Tax administration in nigeria: a case study of federal inland revenue service(fir...

ABSTRACT Taxation is a dynamic subject which grows with the constant change in the economic environment in which it operates, hence the need to review the regulating instruments from time to time. Nigeria is governed by a federal system hence its fiscal operations also adhere to the same principle, a fact which has serious implications on how the tax system is managed. The country's tax system is lopsided, and dominated by oil revenue. It is also characterized by unnecessarily complex, distortionary and largely inequitable taxation laws that have limited application in the informal sector that dominates the economy.

The primary objective of this paper is to prepare a case study on tax administration in Nigeria, with the specific objectives of examining the main tax reforms in the country; highlighting tax revenue profile and composition; analysing possible distributional impacts on the poor; discussing major problems that could prevent effective tax implementation in the country; and offering suggestions for reforms. CHAPTER ONE 1. 1 HISTORY OF TAX IN NIGERIA In the Stone Age, tax was collected in Nigeria long before the coming of Europeans. It was collected by the Local Chiefs for the purpose of administration and defence.

Every person was expected to give part of his or her proceeds from cultivation of land to the state. Those who were cultivations were required to give their sources for public work such as clearing the bush, digging the pit latrines, wells etc for the benefit of the community as a whole. Failure to render such services usually resulted in loss of properties, which might be reclaimed after payment of line. With the coming of Europeans, taxes were collected from individuals through local chiefs. In 1946, a legislative council was set for the whole country, which obliged the regional council with a large measure of financial responsibilities.

After independence state government were to find out other sources of generating revenue. The first tax was introduced in 1904 in the northern region by Lord Lugard known as community tax. According to the tax laws the board can revise the assessment if it deems necessary, and can institute legal action against any tax defaulters in respective of his status in the community such legal rights have been derived by politician and poor administration of tax laws. 1. 2 OVERVIEW OF THE STUDY A tax policy represents a key a resource allocator between the public and private sectors in a country.

It is usually imposed on individuals and entity that make up a country. The funds provided by tax are used by the states to support certain state obligations such as education systems, health care systems, and pensions for the elderly, unemployment benefits, and public transportation. A nation's tax system is often a reflection of its communal values or the values of those in power. To create a system of taxation, a nation must make choices regarding the distribution of the tax burden-who will pay taxes and how much they will pay-and how the taxes collected will be spent.

In the case of Nigeria, the major sources of revenue include the following: ? Oil sector such as petroleum resources. ? Non-oil sector such as custom duties, taxes and other services. ? Internal borrowing from organisations and financial intermediaries such as commercial banks, bonds, treasury certificates and call money. The need for revenue from taxes cannot be over emphasized as this contributes significantly to government revenue. The concept of taxation is as old as exchange process (whether barter or monetary) that gradually developed with civilisation.

This is true as seen from the period of colonisation to date which is characterised by the establishment of Ordinances acts, decrees and edicts which govern tax administration in Nigeria. These acts include: ? Companies Income Tax Act of 1961 as amended by the Companies Income Tax Act (CITA 1979) establishing the Federal Board of Internal Revenue ? The Income Tax Management Act of 1961, which regulates the imposition of personal income tax throughout the Nigerian federation and ensures the avoidance of double taxation. The Tax Management Act came into being in 1st of April 1961 which amended all other regional tax laws and brought them into conformity with the federal laws. ? The subsequent Finance/Miscellaneous Taxation Provisions/Decree of 1987 as amended by Decree of 1993 which created the Federal Inland Revenue Service (FIRS) as an operational arm of Federal Board of Internal Revenue (FBIR) in compliance with the recommendations of the study group on tax reforms and administration in Nigeria set up in 9th January 1991. 1. 3 THE FEDERAL BOARD OF INTERNAL REVENUE

The Federal Board of Internal Revenue (FBIR) is a statutory body established by Section 1 Sub-section 1 of ITMA (Income Tax Management Act)a as amended by Personal Income tax Decree of 1993as the apex or highest tax authority in Nigeria. 1. 4 THE FEDERAL INLAND REVENUE SERVICE The Nigerian Federal Inland Revenue Service, FIRS, was created in 1943. It was carved from the erstwhile Inland Revenue Department that covered what was then the Anglo ¬Phone West Africa (including Ghana, Gambia, Sierra Leone) during the colonial era.

