

**THE EFFECT OF CAPITAL ALLOWANCE ON INVESTMENT  
DECISION BY INDEPENDENT OIL MARKETERS  
A CASE STUDY OF SOME SELECTED COMPANIES IN  
JIMETA – YOLA, ADAMAWA STATE**

**BY**

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**CERTIFICATION**

This is to certify that the Research work is my original work being a thesis submitted in partial fulfillment of the requirement for the award of Masters of Business Administration Degree in the Department of Management, Federal University of Technology, Yola.

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### **APPROVAL PAGE**

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### **DEDICATION**

The thesis is dedicated to my beloved children Mas'oud and Khadijat and Husband Mustafa Migawa.

## **ACKNOWLEDGMENTS**

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## **ABSTRACT**

Capital Allowance is provided by Company Income Tax Act, as a form of tax relief to companies and business that invest on qualifying capital expenditure. This is given in lieu of depreciation. The objective of this study is to examine the effect of capital allowance on investment decision by independent oil marketers. The population of the study consist of all independent oil marketers in Jimeta – Yola and a sample size of two companies is selected using purposive sampling techniques, consisting on companies that enjoyed capital allowance for at least five years from 2006-2010. The data used for this study is five years capital allowance computation of the companies' selected. Collected data are tabulated and analyzed using descriptive statistics. The major finding of the study shows that capital allowance has not encouraged the companies to invest on qualifying assets despite the positive effect of capital allowance in investment decision. It was therefore concluded that independent oil markets do not take the advantage of capital allowance in their investment decision. It is therefore recommended that independent oil marketers should analyst the tax relief available to their investment before investing which can best be achieved by the use of tax consultant.



## CHAPTER ONE

### 1.0 INTRODUCTION

#### 1.1 BACKGROUND OF THE STUDY

Tax represents an important source under current Nigerian law, the three tiers of government, which is federal, state and local governments, enforce taxation which is the source of revenue to government of any nation. The Nigerian tax system has undergone significant changes in recent times. The tax laws are being reviewed with the aim of repelling obsolete provisions and simplifying the main ones.

Consequently, taxes of various types have been introduced to prop up government revenue. However, certain exception and allowances are granted under Company Income Tax Act (CITA) in other for businesses to have tax relief. From the forgoing, the research will focus on the issue of capital allowance as a form of tax relief to tax payers. The topic for the research is "An Analysis of the use of capital allowance by independent oil marketers": A case study of some selected companies in Jimeta – Yola, Adamawa State. As paraphrased from Dandago et-al, (2000:p. 48), *capital allowance is a statutory relief granted to individual and companies by relevance tax authority on qualifying capital expenditure for the purpose of business in lieu of depreciation.*

Capital allowance can be classified in to three (3) main divisions, namely:

- Initial allowance,
- Annual allowance and
- Balancing adjustment.

Initial allowance is granted to all new qualifying capital expenditure in the first year they are put in to use. Annual allowance is granted in each year of assessment for which an asset is used within a basis period.

The computation of annual allowance is subject to changes as follow: up to the end of 1984 tax year the computation was based on reducing balance method and the amount being restricted to the number of months in the basic period. The rate is applied on the cost of new qualifying expenditure and subsequently on the tax written down value.

From 1985 – 1986 tax year, annual allowance was on straight-line basis meaning that equal amount of annual allowance will be granted every year.

During this period the allowance was granted in full irrespective of the number of months in the basis period. Qualifying expenditure purchase between this period will be given annual allowance as follows:-

$$AA = \frac{Cost - IA}{n}$$

Where IA = initial allowance

n = maximum life span of the qualifying expenditure

Qualifying expenditure purchased before 1985-tax year and transferred into 1985 will be granted annual allowance as follows:

$$AA = \frac{TWDV}{n - X} ; \text{Where}$$

TWDV - Tax written down value

n - Maximum life span of the qualifying expenditure

X- number of years on which asset is granted annual allowance.

From 1987 tax year to date annual allowance is on straight-line basis, and is restricted to the number of months in basis period.

Balancing adjustment; this arises when a qualifying capital expenditure is disposed off. There are two types of balancing adjustment:

- Balancing charge and
- Balancing allowance.

Balancing charge: Is made when the sales proceed on the asset disposed exceeds its tax written down value. Balancing allowance: this is obtained when an asset is disposed off and the amount generated from the disposal is less than the tax written down value of the asset. It is treated as an additional allowance to be used in reducing the profit to be subjected to taxation.

### **Basis Periods for Capital Allowance**

Paragraph, 1 (a) of 5<sup>th</sup> scheduled of PITA provides that the Basis period for capital allowance is the same as basis period for assessable profit except for change in accounting date where overlapping basis period occur, commencement of business where coincidence of basis period occur and cessation of business where gap/ interval of basis period occur.

## **1.2 STATEMENT OF RESEARCH PROBLEM**

Though capital allowance is provided by company income tax Act, but most business are not aware about its existence and even the impact of such allowance on their profit after tax. Capital allowance is mainly for businesses that are investing in qualify capital expenditure. Where businesses are making self assessment and returns to the relevant tax Authority. They find it difficult to apply the rate of capital allowance because such rate is not known by them.

## **1.3 OBJECTIVES OF THE STUDY**

The main objective of this Research work is to examine the effect of capital allowance on investment decision by independent oil marketers.

1. To evaluate whether or not capital allowance encourage independent oil marketers to buy fixed assets that are qualify for capital allowance.
2. To determine the factors that affect capital allowance on qualifying capital expenditure.

## **1.4 RESEARCH QUESTIONS**

The following are the questions expected to be answered at the end of the research work.

- i) What is the effect of capital allowance on investment decision?
- ii) Does capital allowance encourage independent oil marketers to purchase fixed assets that are qualify for capital allowance?
- iii) What are the factors that affect capital allowance on qualifying capital expenditure

## **1.5 SIGNIFICANCE OF THE STUDY**

This study is envisaged to bring about public understanding on the use of capital allowance towards reducing the burden of taxation on the taxpayers. Another significance of the study is with regard to its relevance as a basis for future research on the subject of capital allowance. It will assist tax authority on the practical aspects of their computation of capital allowance.

## **1.6 SCOPE OF THE STUDY**

The scope of the study is focused on independent oil marketers in Jimeta-Yola on their capital allowance computation from 2006-2010 year of assessment which will be obtained from Federal Inland Revenue Service Yola office. It is based on some selected companies.

## **1.7 LIMITATION OF THE STUDY**

In every field of research and process of data collection, there may always be restricting factors that would be encountered. The research was limited by non cooperation of the staff of Federal Inland Revenue Service. Data collected was difficult to obtain. This was because data on capital allowance were treated as confidential. Time constraint was another limitation encountered.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0. Introduction

Nigerian tax law provides that depreciation on expenditure of capital nature are not allowed as deduction in arriving at income of individual taxable in Nigeria. Instead of depreciation, capital allowance is granted on any asset used in the basis period of any year of assessment in which such asset used in the trade business etc.

