THE ADMINISTRATION OF INCOME TAX OF SELF-EMPLOYED PERSONS IN ENUGU STATE

BY

CHUKWUEMEKA, ERIC O.
PG/MBA/06/45743

BEING A PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION [MBA] IN ACCOUNTANCY

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DEPARTMENT OF ACCOUNTANCY
FACULTY OF BUSINESS ADMINISTRATION
UNIVERSITY OF NIGERIA, ENUGU CAMPUS

FEBRUARY 2010

APPROVAL PAGE

This is to certify that this project has not been approved by the Department of Accountancy, University of Nigeria, Enugu Campus for the Award of Master of Business Administration [MBA].

By

Dr. [Mrs.] R.G. Okafor
[Project Supervisor/HOD]

Date: ....

CERTIFICATION

This work embodied in this project report is original and has not been submitted in part or full for any other degree or Diploma of this or any other University.

CHUKWUEMEKA, ERIC O.
PG/MBA/06/45743

Date: …………………………..

DEDICATION

This work is dedicated to the Almighty God, my wife - Mrs. Lily C. Chukwuemeka, my son – Godswill Chikodili Chukwuemeka and every other person who contributed in one way or the other in making it a success.

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I am greatly indebted to my project adviser, Dr. [Mrs.] R.G. Okafor, for her dedication in reading the manuscript and making necessary corrections and useful suggestions that contributed in making this project a reality.

Also acknowledged are the lecturers in Accountancy Department of University of Nigeria, Enugu Campus for their tireless efforts they have made to add much value on me.

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Worthy of mention also are my family members who stood by me while the programme lasted. They include – my lovely wife, Lily C. Chukwuemeka, sister Florence Kenechukwu, Alphonsus Kenechukwu and my father – Benson Kenechukwu.

To the God Almighty I give the greatest thanks for his care and concern for my family.

ABSTRACT

This study is prompted by the meager federal revenue receivable by Enugu State as a result of its low position on the scale of federal revenue allocation among states in Nigeria. Consequently, the state has to rely on internally generated revenue for its projects. To boost this internal revenue generation, the present structure in the state Board of Internal Revenue in relation to income tax of self-employed was critically analyzed to ascertain its effectiveness or otherwise in harnessing the abundant revenue in the sector. A survey research design was adopted for the study. Data were collected from both primary and secondary sources by means of questionnaire and personal interviews. The data collected were analyzed and presented using frequency and percentage tables while the hypotheses were tested using chi-square method. Findings from the study include the following: That the self-employed are not making adequate contribution to the internal revenue of the state, having contributed only 2.7% to the income tax revenue of the state in the past ten years. That the state Board of Internal Revenue is not effective in carrying its functions in relation to income tax of self-employed probably because it is lacking highly skilled staff, adequate data base of the self-employed and equipment and other logistics. The following main recommendations were made: That a special drive should be undertaken to arouse public consciousness on tax obligations by enlisting the co-operations of opinion leaders and traditional rulers in the various communities and cities. That the Board of Internal Revenue should be completely removed from the civil service structure to give it greater autonomy and enable it operate with the efficiency typical of a commercial outfit. That the tax enforcement machinery should be strengthened and the level of deterrent punishment made stricter. That the data base for tax administration should be computerized. In conclusion, the researcher advised the state Government to combat apathy, and stimulate voluntary compliance by maintaining fiscal transparency and accountability for it to achieve optimal collection of income tax from self-employed.

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CHAPTER ONE

INTRODUCTION

1.1 THE BACKGROUND TO THE STUDY

In Nigeria, the major revenue earning sources is from crude oil. The revenue is shared between the Federal and state governments, based on the revenue allocation formula.

Non oil producing states are not favoured by this formula because they are excluded from 13% of whatever figure that is to be shared by the states which is kept aside for the oil states. The recent global economic melt down has affected the crude oil revenue of the Federal Government negatively. This has also affected the share of each state in the same manner.

In Enugu State, the failure of the past governments to meet up with their social contract with the people was mainly attributed to this insufficiency of federal revenue allocated to them. For this reason, the state government will only succeed if it generates enough revenue internally. Many authors including Okpe [1981] and Ola [1981:6] all agreed that income tax is one of the major sources of revenue of all governments in Nigeria. Adenola [2007:57] stated that taxation is a major source of revenue for all tiers of government and the extent of social service need is such that government must tap into all revenue sources to be able to provide these services: Nzotta [2007:40] also agreed that "different tiers of government [Federal, State and Local] rely on taxes as a major source of revenue for the implementation of their programmes"

The body responsible for the administration of income tax in any state is the state Board of Internal Revenue. It is the emphasis on Enugu State to boost its internal revenue generation that motivated the author into searching for areas of internal revenue sources that have not been properly harnessed. The income tax of the self-employed persons in the state ranked first in the list that readily came to the mind of the researcher. The researcher's interest is to study the existing structure in the State Board of Internal Revenue with a view to:

a. Find out to what extent the self employed are contributing to the internal revenue generation of the state government.
b. The problems associated with the proper assessment and collection of income tax of the self-employed in the state.
c. To proffer solutions to the identified problems so as to enable the state government tap the abundant revenue in this sector and use it for the provision of social amenities to the people.

1.2 STATEMENT OF THE PROBLEM

Kevin Gager [2005:10] reported that the former President of Nigeria, Chief Olusegun Obasanjo on his official visit to Enugu State on February 7, 2005, acknowledged that “Enugu State was very low on the scale of federal revenue allocation amongst states in Nigeria”. The past President’s Statement will be understood better when we consider the federal revenue worth N158.03 billion shared by the states in Nigeria in June 2008 as was posted to the federal ministry of Finance Websites by the Hon. Minister of State for Finance, Remi Baballa. Out of this figure, Rivers State got N20.47 billion [13%], Akwa Ibom got N13.66 billion [8.6%], Enugu State got N2.8 billion [1.8%] while Ebonyi State got the least by getting N2.25 billion [1.4%].

Despite this meager Federal revenue, Enugu State government is still trying its best in the provision of social amenities to her people. This is possible because the state is working very hard in generating revenue internally. This internal revenue sources include taxes, fees, levies etc. The personal income tax is a major contributor to this internally generated revenue.

The body responsible for the administration of personal income tax in Enugu State is the Enugu State Board of Internal Revenue. The board has among others the following functions:

a. To ensure effectiveness and optimum collection of all taxes due to the government, and
b. Doing all such things deemed necessary and expedient for the assessment and collection of the tax and accounting for money so collected.

This growing need for the state to generate more revenue internally in order to sustain its developmental projects has necessitated the researcher's interest in studding the existing structure in the state Board of Internal Revenue in relation to the administration of income tax of self employed persons in the state with a view to finding out:

a. To what extents are the self employed persons contributing the needed revenue to the coffers of the state government?
b. To what extent has the board performed its assigned functions stated above?

