set forth by organisations establish guidelines regarding ethical behaviour (codes of conduct), risk management frameworks (risk appetite statements), compliance mandates (legal obligations), etc.
- Control Mechanisms: Checks and balances such as internal audits ensure adherence to policies effectively mitigating risks associated with operational inefficiencies or misconduct.

Question 7

Non-compliance with laws and regulations (NOCLAR) poses significant threats to effective governance.

You are required to:

- a. Discuss the responsibilities of the board of directors with respect to non-compliance with laws and regulations (NOCLAR). **(10 Marks)**
- b. Highlight the consequences of NOCLAR to the board. **(5 Marks)**

(Total 15 marks)

Solution 7

a. Responsibilities of the Board on Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations (NOCLAR) refers to any act of omission or commission by an organization or its employees that violates legal or regulatory requirements. This can include financial misconduct, environmental breaches, corruption, fraud, tax evasion, or health and safety violations. NOCLAR poses serious risks to an organisation's integrity, financial stability, and reputation.

The **board of directors**, as the highest governing body of an organisation, has a critical responsibility to ensure compliance with legal and regulatory frameworks. Their role in preventing and addressing NOCLAR is essential to maintaining ethical governance, stakeholder trust, and long-term sustainability.

Key Responsibilities of the Board on NOCLAR

Establishing a Compliance Culture

- i) The board must promote a culture of **ethics, integrity, and compliance** within the organisation.
- i) Encouraging employees and management to act lawfully and report potential violations

Oversight and Accountability

- i) The board is responsible for overseeing the organization's legal and regulatory compliance programs.
- ii) It must hold executives and senior management accountable for ensuring compliance

Implementing Robust Compliance Frameworks

- i) The board should ensure that **internal policies, controls, and reporting mechanisms** are in place to detect and prevent NOCLAR.
- ii) This includes **whistleblower protection programs**, independent audits, and legal risk assessments.

Risk Management and Due Diligence

- i) Identifying legal and regulatory risks as part of enterprise **risk management (ERM)** processes.
- ii) Ensuring that risk assessments are **regularly reviewed and updated** to address evolving regulatory requirements.

Independent Audit and Internal Controls

- i) Engaging independent auditors to assess the organization's financial and operational compliance.
- ii) Strengthening internal controls to prevent fraud, bribery, and financial misstatements.

Prompt Response to Violations

- i) If NOCLAR is identified, the board must **take swift and appropriate action** to investigate and remediate the issue.
- ii) This includes notifying regulators, cooperating with authorities, and enforcing disciplinary actions against responsible parties.

Legal and Regulatory Reporting Obligations

- i) Ensuring that the organization **adheres to reporting obligations** and communicates transparently with regulators, investors, and the public.
- ii) Avoiding concealment of misconduct, which can result in severe legal and reputational consequences.

Board Training and Continuous Education

- i) Board members must stay informed about **changing legal and regulatory landscapes** that affect the organization.
- ii) Regular **compliance training** helps directors understand their legal obligations and the implications of non-compliance.

Stakeholder Engagement and Ethical Leadership

- i) Engaging with key stakeholders, including government agencies, investors, and employees, to ensure trust and accountability.
- ii) Leading by example—board members must demonstrate ethical decision-making and set the tone for responsible governance.

b. Consequences of NOCLAR for the Board and Organisation

Failure to address NOCLAR effectively can lead to:

- i) **Legal Sanctions & Fines** – Regulatory penalties, lawsuits, or criminal charges.
- ii) **Financial Losses** – Investor withdrawals, reputational damage, and operational disruptions.
- iii) **Reputational Damage** – Loss of public trust, reduced stakeholder confidence, and brand deterioration.
- iv) **Board Liability** – Directors may be held personally accountable for negligence in preventing NOCLAR.

v) **Regulatory Scrutiny** – Increased oversight and potential restrictions on business operations.

Conclusion

NOCLAR is a significant governance issue that requires proactive board involvement. The board must ensure the organisation adheres to all relevant laws and regulations, fosters a culture of compliance, and takes decisive action against non-compliance. By implementing strong oversight mechanisms, risk management strategies, and ethical leadership, the board can protect the organization from legal, financial, and reputational harm while promoting sustainable and responsible business practices.



CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2025: PROFESSIONAL EXAMINATION

PTX II: TEST OF PROFESSIONAL COMPETENCE

THURSDAY, 16TH OCTOBER, 2025

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

Exhibit 1: About you and your employer

You are Amina Sule, a Trainee Consultant with Adebisi & Mohammed (Chartered Tax Practitioners & Advisory Services). You are reporting directly to Mr. Chinedu Adebisi, FCTI, the Founding Partner and Head of the Corporate Tax & International Tax Advisory Unit.

Your responsibilities include:

- Researching complex tax issues and preparing detailed technical memoranda and opinions for client meetings;
- Assisting clients with tax compliance matters, including the review and finalisation of Company Income Tax, Value Added Tax, and Personal Income Tax returns;
- Advising clients on tax-efficient business structures, mergers, acquisitions, and restructuring exercises;
- Keeping abreast of changes in Nigerian tax laws, regulations, and public circulars from the Federal Inland Revenue Service (FIRS), and analysing their impact on the firm's clients; and

- Preparing reports and presentations for client engagements, ensuring all advice is substantiated by relevant sections of tax laws.

Exhibit 2: Client Profile – Chief Bola Adekoya & Bola Foods Nigeria Limited

Background:

Chief Bola Adekoya, a 68-year-old Nigerian citizen and tax resident, is the founder and Managing Director of Bola Foods Nigeria Limited. The company was incorporated on April 10, 2010. Its principal activity is the processing, packaging, and distribution of staple food products (Garri, Rice, Beans). The company operates from its factory in Ibadan and supplies retailers across South-West Nigeria.

Chief Adekoya wishes to retire by December 31, 2025, and hand over the business to his children in a structured and tax-efficient manner. He is also exploring opportunities for business expansion.

Key Individuals and family dynamics

- Chief Bola Adekoya: Founder and Managing Director. He owns 80% of the company and is actively involved in its daily operations.
- Tunde Adekoya (Son, Age 40): Lives in Lagos. Currently the Operations Manager. He is keen on expanding the business and has identified potentials in other West African markets.
- Funke Adekoya-Davis (Daughter, age 38): A Certified Accountant (ACCA) who has lived and worked in the UK for the past 12 years. She is interested in returning to Nigeria to run the finance and strategy side of the business. She is currently a non-resident of Nigeria for tax purposes.
- Seyi Adekoya (Son, age 35): Lives in Accra, Ghana, where he runs a small importing business. He is hesitant to return to Nigeria full-time but is interested in having a financial stake in the family business and assisting with expansion into Ghana.