Capital Allowance is provided by Company Income Tax Act (CITA), as a form of tax relief to companies and business that invest on qualifying capital expenditure. This is given in lieu of depreciation.

Oduola A. (2006). Company income tax (CIT) was introduced in 1961. The original law (Company Income Tax) has been amended many times and is currently codified as the Company Income Tax Act 1990) (CITA). The Federal Board of Inland Revenue, whose operational arm is the Federal Inland Revenue Services (FIRS), is empowered to administer the tax. CITA policy regimes can be divided into two phases, namely, pre-1992 and post-1992. The CIT policies in the pre-1992 era were narrowly based and characterized with increasing tax rates and overburdening of the taxpayers, measures have been taken to address these structural problems. For instance, excess profit tax was eliminated in 1991, and the capital transfer tax scrapped in 1996. Tax rates on company profits, payable on trade profits and investment income, fell from 45 percent during 1970 to 1986 (when SAP was introduced) to 40 per cent between 1987 and 1991, further to 35 per cent for the period 1992-95 and to 30

per cent from 1996 to date. There is, however, a 20 per cent tax concession for certain companies; i.e., those engaged in agricultural production or mining of solid minerals with a maximum turnover of N0.5 million and those in manufacturing or the export promotion sector with a turnover not exceeding N1 million. The rates on capital allowances have been reduced continually to reflect the economic reality of the country.

Adelegan, O.J. (2008). Tax incentives for corporate investment include investment allowances, accelerated depreciation or provisions of capital allowances and investment tax relief. A general investment allowance of 10% of the cost incurred on plant and equipment has been allowable to all companies from 1996 to date. The rural investment allowance is granted to manufacturing companies that are sited at least 20 kilometers from the provision of electricity, water, tarred road or telephone for the purpose of their trade and have provided the facilities that the governments have failed to provide. The company can claim the rural investment allowance in addition to the initial allowance only in the year the capital expenditure is incurred. Where there is no telephone, tarred road, water and electricity, a company can claim 5%, 15%, 30% and 50% of capital expenditure on assets in use respectively. However, where there is no facility at all, a manufacturing firm can claim 100% of expenditure allowances on asset use.

Accelerated depreciation or capital allowances in the form of initial and annual allowances have also been granted since 1961/62 on expenditures related to building, including industrial building, mining, and plants for agricultural production, as well as plantation equipment. However, the rates have not remained static. Different rates have

been adopted either to encourage investments in a certain class of assets such as plants and equipment, or to restructure, diver and discourage investment in another class of assets such as residential building. Table 2.3 presents the rates for capital allowances and investment tax credit.

**Table 2.3:** Panel A Capital Allowances Rates and Investment Tax Credit (reflecting changes) in percentages:

QUALIFYING Expenditure	1975-1984		1985 – 1986		1987 - 1994	
	IA	AA	IA	AA	IA	AA
Building	5	10	5	10	5	10
Industrial building	15	10	15	10	15	10
Mining	20	12.5	20	10	20	10
Plant: Agriculture Production	20	12.5	20	10	20	10
Plant: others	20	12.5	20	10	20	10
Furniture & fittings					15	10
Motor vehicle: Public Transport			20	25	25	20
Motor vehicle: others			20	25	25	20
Plantation equipment	25	15	20	33.3	20	33.3
Ranching and Plantation			25	15	25	15
Housing Estate			20	10	20	10
Research & Development					25	12.5

**2.3:** Panel B Capital Allowance Rates and Investment Tax Credit (reflecting charges) in percentages.

QUALIFYING Expenditure	1995		1996 - date	
	IA	AA	IA	AA
Building	15	10	15	10
Industrial building	15	10	15	10
Mining	30	20	95	Nil
Plant: Agriculture Production	25	10	95	Nil
Plant: others	20	10	50	25
Furniture & fittings	25	20	25	20
Motor vehicle: Public Transport	30	20	95	Nil
Motor vehicle: others	25	20	50	25
Plantation equipment	20	50	95	Nil
Ranching and Plantation	25	15	30	50
Housing Estate	20	10	50	25

Research & Development	25	12.5	95	Nil
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**Source:** Federal Inland Revenue (2000) Anyo (1997), Lokwu (2000)

Since 1996, there has been an initial allowance of 95% of the cost incurred on plants for agricultural production, while a 50% initial allowance and 25% annual allowance has been granted for plant purchase for any other activity. Industrial plant and machinery bought in replacement of old ones are granted a once-and-for-all 95% capital allowance in the first year, with 5% retention as the book value until the final disposal of the asset. An investment allowance of 15% is granted for such replacement as well. This is in addition to the roll-over-relief granted under the capital gains tax (CGT). There is a provision for roll-over-relief if the proceeds from the sale of fixed assets are utilized within a given period in buying a similar asset for use by the same taxpayer.

Table 2.3 shows that between 1987 and 1996, the initial capital allowance on agricultural plants and industrial plants increased by 375% and 150% respectively, while the annual allowance on industrial plants also increased by 150%. These changes were expected to act as an incentive for corporate firms to purchase plants and machinery.

Investment tax relief is also granted under the same conditions as under the rural investment allowance, except that the relief can be claimed for only 3 years and is not available to a company which has been granted pioneer status. There is also a tax incentive for the replacement of industrial plants and machinery. Input taxes paid in the course of the production of goods by manufacturing firms are creditable and interest on bank loans granted for the purpose of manufacturing goods for export are also exempted from taxation.

[www.nipc.gov.ng/fagpage.html](http://www.nipc.gov.ng/fagpage.html) (2011) The incentives available for investing in

**Nigeria:**

There are both general sector specific and incentives. The general incentives include the following:

**a. Pioneer Status**

- Pioneer status takes the form of five-year tax holiday to qualifying industries anywhere in the federation.
- The grant of pioneer status to an industry is aimed at enabling the industry concerned to make a tax current at 30%.
- Capital allowance at the rate of 20% per annum in the first four years, 19% in the fifth year and the remaining 1% in the books.
- Investment Tax Credit of the current rate of 5%.
- Royalty at the rate of 7% on share and 5% offshore.

**b. Gas Transmission and Distribution**

- Capital allowance as in production phase above.
- Tax rate as in production phase.
- Tax holiday under pioneering status.

**c. LNG Projects**

- Application tax rate under PPT is 45%
- Capital allowance is 33% per year on straight line basis in the first three years with 1% remaining in the books.

