



# NEWSLETTER

## News Flash



### **FEDERAL INLAND REVENUE SERVICE CLARIFICATIONS ON THE NATURE AND SCOPE OF DESK EXAMINATION, TAX AUDIT, TAX INVESTIGATION EXERCISE, AND OTHER TAX**

#### **INTRODUCTION**

The FIRS conducts tax compliance inquiry activities at various levels with the objective of ensuring that taxpayers provide comprehensive and accurate information in their tax returns. They also involve educating taxpayers, ascertaining whether a taxpayer is evading or avoiding taxes, and creating a platform for gathering intelligence on emerging tax compliance risks.

In its circular, the FIRS categorized its tax compliance inquiry activities into three (3) distinct levels. The levels of tax compliance inquiries are as outlined below:

#### **DESK EXAMINATION AND MONITORING EXERCISES**

This inquiry exercise does not require a visit to the taxpayer's office, it is limited to current-year operations in the financials and tax returns aimed at ensuring completeness, arithmetical accuracy, and obvious misapplication of tax laws. However, where a taxpayer files more than one year of tax returns, all the returns may be examined or monitored.

A desk examination must be completed before the initiation of a tax audit or investigation on the present or simultaneous tax return filings by the taxpayer, the conclusion reached during the desk review would be considered by the tax audit or investigation team. Furthermore, please note that the Desk examination exercise does not prevent the possibility of a tax audit or investigation on a company for the periods that have undergone the desk examination.

#### **TAX AUDIT**

This exercise is carried out by designated officers in different tax audit offices. Tax audit exercises may be routine (based on risk profiling) or special (as in the case of tax refunds or business combinations). Tax audits typically involve the review of past tax obligations and may not encompass tax returns for the current fiscal year.

The scope of the tax audit exercise encompasses a maximum of six preceding years and typically involves a preliminary meeting with the taxpayer, followed by a visit to the taxpayer's office and subsequent reconciliation meetings. During the visit, audit methods are employed to conduct a thorough examination and verification of the

taxpayer's underlying records, books, and accounts. The primary objective is to correct any inconsistencies identified in the tax returns by raising additional tax assessments including penalties and interest as applicable. Additionally, it is important to note that a Tax audit does not preclude the possibility of initiating a tax investigation action on a company provided there is authorization from the FIRS management.

### **TAX INVESTIGATION AND SPECIAL CRIMES INVESTIGATION**

This inquiry exercise involves a thorough and meticulous examination of potential violations of tax regulations and is conducted by assigned investigators within the tax investigation offices. Tax investigations are initiated based on specific triggers and require management approval. Unlike other tax compliance inquiries, this kind of exercise is not restricted to any number of years of exercise and can result to criminal prosecution. For the purpose of clarity, the factors that initiate the tax investigation exercise are:

- Situation referred by the tax audit department typically involves cases that have exceeded the routine audit time frame (6 years) due to the detention of fraud
- Inconsistent financial statements
- Failure to file tax returns
- Unexplained losses
- Resistance to tax audit exercise
- Equity being disguised as debt
- Money laundering, etc.

### **SPECIAL TAX CRIMES INVESTIGATION**

The objective is to expose and bring to justice individuals or entities engaged in significant tax-related criminal activities like tax evasion, fraud, money laundering, or other unlawful actions designed to evade legitimate tax obligations to the government. These inquiries typically require specialized teams well-versed in financial crimes and tax matters, and they may employ diverse techniques, including forensic accounting and surveillance, to accumulate evidence for legal proceedings. Furthermore, it is important to note that once a case is referred by the service for investigation, other forms of compliance inquiry should cease and defer to the investigation exercise, the following factors can initiate special tax crimes investigation:

- Referrals from anonymous tips or whistleblowers
- Fraud cases referred from top management and other departments of the service
- Petitions written by service
- Inconsistent entity structures involving frequent changes in business structures that may be used to evade taxes
- Alleged diversion of sales proceeds to personal bank accounts of directors, etc.

### **CONCLUSION**

It is important for companies to take note of the tax compliance inquiries by FIRS as it provides additional clarity on the nature and its scope i.e., desk examination is only limited to the current year or more than one year where taxpayers file more than one year of returns. It is important to note that under the desk review, FIRS is not under obligation to request for supporting documents to substantiate the company's revenue or expenses. Tax audit encompasses a maximum of six preceding years and tax investigation is not restricted to any number of years and can result in criminal prosecution subject to the service approval.

If you need further clarification on this matter you may contact [newsletter@wyze-ng.com](mailto:newsletter@wyze-ng.com)

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