Bola Foods Nigeria Limited – Financial summary (year ended December 31, 2024)

Description	Amount (₦)
Turnover	580,000,000
Profit before tax	145,000,000
<i>Add: Disallowed expenses (entertainment)</i>	5,000,000
<i>Less: Capital allowances (see below)</i>	(25,000,000)
Taxable profit	125,000,000
Companies income tax (CIT) @ 30%	37,500,000
Tertiary education tax (TET) @ 3% of PBT	4,350,000

Capital allowances summary

- Unabsorbed capital allowances brought forward (1/1/2024): ₦20,000,000
- Capital allowances for the year (2024): ₦5,000,000
- Total available for 2024: ₦25,000,000
- Unabsorbed capital allowances carried forward (31/12/2024): Nil

Company assets (at Cost, as of December 31, 2024)

- Factory building (Ibadan, acquired 2011): ₦120,000,000
- Plant & machinery (acquired at various times): ₦280,000,000
- Delivery vans (5 units): ₦45,000,000

- Land (Lekki, Lagos, purchased in 2022 as an investment): ₦90,000,000. This land is currently unused and has been held as a capital asset.

Shareholding structure:

- Chief Bola Adekoya: 4,000,000 shares (80%)
- Tunde Adekoya: 1,000,000 shares (20%)

UNSEEN

Exhibit 3: The Requirement

You are Amina Sule. Your client, Chief Bola Adekoya, has met with your Partner, Chinedu Adebisi, to discuss his retirement and ambitious plans for the future of Bola Foods. Chief Adekoya wants to ensure the business is passed on to his children in the most tax-efficient manner while also facilitating international expansion. He is considering several complex options and requires your firm's expert, substantiated advice.

Mr. Adebisi has tasked you with preparing a comprehensive report to be sent to Chief Adekoya. The report must detail the Nigerian tax implications of all his proposals and provide clear, well-reasoned recommendations on the most tax-efficient way to achieve his objectives.

The following exhibits are provided to assist you:

- Exhibit 2: Client Profile (Already on file);
- Exhibit 4: File Note of meeting with Chief Bola Adekoya (Date: September 15, 2025); and
- Exhibit 5: Email from Chief Adekoya regarding expansion plans (Date: September 20, 2025)

Requirement

Prepare a report to Chief Bola Adekoya advising on the tax implications of his plans and recommend the most tax-efficient way to achieve his objectives. Your report **MUST** include:

1. An executive summary.
2. A detailed analysis of each issue, demonstrating assimilation of information, application of law, and logical reasoning.
3. Substantiated conclusions and relevant advice for each proposal and an overall integrated strategy.
4. Treatment of any ethical issues.
5. Chief Adekoya requires clarity on:
 - a. (i) The Nigerian withholding tax obligations for Bola Foods; and
(ii) The personal income tax implications for Funke in Nigeria and the UK;
 - b. Company income tax and financials for Bola Foods Limited: A detailed breakdown of the total CIT and TET computation for the year ended December 31, 2024, to ensure understanding and aid in future tax planning.
6. All detailed computations must be attached as appendices.

Exhibit 4: File Note of Meeting with Chief Bola Adekoya

Present: Chinedu Adebisi (Partner)

Amina Sule (Trainee Consultant)

Chief Bola Adekoya (Client)

Date: September 15, 2025

Time: 11:00 AM

Key discussion points

1. Retirement and succession planning

- Chief Adekoya confirmed his intention to retire effective December 31, 2025. He wishes to transfer his 80% shareholding to his three children. His proposed allocation is:
 - Tunde Adekoya: 40%
 - Funke Adekoya-Davis: 40%; and
 - Seyi Adekoya: 20%.
- He is unsure of the best method. He wants to know the immediate and long-term tax implications of:
 - Option A: Gifting the shares outright via a Deed of Gift; and
 - Option B: Selling the shares to the children at a nominal value (e.g., ₦1 per share).

He is also concerned about potential stamp duty liabilities on the share transfer.

2. International expansion – Ghana

- Tunde has conducted a market study and identified a significant demand for their products in Accra, Ghana.
- They plan to invest approximately ₦50 million in the first year to establish a distribution network. This will involve renting a warehouse and hiring local staff.
- Advice on the optimal structure from a Nigerian tax perspective:
 - Option A: Operate as a Branch of Bola Foods Nigeria Limited; and
 - Option B: Incorporate a separate Subsidiary company in Ghana.
- Mr. Adebisi highlighted the importance of transfer pricing considerations for any intra-group transactions (e.g., sale of goods from Nigeria to the Ghanaian operation).

3. Disposal of non-core asset (Lekki Land)

- The company has decided not to build a new factory on the Lekki land. A property developer has offered to purchase the land for ₦220 million.
- Chief Adekoya needs to understand the tax consequences of this disposal for the company. He asked if there are any exemptions or reliefs available.

4. Cross-border consultancy

- To facilitate the Ghana expansion and improve the company's financial systems, they intend to hire Funke Adekoya-Davis (based in the UK) as a consultant for the first six months of 2026.
- Her consultancy fee will be ₦15 million for the period.
- Chief Adekoya requires clarity on:
 - The Nigerian withholding tax obligations for Bola Foods;
 - The personal income tax implications for Funke in Nigeria and the UK; and
 - The company income tax for Bola Foods Limited

Exhibit 5: Email from Chief Bola Adekoya

From: Bola Adekoya bola.adekoya@bolafoods.com

To: Chinedu Adebisi c.adebiyi@adebiyimohammed.com

Date: Monday, September 20, 2025 4:15 PM

Subject: Re: Proposed business restructuring

Dear Chinedu,

Thank you immensely for the insightful meeting we had last week.

I have been discussing your initial points with my children. We are now also considering a more radical, long-term option for the group's structure. Instead of just a simple gift of shares in the existing company, would it be more advantageous to:

Option C: Create a new holding company structure

1. Incorporate a new Nigerian company ("Bola Holdings Ltd").
2. I would transfer my 80% shareholding in Bola Foods Nigeria Ltd to Bola Holdings Ltd in exchange for shares in the new holding company.
3. My children would also transfer their 20% to the holding company for shares.
4. Bola Holdings Ltd would then own 100% of Bola Foods Nigeria Ltd.
5. The new Ghana operations would be set up as a subsidiary of Bola Holdings Ltd, not Bola Foods.

6. I would then gift my shares in Bola Holdings Ltd to my children.

Please advise on the tax implications of this holding company model compared to the simple gift of shares (Option A). We are particularly interested in:

- The tax cost of the initial transfer to the holding company;
- The future flexibility for dividend distributions and further international expansion; and
- Any potential stamp duty advantages or disadvantages.

Your comprehensive analysis on all these points will be highly valued.

Best regards,

Bola Adekoya
Chief Bola Adekoya, MD
Bola Foods Nigeria Limited

Marking Key

Notes on the Marking Key

Candidates are required to develop a report comprising:

- An executive summary;
- A main report detailing the analysis, conclusions, and recommendations; and
- Appendices showing all detailed computations.