#### **d. Gas Exploitation (Upstream Operations):**

Fiscal Arrangements are reviewed as follows:

- All investment necessary to separate oil from gas from the reserves into suitable products is considered part of the oil field development
- Capital investment facilities to deliver Associated Gas in usable form at utilization or transfer points will be treated for fiscal purposes as part of the capital investment for oil development.
- Capital allowances, operating expenses and basis for assessment will be subjected to the provisions of the PPT Act and the revised Memorandum of Understanding (MOU)

#### **e. Gas Utilization (Downstream Operations)**

Incentives given to investors for encouragement of exploitation and utilization of Associated Gas for commercial purposes include:

- Companies engaged in gas utilization are to be subjected to the provisions of the Companies Income Tax Act (CITA)
- An initial tax free period of five years.
- Accelerated Capital Allowance after the tax-free period in the form of 90% with 10% retention in the books for plant and machinery.
- 15% investment capital allowance which shall not reduce the value of the asset.

[www.nipco.gov.ng/general](http://www.nipco.gov.ng/general) file format: Microsoft word - quick view: **General Incentives:**

The Nigerian Government has put in place a number of investment incentives for the stimulation of private sector investment from within and outside the country. While some of

these incentives cover all sectors, others are limited to some specific sectors the nature and application of these incentives have been considerably simplified. The incentives include: Companies income tax, pioneer status, tax relief for research and development, capital allowances, in-plant training, investment in infrastructure, investment in economically disadvantaged areas, labour intensive mode of production, local value added, re-investment allowance and minimum local raw materials utilization.

### Capital Allowances

The amount of capital allowance to be enjoyed in any year of assessment is restricted in Nigeria to a percentage of assessable profit. The following is a schedule for the sectors;

<b>Tax Allowance</b>	<b>Initial %</b>	<b>Annual %</b>
Building Expenditure	15	Nil
Industrial Building Expenditure	15	Nil
Mining	95	Nil
Plant		
i. (Agric. Prod).	95	Nil
ii. Others	50	20
Furniture fittings	25	20
Motor Vehicles		
i. Public Transportation	95	Nil
ii. Others	50	25
Housing Estate	50	25
Ranching/Plantation	30	50
R & D	95	Nil
Agro Plants/Equipment Leased	Additional Invest Allowance 10%	Nil

The amount of capital allowance to be enjoyed in any year of assessment is restricted in Nigeria to 75% of assessable profit in case of manufacturing companies and 66% in case of others, except such companies in agro-allied industries that are not affected by this restriction.

If leased assets are used in agro-allied ventures, the full (100%) capital allowance claimed will be granted. Moreover, where the leased assets are agricultural plants and equipment there will be an additional investment allowance of 10% on such expenditure.

Ezeoha A.E, & Ogumba, E. (2010). Generally, the fiscal practices of most countries allow companies to make certain cash and non-cashed deductions before arising at taxable profits. It is these deductions that are preferred to as tax shields or tax shelters. In the case of Nigeria, these deductions include the conventional debt tax shields and non-debt tax shields. The main items of debt tax shields, as provided by Section 20 of the Company Income Tax Act comprises of any sum payable by way of interests on any money borrowed or employed in the course of the business.

A unique feature of the tax shield practice in Nigeria is the exclusion of depreciation as one of the deductible non-cash expenses for the purposes of computing taxable income; and the rather unusual recommendation of capital allowances. Section 27(1) provides for the deduction of items relating to capital allowances and Schedule 2 of the Act prescribes procedure for the treatment of capital allowance to include the serialization of the deductions into an initial allowance, writing down allowances and a balancing allowance. Essentially also, the rates of capital allowances vary according to the kind of assets in questions. Table 1 clearly illustrates these variations. Notwithstanding the acceptance of capital allowance, the non-inclusion of depreciation has an inherent implication of infusing pressure on the country's market for investment finances. This is so because, under the practice in Nigeria,

companies that sort for means of managing the tax liabilities would pushed more to find means of manipulating the debt tax shields.

**Table 1:** Capital allowances for difference classes of assets.

	<b>Initial allowances (rate percent)</b>	<b>Annual allowances (rate percent)</b>
Building (industrial and non-industrial)	15	10
Mining	95	Nil
<i>Plant</i>		
Agriculture production	95	Nil
Others	50	25
Furniture and fittings	25	20
<i>Motor vehicle</i>		
Public transport	95	Nil
Others	50	25
Plantation equipment	96	Nil
Housing estate	50	25
Ranching and plantation	30	50
Research and development	95	Nil

**Source:** CITA of 1990 (as amended), Schedule 2.

According to Dandago, (2000) defined capital allowance as a statutory relief granted to individuals carrying on trade, business, profession or vocation who has incurred qualifying capital expenditure during a basis period in respect of assets employed for the purpose of the trade business etc.

[www.businesslink.gov.uk](http://www.businesslink.gov.uk) (2010), as a business you can claim tax allowances, called capital allowances, on certain purchases or investments. This means you can deduct a proportion of these costs from your taxable profits and reduce your tax bill. Capital allowance is available on plant and machinery, building including converting space above commercial

premises to flats for renting and research and development. The amount of the allowance depends on what you're claiming for. In some cases, the rates are different in the year you make the purchase from those in subsequent years,

[www.wikipedia.org](http://www.wikipedia.org), (2010). Businesses in the United Kingdom are entitled to claim capital allowances to reduce the corporation or income tax payable on profits. Capital allowances are claimed on certain purchases or investments under the capital allowance act 2001.

Capital allowances are available on plant and machinery, certain types of building including converting space above commercial premises to flats for renting and research and development facilities and equipment. The amount of the allowance depends on what you're claiming for. In some cases, the rates are different in the year you make the purchase from those in subsequent years. You can claim capital allowances on;

The cost of vans and cars, machines, scaffolding, ladders, tools, equipment, furniture, computers and similar items you used in your business expenditure on plant and machinery items you used privately before using them in your business you buy on hire purchase, you can claim a capital allowance on the original cost of the item but the interest and other charges count as business expenses.

