

## Introduction

By Law, every registered corporation must at least on an annual basis, file with the Companies Registry, its Audited Accounts or Audited Financial Statements which is a periodic summary of the transactions of the company for the subject period.

The Audited Financial Statements usually discloses the company's assets, its liabilities, balance sheet, profit and loss accounts which in some jurisdictions is also known as the **Income Statements**.

Traditionally, the Accounting Reporting Period of a company is 1<sup>st</sup> January to 31<sup>st</sup> December of each calendar year. A company can however elect or choose to change its accounting date, subject to compliances with the provisions of the Companies and Allied Matters Act (?CAMA?), and the Companies Income Tax Act (?CITA?).

## Possible Reasons for Change of Accounting Date

Some of the reasons that may warrant a company to change its accounting reporting date include:-

- The need to synchronise the accounting reporting dates of a company with the accounting reporting dates of other companies within a group of companies.
- The convenience of having a singular stock and audit process at the same period of the year for companies within the same group, with common ownership and control.
- Where a merger or acquisition occurs, the accounting dates of the affected companies will need to be harmonised into a single accounting reporting date.

## Companies Registry - Notice of Change of Accounting Date

CAMA gives to the Directors of a company the discretion to determine on what

Statements will be published. Once the date for the publishing of the Financial Statements is determined, a formal communication of such notification must be transmitted to the Corporate Affairs Commission (?CAC?) within fourteen (14) days.

Where the accounting period and the publication date of a company's Audited Financial Statement is changed by a Shareholders' special resolution, notice of such change must also be communicated to CAC.

However, the period between a former accounting date and a new one must not exceed eighteen (18) months.

For a holding company, except for good reason(s), the financial reporting dates for the holding company and its subsidiaries must be the same date.

### Tax Implication of Change of Accounting Dates.

To prevent the deliberate failure to pay taxes, or to fail to pay a properly assessed tax, or to delay in paying its taxes; which is commonly known as **tax evasion**; and thereby incur punitive penalties for non-compliance, it is highly recommended that a company that changes its accounting reporting dates must ensure that it files its tax returns covering each and every day, from the date of the last tax return to the new accounting reporting date.

By the provisions of the Companies Income Tax Act (?CITA?), any company that changes its accounting reporting date from the traditional 1<sup>st</sup> January - 31<sup>st</sup> December of each year, to another reporting period, must communicate the change to the Tax Authority, which is the Federal Inland Revenue Service (?FIRS?).

The Tax Authority is in turn required to, on the receipt of the notice of change of accounting date, compute such a company's taxes from the date of the last filed tax return to the last date before the new accounting reporting date commences.

### Penalty for Failure to File Tax Returns After Date Change

Where however, a company that changes its accounting reporting date fails to file its tax returns with the Audited Accounts or Financial Statements attached, up to the last date before the new accounting date starts, the tax authority is required to compute such a company's taxes for the relevant year and for the next two (2) years following, by utilising the Tax Authority's **Best Of Judgment Assessment** in arriving at the taxes payable by such a company.

## Taxation and Best of Judgement

A Best of Judgement Tax Assessment arises where a tax payer, in response to a formal tax demand, fails to provide to the Tax Authority sufficient and convincing income records; or does not pay any tax for the tax assessment period in question.

Our Courts of Law do not however allow a Best of Judgement Tax Assessment that is manifestly unreasonable, irrespective of whether the tax payer challenges the Best of Judgement tax assessment or not.

Mindful of the judicial authorities on this point, the Federal Inland Revenue Service has issued tax circulars which naturally emphasises that a Best of Judgement tax assessment for an on-going business concern will be based on the preceding year's tax assessment, with the next two (2) years following the year when the accounting date change occurred.

**Naturally, the greater of the aggregate tax assessment for the last accounting period and the tax assessment for the subsequent two (2) years will be chosen by the Tax Authority as the Best of Judgment tax assessment for the taxpayer to liquidate this tax debt.**

DISCLAIMER NOTICE

This is a free educational material which does not create a Client/Attorney relationship. Readers are advised to always seek professional legal advice to their specific situations from qualified Legal Practitioners. Questions, comments, observations, suggestions, new ideas, contributions, etc. are always welcomed. You can also visit our website [www.oseroghoassociates.com](http://www.oseroghoassociates.com) for more legal materials.

INTELLECTUAL PROPERTY PROTECTED.

This material is protected by International Intellectual Property Laws and Regulations. This material can only be re-distributed for non-profit educational purposes only on the strict condition that our authorship is acknowledged, and the Disclaimer Notice is prominently displayed.