Tax provides revenue to fund governance, ensures resource redistribution, streamlines consumption of certain goods and services, reduces inflation and generates employment. The Federal Inland Revenue Service is constitutionally empowered to collect taxes. In 1958, the Board of Inland Revenue was established under the Income Tax Ordinance of 1958. The name was later changed in 1961 when the Federal Board of Inland Revenue (FBIR) was established under Section 4 of the Companies and Income Tax Act (CITA) No. 22 of 1961.

FBIR operated then as a department in the Federal Ministry of Finance. A further transformation took place in 1993 when the Finance (Miscellaneous Taxation Provisions) Act No 3 of 1993 established the Federal Inland Revenue Service FIRS as the operational arm of FBIR. The act also created the office of the Executive Chairman of the Board. In 2007, the Federal Inland Revenue Service Establishment Act, (2007), which granted autonomy to the service, was enacted. The FIRS is one of the Federal Ministries, Departments and Agencies (MDAs) undergoing massive changes.

In 2005, Integrated Tax Offices, ITOs replaced the old tax offices -which were structured along tax types: Value Added Tax Office, Personal Income Tax Office, Petroleum/International Tax Office, Withholding Tax Office, and Area Tax Office. The new one stop-shop for all tax types lessened the burden of taxpayers, who can now transact their tax businesses under one roof. To cater to the interest of oil and gas companies, as well as marketing and service companies, airlines, shipping agencies and all companies with turnover of N1 billion- Large Tax Offices, LTOs were created. . 5 STATEMENT OF THE PROBLEM Many people are not aware of the existence and importance of the FIRS in Nigeria. The research work intends to identify the various taxes being administered by the FIRS and to see how the body is able to accomplish its objectives through emphasis on human resources development, staff motivations, professionalism, dedication and loyalty, accountability and transparency, excellent human relations, information and effective communication.

The Nigerian tax system comprises of at least 39 taxes, levies and fees, including 8 Federal, 11 State and 20 Local Government taxes and levies as specified in the Taxes and Levies (Approved List for Collection) Decree No. 21, of 1998. 1. 6 OBJECTIVE OF THE STUDY The researcher decided to undertake this study in order to appraise tax administration in Nigeria, the problems, achievements and the impact of tax revenue yield for an individual and the government. To identify problems experienced which have led to low revenue from tax.

To identify ways to these problems and to identify new policies and strategies adopted by the government which lead to increased revenue generation through taxes. 1. 7 SIGNIFICANCE OF THE STUDY The significance of the study is that the outcome of the research will serve as a useful guideline to tax administrators and the government. The research work will also be of immense benefit to tax payers, financial analysts, auditors and company executives who pay some of the aforementioned taxes. 1. 8 SCOPE

AND LIMITATIONS The scope of the study is Tax Administration in Nigeria using the Federal Inland Revenue Service as a case study.

Due to time and financial constraints the research is limited to Integrated Tax Offices in Minna and Kaduna and the Headquarters. The study also covers five years, 2003 to 2007. CHAPTER TWO 2. 0 REVIEW OF RELATED LITERATURE This chapter shall review some important thoughts on the concept of tax administration, its problems and role in public sector development. 2. 1 DEFINITION OF TAX Tax can be defined as a compulsory levy by government on goods, services, income and wealth with the sole aim of obtaining revenue. In other words, it is levy or dues on the income of persons and companies.

It provides definite source of revenue of person for government expenditure. It is the way by which government obtains extra money it spends from income of individual or companies. 2. 2 TYPES OF TAX •VALUE ADDED TAX (VAT): This was introduced by the VAT decree No. 2 of 1993, to replace the old sales tax. It is a consumption tax levied at each stage of the consumption chain, and is borne by the final consumer. It requires a taxable person upon registering with the Federal Board of Inland Revenue to charge and collect VAT at a flat rate of 5% (recently increased to 10%) of all invoiced amounts of taxable goods and services. CAPITAL GAINS TAX: This accrues on an actual year basis and it pertains to all gains accruing to a taxpayer from the sale or lease or other transfer of proprietary rights in a chargeable interest which are subject to a capital gains tax of 10%, such chargeable assets may be corporeal or incorporeal and it does not matter that such asset is not situated in Nigeria. Where however the taxpayer is a non-resident company or individual the tax will only be levied on the amount received or brought into Nigeria.

