

**Subject: TAX IMPLICATIONS OF THE ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

In line with Section 8 of Federal Inland Revenue Service (Establishment) Act 2007, Federal Inland Revenue Service (FIRS) is issuing this information circular to provide direction to all Revenue Staff, Tax Practitioners, Consultants, Taxpayers and the General Public on the tax implications of the adoption of the International Financial Reporting Standards (IFRS).

1.0 INTRODUCTION

On 28 July 2010, the Nigerian Federal Executive Council accepted the recommendation of the Committee on the Roadmap to the Adoption of IFRS in Nigeria, that it will be in the interest of the Nigerian economy for reporting entities in Nigeria to adopt globally accepted, high-quality accounting standards by fully adopting the International Financial Reporting Standards (IFRS) in a Phased Transition.

The Council further directed the Nigerian Accounting Standards Board (NASB), under the supervision of the Nigerian Federal Ministry of Commerce and Industry, to take necessary actions to give effect to the Council's approval.

Section 55 (1) of the Companies Income Tax Act, Cap C21, LFN 2004 requires a company filing a return to submit its audited account to the FIRS while Sections 8, 52 and 53 of the Financial Reporting Council of Nigeria Act, 2011 gave effect to the adoption of International Financial Reporting Standards. This implies that the audited accounts to be submitted to the FIRS after the adoption of International Financial Reporting Standards shall be prepared in compliance with Standards issued by IFRS. It is in line with the above that FIRS published these guidelines on tax treatments to be given to each of the Standards especially where there are deviations from Nigerian Generally Accepted Accounting Practice after the adoption.

2.0 IFRS1 - FIRST TIME ADOPTION

A taxpayer shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRS. This is the starting point for its accounting in accordance with IFRS.

A first time adopter of IFRS is required by the standard:

- a. to recognise all assets and liabilities whose recognition is required by IFRS;*
- b. not to recognise items as assets or liabilities if IFRS do not permit such recognition;*
- c. to reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with IFRS; and*
- d. to apply IFRS in measuring all recognised assets and liabilities".*

2.1 The new net asset based on the accounting balance shall not be adopted for minimum tax computation in the year of transition.

2.2 If the retained earnings of a taxpayer that had previously paid tax based on dividend for a particular tax year, increases as a result of the adoption of IFRS, and additional dividends are paid after the transition period from the portion of the retained earnings that relates to the tax year, the taxpayer shall be subjected to additional tax based on dividend in line with Section 19 of CITA.

Where however, the taxpayer was previously assessed to tax for the tax year in line with Section 40 of CITA, the taxpayer will only pay tax on its dividends based on Section 19, where the cumulative amount of dividends declared from the profits/retained earnings relating to the tax year, exceeds the taxable profits previously reported in the tax computations.

2.3 Details of recognitions, de-recognitions and reconciliation must be forwarded to FIRS by the taxpayer including all adjustments to opening retained earnings.

2.4 All conversion cost (Capital & Revenue) shall be subject to verification by the FIRS before it can be allowed as Qualified Capital Expenditure or revenue expenditure.

2.5 **Extension Of Time To File Returns** - First time adopters of *IFRS* would on application in accordance with Section 26 (5) of FIRSEA (and provisions of Self-Assessment Regulations 2012) be granted 3 months extension for filing of their first set of *IFRS* Financial statements and related returns to allow sufficient time to overcome initial conversion problems.

3.0 IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS

- 3.1 IFRS compliant financial statement shall be included in tax returns in line with Financial Reporting Council of Nigeria (FRC) Act.
- 3.2 Tax returns under IFRS shall be in line with Section 55 of CITA and should include:
- i. In respect of first time adopters;
 - a. Statement of Financial Position as at the beginning of the earliest comparative period when a taxpayer applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statement
 - b. Statement comparing the tax effect of IFRS adoption with Nigerian Generally Accepted Accounting Principles (GAAP)
 - c. Statement of reconciliations from Nigerian GAAP to IFRS
 - d. Deferred tax computation
 - ii. In respect of post-first time adoption:
Deferred tax computation
- 3.3 A statement showing the adjustments made on Income Statement or Total Comprehensive Income to arrive at Assessable Profit and Total Profit for tax purposes as the taxpayer may wish to adopt shall be included.

