Personal income tax administration in nigeria economics essay

The success achieved by Federal Inland Revenue Service (FIRS) in meeting the targets set for its integrated tax offices nationwide is no doubt a challenge to its state counterparts (SBIRS). Personal income tax that is supposed to be paid by self employed individuals in Nigeria constitutes a major source of revenue accruable to various state government of the nation. Unfortunately, the correct assessment and collection of taxes from these groups of taxpayers remains a mirage due to myriad of factors. Prominent among these factors is the failure of majority to register with revenue authority as revealed in this study. This paper therefore recommends various strategies that can be adopted by government to bring into the tax net of the government numerous self employed persons in the society which can impact positively on increased revenue generation and the attendant quantity and quality of infrastructural facilities that can be provided by the government.

Introduction

Tax is defined as money that has to be paid to the government by the people according to their profits on goods and services provided. Chris and Elizabeth (2001) also defined taxes as a forced proportional contribution from persons and property levied by the state by virtue of its sovereignty for the support of government and for all public needs.

Other definitions can also be gleaned from judicial precedents. In Matthew V. Chikory Marketing Board of Victoria Australia, Latham, C. J. defined tax as a compulsory exaction of money by a public authority for public purposes. Tax in this regard is seen as a means of raising money from the public by the government by means of contributions from individual persons. In the

American case of United States V. Butler, Justice Robert defined tax in the general understanding of the term as exaction money from members of the society for the support of the government expenditure (Chris and Elizabeth 2001).

In summation therefore, according to Chris and Elizabeth (2001) tax has three basic features namely; a compulsory levy imposed by government, or local authority, for public purpose and to encourage social justice. A tax according to Ayua (1996) is not a voluntary payment but a compulsory pecuniary burden placed on taxpayers for the benefit of the society.

Generally, taxation can be described as a form of levy imposed on all residents living and non-residents doing business within a tax jurisdiction. It is a civic and patriotic responsibility of citizens to pay taxes imposed which also come to the government as income or revenue yielding device to finance the provisions of socio-economic and infrastructural amenities and also to enhance industrial efficiency.

The aim of this paper is to look into various constraints faced by tax authorities in assessing and collecting taxes from self-employed taxpayers and proffering solutions as regards strategies to be adopted by revenue authorities for expanding the Nigerian tax net to improve tax collection drive covering the self-employed.

Review of related literature

Under the review of literature the history of taxation in Nigeria, the objectives of taxation and the use of taxation as an instrument of economic regulation or control have been treated.

2. 1 The history of taxation in Nigeria

The history of taxation in Nigeria dates back to the pre-colonial period. According to Lekan and Sunday (2006) before the colonization of the different entities which were later amalgamated under the name Nigeria, there were different systems of taxation existing in the form of compulsory services, contribution of goods, money, labour and so on amongst the various kingdoms, groups and tribes controlled by the Obas, Emirs, Ezes, Attah of Igala, Tor Tiv, Ohinoyi of Ebira and so on in order to sustain the monarchs.

The various taxes levied by the different ethnic groups by the kings according to Ola (2004) took several forms such as ‘ Zakkat’ levied on Moslems for educational, charitable and religious purposes, ‘ kudin-kasa’, a form of an agricultural tax levied on utilization of land, ‘ shuka-shuka’ levied on the ownership of cattle based on the member of cattle, ‘ Ishakiloe’- contribution of farm products as a form of land tax in exchange for the use of land for agricultural purposes payable to Obas, chiefs and family community heads, community tax payable by all adults in order to execute projects beneficial to the community; ‘ Oko-ane’ payable to Attah Igala for hunting in a particular forest, ‘ Osusu Imachi-Nkwu’ payable to Ezes in Igbo land by those who harvest palm fruits and are expected to contribute proportion of the harvested palm oil. In Tivland in Benue state certain taxes are paid by couples during marriage ceremonies which are used for various community development projects.

The present form of taxation in Nigeria could be traced to the establishment of a British colony in Lagos on August 6, 1861 and subsequent amalgamation of the Southern and Northern protectorates of Nigeria in 1914.