The marking key is divided into 14 boxes. Marks are allocated as follows:

- Executive summary (Boxes 1-4): 4 marks per box, totalling 16 marks.
- Main Requirement (Boxes 5-12): 8 marks per box, totalling 64 marks.
- Overall Report (Boxes 13-14): 8 marks for Structure and 12 marks for appendices, totalling 20 marks.
- Total Marks: 100.

Executive summary

1. General Introduction and Framework

- Clearly states the term of reference (advising Chief Adekoya).
- Lists the information relied upon (Exhibits 2, 4, 5). - Cites the relevant tax laws (CITA, PITA, CGTA, SDA, TETF, Finance Acts, CAMA, Nigeria-UK DTA).

- States appropriate assumptions (e.g., related party transactions, reliance on provided values) and reservations (e.g., subject to law change, need for UK advice).

2. Identification of Core Issues and Options

- Correctly identifies that a gift or sale of shares at undervalue will be deemed at market value for CGT.
- Identifies stamp duty as a key cost for share transfers. - Contrasts the Nigerian tax treatment of a Branch (worldwide income taxed immediately) vs. a Subsidiary (tax deferred until profit repatriation).
- Identifies CGT liability on the disposal of the Lekki land. - Identifies WHT obligations on cross-border consultancy fees and the personal tax implications for the non-resident consultant.
- Explains the potential CGT deferral (roll-over relief) and double stamp duty cost of the holding company structure.

3. Substantiated Conclusions

- Concludes that Option A (Deed of Gift) and Option B (Sale at ₦1) have identical immediate tax consequences.
- Concludes that Option B (Ghanaian Subsidiary) is more tax-efficient for expansion than a branch.
- Concludes that the disposal of Lekki land will trigger a CGT liability of approx. ₦13m. - Concludes that Option C (Holding Co.) offers superior long-term flexibility and tax efficiency for international expansion and dividends, despite higher initial stamp duty costs.
- Concludes on the WHT and final tax liability for Funke's consultancy income.

4. Clear Recommendations/Advice

- Recommends Option C (Holding Company) as the integrated long-term strategy.
- Advises proceeding with the land disposal, budgeting for ₦13m CGT. - Recommends incorporating a Ghanaian subsidiary under the holding company (Holdco).
- Advises on the importance of transfer pricing documentation for intra-group transactions.
- Recommends using a Deed of Gift for the ultimate transfer of Holdco shares.
- Advises Bola Foods to deduct 10% WHT from Funke's fee and for Funke to seek UK tax advice.

MAIN REQUIREMENT

1. Uses of Information Appropriately

Guiding Principle: Top marks are awarded for candidates who do not just list information from the exhibits, but who synthesize it to build a coherent, insightful, and strategic analysis tailored to the client's specific objectives.

- Demonstrates assimilation of data from all provided exhibits to build the analysis. - Exhibit 2: Uses financials, shareholding, asset details.
- Uses the 2024 financial summary not just as a fact, but to assess the company's tax capacity, the value of its assets (inferring share MV), and the impact of disallowed expenses on future planning. Links the shareholding structure (80/20) directly to the feasibility and proportionality of the succession options.
- Exhibit 4: Uses meeting notes on succession options, expansion plans, land disposal, and consultancy.

- Prioritizes the client's core objectives from the meeting notes: retirement, tax-efficient succession, and expansion. Uses the details of the Ghana plan (₵50m investment, warehouse, staff) to provide specific, actionable advice on branch vs. subsidiary, moving beyond theoretical differences. Identifies Funke's non-resident status as the critical factor driving the cross-border tax analysis.
- Exhibit 5: Uses email introducing the holding company option.
- Recognizes the holding company email not as a separate idea, but as a strategic integration of the succession and expansion plans from Exhibit 4.
- Analyses its implications against the existing company structure from Exhibit 2.

2. Identifies Relevant Tax Laws and Regulations

Correctly identifies and names all pertinent legislations:

Companies Income Tax Act (CITA) – for CIT,

- WHT,
- Transfer pricing. –
- Personal Income Tax Act (PITA) – for Funke's tax liability. –
- Capital Gains Tax Act (CGTA) – for share gift, land disposal, roll-over relief. –
- Stamp Duties Act (SDA) – for share transfer duties. –
- Tertiary Education Tax Act (TETFA) – for TET computation. –
- Finance Acts (2019, 2020, 2021) – for specific amendments (e.g., TET rate).
- CAMA 2020 – for company law aspects of restructuring. –
- Nigeria-UK DTA – for potential relief from double taxation for Funke.

3. Applies the Relevant Tax Laws Accurately

- CGT: Applies market value rule to related-party share transfer (S.17 CGTA). Correctly applies 10% rate to chargeable gains on shares and land. Correctly identifies potential for roll-over relief on share-for-share exchange.
- Stamp Duty: Applies correct ad-valorem rate (0.75%) to the market value of shares transferred.
- CITA: Correctly applies the 30% CIT rate and explains the worldwide taxation of branch profits vs. deferral for subsidiaries. Applies the 10% WHT rate on consultancy fees to non-residents.
- PITA: Correctly applies the graduated tax rates and Consolidated Relief Allowance (CRA) to compute Funke's tax liability.
- TETFA: Correctly applies 3% rate on Profit Before Tax (PBT).

4. Calculates Relevant Taxes and Liabilities

Provides accurate calculations for:

- CGT on gift/sale of 4m shares at assumed MV of ₦1 (₦400,000).
- Stamp duty on the same share transfer (₦30,000).
- CGT on disposal of Lekki land: Gain = (₦220m - ₦90m) = ₦130m; Tax @10% = ₦13m.
- WHT on Funke's consultancy (10% of ₦15m = ₦1.5m).
- Funke's final Nigerian PIT liability (approx. ₦1.124m after crediting WHT).
- CIT & TET for 2024: CIT (₦125m @30% = ₦37.5m), TET (₦145m @3% = ₦4.35m).

5. Recognises Issues and Options

- Recognises that the tax outcome of gifting (Option A) and selling at nominal value (Option B) is identical due to market value deeming provisions.
- Succession Options: Doesn't just state that Options A & B are tax-identical but explains why (application of market value rule for related parties per S.17 CGTA) and identifies the non-tax differentiator (legal clarity of a Deed of Gift vs. potential challenge of a sale at ₦1).
- Recognises the critical difference in Nigerian tax treatment between a branch and a subsidiary for foreign operations.
- Expansion Structure: Contrasts branch vs. subsidiary beyond "tax now vs. tax later," highlighting non-tax factors like liability protection, administrative complexity, and perception in the Ghanaian market. - Recognises that the holding company structure (Option C) incurs stamp duty twice but offers CGT deferral and long-term strategic advantages.
- Holding Company (Option C): Recognizes the double stamp duty as a significant initial cash flow cost but frames the CGT roll-over relief as a powerful deferral tool that preserves capital.
- Articulates the strategic advantages (group structuring, future expansion, streamlined dividends, estate planning) as the primary justification for the initial cost.
- Recognises the need for transfer pricing compliance for intra-group transactions with a Ghanaian subsidiary.
- Transfer Pricing: Identifies this not as a mere compliance point but as a critical business risk that could negate the tax benefits of the subsidiary structure if not managed properly from the outset.
- Recognises the interaction between Nigerian WHT and the recipient's final PIT liability.
- Cross-border consultancy: Recognizes the withholding tax as a final tax for a non-resident like Funke and anticipates the double taxation issue, necessitating analysis under the Nigeria-UK DTA.