4.0 IAS 2 – INVENTORIES

- 4.1 Where allowable input VAT is included in the cost of inventories, it shall be disallowed for income tax purposes and treated separately as deductible from the output VAT as contained in the VAT Act.
- 4.2 **When Inventories are purchased with Deferred Settlement Terms:**
Cost of inventories shall be based on the cost indicated on the invoice inclusive of any imputed interest. Where such interest has been charged in the income statement it shall be disallowed for tax purpose. If however the interest has been separately shown on the face of the invoice, such interest shall not form part of the inventory.
- 4.3 Any inventory (e.g. returnable packaging materials) reclassified in line with IFRS as non-current asset shall continue to be treated as inventory in line with the existing tax practice.

4.4 Estimates or provisions shall not be allowable for tax purposes, and any write-down on stock based on estimated cost of completion shall be disallowed.

5.0 IAS 8 - CHANGE IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS

5.1 Whereas IFRS provides for retrospective application of change in accounting policy, retrospective adjustment shall not be effected for first time adopters for tax purposes.

5.2 Taxpayers should submit a re-computation of Income Tax and Deferred Tax.

5.3 Taxpayers should disclose;

- a. all changes in estimates
- b. the basis of computation
- c. the statement to which it has been charged

5.4 Obsolete stock/inventories - FIRS may allow claim on obsolete stock where it is satisfied that such stock is indeed obsolete. Any verification/certification of destruction of obsolete stock/inventories carried out without the FIRS witnessing such shall not be accepted for tax purposes.

5.5 FIRS shall assess each correction of error on its merit and in line with the existing laws. Taxpayer shall provide detailed disclosure of the sources of the errors and the future tax effect of the errors.

6.0 IAS 11 - CONSTRUCTION CONTRACTS

6.1 The current practice for determining contract revenue by FIRS shall be sustained.

6.2 Only costs attributable to certified work done shall be allowed for tax purposes in line with provisions of CITA.

6.3 Other incomes in the nature of Incentive payments would be taxed accordingly.

6.4 The expected loss recognized as an expense shall be disallowed until the loss is actually incurred.

6.5 Interest received on advanced payment placed in an interest yielding account shall be treated as other income and be subjected to tax at the time it is earned.

6.6 Retention income shall be subjected to tax at the time it is earned.

6.7 Future cost shall not be allowable as expense for tax purposes.

7.0 IAS 12 – INCOME TAXES

7.1 Taxpayers shall furnish FIRS with all deferred tax disclosures as contained in the standard.

8.0 IAS 16 – PROPERTY, PLANT AND EQUIPMENT (PPE)

8.1 Land is not a Qualifying Capital Expenditure under Schedule 2 of CITA, thus Capital Allowance is not claimable on land.

8.2 Capital Allowance claimed on land in error in prior years shall be adjusted for tax accordingly.

8.3 The entities should provide schedule of how they apportioned the cost between Land and Building.

8.4 Separation of historical cost of the land and building shall be at the proportion of the current market value of the land to building except where the historical cost can be easily ascertained.

8.5 Deferred Payment for PPE:

a. Capitalised cost of PPE shall be based on the cost indicated on the invoice. Any imputed interest element charged as finance cost in the Income Statement shall be disallowed.

b. The company should provide the details of the imputed interest included in the cost of asset for necessary adjustments.

8.6 Cost of employee benefits directly attributable to the construction or acquisition of the PPE shall be allowed for inclusion in the cost of the PPE. The schedule of such attributable staff cost should be provided.

8.7 **The Cost Of Dismantling And Removing The Item Of PPE And Site Restoration:** Provision/estimate of cost of abandonment, dismantling, removing the item of PPE and site restoration shall not be allowed for capitalization with PPE. The cost shall only be allowable for tax purposes when it has been incurred, or if it is set aside in a funded Sinking Fund,

Provided that:

i. any company that has claimed deduction on any amount set aside for abandonment, dismantling, removal of items of PPE and site restoration shall not claim further deduction upon incurring the relevant expenditure except on amount incurred in excess of the money set aside for that purpose;

- ii. any amount claimed in excess of that expended for the abandonment, removal of items of PPE and site restoration shall be treated as taxable income.

