FEDERAL INLAND REVENUE SERVICE

DRAFT INFORMATION CIRCULAR **NO. 2012/**

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

In line with section 8 of FIRS Establishment Act 2007, Federal Inland Revenue Service is issuing this information circular to provide direction to all Revenue Staff, Tax Practitioners, Consultants, Tax Payers 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 Councils' 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 with the Service while Sections 8, 52 and 53 of the Financial Reporting Council of Nigeria Act, 2011 gave effect to the adoption of International Financial Reporting Standard. This implies that the audited accounts to be submitted to the Service after the adoption of International Financial Reporting Standard shall be prepared in compliance with Standards issued by IFRS. It is in line with the above that FIRS has 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

"*An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs. This is the starting point for its accounting in accordance with IFRSs.*

An entity shall use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period.

In particular, the IFRS requires an entity to do the following in the opening IFRS statement of financial position that it prepares as a starting point for its accounting under IFRSs:

a. recognise all assets and liabilities whose recognition is required by IFRSs;

b. not recognise items as assets or liabilities if IFRSs do not permit such recognition;

c. 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 IFRSs; and

d. apply IFRSs in measuring all recognised assets and liabilities".

2.1 The new net asset based on the accounting balance shall be adopted for minimum tax computation.

2.2 Where dividend is paid from Retained Earnings, it shall be subject to tax in line with Section 19 of CITA

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 Entities shall have the option to either completely expense or spread within 3yrs the revenue expense component of its cost of conversion to IFRS as first time adopters.

2.5 All conversion cost (Capital & Revenue) must be verified and confirmed by the service before it can be allowed as Qualified Capital Expenditure or expense.

2.6 Any additional tax/refund as a result of the conversion shall be settled by the company or refunded by FIRS as may be agreed by FIRS within 3 years of adoption.

3.0 <u>IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS</u>

3.1 IFRS compliant financial statement shall be included in tax returns in line with FRC roadmap for adoption.

3.2 Tax returns under IFRS shall be in line with Section 55 of CITA and must be accompanied by:

a. Statement of Financial Position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or make a retrospective restatement of items in its financial statement

b. Statement comparing the tax effect of IFRS adoption with Nigerian GAAP

c. Statement of reconciliations from Nigerian GAAP to IFRS

d. Deferred tax computation

3.3 Adjustments shall be done from Profit or Loss or Total Comprehensive Income to arrive at Assessable and Total Income for tax purposes.

4.0 IAS 2 – INVENTORIES

4.1 Where VAT is included in the cost of inventories, the input VAT element shall be disallowed and treated separately as deductible from the output VAT as contained in the VAT Act.

4.2 **Interest Cost when Inventories are Purchased with Deferred Settlement Terms:** The finance cost portion shall not be separated from the purchase figure to be used for tax purpose. The whole invoice value shall be considered for tax purposes while the imputed interest element charged to statement of profit or loss shall be disallowed. Where the invoice value is net of finance cost element, the total purchase price shall be the finance cost plus the net purchases. The taxpayer should clearly show the component of deferred settlement.

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, 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 IFRS provides for retrospective application of change in accounting policy, retrospective adjustment should also be carried out for tax purposes. Any additional tax or refund request that may arise as a result of this retrospective adjustment shall be treated in accordance with treatment of conversion cost under IFRS 1 - *First Time Adoption* if the entity was statutorily compelled to make such changes.

5.2 Where the change is voluntary and it results in additional tax , payment of tax liability shall be made without a grace period but where it results into tax refund, request for the refund shall be granted subject to audit in line with the FIRSEA.

5.3 FIRS expects that there shall be consistency in accounting policy.

5.4 Entity should submit a re-computation of Income Tax and deferred tax.

5.5 Entities should disclose;
a. all changes in estimates
b. the basis of computation
c. the statement to which it is charged

5.6 A change in accounting estimate for bad debts might not be allowed by FIRS if for example, the change is based on age analysis without sufficient recovery effort.

5.7 **Obsolete stock/inventories** - FIRS has discretion to allow or disallow obsolete stock subject to verification by the service irrespective of the accounting systems.