Computation of capital gains tax is done by deducting from the sum received or receivable from the cost of acquisition to the person realizing the chargeable gain plus expenditure incurred on the improvement or expenses incidental to the realization of the asset. •EDUCATION TAX: An education tax of 2% of assessable profits is imposed on all companies incorporated in Nigeria. This tax is viewed as a social obligation placed on all companies in ensuring that they contribute their own quota in developing educational facilities in the country. PERSONAL INCOME TAX: The legal basis for this tax is found in the provisions of the Personal Income Tax Decree [now Act] 104 of 1993. Every taxpayer in Nigeria is liable to pay tax on the aggregate amount of his income whether derived from within or outside Nigeria, the salaries, wages, fees, allowances, and other gains or benefits, given or granted to an employee are chargeable to tax. The Employers of labour are deemed to be agents of the tax authority for the purposes of remitting taxes deducted from salaries due to employees. The following are however exempted from tax: –

Medical or Dental expenses incurred by the employee; Retirement gratuities and compensation loss of office; The cost of passage to or from Nigeria incurred by the employee; Interest on loans for developing an owner-occupied residential house; Leave allowance, which is computed as 10% of annual basic salary subject to a maximum of N7, 500 per annum.

•COMPANIES INCOME TAX: Tax is payable for each year of assessment of the profits of any company at a rate of 30%. These include profits accruing in, derived from, brought into or received from a trade, business or investment.

Also companies paying dividends to its shareholders are first obliged to pay tax on its profits at the companies' tax rate. Generally in Nigeria company dividends or other company distribution whether or not of a capital nature made by a Nigerian company is liable to tax at source of 10%, however dividends paid in the form of bonus share or scrip shares to individual share holders are not subject to tax, where also a company is a shareholder in another company then such dividends are excluded from the profits of the company for the purposes of computation of the tax. NIGERIAN SOCIAL INVESTMENT TRUST FUND (NSITF): This is governed by the NSITF Decree, and requires everybody employed in a Nigerian incorporated company to contribute a certain percentage of their salary to the fund. This contribution is based on the assumption that the maximum basic salary in Nigeria is N48, 000 per annum; Expatriates are excluded from this requirement where they can show proof of a similar contribution in their home country. The rate of contributions is defined as follows, where the contributor is an employee, 2. % of his salary subject to a maximum of N 1, 200 per annum; where the contributor is an employer, 5% of basic salary subject. •WITHHOLDING TAX: Nigerian law subjects certain activities and services to Withholding Tax. This basically means that where during transactions in any of the specified activities or services, a payment is due from one person to another, the person making the payment is expected to deduct tax at the applicable rate and remit it to the relevant tax authority. This should be done not later than 30 days after the deduction. This provision can be found in sections 68 to 72 of the Personal Income Tax Decree No. 04 of 1993; Sections 60 to 64 of the Company Income Tax Act (as amended), and Section 51(a) of the Petroleum Profits Tax Act (as amended). •TAX TREATIES: Nigeria has a number tax treaties referred to as " double taxation" agreements with a number of countries, these are designed to ensure that the tax payable in Nigeria on the profits of a Nigerian company being remitted into the country are reduced by the amount of Foreign Tax paid abroad and vice versa where an overseas company receives profits from Nigeria that have already been taxed in Nigeria.

Some of these countries include the UK, France, The Netherlands, Belgium, Canada and Pakistan. 2. 3 PRINCIPLES OF A GOOD TAX SYSTEM ? Economic Efficiency – should not prevent efficient allocation of resources. ? Administrative Simplicity – easy and inexpensive to administer. ? Flexibility – should respond easily to changes in economic conditions (specific vs ad-valorem rates). ? Transparency – tax burdens should be ascertainable and tailored to what society considers desirable. ? Fairness – horizontal equity (same level); vertical equity (the better off should pay accordingly). . 4 OBJECTIVE OF AN EFFICIENT TAX ADMINISTRATION ? Tax is the most reliable source of revenue to the government. ? To provide defence and national security to the country. ? Provision of education, health care services and social amenities. ? Income and wealth distribution in order to reduce inequality. ? To effect changes in the country's balance of payments with other countries. ? To effect the mobilisation of economic resources. ? To influence the level of economic activities and capital formation. ? To combat inflation by way of fiscal policy. To control the consumption of goods and services considered harmful. ? To service national debts and to provide retirement benefits. ? To provide subsidies in favour of preferred sectors of the economy. 2. 5 OVERVIEW OF TAX SYSTEM IN NIGERIA The Nigerian tax system is basically structured as a tool for revenue collection. This is a legacy from the pre-independence government. Based on 1948 British tax laws and have been mainly static since enactment. The need to tax personal incomes throughout the country prompted the Income Tax Management Act (ITMA) of 1961.