## **2.1. CURRENT RATES OF CAPITAL ALLOWANCE**

According to Nigerian tax companion (2007), those rates of capital allowance on qualifying capital expenditure are listed below;

<b>Qualifying capital expenditure</b>	<b>Initial allowance</b>	<b>Annual allowance</b>
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Building (industrial and non industrial)	15 %	10%
Motor vehicles	50%	25%
Furniture and fittings	25%	20%
Plant and Machinery	50%	25%
Mining	95%	Nil
Public transportation (not less than buses)	95%	Nil
Plantation equipment	95%	Nil
Housing estate	50%	25%
Ranching and plantation	30%	50%

**Source:** Nigerian Tax companion 2007 pg. 129.

## **2.2. CATEGORIES OF QUALIFYING CAPITAL EXPENDITURE**

Federal Inland Revenue Service (FIRS, 2007): Categories of capital expenditure that qualify for the grant of capital allowances are as follows; -

- i. Building (Industrial building and non industrial)
- ii. Mining
- iii. Research and development expenditure
- iv. Ranching and plantation
- v. Housing estate
- vi. Plantation equipment
- vii. Motor vehicles (public transportation and others)
- viii. Furniture and fittings

Plant (Agric production and others)

### **2.3. CLAIM FOR CAPITAL ALLOWANCE**

According to Bassey, (2004), certain statutory conditions ought to be met before the allowance is granted. The condition includes:

- a. The taxpayer making the claim as at the end of the basis period must own the qualifying capital expenditures.
- b. The tax payer must be making use of the qualifying capital expenditures for the purpose of its trade or business.
- c. The qualifying capital expenditures must be 'in use' as at the end of the basis period.
- d. Where the value of the qualifying capital expenditure is above N500,000, and acceptance certificate must be obtain from the inspectorate division of federal ministry of industry.

### **2.4. TYPES OF CAPITAL ALLOWANCE**

According to Seyi O, (2003) identified that there are basically 4 types of capital allowance:

- 1- Initial allowance: Is provided for in schedule 2 paragraph 6 of CITA 1979 and schedule 5 paragraph 7 of ITMA 1961. It is claim only once in the life of a qualifying capital expenditure in the 1<sup>st</sup> year they are put to use. It is claim in full irrespective of the number of months in the basis period. The only condition under which initial allowance may not be fully claimed is where there has been an element of private use

2- Annual allowance: - Annual allowance is claimed equally over the estimated tax life of a qualifying capital expenditure. Up to the end of 1984 tax year the computation of this allowance was based on reducing balance method and the amount being restricted to the number of months in the basis period, from 1985 year of assessment, the computation of annual allowance has been on the straight line basis, meaning that equal amount of AA is granted every year. During this period, AA was granted in full irrespective of the number of months in the basis period.

The following specific treatment should be given to AA computation depending on the state of the asset as follows:

### **Newly Acquire Qualifying Capital Expenditure**

- i. Where the number of months in the basis period for assessable profit is 12 months. Qualifying expenditure purchase between this period the computation of AA formula is as follows:

$$AA = \frac{\text{cost} - IA}{N}$$

Where N = estimated tax life of the qualifying Capital expenditure

IA = initial allowance

- ii. Where the number of months in the basis period for assessable profit is less than 12 months. The allowance to be claim must be appropriated in accordance with the number of months in the basis period for assessable profit as follows:

$$AA = \frac{\text{cost} - IA}{N} \times \frac{Y}{12}$$

Where Y = number of months in the basis period for assessable profit.

The formula is use in the 1<sup>st</sup> year under the commencement rule and the ultimate tax year under the cessation rule, because it is only under this condition that the number of months in the basis period for assessable profit can be less than twelve months.

### **Existing Qualifying Capital Expenditure**

Annual allowance is computed using the formula

$$AA = \frac{\text{Tax written down value}}{N - X}$$

Where X = number of years for which capital allowance was previously claimed.

N = estimated tax life of the qualifying capital expenditure

### **3. BALANCING ADJUSTMENT**

This will generally arise when a qualifying capital expenditure is disposed off or is deemed to have been disposed off. It is obtain by comparing the sales proceeds on disposal to the tax written down value of an asset as at the time of disposal. There are 2 types balancing adjustments:

- a. **Balancing charge;** This is obtained when the sales proceeds on disposal of a qualifying capital expenditure exceed the tax written down value of the asset as at the time of disposal. Usually a balancing charge is treated as an additional taxable income that would be subjected to taxation. However, the amount of balancing charge to be exposed to taxation should not exceed to amount of capital of allowance previously claimed on the qualifying capital expenditure prior to the disposal.

- b. **Balancing allowance;** This is obtained when the sales proceeds on disposal is less than the tax written down value of the qualifying capital expenditure as at the time of disposal. It is often treated as an additional allowance to be use in reducing the profit to be subjected to taxation in a similar manner, the balancing allowance will be treated in the same way as both initial and annual allowances it can be carried forward when utilized in any year.

#### 4. INVESTMENT ALLOWANCE

Ojo, (2003) was of the view that Investment allowance is a method used by the Nigerian tax system to encourage investment in some preferred sector of the economy. Investment Allowances in Nigeria have the following key features;

- a. It is usually granted once in the life of a qualifying capital expenditure and in the 1<sup>st</sup> year when the qualifying capital expenditure is first put in to use,
- b. Where there is an investment allowance in any particular tax year but there is either no profit or the profit available is not enough to cover the investment allowance. Then the investment allowance utilized cannot be carried forward unlike both initial and annual allowances

The available investment allowances that are currently available under the Nigerian tax regime are;

- a. 10% investment allowance is available on production machinery in use by manufacturing concerns

- b. 10% investment allowance on the plant and machinery of businesses in the agricultural sector of the economy.
- c. 15% investment allowance on plant and machinery acquired in replacement for obsolete ones.
- d. 25% investment tax credit on the asset of companies engaged in the fabrication of small tools and machinery.
- e. A taxpayer who uses the locally fabricated small tools and machines can also claim 15% investment allowance.
- f. Rural investment allowance from 1992. This is granted to tax payers who are located in a place which is at least 20 KM away from normal facilities. The investment allowance is granted at the following rate:

No electricity	-	50% of QCE in the first year only
No water	-	30% of QCE in the first year only
No tarred road	-	15% of QCE in the first year only
No telephone	-	5% of QCE in the first year only

According to Osuegbu E, (2007) in section 28B (1) of CITA – Rural Investment Allowances, where a company incurs capital expenditure on provision of facilities such as electricity, water, tarred road or telephone for the purpose of a trade or business which is located at least 20 kilometers away from such facilities provided by Government there shall be allowed to such company as addition to initial allowance under second schedule to this Act, an allowance (here in this section called Rural Investment Allowance) at the appropriate rate per centum as set forth below of the amount of such expenditure. The rate of the rural investment allowance shall be as follows:

- i. No facilities at all 100%
- ii. No electricity 50%
- iii. No water 30%
- iv. No tarred road 15%
- v. No telephone 5%

## 2.5 RESTRICTION ON CAPITAL ALLOWANCE

Idowu, Abiola, and Fasina, (2007), however, affirmed that the idea of restricting capital allowance claimed in any particular year of assessment was first introduced in 1985 year of assessment. The general rules are as follows:

- a. There would be no restriction for any business in the agricultural and manufacturing sectors of the Nigerian economy. The exemption of manufacturing businesses only becomes effective from 1990 year of assessment.
- b. For other businesses, there is a restriction on the maximum capital allowance that can be claimed to only two third of the assessable profit. The lesson in the above is that for most businesses aside from the manufacturing and agricultural businesses, taxes would have to be paid on at least  $\frac{1}{3}$  of the assessable profit.