8.8 Exchange of Assets:

- a. Where there is exchange of dissimilar assets, the old asset shall be treated as a disposal with the sales proceed being the market value (price at arm's length) of the asset. Balancing charge/allowance, Value Added Tax and Capital Gains Tax shall be computed accordingly.
- b. The cost of the new asset for capital allowance purposes shall be the market value of the old asset plus any cash consideration included in the exchange.

8.9 Revaluation Surplus/Deficit:

- a. Cost and Tax Written Down Value (TWDV) is the basis of capital allowance computation, FIRS shall continue to disregard all revaluation of PPE. Any revaluation surplus shall not be taxable while deficit shall not be an allowable deduction.
- b. Professional fees and valuation expenses relating to revaluation of PPE shall not be allowed for income tax purposes. These expenses should be separately disclosed. Where such expense is incurred prior to sale, it shall be deductible from chargeable gains under Capital Gains Tax.

8.10 Componentization:

- a. Schedule/Breakdown of Componentized PPE inclusive of the basis for determining the value of each component shall be filed with the FIRS as it shall form the basis of Capital Allowance claims and applicable rates.
- b. FIRS shall rely on Schedule Two of the CITA in granting Capital Allowance on Componentized PPE.
- c. For a component to be significant, it must be 20% and above of the total cost of the asset.
- d. Taxpayers shall provide reconciliation between the total cost of PPE under GAAP and componentized cost of same PPE under IFRS for first time adopters.
- e. Historical cost of components shall be provided by the entities.

8.11 Depreciation of Lands Used As Quarries And Landfill: The Second Schedule of CITA does not recognise any form of land as Qualifying Capital Expenditure therefore capital allowances will not be granted until the relevant tax laws are amended.

8.12 Spare Parts And Servicing Equipment:

- a. Stock of spare parts and servicing equipment should continue to be carried as inventory and expensed when consumed e.g. Returnable Containers.
- b. Where replacement results in improvement, the cost shall be added to the Tax Written Down Value (TWDV) of the PPE while the carrying cost of the replaced part that was expensed in line with IFRS shall be added back In arriving at the assessable profit.
- c. Replacement cost shall be treated as allowable deduction if it does not result into improvement.

9.0 IAS 17 – LEASES

9.1 Finance Lease:

- a. In compliance with IFRS reclassification of leased asset, there could be a situation whereby an operating lease becomes a finance lease. Where two parties had correctly applied the old principle but are now compelled by the IFRS standard to reclassify operating lease as finance lease, FIRS will rely on the Tax Written Down Value of the asset in granting further capital allowance to the lessee.
- b. Investment allowance and Initial allowance shall not be granted to the lessee on reclassification of the asset.
- c. Where there are errors in compliance with previous standards on leases, the tax consequences resulting from the errors shall be adjusted for tax accordingly.
- d. For assets reclassified as finance lease, paragraph 18(2) and (3) of Schedule Two of CITA which relates to Rights to Claim Capital Allowances on finance lease shall apply.
- e. Also the guidelines on finance lease as described in FIRS Information Circular No. 2010/01 dated 12th April, 2012 which relates to VAT and WHT shall apply.

9.2 Operating Lease:

- a. Investment (for Qualifying Plant Expenditure), Initial and Annual allowances are claimable by the lessor on cost of the asset less capital instalments paid before the reclassification.
- b. Annual allowance is claimable by the lessor on TWDV of the capital portion of the lease instalments paid.