6. Application of Professional Ethics

- Advice is robust, compliant with the law, and not aggressive/avoidant.
- Highlights areas of risk (e.g., tax authority challenge on undervalued sale).
- Emphasises the need for proper documentation (transfer pricing, expense receipts).
- Clearly advises the client to seek independent UK tax advice for Funke, demonstrating integrity and knowing the limits of one's expertise.
- Recommendations are in the client's best long-term interest, not just for short-term tax saving. - Sets realistic expectations about timelines, costs (e.g., stamp duty, valuation fees), and the certainty of outcomes, avoiding overpromising on tax savings or the ease of implementation.
- Implicitly handles the client's sensitive financial and personal data (shareholding, family plans, health) with discretion, only using it for the intended advisory purpose.
- Advice is objective and based on technical merit. There is no indication of bias towards a more complex solution that might generate higher fees for the firm.

7. Substantiated Conclusions

- Succession: Concludes that Options A & B are tax-neutral; choice is based on legal simplicity.
- Expansion: Concludes a subsidiary is more efficient than a branch.
- Land: Concludes a CGT liability of ₦13m is inevitable.
- Holdco: Concludes that Option C, while costly upfront in stamp duty, is the best long-term structure for expansion and succession. - Cross-border Consultancy: Concludes on Bola Foods' absolute WHT obligation (₦1.5m) and Funke's residual Nigerian tax liability (~₦1.124m), highlighting the need for her to seek UK advice to claim foreign tax credits and avoid double taxation.
- Concludes that Option C effectively integrates and optimizes the client's separate goals (succession + expansion) into a single, coherent, and future-proof strategy, unlike the standalone options. - Concludes that while the Holdco structure has a higher upfront cost, it mitigates future risks (e.g., challenges on direct gifts, complexity of managing foreign branches) and provides a clean platform for generational wealth transfer. - Concludes that implementing the Holdco structure requires immediate action (valuation of shares for stamp duty, initiation of incorporation) to begin realizing the long-term benefits, framing it as a necessary investment.

8. Relevant Advice and Recommendations

- Advises the implementation of the holding company structure (Option C). Advises proceeding with the land disposal and setting aside ₦13m for CGT.
- Recommends incorporating a Ghanaian subsidiary under the Holdco.
- Advises establishing robust transfer pricing policies. - Recommends using a Deed of Gift for the final transfer of Holdco shares to the children.
- Advises Bola Foods to deduct 10% WHT (₦1.5m) from Funke's consultancy fee and remit it to the FIRS, and explicitly advises Funke to seek specialist UK tax advice to manage her dual tax obligations.
- Recommends obtaining a formal professional valuation of the shares in Bola Foods Ltd to substantiate the market value used for CGT and Stamp Duty calculations, thereby protecting against future challenges from the tax authorities.
- Advises a review of the company's expense policies (e.g., entertainment) to ensure optimal tax deductibility in the future, turning the 2024 disallowance into a learning point for improved compliance.
- Recommends engaging with the firm to handle the monthly provisional tax payments for the company to ensure compliance and avoid accruing interest and penalties.

Overall report

Criteria & Guidance for Awarding Marks

1. Report Structure, Clarity, and Professionalism

- Format: Professional report format (To, From, Date, Subject).
- Introduction and Conclusion: Clear introduction setting the scene and a conclusive summary.
- Layout: Logical flow with clear headings and subheadings (e.g., 1.0, 1.1, 1.1.1). Easy to follow. - Style and Language: Professional, clear, and appropriate for the client (a business owner, not a tax expert). Avoids jargon or explains it. - Grammar & Spelling: Flawless grammar, spelling, and punctuation.
- Relevance: No irrelevant material. Focused on the client's requirements. - Disclaimer: Includes a suitable disclaimer regarding reliance on information provided and subject to law change.

Appendices with Detailed Computations

The appendices must clearly show the calculations for:

- CGT on share gift (Appendix 1).
- Stamp duty on share transfer (Appendix 2).
- CGT on Lekki land disposal (Appendix 3).
- PIT computation for Funke Adekoya-Davis, showing WHT credit (Appendix 4). - Detailed CIT and TET computation for Bola Foods for FYE Dec 2024 (Appendix 5).

Marks are awarded for correctness, clarity, and completeness of these calculations.

Appendices

Appendix 1: Capital Gains Tax on Gift of Shares (Option A & B)

- Number of shares gifted: 4,000,000
- Assumed Market Value per share: ₦1
- Total Consideration/Market Value: ~~₦4,000,000~~
- Cost of Acquisition (assumed nominal): ~~₦0~~
- Chargeable Gain: ~~₦4,000,000~~
- Capital Gains Tax @ 10%: ~~₦400,000~~

Appendix 2

Stamp Duty on Share Transfer

- Value of shares transferred: ~~₦4,000,000~~
- Stamp Duty @ 0.75%: ~~₦30,000~~

Appendix 3

Capital Gains Tax on disposal of Lekki Land

- Sale Proceeds: ~~₦220,000,000~~
- Cost of Acquisition: (~~₦90,000,000~~)
- Chargeable Gain: ~~₦130,000,000~~
- Capital Gains Tax @ 10%: ~~₦13,000,000~~

Appendix 4

Tax on Funke Adekoya-Davis's Consultancy Income

- Consultancy Fee: ~~₦15,000,000~~
- Less: Consolidated Relief Allowance (20% of Gross + ~~₦200,000~~):

20% of ~~₦15,000,000~~ = ~~₦3,000,000~~

~~₦200,000~~

Total CRA = ~~₦3,200,000~~

- Taxable Income: ~~₦15,000,000~~ - ~~₦3,200,000~~ = ~~₦11,800,000~~

- Personal Income Tax Calculation:

First ~~₦300,000~~ @ 7% = ~~₦21,000~~

Next ~~₦300,000~~ @ 11% = ~~₦33,000~~

Next ~~₦500,000~~ @ 15% = ~~₦75,000~~

Next ~~₦500,000~~ @ 19% = ~~₦95,000~~

Next ₦1,600,000 @ 21% = ₦336,000

Balance (₦11,800,000 - ₦3,200,000) = ₦8,600,000 @ 24% = ₦2,064,000

• Total Tax Liability before credit: ₦21,000 + ₦33,000 + ₦75,000 + ₦95,000 + ₦336,000 + ₦2,064,000 = ₦2,624,000