5.8 FIRS shall assess each correction of error on its merits and in line with the existing laws. Section 90 of CITA allows an entity to make a written application to the Board for relief within Six (6) years of discovery of errors or mistakes for necessary claims or refund. However, the Board has the power to investigate such claims before granting relief. Also Section 66 LFN (2007) of CITA allows additional tax to be raised on discovery of errors or mistakes.

5.9 Taxpayer shall provide detailed disclosure of the sources of the errors and the future tax effect.

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 purpose in line with Section 24 of CITA.

6.3 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 VAT and WHT shall apply to advance payments.

6.6 Where part of the advance payment is placed in an interest yielding account, the interest income shall be used to reduce the cost of the contract.

6.7 Retention income shall be subject to tax at the time of receipt/recovery.

6.8 Future cost shall not be allowable as expense for tax purpose.

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

8.1 Land is not a QCE under schedule two of CITA, thus Capital Allowance is not claimable.

8.2 Capital Allowance claimed on land in error in prior periods 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

8.5 **Deferred Payment for PPE:**

a. Capitalised cost of PPE shall be on the basis of the invoice value, the split between the cost and imputed interest element shall be disregarded for tax purposes. In line with this, the imputed interest charged as finance cost in the statement of Profit or Loss should 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 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 should not be allowed for capitalization with PPE. The cost shall only be allowable for tax purpose when it has been incurred.

8.8 **Exchange Of Assets:**

a. Where there is exchange of dissimilar assets, the old asset shall be treated as disposal with the sales proceed being the market value of the asset. Balancing charge/allowance and CGTA 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 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 tax purposes. These expenses should be separately disclosed.

8.10 **Componentization:**

a. Schedule/Breakdown of Componentized PPE inclusive of the basis for determining the value of each component should be filed 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 a reconciliation between the total cost of PPE under NGAAP 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 QCE therefore land cannot be depreciated till the relevant law is amended.

8.12 **Spare Parts And Servicing Equipment:**

a. Stock of spare parts and servicing equipments 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 TWDV of the PPE while the carrying cost of the replaced part that was expensed in line with IFRS shall be added back to assessable profit.

c. Replacement cost shall be treated as allowable deduction if it did not result into improvement.

9.0 IAS 17 – LEASES

9.1 **Finance Lease:**

a. In compliance with IFRS reclassification of lease 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 leasee.

b. Investment allowance and Initial allowance shall not be granted to the leasee 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 accordingly.

d. For assets reclassified to 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 guideline 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 QPE), Initial and Annual allowances are claimable by the leasor on cost of the asset less capital instalments paid before the reclassification.

b. Annual allowance is claimable by the leasor 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 shall apply.

d. Also The guideline on finance lease as described in FIRS information circular No. 2010/01 dated 12th April, 2012 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 treated as lease, the rental shall not be allowed for tax purposes except for short term rentals not more than five (5) years pending the amendment of the relevant tax laws to define land.

9.4 Where the building is treated as operating lease or finance lease, our existing tax treatment (FIRS information circular No. 2010/01 dated 12th April, 2012) shall be applied.

9.5 The rental on land shall not be allowed for tax purposes except for short term rentals not more than five (5) years pending the amendment of the relevant tax laws to define land.

9.6 **Sale And Leaseback Transaction that Results In A Finance Lease:**

a. The sales and lease back transactions shall be treated separately for tax purposes and relevant tax provisions shall apply. This position is based on the provisions of Information Circular on Lease of 12th April, 2010.

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 Gain Tax Act.

d. The finance lease shall be treated separately in line with our above guideline on finance lease.

e. Yearly amortisation of profit on disposal into profit or loss shall be treated as non-taxable income.

9.7 **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 (broken down into sales and finance income portion), the entire value on the invoice will be subjected to tax. However, where the net sales portion is shown on the invoice, this shall be grossed up, finance portion plus the net sale shall be taken as the sales value for tax purposes.

10.2 The taxpayer must always disclose clearly the components of deferred consideration. VAT shall be charged on the full invoice value.