- c. For assets reclassified to operating lease, paragraph 18(1) of Schedule Two of CITA which relates to Rights to Claim Capital Allowances on operating lease shall apply.
 - d. Also, FIRS Information Circular No. 2010/01 dated 12th April, 2012 (Guidelines On Tax Implications Of Leasing) which relates to VAT and WHT shall apply
 - e. The lease rental payments to be recognised for tax purposes each year shall be the amount incurred/realised.
- 9.3 Where land is on lease, the rental shall be allowed for tax purposes in line with Section 24 of CITA.
- 9.4 Lease of Building: Where the building is on operating lease or finance lease, our existing tax treatment (FIRS Information Circular No. 2010/01 dated 12th April, 2012: Guidelines on Tax Implications of Leasing) shall be applied.
- 9.5 Sale and Leaseback Transaction that Results in a Finance Lease:
- a. The sales and leaseback transactions shall be treated separately for tax purposes and relevant tax provisions shall apply. This position is based on the provisions of FIRS Information Circular on Lease of 12th April, 2010 (Guidelines on Tax Implications of Leasing).
 - b. The disposal shall be treated in line with the provision of Schedule Two of CITA on capital allowance, balancing allowance and balancing charge.
 - c. Gain or loss on disposal shall be subjected to the provision of Capital Gains Tax Act.
 - d. The finance lease shall be treated separately in line with the above guideline on finance lease.
 - e. Yearly amortisation of profit on disposal into profit or loss shall be treated as non-taxable income.
- 9.6 **Sale and Leaseback Transaction that Results in an Operating Lease:**
- a. The existing tax treatment on disposal, operating lease, VAT and Capital Gain Tax shall be applied on the transaction.
 - b. For tax purposes, the higher of sales price and market price shall be taken as the disposal value.
 - c. The actual lease rentals paid shall be adopted for tax purposes.

10.0 IAS18 – REVENUE

- 10.1 In the case of deferred consideration where imputed interest is embedded in sales revenue, the entire value on the invoice will be subjected to tax. However:
- a. where the interest element is clearly shown and separated on the invoice, VAT should not apply to the interest portion;
 - b. where the interest element is clearly shown and separated on the invoice, the interest element shall suffer WHT at the rate of 10%;
 - c. for income tax purpose, both the sales and finance/interest income constitute taxable income.
- 10.2 The taxpayer must always disclose clearly the components of deferred consideration.
- 10.3 The turnover to be subjected to tax treatment under loyalty program shall be the payments made for both the consumed and deferred portion of the services. Revenue shall be recognized for tax purposes at the point of realization. VAT will be charged on total invoice value, whether consumed or deferred.
- 10.4 Where there is exchange of dissimilar goods, the revenue shall be separately treated for tax purposes.
- 10.5 Where there is exchange of similar goods or services, the exchange will not be regarded as a transaction which generates income for tax purposes. The transaction will not be viewed as a case of supply of goods or services.

11.0 IAS 19 – EMPLOYEE BENEFITS

- 11.1 Provisions in respect of other long-term employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees rendered the related service shall not be allowed for tax purposes until actual payment is made.
- 11.2 Profit sharing and bonus payments shall be allowed for tax purposes in accordance with Section 24(d)(ii) of CITA LFN 2004 which states that "**cost to the company of any benefit or allowance provided for the senior staff and executives which shall not exceed the limit of the amount prescribed by the collective agreement between the company and employee, and approved by the Federal Ministry responsible for Labour matters, as the case may be**"
- 11.3 Personal Income Tax is payable on bonus and profit sharing in the hand of the recipient in line with the provisions of Personal Income Tax Act.

- 11.4 Employer's contributions within the 7.5% compulsory threshold as stipulated in the Pension Reform Act shall be an allowable deduction.
- 11.5 Employer's contributions over and above the 7.5% compulsory threshold are tax-deductible based on the provisions of Sections 7, 9 & 10 of the Pension Reform Act 2004.
- 11.6 Actual contribution paid to the pension fund shall be allowed for tax purposes in line with the provisions of the tax laws.
- 11.7 The National Pension Commission has been empowered to approve defined benefit plan for any taxpayer that wants to run it. However, FIRS must be satisfied that remittances have been made to the approved scheme manager and shall be in line with Section 24 of CITA, LFN 2004.
- 11.8 Provision made for benefits payable to the employees offered voluntary redundancy shall not be an allowable deduction for tax purposes unless they result into cash payment to the employees.
- 11.9 **Interest Free Loan:**
Benefit on interest free loan shall be taxed based on:
- a. **when it relates to individual**, it shall be regarded as benefit in kind and taxed under the provisions of Personal Income Tax (Amendment) Act 2011; and
 - b. **in the case of corporate taxpayer**, it shall be treated in line with the provisions of The Income Tax (Transfer Pricing) Regulations No. 1, 2012 and Section 22 of CITA, Cap C21, LFN 2004.
- In all cases, the interest rate to be used shall be in line with Section 32(1) of FIRS Act.
- 11.10 The Benefit associated with other short term employee benefit (e.g. complimentary goods/services, reduced price, auctioned assets at below carrying cost etc) shall be treated as benefit-in-kind in the hand of the recipient and shall be treated in line with the provisions of PIT Act as amended up to date.