• Less: WHT Credited (10% of ₦15,000,000): (₦1,500,000)

• Final Nigerian Tax Payable by Funke: ₦2,624,000 - ₦1,500,000 = ₦1,124,000

Appendix 5

Computation of Company Income Tax (CIT) for Bola Foods Nigeria Ltd (Year Ended 31 Dec 2024)

Description	Amount (₦)	Notes
Profit Before Tax (PBT) per Accounts	145,000,000	As provided in Exhibit 2
Add: Disallowed Expenses		
Entertainment	5,000,000	Non-deductible for tax purposes
Adjusted Profit	150,000,000	
Less: Capital Allowances		
Unabsorbed b/f (1/1/2024)	20,000,000	
Current Year Allowance (2024)	5,000,000	
Total Capital Allowances Available (25,000,000)		
Taxable Profit	125,000,000	
Companies Income Tax (CIT) @ 30%	37,500,000	125,000,000 x 30%
Tertiary Education Tax (TET) @ 3% of PBT	4,350,000	145,000,000 x 3%
Total Tax Liability for 2024	41,850,000	(37,500,000 + 4,350,000)

CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2025: PROFESSIONAL EXAMINATION

PTX 11: EXTRACTIVE INDUSTRIES TAXATION

WEDNESDAY, 15TH OCTOBER, 2025

TIME: 3 HOURS

INSTRUCTION

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

SECTION A : COMPULSORY

Question 1

HAMMY Petroleum Producing Company has been in oil and gas exploration activities in Nigeria for the past 35 years. The company operates majorly in the onshore and shallow water terrains of the Bight of Benin, within the Western Niger Delta region.

Upon expiration of its Oil Mining Lease (OML) on 31st December 2022, the company, in compliance with the provisions of the Petroleum Industry Act (PIA), 2021, automatically migrated to the new fiscal regime with effect from 1st January 2023 and was subsequently granted a Petroleum Mining Lease (PML).

The following financial information relates to the company's operations for the year ended 31st December 2024:

Income	₦'m	₦'m
Fiscal value of crude oil sold:		12,795
Value of condensate from associated gas sold:		6,003
Value of natural gas liquids from associated gas sold:		2,970
Balancing charge:		42

Other operating income:	<u>195</u>
Total Income	22,005

Expenses:

Production costs:	3,630	
Drilling and exploration costs	1,980	
Concession rentals:	2,565	
Royalties incurred and paid	2,287.5	
Depreciation:	1,230	
Cost of drilling 4 appraisal wells	360	
Repairs and maintenance	172.5	
Other operating expenses	1,425	
Finance charges:	82.5	
Allowance for doubtful debts	570	
Stamp duties:	150	
State government ground rent	300	
NDDC charge	75	
Host community fund	127.5	
Environmental remediation fund	210	
General expenses	825	
Income tax provisions	780	
Total Expenses		<u>16,770</u>
Net Profit		<u>5,235</u>

Additional Information

- i. Production allowance under PIA: ~~N~~192 million.
- ii. Capital allowance agreed with FIRS: ~~N~~690 million.
- iii. General expenses ~~N~~'m

Gas flare fees	240
Geological information costs	225
Donations to approved	
Old People's Home	45
Other allowable expenses	<u>315</u>

		<u>825</u>	
iv.	Drilling costs	N'm	
	Tangible	1,260	
	Intangible	<u>720</u>	<u>1,980</u>
v.	Allowance for doubtful debts	N'm	
	Bad Debts Written off	175.5	
	Specific provision	157.5	
	General provision	<u>237</u>	<u>570</u>
vi.	Repairs and maintenance	N'm	
	Pipeline/Storage tank repairs	72	
	Repairs of Plant	63	
	Improvement to company building	<u>37.5</u>	<u>172.5</u>

Required:

(a) Compute the Hydrocarbon Tax (HCT) payable by HAMMY Petroleum Producing Company Limited for the 2024 Year of Assessment in line with the provisions of the Petroleum Industry Act (PIA), 2021. **(20 Marks)**

(b) The Petroleum Industry Act (PIA) 2021 sets out the conditions under which a Petroleum Mining Lease (PML) may be renewed.

Required:

Identify and explain the conditions for the renewal of a Petroleum Mining Lease under the PIA 2021. **(5 marks)**

(c) Section 28 of the Nigerian Minerals and Mining Act provides for certain company's income tax incentives granted to mining companies operating in Nigeria.

Required:

List and explain the tax incentives available to companies under Section 28 of the Act. **(5 marks)**

Total 30 Marks

Solution 1

a) HAMMY Petroleum Producing Company Limited Computation of Hydrocarbon Tax For 2024 Assessment Year

	N'm	N'm
Fiscal value of crude oil sold	12,795	
Value of condensate from associated gas sold	6,003	
Value of natural gas liquids from associated gas sold	<u>2,970</u>	
Gross revenue	21,768	
Balancing charge	<u>42</u>	
Total income		21,810
Less: Allowable deductions		
Production cost	3,630	
Drilling cost	1,980	
Concession rentals	2,565	
Royalties paid	2,287.5	
Cost of drilling appraisal well (2/4 x 360)	180	
Repairs and maintenance (72 + 63)	135	
Other operating expenses	1,425	
Stamp duties	150	
State government ground rent	300	
Information on existence of oil (geological)	225	
NDDC charge	75	
Host community fund	127.5	
Environmental remediation fund	<u>210</u>	
Total allowable cost	13,290	
Total cost subject to CPR limit (Wk.1)	<u>(8,715)</u>	
Excess allowable cost c/f	4,575	
Adjusted profit	13,095	

Less: Loss relief	Nil	
Assessable profit	13,095	
Less:		
Capital allowance	690	
Production allowance	<u>192</u>	<u>882</u>
Chargeable profit		<u>12,213</u>
Hydrocarbon tax @ 30% of chargeable profit		<u>3,663.90</u>

Workings

Cost-price ratio (CPR) limit

	N'm	N'm
Gross revenue/income	<u>21,768</u>	
(i)		
Maximum allowable @ 65% of gross income	<u>14,149.20</u>	
Total operating cost	13,290	
Capital allowances	690	
Total eligible costs	13,980	
Less: Exempted costs		
Royalty paid	2,287.5	
Concession rentals	2,565	
NDDC charge	75	
Host community fund	127.5	
Environmental remediation fund	<u>210</u>	<u>5,265</u>

(ii)
Net total costs to be subject to CPR **8,715**
Maximum allowable cost is the lower of (i) and (ii), which is equal to N8,715 million.

b.

