

Subject: TAX IMPLICATION OF CHANGES IN ACCOUNTING DATES

This information circular is issued to provide direction to all Revenue Staff, Tax Practitioners, Consultants, Tax Payers and to the General Public on the tax implication of changes in a company's accounting dates. It provides an opportunity for all Revenue Staff and tax consultants to avail themselves of the acceptable method of preparation of tax returns during years of change in accounting dates.

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1.0. Introduction

Attention of Management has been drawn to the fact that different methods are being applied by Tax Consultants and Tax offices while preparing and renewing tax returns during years of changes in accounting dates. The application of these different methods may lead to under- assessment or incorrect assessments. Management is aware of the cumbersome and lengthy methods discussed in FIRS taxation modules, which reinforces the need to simplify the calculations for the purpose of better understanding and administration. It has therefore become imperative to issue this circular as a guide to officers who have responsibility for filing and assessment duties, and those who may be required, as a matter of duty to carry out preliminary review on tax returns submitted by companies. Similarly, this circular is particularly useful for officers vested with audit responsibilities, who from time to time come across cases of change in accounting dates in the course of their audit assignment.

2.0. Changes in Accounting Dates

There are a number of reasons why a business may wish to change its accounting date and these reasons may include:

- i) the need to synchronize the accounting date of a subsidiary with that of the holding company.

- ii) the convenience of stock taking at a particular period of the year.
- iii) a business may take over the operation of another and as a result wish to change the accounting date of the company taken over to that of its own.

Where a change in accounting date takes place, (be it a sole trader, partnership or a limited liability company) the provisions of section 29(2) of the CITA CAP C21 LFN of 2004 will apply. *The Act provides that the Tax Authorities have the power to decide, based on its discretion the basis for computing assessable profits for the year in which the change in accounting date occurs and the two following years of assessment.*

As should be expected, the tax official will base his decision on the best advantage to the Tax Authority. It is important to note that the three relevant years to be considered are:

- i) the assessment year in which the accounting date becomes different from the date of the earlier years. This is known as the year when the change occurred.
- ii) the next two years of assessment following that in which the change occurred.

In practice, calculations are made based on both the old dates and the new dates. The greater of these two aggregates will be the likely choice of the Revenue Authority.

3.0. Years Involved in the Tax Computations

Whenever a change of accounting date occurs, the company making the change shall be assessed to tax through a special process of determining the basis of assessment. This process requires computations for three (3) relevant years. Where the year of cessation is involved (ultimate year) in these three relevant years, the request for a change shall not be approved. However, where the year immediately before the year of cessation (penultimate year) is involved in these three relevant years, the request may be approved by the Board, depending on other evidences before it.

4.0. Assessment Procedure on Change of Accounting Date

For an on-going business, current assessment is based on preceding year basis. But whenever there is a change in accounting date, a normal accounting period may not have ended in the year of change. This is so because when there is a change of accounting date, it is either that an account is prepared for more than twelve months to the new accounting date or even less than twelve months to the new accounting year end. The Board will often adopt *the* following procedures to determine the assessments for the three relevant years.

- j) Identifying the first year in which the business has failed to make up the accounts to its usual accounting date.
- ii) Identifying the two years immediately following the year of failure.
- iii) Computing assessable profit for the three relevant years based on the old accounting date (on preceding year basis).
- iv) Computing assessable profit for the three relevant years based on the new accounting date (on preceding year basis).
- v) Adding up the assessable profits for the three years in (iii) and (iv) above separately.
- vi) Selecting the higher of the two profits added up in (v) above.

5.0 Illustration with Worked Examples

Example 1

Julius Becker Nigeria Limited has been in business for many years. It has for a long time prepared its annual accounts up to 30th April. In 1996, it decided to change its accounting date to 31st October. Available figures showed its adjusted profits as follows:

| | | N | (No. of Months) |
|--------------|------------|---------|-----------------|
| Year ended | 30/4/1995 | 450,000 | 12 |
| Period ended | 31/10/1996 | 830,000 | 18 |
| Year ended | 31/10/1997 | 590,000 | 12 |
| Year ended | 31/10/1998 | 600,000 | 12 |

You are required to compute the correct assessments for all the relevant years in the light of the change in accounting date.