1.3 THE OBJECTIVES OF THE STUDY

The study seeks to achieve the following specific and general objectives. The general objective of the study is to boost the internal revenue generation of the state government by harnessing income tax revenue from the self employed.

The specific objectives include the following:

1. To determine the level of contributions made by the self-employed persons to the internal revenue generation of the state.
2. To evaluate the present assessment and collection machinery of the self-employed in the state Board of Internal Revenue.
3. To ascertain problems militating against the proper assessment and collection of income tax of the self employed.
4. To identify loopholes [if any] in the present system that give room to tax evasion, and

1.4 RESEARCH QUESTIONS

The following research questions were formulated to give guide to the study:

1. Are there proper machinery for the assessment and collection of income tax of self-employed persons in the state?

2. Has the board of internal revenue got adequate trained staff to do this job?
3. Are there effective measures put in place to identify tax defaulters in the state?
4. Are the self-employed aware of the penalties for non-payment of income tax?
5. To what extent have the self-employed workers contributed to the Internal Revenue generation of Enugu state for the past ten years?

1.5 HYPOTHESES OF THE STUDY

Considering the problem and objective of the study, the following hypotheses were formulated to provide a guide and direction to the study.

1. Lack of income tax assessment of self-employed workers in Enugu state has significant impact on their rate of income tax payment.
2. Lack of adequate measures to identify income tax defaulters in Enugu state have significant impact on the rate of income tax payment of self-employed workers in the state.

3. Lack of full implementation of penalties for income tax evasion has significant impact on the rate of income tax payment of the self employed workers in Enugu state.

1.6 SIGNIFICANCE OF THE STUDY

The significance of the study lies in its contributions to both practical and academic spheres of knowledge. The study is intended to critically analyze the problems militating against the proper assessment and collection of income tax of self-employed persons in Enugu state and proffer solutions to the identified problems.

1. To the board of internal revenue, the result of the study will help to identify the loopholes in its machinery of assessment and collection of income tax from self-employed persons in the state and hence block them for effective and efficient performance of its duties.
2. To the state government, the improved performance of the state board of internal revenue will lead to more revenue generation to the government.
3. To the citizens and people living in Enugu state, the improved revenue generation, will lead to higher standard of

living through provision of Infrastructural facilities to them by the state government.

4. To other researchers who are working on the similar or related topics, this work will serve as a reference point to them.

1.7 SCOPE OF THE STUDY

The study is limited to income tax of self-employed persons in Enugu state. Other forms of taxes are not within the scope of this study.

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CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 THEORETICAL REVIEW

2.1 Definitional Terms

2.1.1 Definition of Administration

The Oxford Advanced Learners Dictionary defined Administration as “the activities that are done in order to plan, organize and run a business, school or other institution”, “the process or act of organizing the way that something is done”, :the people who plan, organize and run a business, an institution etc.”.

Definition of Tax

Tax has been defined in many ways by different authors; however, the different definitions suggest the same thing.

John, C. Winfred defined tax as a compulsory charge imposed by the public authority [federal, state and local government] for the general purpose of government and also a levy regularly imposed and regarded as contribution to the general pool from which most government expenditures are financed.

Buhari [1993] defined tax as “a compulsory contribution from individuals and/or business organizations for the purpose of financing government expenditure”.

Okpe [1998:1] defined tax as a transfer of resources and income from the private sector to the public sector in order to achieve some of the nation's economic and social goals.

2.2 LAWS GOVERNING PERSONAL INCOME TAX ADMINISTRATION IN NIGERIA

The Laws governing Personal Income Tax Administration in Nigeria is the Personal Income Tax Act no 104 of 1993 as amended to date. Section 85A of the Act provides for the establishment of a State Board of Internal Revenue with an operational arm known as the state revenue service. Section 2[1] of the Act places the responsibilities of assessment and collection of tax on the state Board of Internal Revenue of [a] every individual other than persons covered under paragraph [b] of this subsection or corporation sole or body of individuals deemed to be resident for that year in the relevant state under the provisions of this Act and

[b] The following other persons, that is,

- [i] Persons employed in the Nigerian Army, the Nigerian Navy, the Nigerian Air Force, the Nigerian Police Force other than in a civilian capacity.
- [ii] Officers of the Nigerian Foreign Service,

[iii] Every resident of the Federal capital territory, Abuja, and

[iv] A person resident outside Nigeria who derives income or profit from Nigeria.

2. In the case of an individual, other than an itinerant worker and persons covered under paragraph [b] of subsection [1] of this section, tax for any year of assessment may be imposed only by the state in which the individual is deemed to be resident for that year under the provisions of the first schedule to this Act and in the case of persons referred to in subsection [1] [b] of this section tax shall be imposed by the federal Board of Inland Revenue.

3. In the case of an itinerant worker tax may be imposed for any year by any state in which the itinerant worker is found during the year.

PROVIDED THAT:

[a] In an assessment for any year upon an itinerant worker credit shall be given against the tax payable, but not exceeding the amount thereof, for any income tax already paid by him to any other tax authority or the same year and

[b] Collection of so much of any tax imposed in a territory on an itinerant worker for a year of assessment as remains unpaid

on the itinerant worker leaving that territory during his absence from that territory and if he returns to that territory having during his absence paid tax in some other territory for that year, credit shall be given against any unpaid tax in the first mentioned territory but not exceeding that unpaid tax in the first mentioned territory but not exceeding that unpaid amount, for the tax paid in that other territory.

2.3 THE STATE BOARD OF INTERNAL REVENUE

The establishment of the state Board of Internal Revenue is provided by the Personal Income Tax Act No 104 of 1993 in section 85A [i] The Board administers the tax law including the functions of assessment, collection and accounting to the state treasury of taxes of every individual resident in the state except persons covered under the paragraph [b] of the section. The Board also acts as a medium through which policy directives from the State Ministry of Finance on taxation matters reach the Head office and thence, the District and sub-District Offices [Fagbule, 1983:15].

2.3.1 Composition of the State Board of Internal Revenue

The State Board of Internal Revenue Comprises:

- The Chairman
- 3 nominees from the State Commissioner of Finance
- The Directors and Heads of Departments within the state service
- A Director from the Ministry of Finance
- Legal Adviser, and a
- Secretary

Any five members of the state Board of whom one shall be the chairman or a Director, shall constitute a quorum.

2.3.2 Functions of the State Board of Internal Revenue

PITA section 85B [1] made the State Board of Internal Revenue responsible for the following:

[a] Ensuring the effectiveness and optimum collection of all taxes and penalties due to the government under the relevant Laws.

[b] Doing all such things as may be deemed necessary and expedient for the assessment and collection of the tax and shall account for all amounts so collected in a manner to be prescribed by the commissioner.

[c] Making recommendations, where appropriate to the Joint Tax Board on tax policy tax reform, tax legislation, tax treaties and exemption as may be required from time to time.

[d] Generally controlling the management of the service on matters of policy, subject to the provisions of the law setting up the service and

[e] Appointing, promoting, transferring and imposing discipline on employees of the state service.