During the colonial era according to Yerokun (1997), the imposition of any type of tax on citizens (individuals and corporate) took the form of promulgation of laws by the colonial authority. Examples of such law include Native Law ordinance cap 74 of 1917 applicable to Western Nigeria. The re-enactment of the same law in 1929 according to Ola (2004) which for the first time imposed taxes on women resulted in the Aba women riot of 1929. Another law was that of non-natives protectorates tax ordinance of 1931. The ordinance was later repealed and incorporated into the taxation ordinance No. 4 of 1940 and subsequently re-enacted as the Income Tax Ordinance (ITO) 1943.

The above tax laws according to Yerokun (1997) were administered on individuals and corporate entities by various tax and revenue officers in the different provinces and regions. In order to promote uniformity in the incidence of taxation throughout the geographical entity called Nigeria according to Lekan and Sunday (2006), the colonial government in 1958 set up the Raisman Commission. The commission at the end of its work recommended the introduction of uniform basic income tax principles for application in all regions of Nigeria. This recommendation was accepted by the government which incorporated the same into the 1960 constitution of the Federal Republic of Nigeria. This led to the promulgation of the Income Tax Management Act (ITMA) 1961 and Companies Income Tax Act (CITA) 1961.

The taxation of individuals as opposed to companies is governed by the ITMA 1961, the main purpose according to Ariwodola (2000) is to regulate the imposition of personal income tax throughout the Federation so that internal double taxation of incomes by the Federal Government and State Government will be avoided. The Act sets up a Joint Tax Board (JTB) which is charged with the responsibility of determining technical and other issues in which interests of those Government might otherwise be in conflict.

Each government has sole Jurisdiction to impose personal income tax on individuals resident or deemed to be resident in its territory and the 1961 Act does not seek to encroach upon the right of each government to decide upon the appropriate level of taxation of those individual who under the provisions of the Act, fall within its jurisdiction. The ITMA determines such questions as to what is taxable income, what deductions may be allowed against gross income to arrive at the taxable income and the period over which assessable income is to be determined.

The above legislations (ITMA and CITA) 1961 were later repealed and re-enacted as the Personal Income Tax Act (PITA) 1993, and the Companies Income Tax Act CAP 60 LFN, 1990 respectively. As a result of the work of the Tax Laws Review Commission, these laws have been reviewed and updated and are included in the laws of the Federal Republic of Nigeria 2004. The current law that governs the administering of Personal Income Tax (PIT) is the Personal Income Tax Act Cap. P8 LFN 204 which imposes tax on incomes of individuals and corporations.

2. 2 Objectives of Taxation

Tax is generally regarded as a pecuniary burden laid upon individuals or persons or property to support the government and it is a payment exacted by legislative authority. Tax according to Nightingale (2000) under any jurisdiction is discriminatory in the sense that it is assessed on persons or property based on profits/incomes or gain, the benefit derived by citizens from tax payment is without reference to the contribution of individual tax payers. In line with this therefore, according to Ariwodola (2005) it is accurate to say that the primary objective and purpose of taxation in most nations of the world is essentially to generate revenue for government expenditure on social welfare such as provision of defense, law and order, health services and education. Revenue from taxation can also be spent on capital projects otherwise called consumer expenditure, creating social and economic infrastructure which will improve the social life of the people.

Quite apart from this primary purpose, taxation as the most potential source of revenue to government of any nation has played very prominent roles as an instrument of government's economic, social and fiscal policy.

Other major objective of taxation in any economy of a nation are as follows:

The use of taxation as an instrument of economic regulation or control: For the purpose of discouraging certain forms of anti-social behaviour in the society. Taxation according to Musgrave and Musgrave (1984) can be extensively used in regulating the consumption pattern resulting in economic stabilization. Anti-social behaviour such as drinking of alcohol, smoking and pool betting can be controlled by imposition of higher taxes on production of such goods.

Investment promotion: The resource allocation dimension of taxation policy is its role in promoting investment as a critical measure of ensuring a healthy economy through creation of new wealth. In Nigeria, government sometimes introduces tax incentives and attractive tax exemptions as an instrument to woo and induce local and foreign investors in areas such as manufacturing of goods, export processing, oil and gas and utilities, which are critical and necessary for the economic development and growth of the nation.

Income and wealth distribution: The use of transfer payments and benefits to those members of the society who are less well off according to Musgrave and Musgrave (1980) is to promote social equality. Taxation as a mechanism for income and wealth distribution holds that the burden of taxation should be heavier for the rich in the society than for the poor so that taxes collected are used to pay for social services for the less fortunate.