Solution

JULIUS BECKER NIGERIA LIMITED

COMPUTATION OF ASSESSMENT

Note: The last account submitted before the change for the accounting year ended 30th April 1995.

Therefore, the year of change is 1996. The three relevant years are therefore 1996, 1997 and 1998.

a) Original Assessments (Based on old Accounting date of 30/04/1995)

| <u>Year of Assmt.</u> | <u>Basis Period</u> | <u>Assessment</u> |
|-----------------------|-------------------------------------|-------------------|
| | | N |
| 1996 | P:Y.B(1/5/94-30/4/95) | 450,000 |
| 1997 | 1/5/95 - 30/4/96 | |
| | 12/18 x 830,000 | 553,333 |
| 1998 | 1/5/96 - 30/4/97 | |
| | (6/18 x 830,000) + (6/12 x 590,000) | 571,667 |

b) Assessment Based on 31/10/1996

| <u>Year of Assmt.</u> | <u>Basis Period</u> | <u>Assessment</u> |
|-----------------------|---------------------------------------|-------------------|
| | | N |
| 1996 | 1/11/94 - 31/10/95 | |
| | (1/11/94-30/4/95) + (1/5/95-31/10/95) | |
| | (6/12 x 450,000) + (6/18 x 830,000) | 501,667 |
| 1997 | P.Y.B. to 31/10/96 | |
| | 1/11/95 - 31/10/96 | |
| | 12/18 x 830,000 | 553,333 |
| 1998 | P.Y.B. to 31/10/97 | 590,000 |

c) Summary of Assessments

| <u>Year</u> | <u>Old date of</u> | <u>New date of</u> |
|-------------|--------------------|--------------------|
| | <u>30/04/1995</u> | <u>31/10/1996</u> |
| | N | N |
| 1996 | 450,000 | 501,667 |
| 1997 | 553,333 | 553,333 |
| 1998 | 571,667 | 590,000 |
| | 1,575,000 | 1,645,000 |

Conclusion:

The Revenue will choose to raise assessments on the basis of the new accounting date as it results in higher assessment.

Example 2

Sammy Limited decided in 2003 to change its accounting date to 31st July each year, having kept its accounts to 31st October for several years. An examination of its books showed the following adjusted profits:

| | | N | (No. of Months) |
|--------------|-------------------------------|--------|-----------------|
| Year ended | 31 st October 2001 | 25,000 | 12 |
| Year ended | 31 st October 2002 | 18,000 | 12 |
| Period ended | 31 st July 2003 | 20,000 | 9 |
| Year ended | 31 st July 2004 | 28,000 | 12 |
| Year ended | 31 st July 2005 | 19,000 | 12 |

You are required to prepare the relevant computations for all the years of assessment.

Solution

The last account was made up to 31st October 2002. Therefore, the year of change is 2003 and the relevant years are 2003, 2004 and 2005.

a) Normal Assessment (Base on old Accounting date of 31st October)

| <u>Year of Assmt.</u> | <u>Basis Period Assessment</u> | |
|-----------------------|-------------------------------------|----------|
| 2003 | P.Y.B to 31/10/02 1/11/02-31/10/03 | N 18,000 |
| 2004 | (1/11/02-31/7/03)+(1/8/03-31/10/03) | |
| | 20,000 + (3/12 x 28,000) 1/11/03 | N 27,000 |
| 2005 | - 31/10/04 | |
| | (1/11/03 31/7/04) + | |
| | (1/8/04-31/10/04) | |
| | 9/12 x 28,000 + 3/12 x 19,000 | N 25,750 |

b) Assessment based (on new accounting date of 31 ~..J..JM)