In Nigeria, personal income tax (PIT) for salaried employment is based on a ‘ pay as you earn’ (PAYE) system, and several amendments have been made to the 1961 ITMA Act. For instance, in 1985 PIT was increased from N 600 or 10 per cent of earned income to N 2, 000 plus 12. 5 per cent of income exceeding N 6, 000. In 1989, a 15 per cent withholding tax was applied to savings deposits valued at N 50, 000 or more while tax on rental income was extended to cover chartered vessels, ships or aircraft.

In addition, tax on the fees of directors was fixed at 15 per cent. These policies were geared towards achieving effective protection for local industries, greater use of local raw materials, generating increased government revenue among others. Since the implementation of the structural adjustment programme (SAP), however, taxes have been used to enhance the productivity and competitiveness of business enterprises. Consequently, attention has been focused on promoting exports of manufactures and reducing the tax burden of individuals and companies.

In line with this change in policy focus, many measures were undertaken. These involved, among others, reviewing custom and excise duties, continuing with the reduction of company and income taxes, expanding the range of tax exemptions and rebate introducing capital allowance, expanding the duty drawback scheme and manufacturing-in-bond scheme, abolishing excise duty, implementing VAT, monetizing fringe benefits and increasing tax relief to low-income earners. 2. 6 ROLE OF FIRS IN TAX ADMINISTRATION

The Federal Inland Revenue Service as an administrative arm of the Federal Board of Internal Revenue in compliance with Income Tax Decree of 1987 as amended in 1993 plays a major role in tax assessment, collection, accounting and enforcement of the payment of tax. The mission of FIRS is " To operate a transparent and efficient tax system that optimizes tax revenue collection and voluntary compliance" and the vision is " To make taxation the pivot of national development through a dedicated team of professionals enabled with modern technological tools. The FIRS is saddled with the responsibility for advising government on treaty negotiation issues. In the Nigerian Tax System, tax shall be collected only by career tax administrators, who are Civil Servants, and not by ad hoc consultants or agents. Similarly, only self assessments or assessments by tax administrators shall be allowed in Nigeria. In addition, the FIRS also ensures that in carrying out its tax assessments and collection role, every claim, objection, appeal, representation or the like made by any tax payer are sufficiently considered by it.

This will ensure that tax payers have confidence in the tax administration system in the country. Finally, the FIRS at all levels are expected to provide guidance to the taxable public. This guidance could come in the form of information circulars, bulletins and newsletters. Figure 1 above and figure 2 below showing FIRS organisational structure (tax). ? 2. 7 PROBLEMS ENCOUNTERED IN THE ADMINISTRATION OF TAX Lawal (1982) says the following are the problems of tax collection in Nigeria. ? Inadequate Staff

Lack of adequate staff or manpower to carry out the assignment efficiently has contributed to the low revenue generated for the country. ? Mismanagement of Tax Collected Where taxes collected are not being utilized for the purpose for which they were collected. This makes taxpayers not to give out their wealth to the nation. ? Bribery and Corruption In this way, tax officials collude with tax payers to divert taxes collected. This consequently affects revenue generation for the nation. ? Poor Accounting Record Most businessmen, traders, professionals do not keep proper records of their incomes and expenditure.