Harmonization: Harmonization according to Lekan and Sunday (2006) is said to be the modern objective of Economic community of West African States (ECOWAS). The idea of a single market in ECOWAS member nations is to provide for the free movement of goods/services, capital and people between member states. The philosophy behind this single market therefore suggests that these tax systems of member states should be harmonized.

Generally, according to Ola (2004) taxation is a powerful and potential fiscal stabilizer employed by government of nations to plan development policies.

It is a device according to Nightingale (2004) to induce economic development and favourable balance of payments.

3. Method

The study employed a survey design and data was collected from the Adamawa State Board of Internal Revenue and using convenient sampling, 90 self employed persons in Jimeta-Yola metropolis in Adamawa State were interviewed. The data was analyzed using descriptive statistics made up of simple percentages.

4. Discussion

Self-employed tax payers are unincorporated individuals or body of individuals engaged in their own businesses either as sole traders or in partnerships. Such persons include individual contractors, traders, professionals, consultants, market women, artisans and all other entities that are not liable to tax under the Companies Income Tax Act (CITA), but under the Personal Income Tax Act (PITA). This means such persons are taxable on income accruing to them personally.

In the study conducted among the self-employed in Jimeta-Yola metropolis in Adamawa State, it was discovered that just very few individuals registered with the state Board of Internal Revenue (SBIR) for 2010 and 2011 tax year as indicated in the table below.

Table 1: Rate of Registration of Self-Employed Persons with Tax Authority (Adamawa State Board of Internal Revenue) 2010 – 2011

2010

2011

Self-Employed Group

Registered

Unregistered

Total

Registered

Unregistered

Total

1

14

15

2

13

15

Electricians

—

15

15

—

15

15

Mechanics

2

13

15

4

11

15

Painters

3

12

15

5

10

15

Vulcanizers

1

14

15

—

15

15

Welders

—

15

15

—

15

15

07

83

90

11

79

90

Source: Field Survey, 2011.

Out of 90 self-employed groups interviewed in Jimeta-Yola metropolis regarding whether they have registered with Adamawa State Board of internal revenue for the purpose of paying tax on their income for 2010 and 2012 Assessment year, only 7 of them in 2010 indicated that they have registered representing about 12. 2% registered with the State Board of Internal Revenue (SBIR) while the remaining 87. 8% failed to register.

The above scenario is likely to be a total reflection of what is happening through out the entire country, where there is wide trend of tax aversion by the self-employed group in the country. Given a whole gamut of self-employed persons in the society as enumerated above, a huge amount of revenue can be generated by various state tax authorities if self-employed individuals are properly brought into the tax net of the government.

It is the requirement of the law PITA Cap P8 LFN 2004 that all self-employed tax payers are required to file self-assessment tax returns with their respective relevant state tax authorities every year within 90 days of the commencement of a new tax year. Such tax return is expected to disclose transactions relating to the individuals income for the year.

Unfortunately according to Ariwodola (2000) a large sum of money by way of revenue that suppose to have been generated from these group of tax payers (self-employed) by the government remain uncollected year in year out due to the following factors.

Lack of Taxpayers Data/Information: There is no detailed information on or database for the self-employed in Nigeria, thus bringing them into the tax net is different. This is a very serious problem in personal taxation as it often difficult most a times to determine the residence of individuals which is vital for the purpose of identifying the relevant tax authority of a tax payer. A lot of time is often spent in residence determination especially where there is dispute between two or more tax authorities leading to loss of revenue that would have accrued.

Inefficient Utilization Tax Revenue: There is a general apathy to voluntary compliance with the provisions of the tax laws because of the level of decay in basic infrastructure such as light, water and good roads. This problem has always called to question the need for continued payment of tax in Nigeria.

Lack of Experienced and Qualified Personnel: Most tax officers lack the requisite experience and knowledge of the tax laws required to appropriately assess the self-employed to tax.

Inadequate Penalties/Absence of Enforcement: In Nigeria, the penalties for non-compliance with relevant tax provisions are too lenient to compel the self-employed to pay tax. There is also a general lack of enforcement of existing penalties.

Inadequate Records: Most self-employed persons do not maintain adequate records of their income and expenditure. In most cases, they mix their business activities with their private affairs thus making it difficult to determine the income taxable.

Lack of Public Enlightenment: Most of the self-employed tax payers do not know what tax to pay, when to pay, who to pay to, where to pay and what relief and allowance they are entitled to. Government is faulted here because a good tax system should be certain and easy to administer. It is the responsibility of government at all levels to educate the public on their responsibility with respect to tax at all times.