2. The state board shall be autonomous in the day-to-day running of the technical professional and administrative affairs of the state services.

In spite of the above functions, the 2007 report of investigation carried out by Olusola Adekanola & Co. Chartered Accountants on income tax administration, on the South Western states of Nigeria and research paper presented by Nzotta, S.M. on the same topic, show that:

- The state Boards of Internal Revenue on whose shoulders the Personal Income Tax Act places the responsibility of assessment and collection of income tax in the states are not adequately staffed with experienced and highly motivated personnel for effective and efficient performance of their duties.

- That limited availability of data base is another impediment to the work of the state Board of Internal Revenue.

  For instance, it was discovered that most state government do not have any reliable data on the number of taxable persons in the informal sector but only rely on PAYE submissions by Corporations and Ministries.

- The absence of strong deterrent punishments and the willingness to prosecute offenders by the Boards staff.

2.3.3 Technical Committee of the State Board of Internal Revenue

PITA section 85[1] made provision for the establishment of the technical committee of the state board of internal revenue which shall comprise:

- The Chairman of the State Board as chairman
- The Directors within the state service
- The Legal Adviser to the Board
- The Secretary to the Board

2. The Technical Committee shall:

[a] Have powers to co-opt additional staff from within the service in the discharge of its duties.

[b] Consider all matters that require professional and technical expertise and make recommendations to the state Board.

[c] Advise the state board n all its powers and duties specifically mentioned in section 85B of this Act;

[d] Attend to such other matters as may from time to time be referred to it by the board.

2.3.4 Organization of the State Board of Internal Revenue

According to Fagbule [1983:9], State Board of Internal Revenue in order to facilitate its duties operates through the following organs**:**

[i] A Head office

[ii] District offices

[iii] Sub-District offices.

2.3.5 The Head Office

The Head office is the seat of the Board. It is responsible for the organization and management of the entire state network.

The duties of the Head Office include the following:

[a] Advising the state government on the work of the department through the commissioner for finance who also passes down government policy on revenue matters to the Board through the Head Office.

[b] Passing down to the District and sub-District offices the directives of the commissioner for finance as well as the Board.

[c] Issuing instructions of assessments including interpretation of the Income Tax Acts.

[d] Preparing the details of the concessions to be made in ascertaining tax liabilities of taxable persons within its jurisdiction.

2.3.6 The District Offices

Generally each District office is divided into three sections namely:

[1] Administration

[2] Assessment and

[3] Collection

1. **Administration Section**

The administration section is confined to staff matters, office maintenance and general routine matters relating to Administration.

2. **Assessment Section**

The assessment section is made up of the following:

[a] Traders Assessment Section: This section is responsible for the assessment of self-employed persons, trustees, executors, families, communities and other non-employed groups.

[b] Employment Section: Employment section deals with the employees of government departments and of corporations and the other non-government employees such as firms, and other private enterprises.

Employees are assessed on PAY-AS-YOU-EARN [P.A.Y.E.] basis.

[c] The Income Rate Section: The Income Rate Section deals with the self-employed persons whose annual total income is to low to warrant the opening of personal files.

3. **Revenue Collection Section**

This section does the actual collection of taxes through the tax collector otherwise known as outdoor offices. The Accounting Department of Ministries, Parastatals and companies deduct PAYE tax from their employees and remit same to the revenue section of the Board. The section is also responsible for the accounting to the Board of taxes collected.

2.4 TAX ASSESSMENT

Section 41 subsections 1-4 of the PITA 1993 provided for what a taxable person should do in each year of assessment for him to be assessed.

These include:

1. Return of Income

The process of assessment starts with the filing of a return of income by every taxable person in a prescribed form containing prescribed information with the tax authority of the state in which the taxable person is deemed to be resident.

The return shall contain a declaration which shall be by or on behalf the taxable person that the return contains a true and correct statement of the income computed in accordance with the provisions of the personal income tax Act and rules or regulations made hereunder or that particulars given in the return are true and complete.

The filing of this Return with the relevant tax authority is done the 90 days from the commencement of every year of assessment.

2. Self-Assessment

Section 44 of PITA requires a taxable person who files a return of income to also calculate the amount of tax he is to pay and if he does not defaults in the payment arrangement, a bonus of 1 percent will be granted to him by the tax authority.

2.4.1 Duties of Tax Authority in relation to Filing of Returns

1. The relevant tax authority is required to distribute forms TF2 [E] and TF2 [G] – House-holders return forms – through tax

collectors to the landlords, caretakers, sole or major occupiers to declare the names and some other particulars of the adults including females in their premises Form TF2 [E] relates to employed persons while form TF2 [G] is for self-employed adults [Fagbuyle 1983:13]. From the above information the tax authority shall send demand notices to appropriate taxable persons.

2. Section 45 of PITA gives relevant tax authority power to call for fuller or further returns from any person when and as often as it thinks necessary.

3. In section 46[1] the tax authority for the purpose of obtaining full information in respect of the income or gain of a person, may give notice to the person requiring him, within the time limited by the notice, to

   [a] Complete and deliver to the relevant tax authority any return specified in the notice.

   [b] Attend personally before an officer of the relevant tax authority for examination with respect to any matter relating to such income or gains.

   [c] Produce or cause to be produced for examination at the place and time stated in the notice which time may be from day-to-day for such period as the relevant tax

authority may consider necessary for the purpose of the examination any book, document, account and return which the relevant tax authority may deem necessary or

[d] Give orally or in writing any other information including name and address specified in the notice.

4. Banks are mandated in section 48[1] of PITA to prepare a return at the end of each month specifying the names and addresses of new customers of the Bank and shall not later than the seventh day of the next following month deliver the return to a tax authority of the area where the bank operates or where such customer is a company, to the Federal Board of Inland Revenue.

5. Section 51[1] of PITA provides thus: if a taxable person fails or refuses to keep books of accounts which, in the opinion of the relevant tax authority, are adequate for the purposes of the tax, the relevant tax authority may by notice in writing direct the person to keep such records, books and accounts as the relevant tax authority considers to be adequate in such form and in such language as may be specified in the notice and subject to the provisions of subsection[2] of this

section, the person shall keep the records books and accounts as so directed.

[2] A direction of the relevant tax authority made under this paragraph shall be subject to objection and appeal in like manner as an assessment except that any decision of the Appeal Commissioners may confirm or modify such direction.

6. If a relevant tax authority is satisfied that there is reasonable ground for suspecting that an offence involving any form of total or partial non-disclosure of information, or any irregularity or an offence in connection with or in relation to tax has been committed.

Section 52 subsections 1 to 8 gives power to the relevant tax authority to enter and search premises seize and remove anything it considers relevant for the purposes of arriving at a fair and correct tax chargeable on the individual or as evidence for the purposes of proceeding in respect as such an office as is mentioned in subsection [i] of this section.