This makes assessment of their incomes difficult. ? Inadequate Facilities Facilities like motor vehicles and motorcycles to carry out the assignment effectively are grossly inadequate. ? Lack of voluntary compliance from the taxpayers This attitude of taxpayers causes tax avoidance, evasion and delinquency ? Lack of Taxpayers’ Data There is inadequate data to capture all prospective taxpayers. Over dependence on oil revenue According to the Federal Ministry of Finance detailed breakdown of allocations as published from June 1999, to May 2007, in the eight years of

Obasanjo’s Presidency, total monies allocated from Federation and VAT pool accounts (including excess crude allocation) to the three tiers of government amounted to N16. 5 trillion of which 85 per cent was from oil revenue. Former president Obasanjo, in his 2007 budget speech said revenue, representing 84% of total estimated revenue is uncomfortably too high. He said the country needs to continue to grow the non-oil revenue. Revenue from one commodity or product should not be more than 50% of our total revenue for now to ensure security and stability.

In conclusion, we could believe that the combination of these problems in one way or another affects tax administration in the country. The combination of these factors in either local, state or the federal government is responsible for low revenue yield. CHAPTER THREE 3. 0RESEARCH METHODOLOGY AND DATA PRESENTATION AND ANALYSIS 3. 1 RESEARCH METHODOLOGY This research is to determine how tax is administered in Nigeria with a case study of the Federal Inland Revenue Service (FIRS). The respondents used in the research were mainly staff of the FIRS up to the rank of Chief Inspector of Taxes.

The methods used for this research were both interview and questionnaire. This is because those that did not have the time to be interviewed because of their busy schedule asked for the questions to be written down in form of a questionnaire. The researcher also made use of secondary data which are published in the FIRS annual reports, press releases, website, budget speeches of the president of Nigeria, press releases of Federal Ministry of Finance, Central Bank of Nigeria annual reports etc. 3. 2 SAMPLING Due to the limitation of this research as stated earlier in Chapter One, the researcher selected only twelve respondents.

Four were from the Integrated Tax Office (ITO) in Minna, two from ITO Kaduna while the remaining six from the headquarters in Abuja. Also, eight were interviewed while the remaining four were given questionnaires. 3. 3 HOW THE INTERVIEW WAS CONDUCTED For the interview conducted in Minna, two were interviewed face to face while the remaining two were given questionnaires. For Kaduna, all were interviewed. At the headquarters, three were interviewed face to face while the remaining three were given questionnaires.

All the responses to the questions obtained, as stated in the research questions, aided the writing of this research project. 3. 4 DATA PRESENTATION AND ANALYSIS Tax collection has been on consistent rise in the last ten years. For instance, the tax collection at the Integrated Tax Office Minna in year 2007 was three times the amount in year 2004. According to the chairman of the Federal Inland Revenue Service, Mrs Ifueko Omoigui Okauru, the FIRS generated N8 trillion from various taxes in the last 11 years. A large part of this revenue was generated in the last three years.

The highest figure of a single annual generation of about N2 trillion was recorded in 2006, while the previous two years show a record of N1. 0 trillion in 2004 and N1. 742 trillion in 2005. The least figure was generated in 1998, with the Service posting N99. 4 billion. The service generated N106bn in 1996, N 131 billion in 1997, N171 billion in 1999 and N455 billion in 2000. Others include N587 billion in 2001, N434 billion in 2002 and N698 billion in

2003. Deliberate efforts by the FIRS led to a marked increase in generation of non- oil revenue," she said.

The chart below shows total revenue generated by FIRS from 2003 to 2007 in trillion Naira. 20032004200520062007 Total Revenue0. 6981. 01. 7422. 01. 7 Figure 1shows total annual revenue generated from taxes in five years by the FIRS in Nigeria (Source: FIRS) In 2003, it was N698 billion for Petroleum Profits Tax and royalties. N114. 8 billion was from Companies' Income Tax and N136. 4 billion from Value Added Tax. Tax collected in 2004 was N876 billion for Petroleum Profits Tax. N130. 1 billion was from Companies' Income Tax and N159. 5 billion from Value Added Tax. It was N1. 52 trillion for Petroleum Profits Tax and royalties while N170 billion was from Companies' Income Tax and N192 billion from Value Added Tax in 2005. For 2006 collection, N230 billion was from Companies Income Tax and N450 billion from Value Added Tax. collection from Petroleum Profits Tax and royalties was N1. 2701 trillion. Petroleum Profits Tax and royalties in 2007 was N1. 632 trillion compared to N1. 2701 trillion in 2006. Companies' Income Tax is accounted for N299 billion, as against N230 billion in 2006; Value Added Tax contributed N530 billion as against N225 billion in 2006.