| <u>Year of Assmt.</u> | <u>Basis Period</u> | <u>Assessment</u> |
|-----------------------|---|-------------------|
| | | N |
| 2003 | 1/8/01- 31/7/2002 | |
| | (1/8/01-31/10/01) + (1/11/01-31/7/02) | |
| | $3/12 \times 25,000 + 9/12 \times 18,000$ | 19,750 |
| 2004 | 1/8/02 - 31/7/03 | |
| | (1/8/02-31/10/02) + (1/11/02-31/7/03) | |
| | $3/12 \times 18,000 + 20,000$ | 24,500 |
| 2005 | 1 /8/03 - 31/7/04 | 28,000 |

c) Summary of Assessments

| Year | Old Accounting | New Accounting |
|------|----------------------|----------------------|
| | <u>Date</u> | <u>Date</u> |
| | N | N |
| 2003 | 18,000 | 19,750 |
| 2004 | 27,000 | 24,500 |
| 2005 | <u>25,750</u> | 28,000 |
| | <u>70,750</u> | <u>72,250</u> |

Conclusion:

The Revenue Authority will raise assessments on the new date as the aggregate of this is greater than that of the old date basis.

Example 3

Bread Baking Company Limited has prepared its accounts for several years to 30th April. In 1996, its management decided to change its accounting date to 31st October. Available figures showed the adjusted profits as follows:

| | | N |
|--------------|-------------------------------|---------|
| Year ended | 30 th April 1995 | 450,000 |
| Period ended | 31 st October 1996 | 830,000 |
| Year ended | 31 st October 1997 | 590,000 |
| Year ended | 31 st October 1998 | 600,000 |

b))

You are required to compute the assessments for the three relevant years.

Solution

The last accounts were made up to 30th April 1995. The year of change is therefore 1996 while the three relevant years are 1996, 1997 and 1998.

a) Original Assessment (based on old accounting date 30!!! April)

| <u>Year of Assmt.</u> | <u>Basis Period</u> | <u>Assessment</u> |
|-----------------------|--------------------------------------|-------------------|
| | | N |
| 1996 | P.Y.B to 30/4/95 | 450,000 |
| 1997 | 1/5/95 - 30/4/96 | |
| | 12/18 x 830,000 | 553,333 |
| 1998 | 1/5/96 - 30/4/97 | |
| | (1/5/96-31/10/96)+ (1/11/96-30/4/97) | |
| | 6/18 x 830,000 + 6/12 x 590,000 | 571,667 |

b) Assessment (based on new accounting date of 31 ~ October)

| <u>Year of Assmt.</u> | <u>Basis Period</u> | <u>Assessment</u> |
|-----------------------|--------------------------------------|-------------------|
| | | N |
| 1996 | 1/11/94 -31/10/95 | |
| | (1/11/94-30/4/95)+(1/5/95-31/10/95) | |
| | 6/12 x 450,000 + 6/18 x 830,000 | 501,667 |
| 1997 | 1/11/95- 31/10/96 | |
| | 12/18 x 830,000 | 553,333 |
| 1998 | 1/96 - 31/1 0/97 | 590,000 |

c) Summary of Assessments

| Year | Old Accounting | New Accounting |
|------|------------------|------------------|
| | <u>Date</u> | <u>Date</u> |
| | N | N |
| 1996 | 450,000 | 501,667 |
| 1997 | 553,333 | 553,333 |
| 1998 | 571,667 | 590,000 |
| | 1,575,000 | 1,645,000 |

Conclusion:

The Revenue Authority will choose to raise assessments based on the new accounting date.

6.0. General

The treatment of change in accounting dates should never be assigned to officers below the rank of Senior Inspectors of Taxes to handle in both Integrated Tax Offices (ITO) and Large Tax Offices (LTO). The Tax Controllers in these offices should always ensure that such cases are given priority attention at all times. It is advised in particular that all cases of change in accounting dates which were submitted in the last two (2) years should be assembled at each Integrated Tax Office (ITO) and Large Tax Office (LTO) for possible review, and where serious observations are made on the computations, such issues should be promptly notified to the relevant Tax Consultants in view of the implication for tax assessments.

7.0 Enquiries

All enquiries in connection with this Information Circular should be addressed to:

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