



FEDERAL INLAND REVENUE SERVICE

INFORMATION
CIRCULAR

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Subject: TAX IMPLICATION OF CHANGES IN ACCOUNTING DATES

This information circular is issued to provide direction to all Revenue Staff, Tax Practitioners, Consultants, Taxpayers 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.

1.0. Introduction

Attention of Management has been drawn to the fact that different methods are being applied by tax consultants and Tax officers in the treatment of changes in accounting dates, with each method yielding different results in under-assessment or incorrect assessments levied on taxpayers. 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. 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 as well as officers vested with audit responsibilities, who from time to time will 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 2004 as amended will apply. The Act provides that the Tax Authorities have the power to decide the basis of computing the tax liability for the year in which the change 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 occurs.
- ii) The next two years of assessment following that in which the change occurs.

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

3.0. **Years Involved in the Tax Computations**

- i) Whenever a company change its accounting date, the company shall be assessed to tax through a special process of determining the basis of assessment. This process requires computations for three (3) relevant years. The three (3) years are: 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 occurs.
- ii) The next two years of assessment following that in which the change occurs.

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 of 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 Service will often adopt the following procedures to determine the assessments for the three relevant years.

- i) 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:

		₦	(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 was 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 30th April)

<u>Year of Assmt.</u>	<u>Basis Period</u>	<u>Assessment</u>
		₦
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 31st 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	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>30th April</u> N	<u>New date of</u> <u>31st October</u> N
1996	450,000	501,667
1997	553,333	553,333
1998	571,667	590,000
	<u>1,575,000</u>	<u>1,645,000</u>

Conclusion:

The tax authority 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</u>	<u>Assessment</u> ₤
2003	P.Y.B to 31/10/02	18,000
2004	1/11/02 – 31/10/03 (1/11/02-31/7/03)+(1/8/03-31/10/03) 20,000 + 3/12 x 28,000	27,000
2005	1/11/03 – 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	25,750

b) Assessment based (on new accounting date of 31st July)

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

c) Summary of Assessments

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

Conclusion:

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

6.0. **Conclusion**

Tax officers should be guided by the content of this Circular and adhere to procedures specified in the Circular for the computation of assessable profit whenever company change its accounting date.

7.0 **Enquiries**

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

*Executive Chairman,
Federal Inland Revenue Service
Revenue House,
15 Sokode Crescent, Wuse Zone 5, Abuja.*

Or

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