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..

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 render 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 only if the amount and basis for its computation has been agreed and approved at the beginning of the accounting period.

11.3 Personal Income Tax is payable on the bonus and profit sharing in line with the provisions of PITA.

11.4 Employer's contributions within the 7.5% compulsory threshold as stipulated in the Pension Act shall be allowable deduction.

11.5 Employer's contributions over and above the 7.5% compulsory threshold is an allowable deduction by virtue of the provision of the National Pension Commission Act (section 7 & 9 of Pension Act).

11.6 Actual contribution paid to the pension fund in the current year shall be allowed for tax purposes in line with the existing practice.

11.7 The National Pension Commission has been empowered to approve defined benefit plan for any entity that wants to run it. However, FIRS must be satisfied that a proper scheme manager is appointed for the security of the fund before allowing any expenses on the scheme for tax purposes.

11.8 Any provision charged to Statement Of Comprehensive Income (SOCI) that does not have the approval of PENCOM and FIRS shall be disallowed.

11.9 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.

11.10 **Interest Free Loan:**

a. Benefit on interest free loan shall be taxed based on the existing provisions of the law but the interest rate to be used shall not be the commercial rate on the basis that it is not the opportunity cost to the employer. The Monetary Policy Rate shall be used.
b. The imputed interest is recognised both as finance income and staff cost therefore it shall be disallowed on both sides for tax purposes.

11.11 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 and shall be treated in line with the existing tax provisions.

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

12.1 **Capital Grant:**

a. Where the tax payer decides to use the government grant to reduce the cost of the asset, the carrying amount after the deduction of the grant shall be capitalised 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 opt 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 Income tax assessment should be made in the Presentation Currency adopted by the taxpayer. However, companies under PPTA are to continue to be guided by the provisions of PPTA on presentation and assessment currency.

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 allowed for tax purposes.

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

13.5 **Disposal Of A Foreign Operation:**

a. Exchange difference accumulated in the Other Comprehensive Income in respect of such disposal is a capital item and shall be disallowed.

b. The gain or loss on such disposal of foreign operation shall be treated under CGT.

14.0 <u>IAS 23 BORROWING COSTS</u>

14.1 Interest on loan of an asset 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 Capital Allowance to be claimed only when an asset is engaged in generating revenue for the entity.

14.3 Weighted Average cost of borrowed fund 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.

14.4 Borrowing cost capitalized as an addition to a QCE before an asset is put in use or ready for sale should not be granted Capital Allowance.

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

14.6 If suspension of capitalisation of borrowing cost is charged to Income Statement, it shall be disallowed for tax purposes.

15.0 <u>IAS 26 - ACCOUNTING AND REPORTING OF RETIREMENT BENEFIT PLANS</u>

15.1 The plan, fund or scheme is not taxable. However, the income of any company formed for the purpose of managing the fund or plan is taxable under CITA. Also, benefits, gratuities, superannuation or pension paid out to beneficiaries of the fund or scheme is subject to the provisions of PITA.

16.0 IAS 28 - INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

16.1 Upon disposal of investment, the gains arising therefore shall not be chargeable to tax. Also, any loss upon the disposal shall not be deductible for tax purpose.

16.2 Dividend on investment made in associates shall be subject to WHT.

17.0 IAS 36 - IMPAIRMENT OF ASSETS

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

17.2 CITA relied on the accounting definition of Net asset as one of the bases for the computation of minimum tax; no adjustment would be required to the Net asset on the financial statement for the purposes of computing minimum tax.

17.3 In case of revalued assets, the excess of the impairment loss over valuation surplus transferred to P/L would not be allowed for tax purposes.

17.4 Capital allowances are to be granted at the applicable rates contained in the 2nd schedule to CITA for the use of QCE. Capital allowances are granted on cost incurred for the procurement of the asset.

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

a. Schedule and detail computation of impairment losses recognized in profit or loss

b. Schedule and detail 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 purposes of computing minimum tax.