12.0 IAS 20 - ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE

12.1 Capital Grant:

- a. Where the taxpayer decides to use the government grant to reduce the cost of the asset, the carrying amount after the deduction of the grant shall be available for capital allowance purposes.
- b. When the Deferred Income approach is chosen, then the income shall be taxed when realised.

12.2 **Income Grant:** The grant may be used to reduce the cost of sales or expenses of the taxpayer but where the taxpayer opts to recognise the grant as income in the statement of profit or loss, the income shall be taxed accordingly.

13.0 IAS 21 – THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

13.1 The presentation currency for the purposes of tax returns shall be the Nigerian Currency (Naira) except as otherwise provided in the tax laws. The currency for tax assessment shall be in line with the provisions of the relevant tax laws.

13.2 Exchange difference on settlement of monetary item is a realised exchange difference, the loss shall be allowed while the gain is taxable under CITA.

13.3 Any form of unrealised gains or loss arising from foreign currency translation shall be disallowed for tax purposes.

13.4 Reconciliation of exchange differences posted to Income Statement shall be provided by the taxpayer.

13.5 Exchange difference in respect of foreign operations accumulated in the Other Comprehensive Income but transferred to Statement of Profit or Loss on the disposal of the foreign operation shall be disallowed as expense for tax purpose.

14.0 IAS 23 BORROWING COSTS

14.1 Interest on loan incurred on any Qualifying Capital Expenditure that is under construction shall be capitalised with the cost of construction of the asset while the interest on the loan after the asset is fully constructed shall be expensed.

14.2 Weighted Average cost of borrowed fund adopted in line with IFRS shall be used to determine the proportion of interest on the general purpose loan that relates to the capital assets for capitalization & capital allowance purposes.

14.3 Where any part of the borrowed fund is put in an income yielding account, the interest income thereof shall be disclosed.

14.4 If capitalisation of borrowing cost is suspended at a period when active development is interrupted and charged to Income Statement, it shall be disallowed for tax purposes in line with Second Schedule of CITA.

15.0 IAS 26 - ACCOUNTING AND REPORTING OF RETIREMENT BENEFIT PLANS

15.1 The retirement benefit plans, pension schemes, superannuation schemes or retirement benefit schemes is treated for tax purposes in accordance with the Pension Reform Act and other applicable tax laws. However, income (investment and other sources) derived by any company formed for the purpose of managing the fund shall be taxable under the provisions of the relevant tax laws.

16.0 IAS 28 - INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

16.1 Upon disposal of investment in associates and joint ventures, the gains arising therefrom shall not be chargeable under CITA and any loss shall also not be deductible.

16.2 The withholding tax suffered from dividend received from investment made in associates shall be the final tax.

17.0 IAS 36 - IMPAIRMENT OF ASSETS

17.1 All impairment losses charged to the company's Income Statement shall not be allowed for tax purposes.

17.2 No adjustment shall be allowed to the Net asset on the financial statement for the purpose of computing minimum tax.

17.3 In case of revalued assets, the excess of the impairment loss over revaluation surplus transferred to Income Statement would not be allowed for tax purposes.

17.4 Capital allowances are not allowed on the re-valued amount but on the historical cost of the asset in line with the provisions of the tax laws.

17.5 Taxpayers shall be required to make the following disclosures in its tax returns:

- a. Schedule and detailed computation of impairment losses recognized in profit or loss statement; and
- b. Schedule and detailed computation of impairment losses on re-valued assets recognized in Other Comprehensive Income and Income Statement as the case may be.