## 2.6 METHODS OF CALCULATING CAPITAL ALLOWANCE

Sekan and Kajola, (2006); highlighted two method of calculating capital allowance as reducing balance and straight line methods.

**The Reducing Balance Method;** under this method, the annual allowance was calculated as a percentage on cost of the assets in the first year in which the assets was used in the business

and as percentage on written down value (WDV) of the asset in the subsequent year of assessment. This was the method of calculating capital allowance in Nigeria up to 1985, before the promulgation of the finance (miscellaneous taxation provision) decree 4 of 1985, introduced the equal installment method.

**Straight-Line** method of calculating capital allowance in Nigeria was introduced by miscellaneous taxation provisions decree No- 4 of 1985.

The initial allowance is first deducted from the original cost of the asset before the annual allowance is calculated. Here equal amount of annual allowance is granted every year.

## **2.7 BASIS PERIOD FOR CAPITAL ALLOWANCE**

Igboi, (2008) defined the basis period for capital allowance as the same as basis period of assessable profit except for change in accounting date, commencement of business and cessation of business, where there is overlapping of basis period coincidence of basis period and gap or interval of basis period.

- i. **Overlapping of basis period:** when two basis periods overlapped the period that is common to the two periods of assessment shall be deemed belong to the earlier year.
- ii. **Coincidence of basis period:** When two-basis period coincide it shall be treated as overlapping of basis period. Coincidence of basis period will occur when two basis periods are the same

- iii- **Gap or interval (not at cessation):** whenever there is a gap or interval between basis periods for 2 years and the second year is not the ultimate year i.e. year of cessation of the business, the gap shall be filled by the second.
- iv. **Gap or interval (at cessation):** This kind of gap occurs when the company is winding up the business. When a gap occurs between two-basis period for two years and the second is the final year of ceasing the business. Then the gap shall be filled by the first year.

## 2.8 CAPITAL ALLOWANCES FOR PLANT AND MACHINERY

Lavelle Coleman (2009), there are capital allowances for plant and machinery, industrial building and various types of research and development expenditure.

Machinery is usually easy to identify and will include cars, computers and office equipment. Plant is a more general concept that is not specifically defined by tax legislation. Plant means apparatus with which the business is carried out. It does not include a 'setting' so therefore would not include a building. Expenditure on computer software are deemed to be plant.

Land and buildings are not "plant" special systems within a building which provide for the particular requirements of the trade as opposed to the purpose of the building generally, may qualify as plant. Manufacturing and processing equipment storage equipment, cookers, washing machines, basins, furniture and fittings, partition walls, sprinklers and decorative assets in hotel may qualify as 'plant' in their particular context.

Capital allowances are not calculated on individual assets. They are put in a general pool and when an addition to make the pool increases and when an asset is disposed off it decreases.

### **Computation of Capital Allowances for Plant and Machinery:**

Initial allowance of 50% is given and annual allowance of 25% is given on a reducing balance basis. The allowance is given by reference to expenditure in the period on the 'tax written down value' brought forward at the beginning of the period. The 'tax written down value' includes all prior expenditure less allowances previously claimed. Allowances are given for a period of account. The above percentage is based on an accounting period of 12 months. Where the period is shorter, this is pro-rated.

The writing down allowance applies to all assets in the pool on the last day of the period of accounts. Therefore where business accounts are made up to the 31<sup>st</sup> March, the writing down allowance is given for assets in the pool on that day irrespective of whether the asset is purchased at the beginning or last day of the period.

Where an asset in the pool is sold, it is removed from the total tax written down value brought forward in the pool. The writing down allowance for the period is calculated on the remaining figures. The amount deducted from the pool is the lower of the state proceeds or the original cost.

If on the disposal of an asset in the pool, the proceeds exceed the brought forward value in the pool the excess allowance previously given or recovered is charged to tax by means of balancing charge. A balancing charge is taxed as an addition to trading profits.

Balancing allowances arise when the sale proceeds are less than the written down amount for the asset in the pool. Where a business is permanently discontinued and there is still an unrelieved expenditure, the business can claim relief for the unrelieved balance.

## **2.9 CAPITAL ALLOWANCE FOR INDUSTRIAL BUILDING**

Lavelle Coleman (2009), Capital allowances for buildings are only available to buildings used for a 'qualifying trade'. A qualifying trade is one carried on in a mill factor or similar premises or for the manufacturer of goods or materials by subjecting them to process or for the storage of goods of materials used for manufacturing which are to be subject to processed finished goods which have been manufactured. Capital allowances are not available to retail premises, office and other commercial properties. Hotels are subject to certain conditions including that they must be open at least four months in the 1<sup>st</sup> April to 31<sup>st</sup> October season, have at least 10 bedrooms and provide certain minimal services.

Industrial building has an initial allowance 15% and annual allowance of 10%. Industrial buildings have capital allowance life of 25 years. No allowance or charge will rise in the sale after 25 years. Where a building is disposed off within the 25 years tax allowance period and the proceeds are less than the 'written down' value, a balancing allowance is

given. Where the disposal proceeds exceed the tax written down amount, a balancing charge will arise.

A purchaser of a second hand industrial building is entitled to industrial building allowance where it is within its original 25 years tax life. Provided the subsequent purchaser uses it in a qualifying trade he is entitled to annual allowance on the lower of the purchase price or the capital allowance amount.

The annual allowance is computed by spreading the allowance over the remaining tax life. The allowance is the written down value of the building prior to the sale plus balancing charge. This sum is then written off over the remaining part of the 25 year tax life.

## **2.10 CAPITAL ALLOWANCE ON INVESTMENT IN OIL AND GAS:**

[www.ijawpeople.org/bookexport/htm/16-cached](http://www.ijawpeople.org/bookexport/htm/16-cached). The following fiscal incentives have been approved by the government in the gas production phase: The tax rate under the Petroleum Profit Tax (PPT) Act to be at the same rate as company tax which is currently at 30 per cent; capital allowance at the rate of 20 percent per annum in the first four years. 19 per cent in the fifth year and the remaining 1 percent in the books.

Osuegbu E, (2007) Section 28G – Incentives to Gas Industry. A company engaged in gas utilization (downstream operations) shall be granted an initial tax free period of 3 years which may, subject to the satisfactory performance of the business, be renewed for an additional period of 2 years. Such a company will also be entitled to accelerate capital allowances after the tax free period, as follows:

- An annual allowance of 90% with 10% retention, for investment in plant and machinery
- An additional investment allowance of 15% which shall not reduce the value of the asset.