Conditions for Renewal of Petroleum Mining Leases are:

(i) A Lessee of a petroleum mining lease may, not less than 12 months before the expiration of the Lease, apply in writing to the Commission for a renewal, of leased area or any part of it;

(ii) A petroleum mining lease shall be renewed by the Commission where it is satisfied that the lessee;
has fulfilled its obligations relating to the development of the lease area;
• has fully met all payment requirements under this Act or any other enactment in respect of royalties, rents, taxes and fees relating to the petroleum mining lease;
is not in default of any obligation or condition relating to the lease; and
has discharged all operational obligations in compliance with applicable rules and regulations;
(iii) the renewal referred to under subsection (2) shall be on terms and conditions determined by the Commission and the Lessee shall pay a renewal bonus of an amount specified by the Commission based on the percentage of the market value on the renewal date prescribed in the regulation made under this Act; and
(iv) the Commission may, in the public interest, change, impose or add new lease conditions, which shall be published in the Federal Government Gazette.

(c) Companies Income Tax Provisions Incentives Granted to Companies as stated in Section 28 of the Mining Act are:

(a) Accelerated capital allowance.

Nigeria entities with mineral titles are granted accelerated capital allowance at 95% of qualifying capital expenditure incurred in the year in which the mining investment is incurred.

(b) Tax holiday.

Companies engaged in mining operations shall be on tax relief period from the commencement date for a period of three years in the first instance. The first tax relief period of three years may be extended by the Minister for one further period of two years.

(c) Tax deductibility of certain expenses.

Companies operating in mining industry can deduct certain peculiar expenses relating to mining activities, such deductible expenses include cost of environmental protection and pensions. Also, royalty may be reduced or waived on any mineral which the Minister approves.

SECTION B: ANSWER ANY TWO (2) QUESTIONS FROM THIS SECTION

Question 2

- a. Mineral exploration is a systematic process undertaken to identify, evaluate, and develop mineral resources. The Nigerian Minerals and Mining Act and industry best practices outline eight (8) key phases in this process.

Required:

Outline and explain the eight (8) basic phases of mineral exploration.

(12 marks)

- b. The NEITI Act (2007) makes provisions regarding the remuneration, meetings, and tenure of members of the National Stakeholders Working Group (NSWG).

Required:

Explain the rules relating to the remuneration of NSWG members and committee appointees, including the role of the National Revenue Mobilisation, Allocation and Fiscal Commission (NRMAFC). outline the statutory provisions governing the meetings and quorum of the NSWG and state the rules on the tenure of office of NSWG members.

(8 marks)

Total 20 Marks

Solution 2

a. Procedure for Minerals Exploration

There are eight (8) basic phases of mineral exploration, namely:

i. Reconnaissance and Prospecting Phase

This is the initial phase where potential mineral-rich areas are identified. It is based on preliminary observations, often aided by satellite imagery, remote sensing combined with aeromagnetic surveys.

ii. Detailed Exploration Phase

Once a potential site is identified, detailed geological studies are conducted. This includes exploration project scoping, project management of the exploration programme, drilling and sampling, and in some cases down the hole geophysical analysis to assess the quality and quantity of minerals present.

iii. Surface Exploration

Prospectors will map outcrops and gather geochemical samples searching for potential mineral resources. This provides

early geological sampling and analysis.

iv. Core Drilling Phase

After a certain level of confidence is attained, core drilling will take place to delineate and define the identified mineralised body. Defining the body of ore will then lead to a mineral resource declaration if possible.

v. Resource Modelling Phase

If initial core drilling results are positive, additional drilling will further define the resource modelling resulting in the declaration of ore resources.

vi. De-risking and Production Decision Phase

Mining requires a significant amount of investment and resources, which is why further metallurgical test work and mine planning work is required before mining takes place.

vii. Mining Phase

After the exploration confirms the presence of valuable minerals in suitable quantities the actual mining begins. This involves extracting the minerals from the Earth using various techniques, depending on the type of mineral and its location.

viii. Post-mining Activities Phase

After extraction, the mined area undergoes rehabilitation. This ensures that the environmental impact is minimised, and the land can be used for other purposes in the future.

b. Remuneration

The members of the NSWG and any person appointed to any Committee may be paid allowances from the NEITI's funds, subject to the approval of the National Revenue Mobilisation and Fiscal Commission.

Meetings

- (i) The NSWG's meeting shall take place quarterly to transact ordinary business at any time and place.
- (ii) The NSWG Chairman shall preside over every meeting, and in his absence, a member duly appointed among members present shall preside.
- (iii) Resolutions shall be passed by a simple majority of members at any meeting of NSWG.
- (iv) The NSWG has the power to co-opt any person to act as an advisor at any of its meetings, and such a person shall be entitled to a voting right.
- (v) The validity of resolutions passed by the NSWG shall not be affected by the absence of any member, vacancy among its membership or any defect in the appointment of any of the members.
- (vi) Eight (8) members shall form a quorum at any meeting.

Tenure

A member of the NSWG shall hold office for a single term of four (4) years only, while the Executive Secretary shall serve for a single term of five (5) years only.

Question 3:

IBEREKO Oil and Gas Nigeria Limited operate in a **Non-Associated Gas (NAG) field**. The company commenced its first gas production on **1st October, 2014**. For the year ended **31st December, 2024**, the company produced a total of **200 Million Thousand Standard Cubic Feet (MSCF)**, with a fiscal gas price of **₦8.00** per thousand standard cubic feet.

Required:

Compute the Gas tax credit claimable for 2024 accounting period, assuming the Nag field contains **Hydro-Carbon Liquids (HCL)** of:

- a. 20 barrels per MMSCF of gas (8 Marks)
- b. 65 barrels per MMSCF of gas (6 Marks)
- c. 105 barrels per MMSCF of gas (6 Marks)

Total 20 Marks

Solution 3:

- a. HCL is 20 barrels per million SCF
Volume of MSCF gas produced = **200,000,000**
Price per MSCF = **₦ 8.00**

Gas Tax Credit Rate (GTC) is:

Lower of:

- i. **₦2.00** and
- ii. 30% of **₦8.00** = **₦2.40**
Gas tax credit applicable rate = **₦ 2.00**
Gas tax credit claimable = Production per MSCF x Gas credit rate

= **(200,000,000/1,000) x ₦2.00**
= **200,000 x ₦2.00= ₦400,000**

b. HCL is 65 barrels per million SCF
 Volume of gas produced = 200,000,000 MSCF
 Price per MSCF = ₦8.00
 Gas Tax Credit Rate is:
 Lower of:

- i. ₦2.00
- ii. 30% of ₦8.00 = ₦2.40

Gas tax credit claimable = Production per MSCF x gas tax credit rate
 = $(200,000,000/1,000) \times \frac{65}{20} \times ₦2.00$
 = $200,000 \times 65/20 \times 2$
 = ₦ 1,300,000

c. HCL is 105 barrels per million SCF
 Volume of gas produced = 200,000,000 MSCF
 Price per MSCF = ₦8.00
 Gas Tax Credit (GTC) rate = Not applicable.
 The company to revert to exiting legislation.