17.8 The following shall accompany tax returns:

a. Schedule and detail computation of impairment losses reversed in profit or loss

b. Schedule and detail computation of impairment losses on revalued assets reversed in other comprehensive income

18.0 IAS 37 – PROVISIONS, CONTINGENT ASSETS & CONTINGENT LIABILITIES

18.1 Existing tax treatment of provisions and estimates is unchanged.

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.

19.0 IAS 37 – PROVISIONS, CONTINGENT ASSETS & CONTINGENT LIABILITIES

19.1 Existing tax treatment of provisions and estimates shall apply.

20.0 IAS 38 – INTANGIBLE ASSETS

20.1 The intangible assets which meet the requirements of QCE should be capitalized.

20.2 **Computer Software -** Software that forms integral part of a computer shall be treated as qualifying PPE while Stand alone Software will be treated as intangible asset and amortized over the useful life of the asset.

20.3 **Customer List -** Any intangible assets acquired by an entity to the extent that it is for the purpose of generating taxable profit it shall be tax deductible via amortization over the useful life. Where the intangible assets have indefinite life then no tax deduction should be allowed. Where the intangible asset is internally generated it would not be allowed for tax purposes.

20.4 **Franchise –** Shall be expensed over the useful life of the franchise. Therefore all items that make up the franchise must be reviewed to determine their deductibility.

20.5 **Research & Development –** the position of CITA on R&D shall continue to be applied, the expenses portion in statement of profit or loss shall be disallowed and capitalized until amendment of CITA is effected.

20.6 **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.

20.7 Cost relating to internally generated intangible assets shall be disallowed for tax purposes.

20.8 Amortized cost and impairment loss shall be disallowed for tax purposes.

20.9 Gain or Loss derived from the subsequent measurement (fair valuation) shall not be allowed for tax purposes.

20.10 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 a nominal value and shall be treated as follows:

a. If it is an intangible that has a nominal value then this value shall be adopted for tax purposes.

b. If it is at Fair Value where a nominal value exists, then the difference shall be disallowed for tax purposes.

c. If fair value is used where nominal value does not exist, the fair value shall be disallowed for tax purposes.

20.11 Disposal gains on intangibles shall not be taxed under CITA but taxed under CGT, the disposal loss shall be added back to profit.

21.0 IAS 40 - INVESTMENT PROPERTY (IP)

21.1 Taxpayers shall split Land from building. The taxpayer shall disclose the rationale used in apportioning and or separating land from building with certified valuer's report

21.2 All entities shall disclose new businesses and segment all incomes henceforth.

21.3 On disposal of Investment Property with TWDV, extant rule shall apply on CGT and CIT. However, on disposal of land which does not qualify for Capital Allowance, only the provision of CGTA shall apply.

21.4 For IP measured at fair value, gain or loss that may charged to Income Statement shall not be allowed for tax purposes.

21.5 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.

21.6 A schedule of IP shall accompany all tax returns

21.7 All assets other than land reclassified and/or recognised as IP from PPE shall be transferred at their TWDV to IP and continue to enjoy Capital Allowance.

21.8 Where the property is rented out as an IP, VAT is payable except when it is used for residential purposes e.g. staff quarters, then PAYE is applicable in respect of Benefit In Kind.

21.9 Any entity engaged in both Investment Property and trading in properties shall segment the two lines of businesses and report them accordingly.

22.0 IAS 41 – AGRICULTURE

22.1 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.

22.2 **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 & 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 deductible for tax purposes.

23.0 IFRS 2 - SHARE BASED PAYMENT

"The IFRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. There are no exceptions to the IFRS, other than for transactions to which other Standards apply.

This also applies to transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity.

The IFRS sets out measurement principles and specific requirements for three types of share-based payment transactions:

a. equity-settled share-based payment transactions, in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options);

b. cash-settled share-based payment transactions, in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity; and

c. transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash or by issuing equity instruments."

23.1 Capital allowance shall be claimable if the asset acquired is a QCE.

23.2 The cost of the asset, purchases or expense is the invoice price, upon which VAT provisions shall be applicable

23.3 Any related expense involved in the issue of shares under share based payment shall be disallowed for income tax purposes.