Such gas company will also enjoy tax free dividend during the tax free period where the investment for the business was in foreign currency or introduction of imported plant and machinery during the period was not less than 30% of the equity share capital of the company.

#### **2.11. TAX RELIEF FOR RESEARCH AND DEVELOPMENT:**

[http://nbf-swiss.org/pdf/investment-incentives in Nigeria \(2011\):](http://nbf-swiss.org/pdf/investment-incentives-in-Nigeria-2011)

Industrial establishments are expected to engage in Research and Development (R&D) for the improvement of their processes and products. Up to 120 percent of expenses on (R&D) are tax deductible, provided that such R&D activities are carried out in Nigeria and are connected with the business from which income or profits is derived. Also, for the purpose of R&D on Local raw materials, 140 percent of expenses are allowed. Where the research is long-term, it will be regarded as a capital expenditure and will be written off against profit. The result of such research could be patented and protected in accordance with internationally accepted Industrial Property Rights.

## **2.12. CAPITAL ALLOWANCE IN SOLID MINERALS SECTOR**

[www.nipc.gov.ng/tagpage.html](http://www.nipc.gov.ng/tagpage.html) (2011). What are the incentives in the Solid Minerals Sector? In order to encourage investments in the sector Government has put in place the following incentives:

1. Three to five years tax holiday for new mining companies, and a system of deferred royalty payment that is determined by the level of the investment and the strategic nature of the project. Also possible is capitalization of expenditure on exploration and surveys.
2. Companies' profits tax reduction from 30% to 20%.
3. Roll-over relief from Capital Gains Tax
4. Capital Allowance of 95% for Mining companies replacing their Plant and Equipment and 75% for companies with Mining Lease.
5. Extension of infrastructure such as roads and electricity to mining sites.
6. Provision of 100% foreign ownership of mining companies or concerns.
7. Tax Relief on Interest Income, Interest accruing from loans granted by banks in aid of export activities enjoys favourable tax treatment.
8. Capital Assets Depreciation Allowance. The law in Nigeria provides; an additional annual depreciation allowance of 5% on plants and machinery to manufacturing exporters who export at least 50% of their annual turnover provided that the product has at least 40% local raw material content or 35% value added.

## **2.13 CAPITAL ALLOWANCE ON ASSETS ACQUIRED ON HIRE PURCHASE**

According to Seyi (2003), when an asset is acquired under a hire purchase agreement with a qualifying capital expenditure, one can only draw allowance on amount of

installments paid by the hirer during basis period excluding any interest element in the installment. The interest element is an allowance deduction under section 20 of CITA in arriving at the profit of the company.

## **2.14 CAPITAL ALLOWANCE ON LEASED ASSETS**

Igbo, (2008), Leasing is a contract between the owner of specific capital asset referred to as lesser, and the user of the asset referred to as lessee, who is then granted possessions and rights to use of the assets for an agreed period of time. Leasing is of two type one is finance lease and the other is operating lease.

- Operating lease: Allows the lessee the right to use and enjoy the property for a period shorter than its projected economic life span. In other words, the property reverts back to the owner after the period of the lease. The lessor has the assets in his books and depreciates them as well claim capital allowances thereon. A rental under operating lease is lower than in finance lease.
- Under the finance lease the lessee is entitled to possession and use of property for the whole of its project economic life span. The property does not revert back to the lessor. Rentals are always higher under finance lease and for tax purposes the lessee is the acknowledged owner of the property and therefore, entitled to depreciate the asset and claim capital allowance thereon.

## **Capital Allowances and Leases**

Katola S. (2006). It is given on qualifying (capital) expenditure, for the use of leased assets in generating business income. It is given in lieu of accounting depreciation. Note depreciation charge is a disallowable expense. The type of lease determines the beneficiary of capital allowances.

Incidence of tax and finance lease. The lease has tax benefit on finance charge, capital allowance, balancing allowance, repairs and maintenance and lessor has no tax benefit instead he has tax charges of finance income, withholding tax on rentals (advanced taxation) but loses are measured on the time-value of the advanced tax, forfeits the hitherto enjoyed tax savings on capital allowances.

Incidence to tax and operating lease, the lease has tax benefit on periodic rentals and lessor has tax benefit on repairs and maintenance, capital allowance and balancing allowance.

### **2.15 CAPITAL ALLOWANCE ON ASSETS USE BOTH FOR BUSINESS AND PRIVATE USE**

Dandago, (2000), the capital allowance for asset, which is acquired exclusively for business purpose, but which is sometimes used for domestic's purposes will be apportioned.

### **2.16. CAPITAL ALLOWANCES WHEN MINIMUM TAX IS APPLICABLE**

FIRS (2006) Treatment of Capital Allowances when Minimum tax is applicable:

It is important to note that in any year of assessment when minimum tax is chargeable, the capital allowances due in that tax year must be adjusted against the profit of that year along

with the unabsorbed balances brought forward. This treatment is adopted to ensure that the charging of minimum tax does not preclude the deduction from assessable profit and the utilization of capital allowances for that year. The position of the law is that capital allowances should be deducted as far as possible, from the assessable profit of that year and the unabsorbed portion, if any, shall be carried forward.

## **2.17. TEMPORARY DISUSE OF AN ASSET**

According Tanko M. (2003). When an asset has been temporarily suspended from use in the trade or business of the tax-payer, capital allowances would also be suspended until the assets are put back into use. This gap in the period of use does not qualify the asset to be treated as new when reused, for the purposes of initial allowance. The date of re-use is the date on which is temporary disuse ends.

## **2.18 DISPOSAL WITHOUT CHANGE OF OWNERSHIP**

According Tanko M. (2003). Where an asset is disposed of an ownership still remains with the owner e.g. an asset formerly used for business, withdrawn for private use and later returned for business use, the following is the treatment.

- (a) On the disposal the sales proceeds is regarded as being equal to the residue (hence there would be no Balancing allowance or Balancing charge)
- (b) On re-used, the owner will be deemed to have bought the asset at a price equivalent to the written-down value (residue) of the asset at the date of such disposal, increased by the amount of balancing charge or decreased by the amount of any Balancing allowance. This is equivalent to saying that the owner would be deemed to have bought the asset at a price

equal to the initial disposal (value) but there cannot be any Balancing allowance or Balancing charge as explained in (a) above.

According to Fasoto F. (2007). Where an asset in respect of which qualifying expenditure has been incurred by the owner thereof has been disposed of in such circumstances that such owner remain the owner thereof, then, for the purposes of determining whether and, if so, in what amount, any annual or balancing allowance or balancing charge shall be made to or on such owner in respect of his use of the asset after the date of such disposal: -

- (a) Qualifying expenditure incurred by such owner in respect of such asset prior to the date of such disposal shall be left out of account.
- (b) Such owner shall be deemed to have bought such asset immediately after such disposal for a price equal to the residue of such qualifying expenditure at the rate of such disposal, increased by the amount of any balancing charge or decreased by the amount of any balancing allowance made as a result of such disposal.