2.4.2 Assessment Procedure

After the expiration of the time allowed by the relevant tax authority for every taxable person to render return of his income, it will go ahead to consider all the returns received individually. The tax authority has the right to accept a return and make an assessment accordingly, or reject a return and to the best of its judgment, determine the amount of the assessable, total or chargeable income of that person and make an assessment accordingly.

On the other hand if a taxable person failed to deliver a return within the time allowed and the relevant tax authority is of the opinion that tax is chargeable on that person, the authority may, according to the best of its judgment, determine the amount of the assessable, total or chargeable income and make an assessment accordingly, but that assessment shall not affect any liability incurred by such a person by reason of his failure or neglect to deliver a return.

2.4.3 Income Chargeable to Tax

For self-employed persons, income chargeable to tax according to section 3[1] of PITA No 104 of 1993, shall be:

[a] Gain or profit from trade, business, profession or vocation, for whatever period of time such trade, business, profession or vocation may have been carried on or exercised.

[b] Gain or profit including any premiums arising from a right granted to any their person for the use or occupation of my property.

[c] Dividend, interest or discount

[d] Any pension, charge or annuity

[e] Any profit, gain or other payment not falling within paragraphs [a] to [e] above.

2.4.5 Ascertainment of Income

For the purpose of ascertaining the income or loss of a self-employed person for any period from any source chargeable with tax, there shall be deducted all outgoings and expenses, or any part thereof, wholly, exclusively, necessarily and reasonably incurred during that period and ultimately borne by that individual in the production of the income.

2.4.5 Deductions Allowed by Section 20 of Personal Income Tax Act of 1993

The deductions include the following:

1. Interest on money borrowed and applied as capital
2. Interest on loans for developing an owner occupied residential house.
3. Rent for the period payable in respect of land or building occupied for the purpose of acquiring the income.

4. Any expense incurred for the repair of premises, plant, machinery or fixtures employed in acquiring income or for the renewal, repair or alteration of any implement, utensil or article employed in acquiring income.

If the premises, plant machinery, fixtures, implement, utensil or article is used partly for domestic or private purpose, the expenses so incurred must be so apportioned to remove the portion relating to domestic or private purpose.

5. Bad debts incurred in any trade, business, profession or vocation, proved to have become bad during the period for which the income is being ascertained and doubtful debts to the extent that they are respectively estimated to have become bad during the said period provided that:

[a] Any deduction to be made in a current period must be reduced by a deduction in a prior period.

[b] Sums recovered during the period but which were previously written off should be regarded as income for the period.

[c] It must be proved that the sum so deducted had previously been included as income.

6. Contributions to a pension fund or approved scheme and any contributions other than penalty made to the Nigerian social insurance trust fund or any other retirement benefits scheme for employees throughout Nigeria.
7. In the case of income from trade, business profession or vocation any expense or liability incurred wholly and exclusively for the purpose of the trade, business, professor or vocation.
8. Expenses for research and levy paid to the National Science and Technology Fund.

2.4.6 Deductions Not Allowed by PITA

For the purpose of ascertaining the income of an individual for tax purposes, the following deductions are specifically not allowed:

- Domestic or private expenses
- Capital withdrawn from the business or expenses of a capital nature.
- Any losses recoverable under an insurance or contract of indemnity
- Rent of cost of repairs to premises or part not used for producing the income
- Taxes on income or profits levied in Nigeria or elsewhere

- Any payment to a pension and provident fund or scheme except as permitted by the Joint Tax Board.
- The depreciation of Fixed Assets.
- Any appropriation of profit
- Any expense incurred within or outside Nigeria for the purpose of earning management fees.
- Any expense whatsoever incurred within and outside Nigeria as Management fees.

2.4.7 Other Reliefs and Allowances

These are approved deductions granted to a tax payer from. Total Income and Total Assessable Income. They include:

1. **Capital Allowances:**

   Capital Allowances are allowances claimable by taxpayers and business organizations in respect of capital assets which they use in the business, trade, profession or vocation in earning their incomes and which have suffered diminution in values during an accounting period [Okpe, 1998:139]. These allowances have been described as repayment of the cost of assets by the government to the traders in order to encourage automation in industries with a resultant decrease in the taxes paid by these asset owners.

Capital Allowance of substance to give immediate Relief:

[i] An initial allowance of substance to give immediate relief;

[ii] An annual allowance during the period of ownership to give gradual relief;

[iii] A balancing allowance or balancing charge on the disposal to bring the total relief over the years to the net cost of the asset.

Conditions for granting Capital Allowances:

- The assets on which capital allowances are being claimed must be used in producing the income of the business, trade, profession or vocation.
- The allowance shall be made only to the person on whom the burden of wear and tear falls.
- The taxpayer must apply for the allowances in writing
- The deduction to be made in computing the assessable profits of any periods of income are the amounts of the wear and tear of the assets concerned during the period of income and not the diminution in value during the year of assessment.

2. **Personal Allowances**

This is granted automatically to every tax payer. Currently the personal allowance is N5000 plus 20% of earned income.

For disable persons an additional disability allowance of N3000 or 20% of earned income, which ever is higher is also granted.

3. **Children Allowance**

A tax payer may claim an allowance of N2500 for each child subject to a maximum of four children and that the children are not beyond of 16 years of age. If aged more than 16 years, the child must be receiving full time education in a recognized educational institution or undergoing apprenticeship in a trade or vocation.

4. **Dependent Relative Allowance**

A tax payer may claim N2000 each for a maximum of two persons maintained by him in a proceeding year. The following persons qualify for dependent relative allowance:

- ✓ A widowed mother or mother-in-law
- ✓ A close relative of the taxpayer or of the spouse who is incapacitated by age or infirmity.

The conditions for this allowance are as follows:

- ✓ The income of the dependent relative in his/her own right, must not exceed N2000 per annum.
- ✓ Only the actual amount expended in the proceeding year in maintaining the relative may be claimed subject to the limit of N2000.
- ✓ Where two or more persons contribute to the maintenance, then the allowance is shared between the two in the proportion their contributions.

5. **Life Assurance Relief**

   Relief is granted to the tax payer for premium paid in respect of Life Assurance on the life of the taxpayer of the spouse.

6. **Pensions for Self Employed Persons**

   A self-employed person who pays premium on policies to secure a pension for his retirement is allowed to deduct such premium for tax purposes provided that such premium does not exceed 19% of his total income.

   This is in addition to the premium relief for Life Assurance.