17.6 Reversal of impairment loss is not taxable and should be adjusted for the purposes of determining the company's assessable profit.

17.7 Where there is reversal of impairment, no adjustment would be required to the Net assets on the financial statement for the purpose of computing minimum tax.

17.8 The following shall accompany tax returns:

- a. Schedule and detailed computation of impairment losses reversed in profit or loss statement; and
- b. Schedule and detailed computation of impairment losses on re-valued assets reversed in other comprehensive income statement.

18.0 IAS 37 – PROVISIONS, CONTINGENT ASSETS & CONTINGENT LIABILITIES

- 18.1 Existing tax treatment of not allowing provisions and estimates as deductible expenses remain unchanged and shall continue to apply.
- 18.2 **Decommissioning Costs:** Provision/estimate of cost of abandonment, dismantling, removing the item of PPE and site restoration shall not be allowed for capitalization with PPE. The cost shall only be allowable for tax purpose when it has been incurred, or if it is set aside in a funded Sinking Fund,

Provided that:

- i. any company that has claimed deduction on any amount set aside for abandonment, dismantling, removal of items of PPE and site restoration shall not claim further deduction upon incurring the relevant expenditure except on amount incurred in excess of the money set aside for that purpose;
- ii. any amount claimed in excess of that expended for the abandonment, removal of items of PPE and site restoration shall be treated as taxable income.

19.0 IAS 38 – INTANGIBLE ASSETS

- 19.1 The intangible assets which meet the requirements of Qualifying Capital Expenditure should be capitalized.
- 19.2 **Computer Software** - Software that forms integral part of a computer shall be treated as Qualifying Plant Expenditure while Stand-alone Software will be treated as intangible asset and amortized over the useful life of the asset.
- 19.3 **Customer List** – customer list acquired as an intangible asset by a taxpayer to the extent that it is for the purpose of generating taxable profit shall be tax deductible via amortization over the useful life. Where the intangible assets have indefinite life then no tax deduction should be allowed.
- 19.4 **Franchise** – Shall be expensed over the useful life of the franchise.

- 19.5 **Research & Development (R&D)** – the position of CITA on R&D shall continue to be applied. R&D costs charged to Profit or Loss, other than those allowed under Section 26 of CITA, shall be disallowed for CIT purposes.
- 19.6 **Website Cost** – website cost that meet the condition of capitalization shall be amortized over its useful life. However, website cost that is expensed shall be subject to deductibility test.
- 19.7 Cost relating to internally generated intangible assets shall be disallowed for tax purposes except as provided under Second Schedule of CITA.
- 19.8 Impairment loss shall be disallowed for tax purposes.
- 19.9 Gain or Loss derived from the subsequent measurement (fair valuation) shall not be allowed for tax purposes.
- 19.10 Intangible assets such as Landing Right, Import License, Radio Station License etc acquired through government grant for free or at nominal value are either recognized at fair value or at nominal value and shall be treated as follows where;
- a. it is an intangible asset that has a nominal value, the value shall be adopted for tax purposes;
 - b. it is at Fair Value and a nominal value exists, then the difference between these values shall be disallowed for tax purposes; and
 - c. fair value is used and nominal value does not exist, the fair value shall be disallowed for tax purposes.
- 19.11 Disposal gains on intangibles shall not be taxed under CITA but taxed under CGT.

20.0 IAS 40 - INVESTMENT PROPERTY (IP)

- 20.1 Taxpayers shall split Land from building. The taxpayer shall disclose the rationale used in apportioning or separating land from building with a certified valuer's report.
- 20.2 Where the ownership of Investment Property results into a separate line of business, the income will be taxed as a separate line of business in line with the provisions of the tax laws.
- 20.3 On disposal of Investment Property with Tax Written Down Value (TWDV), the relevant provisions of the tax laws shall apply for CGT and CIT purposes. However, on disposal of land which does not qualify for Capital Allowance, only the provision of CGT Act shall apply.

