



FEDERAL INLAND REVENUE SERVICE
15 SOKODE CRESCENT, WUSE ZONE 5, P.M.B 33, GARKI, ABUJA, NIGERIA

INFORMATION CIRCULAR

NO: 2020/08

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Subject: CLARIFICATION ON THE AMENDMENT TO SECTION 16 OF COMPANIES INCOME TAX ACT IN RELATION TO TAXATION OF INSURANCE COMPANIES

This circular is issued for the information and guidance of the general public, taxpayers and tax practitioners in line with the provisions of the relevant tax laws. This instant circular amends, updates or replaces contents of any circular, notice or other publication previously issued by the Service that is inconsistent with its contents to the extent of such inconsistency.

1.0 Introduction

Section 16 of Companies Income Tax Act (CITA), Cap C21, LFN 2004 as amended by the 2019 Finance Act, revised the rules for the taxation of life and non-life insurance businesses. The amendment introduced new basis for computing minimum tax for an insurance business and aligned the carrying forward of losses with the provision of **Section 31 (2) of CITA** such that losses incurred by an insurance company may be carried forward indefinitely for both life and non-life insurance businesses.

2.0 Non-Life Insurance Business

The new provisions of **Section 16(8)(a) and 16(8)(b)** specified how reserve for unexpired risk and estimated amount of all outstanding claims and outgoings would be determined. The Finance Act did not directly refer to the above provisions, but referenced Section 4 of the CIT (Amendment) Act No. 11, 2007. Lines 55 to 64 of the Section replicated and re-enacted Section 16(8)(a) and (b) of CITA. As such, any amendment to the provisions in Section 4 of the CIT (Amendment) Act No. 11, 2007 amends the same provision in CITA.

2.1 Reserve for Un-Expired Risk

The amendment has expunged the erstwhile provisions for the determination of un-expired risk on a percentage consistently adopted by the company subject to the limitation specified in the old provision of **16(8)(a) of CITA**. Therefore, un-expired risk would henceforth be determined on a time apportionment basis of the risk accepted in the year.

Illustration

An extract from the financial statement of Insurance PLC for the year ended December 2020 shows the following:

Reserve for un-expired risk brought forward from 2019 - ~~₦~~2,000,000

Reserve for expired risk as at 31st Dec 2020 - ~~₦~~5,000,000

The un-expired risk that is attributable to the risk accepted in the year is ~~₦~~3,000,000 (5,000,000 - 2,000,000).

NOTE:

An insurance company shall maintain details and schedule of policies or risks accepted in a given year and the computation of un-expired risks associated with them. The schedule should include the name of the policy holder, type of policy, period of the policy, amount of the premium and expired risk computed therefrom.

2.2 Estimated Amount of Outstanding Claims and Outgoings

The amendment allows for an estimated amount of outstanding claims and outgoings during a given year, thereby repealing the old provision which was based on a percentage of total premium.

The amount of the estimated outstanding claims include verified but unpaid claims and an estimate for unverified claims received for the accounting period. The amount of estimated claims and outgoings made in one year shall be allowed as a deduction in that same year and added to the assessable profits of the immediate following year. As such, any shortfall or excess of estimated claims and outgoings is adjusted for.

NOTE:

Estimated amount of outstanding claims and outgoings must be supported with detailed schedule of specific items making up the total.

Illustration

An extract from the tax returns of XYZ Ltd. for YOA 2020 and 2021 show the following:

	2020	2021
	₦	₦
Estimated claims and outgoings	7,000,000	3,500,000
Actual claims and outgoings for the year	4,000,000	5,000,000
Net Profit before claims	12,000,000	9,500,000

The assessable profits are computed as follows:

	₦	₦
For 2020 year of assessment:		
Net Profit		12,000,000
Less: Actual claims and outgoings	4,000,000	
Estimated claims and outgoings	<u>7,000,000</u>	<u>11,000,000</u>
Assessable Profit		<u>1,000,000</u>

For 2021 year of assessment:		
Net Profit		9,500,000
Add: Estimated claims and outgoings (2020)		<u>7,000,000</u>
		16,500,000
Less: Actual claims and outgoings	5,000,000	
Estimated claims and outgoings (2021)	<u>3,500,000</u>	<u>8,500,000</u>
Assessable Profit		<u>8,000,000</u>

NOTE:

Insurance companies should maintain a schedule of estimated claims and outgoings that constitute the amount deducted every year.

2.3 Minimum Tax Computation for Non-Life Insurance Business

Section 16 (12)(a) of CITA, prescribes a fixed percentage of 0.5% of the gross premium as minimum tax for non-life insurance business.

2.4 Gross Premium

For the purposes of minimum tax, the gross premium for non-life business is the total of premium received and receivable (excluding premium returned to the insured) before any other deduction whatsoever.