FORMAT FOR THE COMPUTATION OF PERSONAL INCOME TAX

MR XYZ

COMPUTATION OF TAX PAYABLE FOR THE 200 –

YEAR OF ASSESSMENT

INCOME FROM EMPLOYMENT	**₦**	**₦**
₦		
Salary	X	
Commissions	X	
Bonus	X	
Allowances	X	
Benefits in kind	X	
Gratuities	<u>X</u>	
TOTAL INCOME FROM EMPLOYMENT		
Business		X
Trustee Income		
Income from settlements	<u>X</u>	
TOTAL FROM TRADE/BUSINESS		X
Fees	X	
Income from Profession	X	
Royalties	X	
Others	<u>X</u>	

TOTAL FROM PROFESSION/VOCATION		X	
TOTAL EARNED INCOME			X
Dividend [Gross]		X	
Rent [Gross]	X		
Less related Expenses	[X]		
Interest		X	
TOTAL UNEARNED INCOME			X
TOTAL INCOME			X
Deduct Non-Taxable Income:			
Interest on Mortgage Loans		X	
Interest from Fed. P.O. Savings Bank		X	
Dividend [Gross]		X	
NET TOTAL INCOME			
Add: Balancing Charge		X	
Less Loss Relief		X	
Capital Allowance		X	
TOTAL ASSESSABLE INCOME		X	[x]
DEDUCT RELIEFS			X
Personal Allowance	X		
Children Allowance	X		
Dependent Relative Allowance	X		
Life Assurance	X		
Rent Allowance	X	[X]	

CHARGEABLE INCOME	XXX

Then apply the tax table to the chargeable income

The above format for the calculation of personal income tax of individual tax payers is for a general purpose. The employed will indicate his income under the employment income while self-employed shall use the columns appropriate for his income.

2.5 THE ASSESSMENT LIST

The relevant tax authority shall, in accordance with section 55[1] of PITA, as soon as possible prepare a list of taxable persons assessed to income tax by their office.

This list known as "Assessment List" shall contain the names and addresses of the taxable persons assessed to income tax, the name and address of any person in whose name the taxable person is chargeable, the amount of the assessable total or chargeable income on which as the case may be the tax is computed, the amount of the income tax charged, and such other particulars as may be decided by the relevant tax authority.

2.6 SERVICE OF NOTICE OF ASSESSMENT

The relevant tax authority is required in section 56 of PITA to serve or sent by registered post to each taxable person, or persons in whose name a taxable person is chargeable, whose name appears n the assessment list, a notice stating the amount of any assessable, total or chargeable income, the tax charged, the place at which payment should be made, and the rights of the tax payer to the assessment, and errors and defects in assessment notice as contained in sections 57 and 58 of PITA.

2.6.1 Additional Assessment

Additional assessment is given to any tax payer if the relevant tax authority discovers or is of the opinion at any time that a taxable person liable to income tax has been assessed at a less amount than that which he ought to have been charged.

2.6.2 Objection in an Assessment

If a taxpayer is not satisfied with an assessment he may apply to the relevant tax authority by notice of objection in writing to review and revise the assessment. The application shall state precisely the grounds of the objection to the assessment and shall be made within thirty [30] days from the date of service of the notice of assessment.

The relevant tax authority may or may not agree with the objection raised by a taxpayer. If the authority agrees, the assessment shall be attended accordingly but if fails to agree, the tax authority shall issue a notice of refusal to amend the assessment to the tax payer.

2.6.3 Tax Assessment Appeals

A taxpayer, whose objection to an assessment to the relevant tax authority has failed, may appeal against the assessment to the appeal commissioners on giving notice of appeal, in writing, within thirty [30] days after the date of service of notice of the refusal of the relevant tax authority to amend the assessment.

2.7 TAX COLLECTION, RECOVERY AND REPAYMENT

It is expected that every taxable person pays his tax as assessed at a place stated in the notice of assessment within two [2] months after the date of service of that notice if the assessment is not subject of an objection or appeal.

2.7.1 Powers of Tax Collectors

A Tax Collector is a duly authorized official of a state service. The powers of a Tax Collector are spelt out in part XII of the Act which covers sections 94 to 98. The powers include the following:

- Power to enter and require information from any body found in a house or premises for the purpose of collecting a tax.
- Power to distain goods, chattels, bonds land or premises for non-payment of tax and to sale any property so distained to recover the amount of tax.
- Any person who willfully obstructs a tax collector in the performance of his duties by neglecting or refusing to give such information, or misleads or attempts to mislead him is guilty of an offence under the PITA.
- A tax collector is not liable in any action or proceeding, whether civil or criminal for any thing done or said by him in the lawful exercise of the powers conferred upon him by section 94 of PITA.

2.8 TAX CLEARANCE CERTIFICATE

The clearance certificate is issued within two [2] weeks of demand by a relevant tax authority to an applicant if the authority is satisfied that tax assessed on the income of the applicant for the three [3] years immediately proceeding the current year of assessment has been fully paid or that no tax is due on the income or that the applicant is not liable to tax for any of those three years.

A tax clearance certificate discloses in the respect of the last three years of assessment the following information:

- ✓ Chargeable income
- ✓ Tax payable
- ✓ Tax paid and
- ✓ Tax outstanding or alternatively a statement to the effect that no tax is due.

2.8.1 Uses of Tax Clearance Certificate

Section 84[2] of PITA maker presentation of tax clearance a certificate compulsory for any person dealing with a Ministry, Department or an Agency of Government or a Commercial Bank in relation to the listed transactions.

The Transactions are:

[a] Application for Government loan for industry or business.

[b] Registration of motor vehicle

[c] Application for firearms license

[d] Application for foreign exchange or exchange control permission to remit funds outside Nigeria.

[e] Application for certificate of occupancy.

[f] Application for award of contracts by Government, its agencies and registered companies.

[g] Application for approval of building plans.

[h] Application for trade license.

[i] Application for transfer of real property.

[j] Application for import or export license.

[k] Application for agent license.

[l] Application for pools or gaming license.

[m] Application for registration as a contractor.

[n] Application for distributorship.

[o] Confirmation of appointment by Government as chairman or member of a public board, institution commission, company or to any other similar position made by the Government.

[p] Stamping of guarantor's form for Nigerian passport.

[q] Application for registration of a limited liability company or of a business name.

[r] Application for allocation of market stalls.

[s] Appointment or election into public office.

2.9 PENALTY FOR NON-PAYMENT OF INCOME TAX

1. Section 75[1] of PITA provides that a person who fails to pay his tax two [2] months after the date of service of notice of assessment shall have ten percent per annum of the tax added thereto.
2. A person who without lawful justification or excuse fails to pay the income tax within the period of one month of the service of demand notice shall be guilty of an offence.
3. The relevant tax authority may sue for and recover the income tax and other full costs of action fro the persons.
4. The tax due from a taxable person shall carry interest at bank lending rate from the date when the tax becomes payable until it is paid.

2.10 TAX OFFENCES AND PENALTIES

Tax offences and penalties are contained in part XI of the PITA and are specifically covered by sections 86 to 93 some of which are here understated:

1. A person who contravenes or fails to comply with any of the provisions of the Act or any rule or regulation made there under for which no other penalty is specifically provided, shall be liable on conviction to a fine of two hundred naira,

and where the offence is the failure to furnish a return, statement or information or to keep records required, a further sum of forty naira for every day during which the failure continues, and, in default of payment, to imprisonments for six months.

2. A person who fails to comply with requirements of a notice served on him or without sufficient cause fails to attend in answer to a notice or summon, served on him under this Act, or having attended fails to answer questions lawfully put to him is guilty of an offence against this Act.