## **2.19. TERMINAL CAPITAL ALLOWANCE**

Ojo (2003), At the point of cessation of business, there may be some unutilized capital allowance, which can no longer be carried forward. The position of the law is that where this occurs, such unutilized capital allowance may be carried backward for a maximum period of 5 tax years before the year of cessation. The unutilized capital allowance is to be used in reducing the taxable profit of those years, if any. Where the taxable profits have been reduced, then any taxes that must have been paid during the years should be refunded, if already paid.

Where they are yet to be paid, then the liabilities are extinguished. If after the 5 years, there are still unutilized capital allowances, then such are said to be terminal and will become permanently lost.

**CHAPTER THREE**  
**RESEARCH METHODOLOGY**

**3.0 INTRODUCTION**

The research focused on independent oil marketers that are enjoying capital allowance in Jimeta - Yola with a case study of some selected companies. Five years data on capital allowances computation will be collected from Federal Inland Revenue Service, Yola office for analysis.

**3.1 RESEARCH DESIGN**

Research design is the plan, structure & strategy of investigation conceived so as to obtain answers to research problems. Description method of research design will be use in this research work, with analysis base on the data collected from Federal Inland Revenue Service Yola office.

**3.2 POPULATION OF THE STUDY**

A population is the aggregate of all the elements defined prior to selection of the sample. A target population is the one from which the cases are selected. The population of the study consist of those independent oil marketers that are enjoying capital allowances from federal inland revenue service.

<b>S/N</b>	<b>Name of Company</b>	<b>Year of Commencement</b>	<b>Location</b>
1.	AYT Nig. Ltd.	1998	Modibbo Adama Way Yola town

2.	Jada Petrl. Nig. Ltd.	1988	Mohd. Mustapha Way Jimeta
3.	AMA Abdulkadir Ltd.	2006	FUTY./ Girei, Road
4.	AMA Midala Ltd.	2010	FUTY./ Girei, Road
5.	MRS. Oil Nigeria	2000	Yola Bye Pass
6.	AM SIBA & Sons Nig. Ltd.	2010	Abuja Road Yola Town
7.	Yaha Abubakar & Sons Ltd	2005	Galadima Aminu Way/ Jimeta
8.	AA Mbamba Ltd.	2000	FUTY./ Girei, Road

Source:Fieldsurvey2011

### **3.3 SAMPLE SIZE**

Sample size of the study comprises two independent oil marketers companies (AYT Nig. Ltd & Jada Petroleum Nig. Ltd) Extracted from the population of the study.

### **3.4 SAMPLING TECHNIQUES**

Sampling is important in order to give room for testing of the variability of the population. Non probability sample is use in the research work, in which purposive is chosen. The sampling techniques used are purposive sampling. The samples were selected based on those companies that benefited from capital allowance for at least five years. This is the basis for selecting the samples of the study.

### **3.5 METHOD OF DATA COLLECTION**

Secondary source of data was for used research work capital allowance computation of some selected oil companies which obtained from Federal Inland Revenue Services Yola office

for analysis. Secondary source of data these are already polished data from federal inland revenue service, collected for purpose other than the specific research needs at hand at hand but very relevant to the research's needs.

### **3.6 VALIDATION OF INSTRUMENT**

Validity is the extent to which the data collected are relevant to the research. The sources of the data for the research work are reliable because they are obtained from the Federal Inland Revenue Service office Yola and they are analyzed, and use to answer the research questions.

### **3.7 METHOD OF DATA ANALYSIS**

The data collected was tabulated and analyzed using descriptive statistics i.e qualitative descriptive analysis. Descriptive statistic deals with the study of describe the characteristics of a group or groups. It may be either qualitative or quantitative analysis. Qualitative descriptive analysis is used to verbally summarize the information generated in the research while quantitative descriptive analysis is used to summarized a mass of information generated in the study, so that appropriate analytical method could be used to further discover relationships among the variables.

## CHAPTER FOUR

### 4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter analyzed the data collected for this study.

Table 4.1 CAPITAL ALLOWANCE FOR JADA PETROLEUM NIG LTD

Years	Annual allowance (Assets)			Total allowance N	Written down value		
	L & B	F & F	MV		N L & B	N F & F	N MV
2006	45,600	5,250	-	50,850	205,200	7000	10
2007	45,600	5,250	--	50,850	159,600	1750	10
2008	45,600	1,700	-	47,300	114,000	50	10
2009	45,600	-	-	45,600	68400	50	10
2010	22,800	-	-	22,800	369,360	50	10
<b>Total</b>				<b>N217,400.00</b>			

Source: (Jada Petroleum Nig Ltd computed capital allowance 2006-2010)

The above table shows the computed annual allowance of Jada petroleum Nigeria Limited from 2006-2010 year of assessment. From the table above it can be seen that the company had enjoyed a total capital allowance of N217,400 for the period of five years (2006-2010).

The allowance is with respect to land and building and furniture and fittings, no allowance in respect of motor vehicle throughout the five years period because the company has exhausted the provision thereof. Detailed analysis suggest that N45,600 was from Asset,

Land and building, N5,250 from furniture and fittings. This shows that land and building gives the highest allowance.

Based on the annual allowance it shows that in the year 2006 and 2007 the allowance stood at N50,550 respectively. N47,300 in 2008, N45,600 in 2009 and N22,800 in 2010. The first two years gives the highest allowances. The result shows that the company saves N217,400 in tax for the period of five years. This reduces the cost of initial investment.

Further analysis on the data, suggest that the company did not make any further investment. It can be seen from the table that from the year 2006 up to the end of the period 2010. There were no additional fixed Asset. This shows that the company did not take the advantage by re-investing in capital assets.

Table 4.2 CAPITAL ALLOWANCE FOR AYT NIG. LTD

Years	Cost of assets	Annual allowance (Assets)			Initial allowance	Total allowance	Written down value		
		F&F ₦	L & B ₦	MV ₦			F&F ₦	F&F ₦	L&B ₦
2006	-	249900	150000	-	-	399900	1999,200	300000	-
2007	--	249900	150000	-	-	399900	1749300	150000	-
2008	-	249900	150000	-	-	399900	1749300	150000	-
2009	-	174930	37500	-	-	212430	1574570	112500	-
2010	400,000	174930	37500	30000	100,000	342430	1399640	75000	270000
<b>Total</b>						<b>N1,754,560</b>			

Source: (AYT Nig Ltd computed capital allowance 2006-2010)

The above table shows that A.Y.T Nig Ltd enjoyed capital allowance for the period of five years (2006-2010). The allowance is with respect to land and building and motor vehicle, no allowance for furniture and fittings from 2006-2010 year of assessment. From table above, it can be seen that the company had enjoyed a total capital allowance of N1,754,560 for the period of five years.