- 20.4 For IP measured at fair value, gain or loss that may be charged to Income Statement shall not be allowed for tax purposes.
- 20.5 Land held for undetermined future use is qualified to be an IP but not a QCE, therefore all cost incurred on the land shall be capitalised and disallowed if charged to Income Statement.
- 20.6 A schedule of IP shall accompany all tax returns
- 20.7 All assets other than land reclassified or recognised as IP from PPE shall be transferred at their TWDV to IP and continue to enjoy Capital Allowance.
- 20.8 Where the property is rented out as an IP, VAT is payable except when it is used for residential purposes e.g. staff quarters (Benefit-In-Kind would be recognised in the computation of Personal Income Tax).
- 20.9 Any taxpayer engaged in both Investment Property and trading in properties shall segment the two lines of businesses and report them accordingly.

21.0 IAS 41 – AGRICULTURE

- 21.1 The activities of Deep fish trawlers shall be regarded as agricultural business in accordance with CITA. Capital allowance and other tax incentives to agricultural business shall continue to be granted in respect of Deep fish trawling assets.
- 21.2 **Government grants:**
- a. Government grants shall be treated for tax purposes in line with the position of IAS 20 - *Government Grants*.
 - b. The grant is liable to tax when it is received whether they are conditional or unconditional grants. If however a conditional grant that has been taxed is withdrawn (probably due to a breach of a condition), the amount withdrawn shall be allowed for tax purposes.
 - c. Any penalty for default or breach of condition shall not be allowed as a deduction for tax purposes.

22.0 IFRS 2 - SHARE BASED PAYMENT

- 22.1 Capital allowance shall be claimable if the asset acquired is a QCE.
- 22.2 The cost of the asset, purchases or expense is the invoice price, upon which VAT Act provisions shall be applicable
- 22.3 Any related expense involved in the issuance of shares under share based payment shall be disallowed for income tax purposes.

22.4 The goods/services exchanged under share based payment shall be recognized at the current market value and the impact on shareholders fund (Share premium) must be clearly shown.

23.0 IFRS 3 – BUSINESS COMBINATIONS

23.1 All tax issues arising from business combinations and merger shall be treated in accordance with FIRS Information Circular No. 2006/04 of February 2006 on Tax Implications of Mergers and Acquisitions.

23.2 Goodwill impairment charged to the Statement of Comprehensive Income or Income Statement shall be disallowed for tax purposes, while goodwill acquired shall not form part of the qualifying capital expenditure on which capital allowances can be claimed.

23.3 Gains arising from disposal of a Cash Generating Unit (CGU) with Goodwill components is subject to Capital Gain Tax.

23.4 Gains on Bargain Purchase charged to income statement or Other Comprehensive Income (OCI) shall be disallowed for tax purposes.

23.5 Gains or Losses arising from Contingent Consideration charged to income statement shall be disallowed as it is part of deferred cost of acquisition.

23.6 Contingent consideration shall be recognized for CGT purpose when realized.

23.7 **Provision made on incomplete business combination transaction:** Provisions in relation to business combination charged to income statement shall be disallowed for tax purposes.

23.8 The Costs incurred to effect business combination are capital in nature and shall be disallowed for tax purposes in line with FIRS Information Circular No. 2006/04 of February 2006 on Tax Implications of Mergers and Acquisition.

24.0 IFRS 4 – INSURANCE CONTRACT

24.1 The Tax law has not changed and as a result, the provisions specified under Section 16 of CITA are still operational.

25.0 IFRS 5 - ASSET HELD FOR SALE AND DISCONTINUED OPERATION

25.1 The FIRS shall take any asset classified as “held for sale” under IFRS not to be in use and shall suspend capital allowances on it until otherwise proved. However, if the asset is subsequently reclassified as in use, then the Capital

Allowance would be granted on the tax written down value. Additionally, where the asset is eventually disposed, the provisions of the relevant tax laws shall apply

25.2 Discontinued Operation:

Cessation rule shall apply when a taxpayer discontinues a line of business and Commencement rule will apply if the line of business is bought over by another party at arm's length in line with Section 29 (9) of CITA.

26.0 IFRS 7, IFRS 9, IAS 32 and IAS 39 – FINANCIAL INSTRUMENTS

26.1 Financial Instruments classified as **Fair Value Through Profit or Loss (FVTPL)** held for trading or short-term profit-taking such as derivatives are revenue in nature and therefore liable to CITA to the extent that they are not specifically exempted from tax. The transaction shall be taken as a separate line of business except where the taxpayer is already engaged in the same line of business.

