

# MODULE 5

## **LOSS RELIEF**

# OUTLINE

- Methods of loss relief.
- Current Year Relief.
- Carry forward of reliefs.
- Loss Relief under CITA and PPTA.

# Methods of loss relief

- Where a company incurs a loss in a trade or business, the loss can be deducted from the company's assessable profit to the following conditions:
- The loss must have been incurred by the company in any trade or business during any year preceding the year of assessment in other word, current year loss relief cannot be given to a company. Any loss incurred by a company must be carried forward. On the other hand, Personal Income Tax Act Cap. P8.LFN, 2004 allows individual to claim both current year and carried forward loss reliefs.
- A loss carried forward can only be set off against further assessable profit from the same trade or business in which the loss was incurred. In other word, the amount of loss reliefs granted in any year of assessment carried cannot be exceed to amount of the assessable profit of that year of assessment from the trade or business in which the loss was incurred.
- The loss is to be deducted from the assessable profit of the first year of assessment after that in which was incurred. The year the loss cannot be fully deducted, it should be set off against the assessable profit of the next year of assessment and so on.
- In no circumstances shall the aggregate deducted from the assessable profit or incomes in respect of the loss exceed the actual amount of the loss.

# Current Year Relief

- Current year loss relief is the amount of loss incurred in trade, business, profession or vocation during the year of assessment which has been allowed against the total assessable income from all other source for that year of assessment.

A taxpayer who incurs a loss in a trade, business, etc during a year of assessment can request that the loss been deducted from the total assessable income from all other source for that year including any balancing charges for that year.

Current year loss relief would be allow unless it is claimed in writing by the taxpayer within 12 months after the end of the year of assessment for which the relief is claimed.

- Current year loss cannot be granted on a loss arises from the letting of land and buildings.

# Carry forward of reliefs

- A loss can be carried forward if a taxpayer who incurs the loss does not apply for immediate (i.e. current year) loss relief or if the whole of the loss cannot be deducted from the total assessable income of the year of assessment in which the loss was incurred or if the loss incurred in the letting of land or buildings. In other words, carried forward loss relief is granted in respect of the amount of a loss which has been incurred in a trade, business, profession or vocation during any year preceding the year of assessment which has not been allowed against the assessable income of a preceding year.

# Loss Relief under CITA and PPTA

- The provision which restricted losses carried forward to a maximum period of four years was abrogated by CITAA 2007. Losses incurred in agricultural and non-agricultural trade or business can now be carried forward indefinitely.
- **Terminal loss relief:**

The Companies Income Tax Act does not make provision for terminal loss relief. Consequently, where a loss is incurred in a trade or business in the year of cessation, the company cannot carry back such terminal loss and set off against previous years' profits

# Illustration 1

Foundation Limited, which runs a large farm in Otta, Ogun State has the following adjusted profits record:

	₦
Year ended 31 <sup>st</sup> December 2009	(5,900,000)
2010	(2,100,000)
2011	(2,000,000)
2012	3,300,000
2013	100,000

The revenue during the examination of the computation established that Industrial Revolution Ltd, engaged in rice distribution and the results in corporate in the above figures were as follows:

	₦
Year ended 31 <sup>st</sup> December 2009	(4,500,000)
2010	1,400,000
2011	(300,000)
2012	700,000
2013	400,000

- You are required to determine the amount of losses to be carried forward.

# Solution

## FOUNDATION LIMITED

### Determination of Losses Carried Forward for the Relevant Years of Years of Assessment

2010 Year of Assessment	₦	₦
Agricultural Loss		1,400,000
Rice Distribution Loss		4,500,000
2011 YOA		700,000
Loss brought forward	1,400,000	
Relieved	<u>(700,000)</u>	(700,000)
Loss carried forward	<u>700,000</u>	
Rice Distribution Business – Profit		1,400,000
Loss b/f	4,500,000	
Relieved	<u>(1,400,000)</u>	<u>(1,400,000)</u>
Loss carried forward		<u>3,100,000</u>
Taxable income		Nil