3. A person who, without reasonable excuse:

   [i] Makes an incorrect return by omitting or understating any income liable to tax under this Act, or

   [ii] Gives an incorrect information in relation to a matter or thing affecting the liability to tax of any taxable person is guilty of an offence and liable on conviction to a fine of ten percent of the correct tax and double the amount of tax which has been undercharged in consequence of the incorrect return or information, or would have been so undercharges if the return or information had been accepted as correct.

4. A person who

[a] For the purpose of obtaining a deduction, set off, relief or an overpayment in respect of tax for himself or any other person, or who in a return, account or particulars made or furnished with reference to tax, knowingly makes a false statement or false representation or

[b] Aids, abets, assists, counsels, incites or induces any other person:

[i] To make or deliver a false return or statement

[ii] To keep or prepare a false accounts

[iii] Unlawfully refuses or neglects to pay tax, is guilty of an offence and liable on conviction to a fine of five thousand naira or improvement for five years or to both such fine and imprisonment.

5. Section 89 of PITA provides that a person who

[a] Being a person appointed for the due administration of this Act or employed in connection with the assessment or collection of the tax:

[i] Demands from a person an amount in excess of the authorized assessment of the tax, or

[ii] Withholds for his own use or otherwise, a portion of the amount of tax collected, or

[iii] Renders a false return, whether orally or in writing, of the amount of tax collected or received by him, or

[iv] Defrauds a person, embezzle any money, or otherwise uses his position to deal wrongly with the relevant tax authority, or

[b] not being authorized under this Act to do so, collects or attempts to collect the tax under this Act, is guilty of an offence and liable on conviction to a fine of one thousand naira or to imprisonment for three years or both such fine and imprisonment.

The essence of this law is to prosecute offenders so as to instill wholesome respect for the tax laws in the minds of the taxpayers. Researches carried out in different states show that these laws are not strictly observed by the present tax authorities thereby giving room to tax evasion.

2.11 EMPIRICAL REVIEW

2.11.1 Historical Background of Income Tax Administration

In the views of Ola [1981:1] income tax was first introduced in Britain in 1799 by Pita as a temporary tax to finance the Napoleonic war.

In Nigeria, income tax was introduced in1904 by the Late Lord Lugard, when community tax became operative in Northern Nigeria. Changes were later made which culminated in the Native Revenue Ordinance of 1917. In 1918 an amending ordinance was passed which extended the 1917 ordinance to Southern Nigeria. The first ordinance applied to Abeokuta in Ogun state and Benin in the then Bendel state and in 1928 it was extended to Eastern Nigeria. The three regions of Nigeria had various legislations for direct and indirect personal taxes prior to independence in 1960 [Aguolu, 2000:5]

In 1961, based n the recommendations of the Raisman Fiscal Commission of 1968, a Uniform Tax Law known as the Income Tax management Act 1961 came into force for the whole federation.

The uniform tax law [ITMA, 1961] was repealed and replaced by the Personal Income Tax Act, No. 104 of 1993.

2.11.3 Return of Income

Every taxable person is expected to voluntarily file a return of his income with the state tax authority within ninety [90] days from the commencement of every year of assessment as required by the Personal Income Tax Law. However, past and present researches carried out in this sector show that majority of self-employed persons hardly return their income to the tax authority for assessment and subsequent payment of income tax. Apathy and unwillingness to pay income tax is found to be the order of the day in the informal sector.

The Board of Internal Revenue through tax collectors is expected to bring into the database every taxable person in the state. This is done by the tax collectors who should go to all parts of the state with relevant forms to gather information about employed and self-employed from landlords, caretakers, etc. however, this aspect of the job assigned to the Board is found to be hardly done thereby leaving the informal sector tax collection almost unattended to.

2.11.4 Income Tax Laws

In the words of Olusola Adekanola many provisions of the Nigerian tax laws are rather obsolete and badly in need of an update. These ones are no longer relevant to the Nigeria of today therefore, a comprehensive update of the various tax laws is strongly recommended for the country's tax system to play its desired role in stimulating the economy. The update will according to Nzotta, S.M. take care of corrupt practices of some of the staff of the Board of Internal Revenue, provide strong deterrent punishments and ensure vigorous prosecution of tax offenders and create room for the various Boards to engage adequate professionals to carry out the duties of the Board.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

Research design can be defined as the plan, structure and strategy of investigations developed so as to obtain answers to research questions and control variance [Kerlinger, 1997].

Onwumere [2005:115] is of the view that research design is a kind of blue print that guides the researcher in his or her investigation and analyses, a format which he employs in order to systematically apply the scientific method in the investigation of problems.

Nworgu [1991:50] stated that “a research design is a plan or blue print which specifies how data relating to a given problem should be collected and analyzed. It provides the procedural outline for the conduct of any given investigation”.

In line with the above definitions, the researcher used the survey research design for the study. Data were collected from both the primary ad secondary sources by means of questionnaire and personal interviews from a sample of the population. The data collected were analyzed by simple percentages and hypotheses tested using chi-square method and consequently inferences were drawn.

3.2 SAMPLE SIZE/SAMPLING TECHNIQUE

Enugu state is made up of seventeen local government areas. For the purpose of this research 12 local government areas which consist of 71% of the population were studied.

The sample size is 12 local government areas and the technique of choosing them was by simple random sampling. All the names of the 17 local government areas were written on different of pieces of paper and folded. The folded papers were dropped in a bourn vita container. The 17 folded papers were picked individually without replacement after thorough shaking each time one was picked. They were later opened and names on them were as follows:

- Enugu South
- Nsukka
- Udi
- Enugu East
- Awgu
- Ezeagu

- Nkanu West
- Enugu North
- Oji River
- Igbo-Etiti
- Igbo-Eze
- Aninri

180 questionnaires were used for the research and were administered to 15 self-employed persons in each of the local government areas listed above. The questionnaires were administered on the available self-employed persons in each of these local government areas picked at random.

3.3 NATURE AND SOURCES OF DATA

The relevant data for this research is the income tax payment and reasons for non-payment by the self-employed persons in Enugu state. The nature of data is both primary and secondary hence it was collected from taxpayers themselves and from the records of state Board of Internal Revenue.

3.4 METHOD OF DATA COLLECTION

The instruments used in collecting data for this research were questionnaires and personal interviews. Data were collected from both primary and secondary sources. The structured questionnaires were distributed to the self-employed persons picked at random in the local government areas under study to obtain relevant information in relation to their payment of income tax and reasons for non-payment in the last 10 years. Also personal interviews were used to supplement information gotten from the questionnaires. The questionnaires which were delivered by hand were also collected immediately by the researcher. A total of 180 questionnaires were administered to 180 self-employed persons picked at random in the 12 local government areas of Enugu state.

The secondary data in relation to the income tax payment of self-employed persons in Enugu state were collected from the records of the state Board of Internal Revenue and other printed materials such as state approved Budget Estimates, News papers and Magazines.