For 2008 estimates, Petroleum Profits Tax and royalties is estimated at N1. 865 trillion compared to N1. 632 trillion in 2007. Companies' Income Tax is expected to account for N349 billion, as against N299 billion in 2007; Value Added Tax should contribute N310 billion, as against N265 billion in 2007. A breakdown of some of the annual tax collection by the FIRS from 2003 to 2007 is shown below. 20032004200520062007 PPT0. 6750. 8761. 3521.

471. 632 CIT0. 11480. 13010. 1620. 230. 299 VAT0. 13640. 15950. 1780. 450. 53 EDT–0. 01710. 02190. 02840. 0518

Figure 2 showing annual breakdown of some of the taxes collected (trillion Naira) by the FIRS (Source: CBN) From figure 2 above, you could see that out of all the taxes collected by the FIRS, Petroleum Profits Tax accounts for the largest share of the revenues (71%) over Companies' Income Tax (11%) and Value Added Tax (17%). Education Tax takes 1%. This is as a result of rising crude oil prices in the world market. The diagram below shows percentage of taxes collected in the last five years presented in form of a pie chart. PPTCITVATEDT 5yr Total6. 0060. 93591. 45390. 1192 %7111171

Figure 3 shows percentage of taxes collected by FIRS in the last seven years (Source: CBN). From all the charts above, you could see that there has been a steady rise in tax collection in the country, especially in the last three years. This was made possible with the training and retraining of 4, 400 management, senior and junior staff (out of the current 5, 600 staff in place), specialised and industry / issue specific training and study tours, within and outside the country and a streamlined office structure that eased taxpayers' burden. Hitherto, sparse training was in place.

Most staff had received no training for over 10-years. As a result of the reorganization and realignment of functions, over 2, 000 new job openings have been created with improved opportunity for career growth and development within the service. Under Omoigui Okauru, the FIRS also deployed Information Communications Technology, ICT to plug $92 million (N12 billion) that traditionally vanishes into private pockets. This came with the automation of the tax collection system, a system that enables her or any authorised official, to track- from their table–daily collection data from any part of the country.

Collection is swept automatically through the Interswitch-based collection system from the 12 collecting banks to the lead banks and from thence to the Central Bank of Nigeria (CBN). This has stopped incidents of trapped funds in banks; eliminated diversion of cheques by some bad staff and reduced fraud in the collection system. Members of staff no longer handle taxpayers' cash or cheque which makes them collude with banks to defraud the FIRS and the nation. About 95% of tax collected by FIRS is now on-line.

The automated collection process called Project FACT-an acronym for Friendly, Accurate, Complete and Timely, is one of the several processes to improve the FIRS collection system. Tax collection in the Nigerian Inland Revenue Service became automated, about a year after Omoigui's appointment. 3. 5 PROBLEMS ENCOUNTERED BY FIRS IN TAX COLLECTION The problems which beset FIRS in tax administration in this country are numerous. Balogun (2003) identified quality of manpower as a problem stopping the system from giving its best to the nation.

As she said, " many of the revenue officials are regarded as not being adequately equipped to handle the task. The issue is not just to collect taxes in the age-long traditional way, but training with managerial skill content on how to manage a tax-revenue generating enterprise. Other hindrances to proper tax administration she mentioned are inadequacy of manpower, inadequacy of information and diversification of revenue structure. " With proper handling of taxation, state governments will depend less on revenue from the federal government as they would have more than enough revenues generated internally," she observed.

Talking about factors inhibiting proper tax administration, Balogun noted that the central issue in maximising revenue from taxation had always been administration rather than structure of taxes. Some of the problems identified include management of enterprise. Here, she observed that most states fail to realise that taxation is not just an administrative issue but an enterprise that needs proper management. As she put it, " evidence shows that in the states where internal revenue generation, and especially of taxation, is based on management approach which also involves proper planning of revenue, greater success has been achieved.