2012 YOA

Agricultural business loss		1,700,000
Loss b/f		<u>700,000</u>
Losses carried forward		<u>2,400,000</u>
Rice Distribution business		
Loss	300,000	
Loss b/f	<u>3,100,000</u>	
Losses carried forward	<u>3,400,000</u>	
Taxable income		<u>Nil</u>

2013 YOA

Agricultural business profit		2,600,000
Loss b/f	2,400,000	
Relieved	<u>(2,400,000)</u>	<u>(2,400,000)</u>
Rice Distribution business profit		700,000
Loss b/f	3,400,000	
Relieved	<u>(700,000)</u>	<u>(700,000)</u>
Loss carried forward		<u>2,700,000</u>
Taxable income		<u>200,000</u>

2014 YOA

Agricultural business loss		<u>300,000</u>
Rice Distribution business profit		400,000
Loss b/f	2,700,000	
Relieved	<u>(400,000)</u>	<u>(400,000)</u>
Loss carried forward	<u>2,300,000</u>	
Taxable profit		<u>Nil</u>

# Illustration 2

The following are information available for Oloibori Petroleum Company Ltd:

	N
Adjusted profit for the accounting period ended 31 <sup>st</sup> December, 2012	7,500,000
Unrelieved losses of the previous year brought forward	1,200,000
Capital allowances agreed with the FIRS	1,500,000
Tax rate	85%

## **Required:**

Compute the assessable tax assuming that:

- (a) the company has not applied for the deferment of loss deduction
- (b) the company has applied for the deferment of loss deduction

# Solution

## **OLOIBIRI PETROLEUM COMPANY LIMITED**

Computation of Assessable Tax for the Year Ended 31<sup>st</sup> December, 2012

(a) Where no election has been made

	₦
Adjusted profit	7,500,000
Loss relieved	<u>(1,200,000)</u>
Assessable profit	6,300,000
Capital allowance	<u>(1,500,000)</u>
Chargeable Profit	<u>4,800,000</u>
Assessable tax at 85%	<u>4,080,000</u>
Unrelieved loss carried forward	<u>Nil</u>

(b) Where an election has been made

	₦
Adjusted profit	7,500,000
Loss relieved	<u>-</u>
Assessable profit	7,500,000
Capital allowance	<u>(1,500,000)</u>
Chargeable Profit	<u>6,000,000</u>
Assessable tax at 85%	<u>5,100,000</u>
Unrelieved loss carried forward	<u>1,200,000</u>

# Review Questions

1. New Idea Processing Company Limited was established in 2008 and commenced its cocoa processing business on 1<sup>st</sup> August in the same year. The adjusted profits of the company are stated below:

	₦
Period to 31/07/09	(3,000,000)
Year ended 31/07/10	(1,150,000)
Year ended 31/07/11	2,500,000
Year ended 31/07/12	4,000,000

Capital allowance for the relevant years of assessment were computed and agreed with the Federal Inland Revenue Service as follows:

	₦
2008 Year of Assessment	500,000
2009 Year of Assessment	100,000
2010 Year of Assessment	360,000
2011 Year of Assessment	140,000
2012 Year of Assessment	130,000
2013 Year of Assessment	1,200,000

You are required to determine the tax payable by the company for the relevant years of assessments. The company has been denied pioneer status.

2. State and explain the two types of loss relief granted to an individual.
3. Explain to show your understanding of the term loss relief. If a company has unrelieved capital allowances and losses in the year of cessation of its trade or business, is there any option available to it to recoup the unrelieved capital allowances and losses?

# References

- **Adejola, P. A (2015):** Revision Pack on Taxation for Professional, Conversion and Undergraduate Students, Arogbodo Press, Abuja.
- **CITN Nigeria Tax Guide & Statutes, 2<sup>nd</sup> Edition, Volume 2, 2014.**
- **Basseyy U. O (2013):** “Companies Taxation in Nigeria”, the CIBN Press Ltd, Lagos 2013.
- **Seyi Ojo (2006):** “Fundamental Principles of Nigerian Tax”, Sagribra Tax Publications, Lagos 2003.