Level of Corruption: Some tax officials collude with would be tax payers to defraud the government of her taxes. A large chunk of revenue that is suppose to come into government coffers ended up in private pockets compounding problems of government's inability to provide the basic infrastructure needed for the orderly development of the society.

Level of Poverty: This is directly linked to the problem highlighted above. Several self-employed persons are struggling to survive due to the unconducive operating environment. The society according to Ariwodola (2000) has been impoverished by the elite so much that paying tax will further deepen the level of poverty among the low income earners.

Over-Dependence on Oil Revenue: For a very long time now, Nigeria has been depending on revenue from oil. The discovery of oil and very huge revenue accruing from it according to Yerokun (1997) has led to the neglect of all other non-oil revenue yielding sources to the government.

Having enumerated the constraints/challenges facing the tax authorities in assessing and collection of taxes from self-employed tax payers in our society, there is however prospects for improved revenue generation from these group of persons if certain strategies are evolved.

Strategies for Expanding the Nigerian Tax Net to Improve Tax Collections Drive Covering the Self-Employed:

Public Enlightenment and Education: Revenue authority should embark on aggressive public enlightenment and education of tax payers on the various taxes payable by all self-employed individuals in the society. Revenue authority in various states should endeavour to equip their staff to enable them carry out this duty.

Requirement for Presentation of Tax Clearance Certificate (TCC): By providing and insisting the TCC be produced by individuals for any form of transaction with government, more self-employed persons will be compelled to pay their taxes.

Stiffer Penalties for Non-Compliance: If the consequences of failure to comply with any of the provisions of the tax laws are made stiffer, more tax payers will be willing to comply with little or no stress on the part of the revenue authorities.

Encouragement of Cooperative Unions: By encouraging artisans in particular to form associations through which government can reach their members, improvement in tax generation from this category of self-employed persons can be achieved. Similarly, all other category of self-employed individuals are encouraged to form unions in their respective localities. They can always hold government accountable for non provision of infrastructure necessary for their operation through their respective unions and they will be heard only and if only they can live up to their own civic responsibility by paying their taxes promptly.

Effective Utilization of Tax Revenue: Improvement in the level of basic infrastructural facilities will encourage voluntary compliance with the provisions of the tax laws as they will show that the Revenue is being utilized effectively. In Nigeria today, it is no news that the level of decay in basic infrastructure is alarming. If government effectively utilizes tax revenue for the provision of infrastructure, the citizenry will be motivated to pay taxes .

Promulgation of Anti-Avoidance Provision: Making provisions to block the several loopholes in the tax laws will enhance further compliance with the tax laws and increase tax revenue. The two possible forms of anti-avoidance legislation are specific legislation to block voluntary avoidance device and general anti-avoidance legislation which vests the revenue authority with power to disregard all transactions entered into that could be proved to have been entered into solely for tax avoidance purposes.

Empowerment of Investigation and Intelligence Unit: The investigation and intelligence unit of the Revenue authorities should be empowered and made vibrant and effective. It is the responsibility of this unit to trace self-employed persons in the society who have not been paying their taxes. This can be done by going through the Land Registry and Vehicle licensing offices. Information about the self employed can also be obtained from banks by requiring banks to file returns of all their new customers with the Revenue authorities.

Engagement of Experienced and Qualified Personnel: Employing qualified personnel and paying competitive remuneration will further enhance dedication to duty which will impact positively on increased revenue generation especially from the self-employed personal where the rate of tax evasion is high.

Regular Amendment to the Tax/Laws: The tax laws should be regularly up-dated and provision should be such that are reasonable and easy to comply with. It is known according to Yerokun (1997) that the existence of wide spread tax avoidance and evasion is in any society is an evidence that the tax system requires a radical reform.

5. Conclusion

Generally, taxation is a monetary charge imposed by government on her citizens to yield revenue for her numerous statutory responsibilities to the people. It is also civic and patriotic responsibility of the citizens to pay taxes as at when due which is a means by which government can finance the provisions of socio-economic and infrastructural amenities for the orderly development and growth of the society.

Reduction of the high rate of tax evasion by the self-employed individual in Nigeria and the resultant high revenue that can be generated there from requires a conscious efforts and definite roles to be played by both the government and the governed.