3.4.1 Validity of the Instrument

The instrument used in the data collection was the questionnaire. To test the validity of the instrument, a retest method was used. The instrument was tested and re-tested at an interval of two weeks to the same group of people and the two sets of scores were correlated using product moment correlation. The instrument was found valid.

3.4.2 Reliability of the Instrument

To ensure consistency, test-retest method was used on the instrument. The method was used in order to ensure consistency in measurement. A reliability checking item was applied in the questionnaire to know if the respondents have contradicted themselves. The responses obtains were consistent which shows that the respondents were not just guessing the information. The responses show an insignificant variance.

3.5 TECHNIQUES OF DATA ANALYSIS

In analyzing the data collected, the researcher made use of tables and simple percentages. Data collected are shown in a tabular form and the percentages worked out for easy analysis. The calculation of the percentage was done based on the number of respondents who had the same opinion on each type of question posed and this is placed over the total number respondents, multiplied by 100.

Thus:

$$\frac{\text{Frequency of each type of opinion}}{\text{Total number of respondents}} \times \frac{100}{1}$$

Again the hypotheses formulated for the research were tested using chi-square [x^2]. The chi-square measures whether there is independence or homogeneity between observed proportions in a study and the expected proportions.

Null hypotheses state that there is no relationship between two variables [that is they are independent of each other] the alternate hypothesis shows a situation of non-independence between the variables.

In testing the hypothesis at 5% degree of freedom, the Null hypothesis is accepted where the calculated value of x^2 is smaller than the table value while the Alternate hypothesis is rejected, where the calculated value of x^2 is greater than the table value.

Formula

$$X^2 = \frac{\sum [0 - E]^2}{E}$$

Where

O is the observed frequency, and

E is the Expected frequency.

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CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

In this chapter, the data collected for this study were statistically analyzed and presented using frequency and percentage tables. The data were analyzed and presented based on the research questions and hypotheses that guided the study. The questionnaires used for this study are shown in Appendix I and II.

4.1 ANALYSIS AND INTERPRETATION OF RESEARCH QUESTIONS

Research Question 1: Has the Board of Internal Revenue got comprehensive data base of taxable persons in the state?

Table 4.1 Data of Self-Employed Persons in the State Board of Internal Revenue

RESPONSE	NUMBER	PERCETAGE [%]
Yes	33	18
No	147	82
Total	180	100

Source: field survey data 2009

The analysis shows that a total of 147 self-employed persons out of 180, representing 82%, have no files in the Board of Internal Revenue Office while 22 persons out of the 180 representing 10% have files there.

Research Question 2: Are there proper machinery for the assessment and collection of income tax of self-employed persons in the state?

Research question 2 is answered using two tables. Tables 4.2 are concerned with income tax assessment of self-employed persons in Enugu state while 4.3 is for collection of income tax of the people.

Table 4.2 Evidence of proper machinery for assessment and collection of income tax of self-employed persons in the state.

RESPONSE	**NUMBER**	**PERCETAGE [%]**
Yes	24	13
No	156	87
Total	180	100

Source: field survey data 2009

Table 4.3 Self-Employed Persons who Have Paid Income Tax since they started their Business

RESPONSE	NUMBER	PERCETAGE [%]
Yes	32	18
No	148	82
Total	180	100

Source: field survey data 2009

In table 4.2, 24 self-employed persons out of 180 representing 13%, were served with demand notices or notice of assessments in the year 2008 while 156 self-employed persons out of 180, representing 87% were not served any of the notices.

In table 4.3, 32 self-employed persons out of 180 representing 18% agreed to have paid income tax since the inception of their business while 148 self-employed persons out of 180, representing 82% have not paid income tax since they started their business.

Research Question 3: Has the Board of Internal Revenue got adequate trained staff to do this job?

4.4 Do we have adequate staff to do the job

RESPONSE	NUMBER	PERCETAGE [%]
Yes	30	17
No	150	83
Total	180	100

Source: field survey data 2009

The analysis in table 4.4 shows that 30 self-employed persons out of 180, representing 17% were visited by staff of Board of Internal Revenue n 2008 while 150 self-employed persons out of 180 representing 83% were not visited by the staff of the Board of Internal Revenue in the year 2008.

The BIR in its response to the question agreed that it has not got adequate trained staff to do its jobs.

Research Question 4: Are there effective measure put in place to identify tax defaulters in Enugu state?

Table 4.5 Measures put in place to Detect Tax Defaulters in the state

RESPONSE	NUMBER	PERCETAGE [%]
Yes	45	27
No	135	75
Total	180	100

Source: field survey data 2009

The table 4.5 shows that 45 self-employed persons out of 180, representing 25% have been asked to show evidence of income tax payment before benefiting from the state government while 135 self-employed persons out of 180 representing 75% have not been ask about their income tax payment.

Research Question 5: Are the self-employed persons in the state aware of the penalties for non-payment of income tax?

Table 4.6 Awareness of Self-Employed Persons to the Penalties for Non-Payment of Income Tax in the State

RESPONSE	NUMBER	PERCETAGE [%]
Yes	164	91
No	16	9
Total	180	100

Source: field survey data 2009

Table 4.6 shows that a total of 164 respondents out of 180 representing 91% are aware of penalties for non-payment of income tax while 16 respondents representing 9% are not aware of such penalties.

Research Question 6: To what extent have the self-employed persons contributed to the Internal Revenue Generation of Enugu State for the past ten years?

Table 4.7 Revenue Generation from Income Tax by Enugu state Government for the past Ten Years [1999 to 2008]

Employed People and Self-Employed

S/NO	YEAR	PAYEE [EMPLOYED] ₦	DIRECT TAX SELF-EMPLOYED] ₦	TOTAL ₦	CONTRIBUTION OF DIRECT INCOME TAX TO THE TOTAL INCOME TAX IN %
1	2008	1,841,155,371	77,095,412	1,918,250,763	4.02
2	2007	1,121,282,481	50,269,685	1,171,552,166	4.29
3	2006	1,183,077,862	19,202,935	1,202,280,797	1.60
4	2005	703,342,731	14,849,280	718,192,011	2.07
5	2004	726,154,132	11,441,241	737,595,373	1.60
6	2003	600,237,618	12,951,380	613,188,998	2.11
7	2002	568,317,976	14,962,157	583,280,133	2.57
8	2001	591,310,614	11,954,220	603,264,834	2.00
9	2000	570,218,574	12,327,833	582,546,407	2.12
10	1999	548,189,728	11,432,412	559,622,140	2.04
Total		**8,453,287,087**	**236,486,555**	**8,689,773,642**	**2.72**

Source: Enugu State Board of Internal Revenue Headquarters Office, Enugu

Table 4.7 shows that income tax contributed a total of **₦8**,689,773,642.00 to the internally generated revenue of Enugu state government in the past ten years [1999 to 2008]. Out of the this figure, self-employed persons contributed only ₦236,486,555.00 representing 2.7% while people in the state employment contributed ₦8,453,287,087.00 representing 97.3%.