Illustration

ABC Insurance PLC has the following extract from its financial statement for the period 2019:

	₦
Total Premium Written	11,000,000
Premium Paid on Reinsurance	2,000,000
Premium Returned to Insured	1,000,000

Compute the Minimum tax payable

Solution:	₱
Gross Premium Written	11,000,000
Less: Premium Returned	<u>1,000,000</u>
Gross Premium Liabile to Min. Tax	<u>10,000,000</u>
Min. Tax. = 0.5% x 10,000,000	<u>50,000</u>

2.5 Format for Computing Non-Life Insurance Business Tax

This format may be used as a guide for the computation of CIT of Non-Life Insurance Businesses.

	₱	₱
TOTAL PREMIUM WRITTEN		XXXXXXXXXX
LESS: PREMIUM RETURNED (CANCELLED INSURANCE POLICIES)		<u>XXX</u>
NET PREMIUM		XXXXXXXXXX
ADD:		
ESTIMATED INSURANCE CLAIMS FOR PREVIOUS YEAR (IF ANY)	XXXXXXXXXX	
INVESTMENT INCOME	XXXXXXXXXX	
FEES AND COMMISSION	XXXXXXXXXX	
RENT RECEIVED	XXXXXXXXXX	
OTHER INCOME	<u>XXXXXXXXXX</u>	<u>XXXXXXXXXX</u>
NET INCOME		XXXXXXXXXX
LESS: NON-TAXABLE INCOME (IF ANY)		<u>(XXXXXXXXXX)</u>
NET TAXABLE INCOME		XXXXXXXXXX
LESS:		
RE-INSURANCE PREMIUM PAID	XXXXXXXXXX	
RESERVE FOR UNEXPIRED RISK	XXXXXXXXXX	
TAX ALLOWABLE OUTGOINGS	XXXXXXXXXX	
INSRUANCE CLAIMS: - ACTUAL FOR THE YEAR	XXXXXXXXXX	
- ESTIMATED FOR THE YEAR	<u>XXXXXXXXXX</u>	<u>(XXXXXXXXXX)</u>
ASSESSABLE PROFIT		XXXXXXXXXX
LESS: LOSS BROUGHT FORWARD (IF ANY)		<u>XXXXXXXXXX</u>
		XXXXXXXXXX
ADD BALANCING CHARGE		XXXXXXXXXX
LESS: CAPITAL ALLOWANCES		XXXXXXXXXX
TOTAL PROFIT		XXXXXXXXXX
COMPANIES INCOME TAX @ 30% OF TOTAL PROFIT (A)		XXXXXXXXXX
MINIMUM TAX @ 0.5% OF GROSS PREMIUM (B)		XXXXXXXXXX
COMPANIES INCOME TAX IS THE HIGHER OF (A) and (B)		XXXXXXXXXX

3.0 Life Insurance Business

A "new subsection 16(6)" was inserted into CITA which defines "investment income" as "income derived from investment of shareholders' funds".

A new subsection 16(12) was also introduced into the Act which prescribes a fixed percentage of 0.5% of **gross income** as minimum tax for a life assurance business.

3.1 Gross Income

For the purposes of minimum tax computation, gross income of company engaged in life assurance business includes all investment income, fees, commissions and income from other sources or assets.

3.1 Format for Life Insurance Business Tax Computation

Based on the new provisions introduced in the amendment, this format may be used as a guide for the computation of CIT payable by Life Insurance Businesses.

	#	#
INVESTMENT INCOME		XXXXXXXX
ADD:		
FEES AND COMMISSION INCOME	XXXX	
DIVIDEND DISTRIBUTION OF ACTUARIAL OR OTHER REVALUATION	XXXX	
ANY OTHER INCOME	XXXX	XXXXXX
GROSS INCOME		XXXXXXXX
LESS:		
GENERAL RESERVE FUND:	XXXXXX	
SPECIAL RESERVE FUND – THE HIGHER OF:	-	
1% OF GROSS PREMIUM	XXXXX	-
10% OF TOTAL PROFIT	XXXXX	XXXXXX
TAX ALLOWABLE NORMAL BUSINESS OUTGOINGS	XXXXXX	(XXXXXX)
		(XXXXXX)
ASSESSABLE PROFIT		XXXXXXX
ADD BALANCING CHARGE		XXXXXX
LESS: CAPITAL ALLOWANCES		(XXXXXX)
TOTAL PROFITS		XXXXXXXX
COMPANIES INCOME TAX @ 30% OF TOTAL PROFIT (A)		XXXXXXXX
MINIMUM TAX @ 0.5% OF GROSS INCOME (B)		XXXXXXXX
COMPANIES INCOME TAX IS THE HIGHER OF (A) and (B)		XXXXXXXX

4.0 Amendment or Revision of the Circular

The Service may, at any time, withdraw or replace this Circular or publish an amended or updated version.

5.0 Enquiries

Any request for further information or clarifications on this Information Circular should be directed to the:

Executive Chairman
Federal Inland Revenue Service
Revenue House,
15 Sokode Crescent, Wuse Zone 5, Abuja.

Or

Director, Tax Policy and Advisory Department
Federal Inland Revenue Service
Revenue House, No 15 Sokode Crescent,
Wuse Zone 5, Abuja.

Or

Visit our website: www.firs.gov.ng
Email: enquiries@firs.gov.ng
Telephones: +2349073777777; +2349072111111; +2349074444441;
+2349074444442