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Professional Services Ltd

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## NIGERIA

### ADVANTAGES OF TAX PLANNING

#### Abstract

**Tax planning and management** focuses on efficient administration of **tax** procedures and minimization of **tax** liability through eligible schemes. Through this Newsletter, we will discuss about the basic concepts of **Tax Planning, Tax Management, differences and their objectives**

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# TAX PLANNING & TAX MANAGEMENT IN NIGERIA

## TAX PLANNING

Tax planning is the analysis of a financial situation or plan from a tax perspective. It can be understood as the practice of minimizing tax liability by making the effective use of all applicable allowances, deductions, exemptions, concessions, and rebate, within the framework of law, to lessen the overall income and/or capital gain of the Assessee (Tax Payer). For this purpose, the financial activities of the person or entity are thoroughly analyzed, to seek the maximum possible tax benefit, which is feasible as per the law.

Tax planning is a legal method of reducing the tax burden that covers all kinds of efforts made by the Tax Payer to save taxes, through ways and means that conform to the legal obligations and are not intended to deceive the law, by false pretense.

### Purpose of Tax Planning

To ensure tax efficiency. Through tax planning, all elements of the financial plan work together in the most tax-efficient manner possible.

Maximize productive investment,

Minimize litigation

Reduction of tax liability

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## Effects of Tax Planning

The main objectives in any exercise on tax planning are to:

- i. Gain all concessions and relief's and rebates permissible under the Act.
- ii. Arrange the affairs in a commercial way to minimize the incidence of tax.
- iii. Claim maximum relief where taxes are paid in more than one country.
- iv. Become tax compliant and avoid penalties, prosecutions and interest payments.
- v. Fruitful investment of savings.
- vi. Timely compliance of procedural requirements like tax audit etc.
- vii. Appropriate record keeping
- viii. Avoidance of litigation.
- ix. Growth of economy and its stability.
- x. Pay taxes – not a penny more, not a penny less.

## Tax Management

Tax management connotes the effective management of finances of a Taxpayer, to file the returns and pay taxes on time while complying with the provisions of the relevant Income tax law and allied rules regularly and timely, so as to avoid the imposition of interest and penalties.

Tax Management is the complete management of tax-related activities that took place at any point in time, as in:

- Past: Assessment Proceedings, Appeal to the Commissioner, Revisions of return etc,
- Present: Proper maintenance of the books of accounts, getting the accounts audited periodically, preserving data and vouchers that support the transactions, timely filing of income tax return,

deducting tax at source, collecting tax at source, self-assessment tax, payment of advance taxes, following procedural requirements, responding to notices received (if any), etc.

- Future: Taking corrective actions and planning investments to save taxes.

### **Key Differences between Tax Planning and Tax Management**

The difference between tax planning and tax management are presented in the points below:

1. Tax planning can be defined as the systematic planning of tax payer financial and business affairs by adhering to the taxation provisions, in a way that complete benefit can be availed of all the applicable deductions, exemptions, allowances and rebate. On the contrary, tax management implies the practice to avoid defaults and penalties and adhere to the legal provisions of the Income-tax Act.
2. Tax Planning is all about planning of taxable income and planning of investments of the tax payer. As against, Tax Management deals with the proper maintenance of financial records, audit of accounts, timely filing of the return, payment of taxes and appearing before the appellate authority, whenever required.
3. Tax Planning aims at reducing the tax burden of the tax payer to a minimum by utilizing all the permissible tax deductions, exemptions, and allowances. Conversely, the main purpose of tax management is to comply with the provisions of the relevant tax statute and allied rules.
4. In tax planning emphasis is laid on reducing the tax liability, by legitimate means, i.e. by using those ways and means that do not deceive the intent of the law. On the flip side, in tax management the focus is made on reducing the taxes, by the timely filing of the return, payment of advance taxes, payment of taxes and appearing before the stipulated authority, so as to prevent penalties, interest and so forth.
5. While tax planning is not a compulsory activity, tax management is compulsory for all the tax payer.

Tax planning is an honest and legal method of availing the full advantages of taxation laws. It is a way of effectively managing the income and taxes so that the tax liability arising on the tax payer is minimum. As against, Tax Management is an art of handling the financial affairs, while complying with the tax provisions, so as to avoid the payment of interest and penalties.

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