26.2 Financial instruments classified as **Held to Maturity Investments** such as debt securities and mandatory redeemable preference shares are capital instruments. Consequently, capital gains tax shall apply to gains derived from the disposal of such instruments, except for gains exempted by relevant provisions of the Capital Gains Tax Act and Regulations.

26.3 Financial instruments classified as **Loans and Receivables** - To be treated in line with the provisions of the relevant tax laws.

26.4 Financial instruments classified as **Available for Sale** (as a default class) such as all equity instruments not measured at FVTPL are capital instruments. Consequently, capital gains tax shall apply to gains derived from the disposal of such instruments, except for gains exempted by relevant provisions in the CGTA and Regulations.

26.5 All transaction costs incurred on Financial Instruments shall be disclosed.

26.6 Initial cost of various classes of Financial Instrument except FVTPL are to be capitalised as part of the cost of the investment.

26.7 The transaction cost relating to FVTPL shall be allowed to be expensed while cost relating to held-to-maturity shall be capitalised.

26.8 All gains and losses on FVTPL shall only be allowed for tax purposes when they are realised.

26.9 Interest and Dividends earned on financial instruments shall be taxable to the extent that they are not final tax.

- 26.10 FIRS shall disregard the effective interest rate used in calculating both the interest income and expense and use the interest rate stated in the contract. VAT shall be applicable on fees and similar charges incurred.
- 26.11 Fees and interest income on Financial Instruments (assets) classified as **Loans and Receivables** shall be recognised for tax purposes immediately they are earned. VAT and WHT shall be applicable to the fees while only WHT will be applicable to interest income.
- 26.12 Taxpayers shall provide detailed schedule of interest expense.
- 26.13 Gains and losses arising from assets classified as available for sale that appear in **Other Comprehensive Income** statement shall not be allowed for tax purposes.
- 26.14 FIRS shall ignore all fair values assigned to financial instruments, and at disposal, the historical cost shall be used as the basis for tax computation.
- 26.15 Impairment losses on individual financial assets (Loan & Advances) shall be subject to Section 20 of CITA.
- 26.17 **Compound Instrument** - FIRS shall regard this as pure debt instrument. Nominal Interest is not allowable for tax purposes, actual interest incurred should be allowed for deduction.
- 26.18 **Preference Share** - The IFRS is in conflict with the provisions of Companies and Allied Matters Act (CAMA). This implies that any payment made in respect of preference share shall be treated as dividend until the provisions of CAMA are amended.

27.0 IFRS 8 - OPERATING SEGMENTS

- 27.1 Irrespective of the segmentation criteria adopted by the taxpayer, only segmentation based on lines of trade or business shall be acceptable for tax purposes.

28.0 IFRS 10 and IAS 27 – CONSOLIDATED FINANCIAL STATEMENTS

- 28.1 In line with the existing Nigerian tax laws, separate income taxes is computed and charged on every line of business or subsidiary. Group taxation is not in the Nigerian tax laws.
- 28.2 Gains or Losses made from the disposal of Cash Generating Unit or Subsidiary with Goodwill component shall be subject to CGT in the hands of the parent company. However where the acquisition is fully share based there shall be no tax implication.
- 28.3 Capital Allowance shall not be granted on Purchased Goodwill.

29.0 IFRS 11 - JOINT ARRANGEMENTS (Effective date 1st January,2013)

29.1 Joint venture activities shall be taxed in the hands of the individual joint venturer in proportion to their individual investment in the joint venture.

30.0 IFRS 13 - FAIR VALUE MEASUREMENT

30.1 All gains and losses that may arise from fair value measurement shall be disregarded for tax purposes.

31.0 Enquiries

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

Executive Chairman,
Federal Inland Revenue Service
Revenue House
15 Sokode Crescent
Zone 5, Wuse, Abuja.
Tel: 09-5236611

OR

Director, Tax Policy and Legislation
Federal Inland Revenue Service
Revenue House
12 Sokode Crescent
Zone 5, Wuse, Abuja.