Question 4

a. DMO Minner Limited has been engaged in the mining of coal for over twenty (25) years in the Western part of Nigeria. Their products are sold locally and internationally. The financial statements for the year ended 31st December, 2022 disclosed the following:

Income	(₦'000)	(₦'000)
Export turnover:		526,050
Local turnover:		18 0,400
Other operating income:		<u>5,700</u>
Gross Income		712,200
Expenses		
Mining cost:	255,300	
Salaries and wages:	50,460	

Transportation expenses:	3,750	
Finance costs:	1,890	
Legal and professional fees:	10,050	
Depreciation:	37,800	
Donations and subscriptions:	4,650	
Allowance for doubtful debts:	21,225	
Repairs and maintenance:	8,445	
Other operating expenses:	<u>20,100</u>	
Total Expenses		<u>413,670</u>
Net Profit		<u>298,530</u>

Additional Information

a. Other operating expenses	(N'000)
Travelling and voyages	5,850
Power and lighting	8,610
Stamp duty on increase in share capital	1,875
Fines for traffic offences	300
Others (allowable)	<u>3,465</u>
Total	<u>20,100</u>
b. Allowance for doubtful debts	(N'000)
General provision	9,900
Specific provision	14,850
Bad debts recovered	<u>(3,525)</u>
Total	<u>21,225</u>
c. Legal and professional fees	(N'000)
Auditors' remuneration:	3,750
Legal fees for re-acquisition of mining lease:	<u>6,300</u>
Total	<u>10,050</u>
d. Repairs and maintenance	(N'000)

Repairs of mining equipment	2,070
Maintenance of delivery vehicle	750
Improvement to industrial building shed	<u>5,625</u>
	<u>8,040</u>

e. Donations and subscriptions	(N'000)
Subscription: Miners Association of Nigeria	800
Subscription: Ogaju Social Club (GM's Personal Club)	450
Donation to National Library	<u>2,000</u>
Total	<u>3,250</u>

- i. The other operating income includes ~~N~~2,430,000 net dividend received from shares in a Nigerian listed company.
- ii. The mining cost and transportation expenses were wholly, exclusively, and necessarily incurred for the purpose of the business.
- iii. Capital allowances agreed with the Federal Inland Revenue Service (FIRS) for the relevant year = ~~N~~44,625,000

Required:

In accordance with the provisions of the **Companies Income Tax Act, Cap C21, LFN 2004 (as amended)**, compute the **Tax Liabilities** of DMO Minner Limited for the relevant assessment year. **15 Marks**

- b. Quarrying and mining are both important activities in Nigeria's extractive industry.

Required:

Identify and briefly state the main differences between quarrying and mining.

(5 Marks)
Total 20 Marks

Solution 4

(a) DMO Minner Limited

Computation of adjusted profit for the year ended December 31, 2022

	N'000	N'000
Net profit as per accounts		298,530
Add back:		
Depreciation	37,800	
Legal- re-acquisition of mining lease	6,300	
Subscription- Ogaju Social Club	450	
Allowance for doubtful debts:		

-general provision	9,900	
Repairs and maintenance: improvement to industrial building	5,625	
Other operating expenses: Stamp duty	1,875	
Fines for traffic offences	<u>300</u>	<u>62,250</u>
		360,780
Deduct: Non-taxable income Dividend received (net)		<u>2,430</u>
Adjusted profit		<u>358,350</u>

DMO Minner Limited

Computation of Tax Liabilities for 2023 Assessment Year

	₦'000	₦'000
Adjusted profit		358,350
Less: Capital allowances: For the year	44,625	
Utilised	<u>(44,625)</u>	<u>(44,625)</u>
Carried forward	<u>NIL</u>	
Total profit		<u>313,725</u>
Company Income Tax @(30% of N313,725)		94,117.5
Tertiary Education Tax@(2.5% of N358,350)		8,958.75
Total tax payable		<u>103,076.25</u>

Minimum tax computations

	₦'000
Total turnover	712,200
Less: Franked investment income (dividends)	<u>2,430</u>
	<u>709,770</u>
Minimum tax @ 0.5% of ₦709,770	3,548.85

Since the company's income tax payable (₦94,117,500) is greater than the minimum tax (₦3,548,850), the company will pay the companies income tax (₦94,117,500) as well as the tertiary education tax (₦8,958,750) to give a total tax liability of ₦103,076,250.

b. The major differences between quarrying and mining are:

i. Materials Extracted

Mining: Valuable minerals such as silver, copper, gold, and coal.

Quarrying: Construction materials such as limestone, granite, marble, and sand.

ii. Equipment Employed

Mining uses large, heavy machinery (e.g., excavators, dump trucks, drills).

Quarrying uses relatively smaller equipment (e.g., crushers, conveyors).

iii. Environmental Impact

Mining may cause deforestation, soil erosion, and water pollution.

Quarrying often leads to air and noise pollution.

iv. Exposure to Hazard

Mining is generally more hazardous in nature.

Quarrying also poses hazards but at a lower scale compared to mining.

v. Location

Mining often involves digging underground.

Quarrying is usually carried out on the earth's surface.

Question 5.

a. Section 141 of the Nigerian Minerals and Mining Act, 2007 (as amended) explains how any dispute in mining operations can be resolved.

Required:

Explain the procedures for dispute resolution in exploration as specified in Section 141 of the Nigerian Minerals Mining Act, 2007. **(6 marks)**

b. The Nigerian Minerals and Mining Act, 2007 provides for the granting of mineral titles to regulate exploration and mining activities.

Required:

Outline and briefly discuss the six (6) main forms of mineral titles available under the Act.

(9 Marks)
Total 15 marks

Solution 5

- a. Section 141 of the Nigerian minerals and Mining Act, 2007 provides for methods of resolving dispute between a mineral-title holder and the government. The procedures are as follows:
- i. Any dispute arising between the holder of a mineral title and the government in respect of the interpretation and application of the Act, its Regulations and terms and conditions of mineral titles shall be resolved, in the first instance, on an amicable basis;
 - ii. Where the dispute is in the nature of a bonafide investment dispute, and such dispute is not amicably settled as provided in (i) above, it shall be resolved in accordance with the provisions of the Nigerian Investment Promotion Commission Act, Cap N117, LFN, 2004; and
 - iii. Any other dispute between the holder of a mineral title and the government shall be resolved in the Federal High Court of Nigeria, if not settled in accordance with the two methods stated above.
- (b)
- i. **Reconnaissance Permit (PP):** It is a permit issued to companies in Nigeria to carry out initial exploration without detailed studies, usually for 1 year; no right to mine.
 - ii. **Exploration Licence (EL):** The exploration licence allows the holder to search for minerals over a specified area. The licence is renewable every one or two years.
 - iii. **Mining Lease (ML):** A mining lease preceded by an exploration licence. It is issued to companies in Nigeria that have located mineral resources in satisfactory quantities to commence mining operations, up to 25 years, renewable.
 - iv. **Small-Scale Mining Lease (SSML):** SSML is a smaller version of ML. It is issued in Nigeria to small-scale entities and has a duration of five (5) years. SSML can be converted to ML if the scale of production or its usage goes beyond the criteria stated for SSML activities.
 - v. **Water Use Permit (WUP):** The water use permit is issued to mining companies to use water resources in mining operations.
 - vi. **Quarry Lease (QL):** The quarry lease holder is granted the right to commence quarrying activities in commercial quantities.