Managerial skills in the enterprise are therefore contributory to its successful performance". Ayodele-Oyefin (2003) put the blame of tax administration in the country on corrupt tax officials who collude with citizens to defraud the government of its entitlements. He said if tax officials would do their job as expected of them, the issue of tax evasion would become a thing of the past. He, however, added that tax officials were also faced with the problem of insufficient equipment to work with. According to him most tax offices are not provided with the necessary wherewithal of achieving the best in terms of revenue generation.

He added that lack of enough utility vehicles for pursuit of tax collection and other infrastructural facilities and modern day equipment like computer to enhance proper data processing with a view to operating at maximum capacity is a normal feature in tax offices. The tax official has suggested tax payers' education and staff motivation as a way of combating the problems encountered in tax administration. Ogunlana(2003) says the issue of tax administration is a serious one. He debunks the excuse of improper remuneration usually put up by tax officials for colluding with tax payers to rob the government.

According to him, tax officials would earn more if they generate more revenue through taxation. Sulaimon (2003) laments the poor handling of taxation in the country. According to him," it goes without saying that tax administration is poorly handled in Nigeria. The government makes dispirited efforts to take the taxes just as the people show little enthusiasm in paying. Often times, the tax officers who are supposed to encourage the people to pay collude with tax payers to rob the government". Concerned authorities should effect the necessary changes so that both the overnment and the citizenry would have the benefit of taxation. The greatest problem facing tax administration in Nigeria is tax evasion and avoidance. Tax evasion is failing to pay legally due taxes. One important way that high tax rates affect behaviour is by increasing evasion. For example, people may fail to report income to the government, thus reducing their tax bill and the government's tax revenue. Tax cheating is extremely difficult to measure. Jombo (2008) says that the rate of tax evasion is very high in the country.

He estimates that less than 30% of prospective taxpayers voluntarily pay the taxes they legally owe. The greater the tax rate of an individual, the greater the incentive to defraud the government. Tax avoidance occurs when people change their behaviour to reduce the amount of tax they legally owe. When individuals relocate their business to a state with lower taxes or take advantage of loopholes in tax laws, they are practicing tax avoidance. Though tax avoidance is a problem, there is really nothing illegal about it (MS Encarta 2008).

Lack of remittance of taxes by collecting agencies is another major problem. According to Omoigui(2007) the Power Holding Company of Nigeria (PHCN) is one of the many agencies that refuse to remit tax payments in this case, Value Added Tax (VAT) collected from electricity consumers to the FIRS. She disclosed that her outfit was working out a means by which the value added tax (VAT) that electricity consumers usually pay to PHCN would now be paid directly to FIRS through banks. CHAPTER 4 4. 0 SUMMARY, RECOMMENDATION AND CONCLUSION 4. 1 SUMMARY 4. 2RECOMMENDATION

Taxation is crucial to Nigeria to ensure sustainable fiscal policy. This is even more important in view of the fact that the country presently operates under a cash budget approach. The need to avoid revenue volatility and the inability of the lower levels of government to meet their ever-increasing fiscal responsibilities make the expansion of non-oil revenue vital. Increasing non-oil revenue requires the various government tiers to seek improvements in the treatment of both the taxpayer and tax administrator, adequate investment for the tax system and judicious spending of taxpayers’ oney. Furthermore, the various government levels need to focus on the following: ? Nigeria’s economic history of volatile revenue flows has shown that it is time for the country to undertake serious efforts to diversify its revenue structure. The diversification experience of Indonesia to safeguard its economy against oil-related volatility could be relevant for Nigeria, and calls for exploiting the potential of such broad-based revenue sources as income tax and VAT.

For stability and sustainability, the revenue structure should be largely domestically driven and should principally be derived from value-added production activities rather than from the current service-oriented operations. ? VAT, one of the most dependable revenue sources in Nigeria today, has the potential to become the main source if it is properly harnessed. This can be achieved only if the Federal Inland Revenue Services is autonomous, void of the unnecessary encumbrances and bureaucratic bottlenecks it is currently faced with.