23.4 The goods/services must be recognized at the current market value and the impact on shareholders fund (Share premium) must be clearly shown.

24.0 IFRS 3 – BUSINESS COMBINATIONS

"The objective of the IFRS is to enhance the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a

business combination and its effects. It does that by establishing principles and requirements for how an acquirer:

a. recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

b. recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and

c. determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains control of the other business (the acquiree). Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business are not business combinations."

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

24.2 Goodwill impairment charged to statement of profit or loss shall be disallowed for tax purposes while Goodwill acquired is not a qualified for capital allowance as the Schedule 2 of CITA and Schedule 5 of PITA do not recognise Goodwill as QCE.

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

24.4 Gains on Bargain Purchase charged to statement of profit or loss or OCI shall be disallowed for tax purposes.

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

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

24.7 All mergers and acquisition shall be treated in accordance with present provision of the tax laws and other regulations.

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

24.9 The Cost incurred to effect business combination are of capital in nature. These shall be disallowed for tax purposes.

25.0 <u>IFRS 4 – INSURANCE CONTRACT</u>

25.1 The Tax law has not changed and as a result, the provisions specified under section 16 of CITA is still operational.

26.0 IFRS 5 - ASSET HELD FOR SALE AND DISCONTINUED OPERATION

26.1 The service shall suspend capital allowance on any asset classified as held for sale under IFRS until it is reclassified.

26.2 **Discontinued Operation:**

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

b. For Cessation provision to apply to a discontinued operation, the commencement rule shall be seen to have been applied. Where commencement rule was not applied, no cessation provision shall be applicable to such discontinued operation.

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

27.1 **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 and shall be treated as a separate line of business.

27.2 **Held to Maturity Investments** such as debt securities and mandatory redeemable preference shares are capital instruments as such capital gains shall apply except for instruments exempted by relevant provisions in Capital Gains Tax Act and regulations on exemption of bonds. Also, relevant VAT provisions shall be applied on the sales.

27.3 **Loans and Receivables -** To be treated in line with the present tax practice.

27.4 **Available for Sale** (as a default class) such as all equity instruments not measured at FVTPL are capital instruments as such capital gains shall apply except for instruments exempted by relevant provisions in capital gains tax Act and regulations on exemption of bonds. Also, relevant VAT provisions shall be applied on the sales.

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

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

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

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

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

27.10 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 included in effective interest.

27.11 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.

27.12 Taxpayers shall provide detailed schedule of interest expense.

27.13 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.

27.14 FIRS shall ignore all fair values assigned to financial instruments until when disposed and use the historical cost as basis for tax computation.

27.15 Gains and losses arising from assets classified as available for sale has CGT implications except those that are specifically exempted by the extant rules including official gazettes and CGT Act.

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

27.17 Impairment losses on individual financial assets (Loan & Advances) may not be wholly allowed for tax purpose if not proved to the satisfaction of the board in accordance with Section 20 of CITA.

27.18 **Compound Instrument -** FIRS shall regard this a pure debt instrument. Nominal Interest is not allowable for tax purposes, actual interest incurred should be allowed for deduction.

27.19 **Preference Share -** The IFRS is at conflict with the provisions of CAMA. This implies that any payment made in respect of preference share shall be treated as dividend until the provisions of CAMA is amended.

28.0 IFRS 8 - OPERATING SEGMENTS

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

28.2 In CITA, separate computation of tax is mandatory as long as the trade or business differs.

29.0 IFRS 10 and IAS 27 – CONSOLIDATED FINANCIAL STATEMENTS

29.1 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.

29.2 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.

29.3 Capital Allowance should not be granted on purchased Goodwill.

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

30.1 Assets, Liabilities and Income of a joint operation shall be subject to tax in the books of the joint operation.

30.2 Assets, Liabilities and Income of a joint venture shall be taxed in the hands of the joint venturers.

31.0 **IFRS 13 - FAIR VALUE MEASUREMENT**

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

32.0 **Enquiries**

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

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

OR

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