Question 6:

Bala Mining Company Limited is engaged in the business of mining coal in the Northern part of Nigeria. The Company has been in business for over 20 years. The financial statements for the Company ended in 31st December 2024, revealed the following:

	₦'000	₦'000
Income:		<u>350,700</u>
Turnover (export)	350,700	
Turnover (local)	120,300	
Other operating income	<u>3,800</u>	
Gross revenue		<u>474,800</u>
Deduct:		
Mining cost	170,200	
Salaries and wages	33,640	
Transportation expenses	2,500	
Finance costs	1,260	
Legal and professional fees	6,700	
Depreciation	25,200	
Donations and subscriptions	3,100	
Allowance for doubtful debts	14,150	
Repairs and maintenance	5,630	
Other operating expenses	<u>13,400</u>	<u>275,800</u>
Net profit		<u>199,020</u>

The following additional information was provided:

- (i) Both the mining cost and transportation cost have been established to be direct costs.
- (ii) Included in other operating income was ₦1,620,000 dividend received (net) from shares acquired from a Nigerian listed company.
- (iii) Legal and professional fees:

	₦'000
Auditors' remuneration	2,500
Legal – reacquisition of mining lease	<u>4,200</u>
	<u>6,700</u>

(iv) Donations and Subscriptions:

	₦'000
Subscription: Miners Association of Nigeria	800
Ogaju Social Club (the General Manager's Club)	300
Donation – National Library	<u>2,000</u>
	<u>3,100</u>

(v) Allowance for doubtful debts:

	₦'000
General provision	6,600
Specific provision	9,900
Bad debts written off recovered	<u>2,350</u>
	<u>14,150</u>

(vi) Repairs and maintenance

	₦'000
Repairs of mining equipment	1,380
Maintenance of delivery vehicle	500
Improvement to industrial building shed	<u>3,750</u>
	<u>5,630</u>

(vii) Other operating expenses:

	₦'000
Travelling and voyages	3,900
Power and lightning	5,740
Stamp duty on increase in share capital	1,250
Fines for traffic offenses	<u>2,310</u>
Others (ALLOWABLE)	<u>13,400</u>

(viii) Capital allowances agreed with the Federal Inland Revenue Service for the relevant assessment year was **₦29,750.00.**

Required:

Compute the tax liabilities of the company for the relevant assessment year in line with the provisions of Companies Income Tax Act Cap. C21 LFN 2004 (as amended).

15 Marks**Solution 6**

**Bala Mining Company Limited
Computation of adjusted profit
For the year ended December 31st, 2024**

	<u>₦'000</u>	<u>₦'000</u>
Net profit as per accounts		199,020
Add back:		
Depreciation	25,200	
Legal –re-acquisition of mining lease	4,200	
Subscription- Ogaju Social Club	300	
Allowance for doubtful debts:		
General provision	6,600	
Repairs and Maintenance:		
Improvement to Industrial Building	3,750	
Other operating expenses:		
Stamp duty	1,250	
Fines for traffic offenses	<u>200</u>	
		<u>41,500</u>
		<u>240,520</u>
Deduct: Non - taxable income		
Dividend received (net)		<u>1,620</u>
Adjusted profit		<u>238,900</u>

**Bala Mining Company Limited
Computation of Tax Liabilities
For 2024 Assessment Year**

	₦'000	₦'000
Adjusted profit		238,900
Less: Capital allowances For the year Utilized	29,750	
	<u>29,750</u>	<u>29,750</u>
Carried forward	NIL	
Total profit		<u>209,150</u>
Companies income tax @ 30% Of N209,150		62,745
Tertiary education tax @ 3% of N238,900		<u>7,167</u>
Total tax payable		<u>69,912</u>

Minimum tax computations

	₦'000
Total turnover	474,800
Less: Franked Investment Income (dividends)	1,620
	<u>473,180</u>
Minimum tax @ 0.5% of ₦473,180	<u>2,365.9</u>

Since the companies income tax payable (₦62,745,000) is greater than the minimum tax (₦2,365,900), the company will pay the companies income tax (₦62,745,000) as well as the tertiary education tax (₦7,167,000) to give a total tax of ₦69,912,000.

Questions 7

In accordance with section 235(1) of the Petroleum Industry Act, 2021, the settler shall incorporate Host Communities Development Trust. For settlers operating in shallow water and deep offshore, the littoral communities and any other community determined by the settlers shall be host communities.

Required:

(a) Explain the objectives of the Host Communities Development Trust in line with the provisions of section 239(3) of PIA.

10 Marks

Section 236 of PIA requires a settler to incorporate Host Communities Development Trust within a given time frame.

Required:

(b) Explain the time frame as specified by section 236 of the Act.

5 Marks
Total 15 Marks

Solution 7

(a) The objectives of the Host Communities Development Trust as stated in section. 239 (3) are to:

- (i) Finance and execute projects for the benefit and sustainable development of the host communities;
- (ii) Undertake infrastructural development of the host communities within the scope of funds available to the Board of Trustees for such purposes;
- (iii) Facilitate economic empowerment opportunities in the host communities;
- (iv) Advance and propagate educational development for the benefit of members of the host communities;
- (v) Support healthcare development for the host communities;
- (vi) Support local initiatives within the host communities, which seek to enhance protection of the environment;
- (vii) Support local initiatives within the host communities which seek to enhance security;
- (viii) Invest part of available fund for and on behalf of the host communities; and
- (ix) Assist in any other development purpose beneficial to the host communities as may be determined by the Board of Trustees.

(b) In accordance with section 236 of the Act, the Host Communities Development Trust shall be incorporated:

- (i) Within 12 months from the effective date for existing oil mining leases;
- (ii) Within 12 months from the effective date for existing designated facilities;
- (iii) Within 12 months from the effective date for new designated facilities under construction on the effective date;
- (iv) Prior to the application for any field development plan under a petroleum prospecting license or petroleum mining lease granted under this Act; and
- (v) Prior to commencement of commercial operations for licensees of designated facilities granted under this Act.

15 Marks