Detailed analysis suggest that N249,900 was from Land and Building, N150,000 from Motor vehicle and N30,000 from furniture and fittings. This shows that land and building gives the highest allowance.

Based on the annual allowance it shows that in year 2006 – 2008 the allowance stood at N399,900 respectively, N212,430 in 2009 and N342,430 in 2010. The first three years gives the highest allowance. The result shows that the company saves N1,754,560 in tax. This reduces the cost of initial investment.

Further analysis on the data shows that the company makes further investment in furniture and fittings. It can be seen from the table that from 2006 up to end of year 2010. There was only addition in one asset furniture and fittings. By the year 2010 the company purchased furniture and fitting costing N400,000 which qualified the company for initial allowance of 25% of the total cost of (N100,000) and annual allowance of 10% on the written down value N300,000 which is (N30,000), but what law has provided was 20% of written down value which is supposed to be N60,000. This shows that the rates are not openly disclosed to claimant so as to know the exact rate to claim.

The allowance claims for each year will not be granted in full, as it is restricted by law to  $\frac{2}{3}$  of adjusted profit of the company. The remaining balance of unabsorbed allowance will be carried forward to next year. The allowance is not given to any company in cash but it reduces the amount of tax liability of the company in each year.

The extract shows that there is positive effect of Capital allowance on investment, because AYT Nig. Ltd company had a total relief of N1,754,560 as Jada Petroleum Nig. Ltd., had N217,400. Capital allowance reduces the amount of tax liability for the company in each year the allowance is enjoyed. This enhances the company's profit after tax. By implication the total earnings of the company will also increase. This will encourage the independent oil marketers to invest more on fixed assets that are qualified for capital allowance. The more capital allowance given to the companies the higher will be the profit after tax of the company. When company makes significant profit they have the chance to invest more in the sector. While company's that do not enjoy capital allowance pay higher tax which in turn eroded profit, thus discouraging further investment in the sector.

There were no reinvestments by the companies, the reinvestment for AYT Nig. Ltd Company is not significant. Benefiting companies are not reinvesting in fixed assets that are qualified for capital allowance to reduce excessive taxation. This is because the company can claim for both initial and annual allowances on the new assets.

#### **4.1 RESEARCH FINDINGS**

- It is shown that there is positive effect of Capital Allowance on investment because AYT Nig. Ltd. Company had a total relief of N1,754,560 as Jada Petroleum Nig. Ltd. company had N217,400.00
- There were no reinvestments in Jada Petroleum Nig. Ltd. Company.
- The reinvestment in AYT Nig. Ltd. Company is not significant
- The rate of allowance is not openly disclosed to beneficiaries.

#### **4.2 DISCUSSION OF FINDINGS**

Though there's a positive effect of capital allowance (initial allowance and annual allowance) on investment made by independent oil marketers companies. That is to say when companies enjoyed capital allowance it encourage them to make further investment. The more capital allowance is claim by companies the less tax liability they pay to the relevant tax authority and the higher will be the company's profit after tax. When capital allowance claim by companies is less the higher will be the tax liability of the company which also reduces the profit after tax. This will encourage the companies to reinvest further in the business.

Jada Ltd has no further investment base on this research findings AYT re-investment is not significant, this shows that both the two companies total capital allowance claimed is not significant and insignificant capital allowance has no impact on tax liability. This is to say it will not reduce the company's tax liability significantly that will encourage the company to

re-invest further. That is why both the two companies did not re-invest significantly in to the business.

Both the two companies do not plan appropriately for their tax that is why the amount of capital allowance is insignificant in financial information provided by them.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1 SUMMARY

The focus of this research work has been to analyze the use of capital allowance by independent oil marketers in Jimeta-Yola. Capital allowance is a statutory relief granted to individuals operating business and companies by relevant tax authority (i.e. Federal Inland Revenue Services) on qualifying capital expenditure for the purpose of business in lieu of depreciation. It is divided into four: initial, annual, balancing adjustment and investment allowances. The basis period for capital allowance is the same as basis period for assessable profit.

Capital Allowance is provided by Company Income Tax Act, as a form of tax relief to companies and business that invest on qualifying capital expenditure. This is given in lieu of depreciation. The objective of this study is to examine the effect of capital allowance on investment decision. The population of the study consist of all independent oil marketers in Jimeta – Yola and a sample size of two companies is selected using purposive sampling techniques, consisting on companies that enjoyed capital allowance for at least five years from 2006-2010. The data used for this study in five years capital allowance computation of the companies' selected collected data are tabulated and analyzed using descriptive statistics. The major finding o the study

shows that capital allowance has not encourage the companies to invest on qualifying assets despite the positive effect of capital allowance in investment decision.

It was therefore concluded that independent oil markets do not take the advantage of capital allowance in their investment demission. It is therefore recommended that independent oil marketers should analysed the tax relief available to their investment before investing which can best be achieved by the use of tax consultant.

## **5.2 CONCLUSION**

Based on the table of analyses from the two independent oil marketers (Jada Petroleum Nig Ltd and AYT Nig Ltd) of their computed capital allowance from year 2006-2010, it has been observed that the companies do not take the advantage of capital allowance in their investment decision despite the positive effect it has on their profit tax. However, with better enlightenment the business can improve economic activities in their sector.

Though there's a positive effect of capital allowance (initial allowance and annual allowance) on investment made by independent oil marketers companies. That is to say when companies enjoyed capital allowance it encourage them to make further investment. The more capital allowance is claim by companies the less tax liability they pay to the relevant tax authority and the higher will be the companies profit after tax. When capital allowance claim by companies is less the higher will be the tax

liability of the company which also reduce the profit after tax. This will affect the companies to re-invest further in the business.

The rate of capital allowance are not openly disclosed to beneficiaries, thus inability to genuinely claims the exact rate which in turn reduces the income for companies.

### **5.3 RECOMMENDATIONS**

The following are some recommendations or suggestions which would go a long way in ameliorating the problems as identified in the course of this study.

- i. The independent oil marketers should analysed the tax relief available to their investment before investing which can be best achieved by the use of the consultant.
- ii. They should invest in expenditure that are quality for capital allowance e.g. plant and machinery which attract a high initial allowance.
- iii. They should try and invest in rural areas so as to attract rural investment allowance.
- iv. They should seek the services of tax consultant to advice them on appropriate tax planning.

With the above recommendations, this will in turn make it possible for the companies and individuals tax payers enjoy the capital allowance being granted.

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