To be able to function effectively, the FIRS should be ratified by law and supported with adequate resources; their tools and techniques should be modernized. ? Withholding tax on dividends: in line with the current globalization trend, many countries now provide various tax incentives to attract investors. In Nigeria, operators in the Securities and Exchange Commission have made spirited efforts to persuade the government to abolish taxes on dividends. This is all the more expedient, given the government’s commitment to attract foreign investors as well as to increase saving and investment. Tax administration can achieve good results only if the following conditions are met: simple tax rules and procedures, low tax burden, convenience to taxpayers, minimal compliance costs, easy access to information, and mutual thrust and fairness. Reforms that ignore these issues may not achieve much. ? A corrupt-free and efficient administrative machinery with personnel who are adequately trained, well-equipped and motivated would enable Nigeria to make appreciable progress in revenue diversification.

Tax administration machinery should have an effective redress and refund system so that disputes can be settled easily and corruption checked. ? Contrary to the erstwhile practice of obsolete tax laws and rates, there should be a continuing review of tax-related issues to align these with the macroeconomic targets for promoting efficient fiscal policy. ? To avoid the present situation where states impose illegal taxes and levies, there should be a unified, effective and unbiased tax administration with full representation from the three tiers of government.

This should not, however, compromise the diversified revenue efforts and the uniqueness at each level of government. To complement this effort, specialized tax judges are needed in the courts to adjudicate on tax matters promptly and efficiently and to foster tax compliance and respect. ? FIRS Officials saddled with the responsibility of collecting taxes must adopt a client-friendly attitude for assisting taxpayers as the need arises. ? The current situation in which the buoyant tax handles are controlled by the federal government is an issue for concern. Thus, there is need to align tax responsibilities with tax power.

The authority to issue taxes should be devolved to lower tiers of government: this could have positive implications for the fiscal coordination and macroeconomic management of the country. ? JTB's new stance that tax consultants should not be involved in primary taxation functions is a step in the right direction because it upholds the tenets of the Taxes and Levies Act of 1998. Consultants contravening the law should be prosecuted by the Attorney General, and relevant professional associations should take disciplinary steps against erring tax consultants. To tap income from the self-employed or informal sector activities, a broad-based comprehensive scheme should be designed so as to fully harness the potential from this revenue source. ? Tax incentives have not had much impact in Nigeria. Total rejection of the present approach is not warranted, but its use should be restricted to such important sectors as oil and gas, export-oriented industries, industries located in rural areas and solid minerals development, etc. In addition to addressing the problem of corruption and entrenching real value-for-money in public service delivery, there is need for continuous dialogue between the government and citizens on taxation matters. This does not, however, replace the need for tax education and information campaigns on critical issues relating to tax administration. The government must be honest and more transparent with regard to the way public funds are dispensed. Defaulters must be prosecuted for tax evasion, or the general public will not take taxation seriously. Nigerian tax laws are noted for their complex structure. Tax laws must be made understandable to all: they should be expressed simply, clearly and intelligibly. The annual amendments that are incorporated into the yearly budgets should be aligned with the principal legislation to avoid confusion. ? Upstream oil companies need to report annual expenditures on the purchase of assets, services and financial charges with the view to broaden the scope for CIT and VAT payments. Computerization of these items could provide important input for improving tax assessment and collection.

The FIRS will have to work closely with the oil companies, the Nigerian National Petroleum Company, in particular with the Department of Petroleum Resources, Crude Oil Marketing Department and the National Petroleum Investment Management Services as well as the Central Bank of Nigeria. 4. 3CONCLUSION Nigeria's tax system is characterized by unnecessarily complex, distortionary and largely inequitable taxation laws that have limited application in the informal sector that dominates the economy.

Among the other problems relating to taxation can be added the low yield of revenue, disregard for the true principle of federalism, endemic institutional and management concerns at sub-national levels, weak tax assessment, corrupt processes, and the prevalence of multiplicity of taxes. The major challenges facing tax authorities include the need not only to build, but also to utilize institutional and human capacity, funding and logistics as well as finding solutions for tax evasion, fraud and mismanagement of collected revenue, improving voluntary compliance, and quick adjudication on legal matters.

For the tax system to be efficient and effective, it must produce officials that are well-paid, well-motivated, properly organized, adequately equipped, well-disciplined and professionally inclined. The system needs to adhere to simple, clear and unambiguous tax laws; assessment and collection procedures must be straightforward, transparent and client-friendly. Nigeria must train special tax judges and establish special tax tribunals; ensure that tax compliance costs are minimal; and to adopt the attitude of ' the taxpayer being the king'.