Tax Thursday
March 12th, 2020

Tax Audit and Investigation

Important Facts You Need to Know as a Taxpayer.
What is Tax Audit?
This is a process of examining a taxpayer's record and documents in order to ascertain whether such taxpayer has appropriately assessed, reported and remitted its tax liability for the relevant year of assessment. Tax audit also seek to ensure that the taxpayer has fulfilled all other obligations as provided for under the relevant tax laws.

What is Tax Investigation?
Tax investigation can be described as an advancement from tax audit, it entails a more detailed examination by the tax authority in order to recover under charged tax in previous years due to an information/suspicion that the taxpayer might have evaded tax.

What is the difference between Tax Audit and Tax Investigation?

<table>
<thead>
<tr>
<th>S/N</th>
<th>Item</th>
<th>Tax Audit</th>
<th>Tax Investigation</th>
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<tbody>
<tr>
<td>1.</td>
<td>Objective</td>
<td>Ascertaining the correctness of tax liability</td>
<td>To recover undercharged tax in previous years</td>
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<td>2.</td>
<td>Nature</td>
<td>Tax Audits are routine in nature</td>
<td>Tax Investigation are targeted</td>
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<td>3.</td>
<td>Duration</td>
<td>Tax Audits are usually ranging from 1 – 6 years, does not exceed 6 years</td>
<td>Tax Investigation can go farther than 6 years</td>
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<td>4.</td>
<td>Results</td>
<td>Tax Audits would lead to additional assessment or a refund</td>
<td>Tax investigation would result in either an assessment or criminal prosecution</td>
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<td>5.</td>
<td>Triggers</td>
<td>Tax Audits are statutory</td>
<td>Intelligence reports, Publications, Industry average, fraud...etc</td>
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What are the various Tax Audit triggers and exposures?

The are some audit triggers and exposures, some or all the triggers listed below might have a justifiable reason, therefore, taxpayers are advised to not only maintain proper and adequate records but to also ensure that sufficient third-party documentary evidence are available in order to eliminate as suspicion assumed by the tax authority.

i. Significant fluctuations in assessable profits without corresponding fluctuations in tax liabilities
ii. Huge and consistent loss situations
iii. Significant refund claims with respect to withholding tax and value added tax
iv. Significant related party transactions which might seem to the tax authority as profit shifting
v. Significant expense to revenue ratio.

Enforcement powers by the tax authority

- The tax authority can serve demand notices/assessments
- The tax authority can decide whether an assessment is final and conclusive
- If no payment within the stipulated time frame, distraint the taxpayer and recover the amount of tax due from the sale of the distrained properties

Does Tax Audit have a legal backing?

Some of the few legal backings of tax audits and investigation are cited below;

Section 43 (4) of the Companies Income Tax Act provides that

Nothing in the foregoing provision of the section or any other provision of this Act shall be construed as precluding the Board from verifying by tax audit or investigation any matter relating to entries in any book, documents, accounts or return as the Board may from time to time specify in any guideline

Section 46 of Personal Income Tax Act, 2007 empowers the relevant tax authority to call for Returns, Books, Documents and Information from a taxable person and collection agents.

Section 36(l) Federal Inland Revenue Service (Establishment) Act provides that The Service may co-opt the assistance and cooperation of any of the law enforcement agencies in the discharge of its duties under the Act.
What does the Tax Audit Process look like?

i. Case Selection – The taxpayer to be audited is selected
ii. Notification of Tax Audit – The taxpayer is then notified and scheduled for an audit
iii. Field Exercise – The tax authorities then visit the taxpayer’s premises for the audit
iv. Tax Audit Report – Following from the field audit, the tax authorities then issue a report which is then communicated to the taxpayer (It never ends here, whew)
v. Reconciliation meetings –
vi. Assessments, Objections and if necessary, Appeals
vii. Payment of established liabilities and if possible, refund of excess tax

What should I do before the Tax Authorities come with their “wahala”?

i. Ensure that proper records are kept yearly including, financial records and tax returns.
ii. Ensure that accurate documentation(s) are in place for transactions that occurred during the period
iii. Perform an industry research to verify and understand the process that tax authorities would ordinarily take in the audit of companies in your industry.
iv. Perform an internal assessment of the likely additional assessment that may arise if an audit was conducted.

How can I ensure adequate Compliance before the Tax Authorities come for Tax Audit and Investigation?

The Chartered Institute of Taxation of Nigeria currently has in excess of 1,000 chartered or licensed tax practitioners who are able to assist with Tax Audits compliance requirements. Taxaide®’s professional personnel are among such licensed tax practitioners.

Taxaide®’s Professional personnel would objectively assess the Company’s level of compliance with respect to all taxes and thereafter advice the Company to remit any outstanding taxes or assist the Company to claim a tax refund where appropriate.

Conclusion

Audit is centered around claims by the tax authority and taxpayer, in order to support a taxpayers' claims with the tax authority, the claims should be backed by evidences to prove what has been paid and what has not (if any). For taxpayers', winning tax audits begins with compliance and documentation at every stage of tax process (identification, assessment, remittances, returns and receipts). To avoid a paradigm shift from the business' core activities as a result of tax audit, it is advisable to engage the services of tax managers like Taxaide professionals.
For more information on Tax Audits and Investigations and all tax-related issues, please do not hesitate to contact us at:

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