4.2 TEST OF HYPOTHESES

The hypotheses stated earlier in chapter one is hereby restated in to null and alternative. This is to enable them to be tested.

Hypothesis 1:

Ho1: Lack of income tax assessment of self-employed workers in Enugu state has no significant impact on their rate of income tax payment.

H11: Lack of income tax assessment of self-employed workers in Enugu state has significant impact on their rate of income tax payment.

Table 4.8 The Impact of Assessment on the Rate of Income Tax Payment of Self-Employed Workers in Enugu State

RESIDENCE	RESPONSES		TOTAL
	YES	NO	
Urban Area	86	4	90
Semi-Urban	24	6	30
Rural Area	52	8	60
Total	162	18	180
Percentage	90	10	100

Source: Field survey 2009.

Calculation of Expected Frequency

Yes Response			**No Responses**		
$\frac{162 \times 90}{180}$	=	81	$\frac{18 \times 90}{180}$	=	9
$\frac{162 \times 30}{180}$	=	27	$\frac{18 \times 30}{180}$	=	3
$\frac{162 \times 60}{180}$	=	54	$\frac{18 \times 60}{180}$	=	6

Calculation of x^2

Table 4.9 Calculation of Chi-square value [x^2]

OBSERVED 0	**EXPECTED E**	**DEVIATION [0-E]**	**SQUARE DEVIATION $[0\text{-}E]^2$**	**SQUARE DEVIATION WEIGHTED $\frac{[0\text{-}E]^2}{E}$**
86	81	5	25	0.309
4	9	-5	25	2.778
24	27	-3	9	0.333
6	3	3	9	3.000
52	54	-2	4	0.074
8	6	2	4	0.667
Total				7.181

Source: Extracted from table 4.8 and calculated expected frequency

Calculated chi-square value = 7.16

Degree of freedom = [r-1][c-1]

= [2-1][3-1]

= 1 x 2 = 2

Taking 5% level of significance.

Critical value x^2 0.95 for 2 degrees of freedom = 5.99

x^2 Calculated [7.16] is greater than x^2 from the table [5.99].

Decision: Ho_1 is rejected and H_{11} accepted. This decision shows that income tax assessment has significant impact on the rate of payment of income tax by the self-employed workers in Enugu State.

Hypothesis 2:

Ho_2: Lack of adequate measures to identify tax defaulters in Enugu state have no significant impact on the rate of income tax payment of the self-employed workers in Enugu state.

H_{12} Lack of adequate measures to identify tax defaulters in Enugu state have significant impact on the rate of income tax payment of the self-employed workers in Enugu state.

Table 4.10 The Relationship between Lack of Records to Detect Income Tax Defaulters and the Rate of Income Tax payment of Self-Employed Workers n Enugu State

RESIDENCE	**RESPONSES**		**TOTAL**
	YES	**NO**	
Urban Area	85	5	90
Semi-Urban	24	6	30
Rural Area	51	9	60
Total	160	20	180
Percentage	89	11	100

Source: Field survey 2009.

Calculation of Expected Frequency

Yes Responses			**No Responses**		
$\frac{160 \times 90}{180}$	=	80	$\frac{20 \times 90}{180}$	=	10
$\frac{160 \times 30}{180}$	=	27	$\frac{20 \times 30}{180}$	=	3
$\frac{160 \times 60}{180}$	=	53	$\frac{20 \times 60}{180}$	=	7

Calculation of x^2

Table 4.11 Calculation of Chi-square value [x^2]

OBSERVED 0	EXPECTED E	DEVIATION [0-E]	SQUARE DEVIATION $[0-E]^2$	SQUARE DEVIATION WEIGHTED $\frac{[0-E]^2}{E}$
85	80	5	25	0.31
5	10	-5	25	2.50
24	27	-3	9	0.33
6	3	3	9	3.00
51	53	-2	4	0.08
9	7	2	4	0.57
Total				6.79

Source: Extracted from table 4.10 and calculated expected Frequency.

Calculated chi-square value = 6.79

Degree of freedom = [r-1][c-1]

= [2-1][3-1]

= 1 x 2 = 2

Taking 5% level of significance.

Critical value x^2 0.95 for 2 degrees of freedom = 5.99

5.99[x^2 from table] < 6.79 [x^2 calculated] .

Decision: Ho_2 is rejected and H_{12} accepted. This decision shows that there is a significant impact or relationship between measures put in place to identify income tax defaulters and the rate of income tax payment by the self-employed persons in Enugu State.

Hypothesis 3:

Ho_3**:** Lack of full implementations of penalties for income tax evasion has no significant impact on the rate of income tax payment by the self-employed workers in Enugu State.

H_{13}**:** Lack of full implementations of penalties for income tax evasion has significant impact on the rate of income tax payment by the self-employed workers in Enugu State.

Table 4.12 The Relationship between rate of Income Tax Payment and Lack of Implementation of Penalties for Income Tax Evasion by the Self-Employed Workers in Enugu State.

RESIDENCE	RESPONSES		TOTAL
	YES	NO	
Urban Area	87	3	90
Semi-Urban	24	6	30
Rural Area	54	6	60
Total	164	16	180
Percentage	91	9	100

Source: Field survey 2009.

Calculation of Expected Frequency

Yes Response

$$\frac{90 \times 164}{180} = 82$$

$$\frac{30 \times 164}{180} = 27$$

$$\frac{60 \times 164}{180} = 55$$

No Responses

$$\frac{90 \times 16}{180} = 8$$

$$\frac{30 \times 16}{180} = 3$$

$$\frac{60 \times 16}{180} = 5$$

Calculation of x^2

Table 4.13 Calculation of Chi-square value[x^2]

OBSERVED 0	**EXPECTED E**	**DEVIATION [0-E]**	**SQUARE DEVIATION $[0-E]^2$**	**SQUARE DEVIATION WEIGHTED $\frac{[0-E]^2}{E}$**
87	82	5	25	0.30
3	8	-5	25	3.13
23	27	-4	16	0.59
7	3	4	16	5.33
54	55	-1	1	0.02
6	5	1	1	0.20
Total				9.57

Source: Extracted from table 4.10 and calculated expected Frequency.

Calculated value x^2 = 9.57

Degree of freedom = [r-1][c-1]

= [2-1][3-1]

= 1 x 2 = 2

Taking 5% level of significance.

Critical value x^2 0.95 for 2 degrees of freedom = 5.99

5.99[x^2 from table] < 9.57 [x^2 calculated].

Decision: rejected Ho_3 and H_{13} accepted. This decision shows that lack of serious or non-implementations of penalties for income tax evasion have significance impact or relationship with the rate of income tax payment by the self-employed workers in Enugu State.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

This chapter consists of summary of findings, recommendations and conclusion of the study.

5.1 SUMMARY OF FINDINGS

In the course of the research into the administration of income tax of self-employed persons in Enugu state, the following findings were made:

- That the Enugu state Board of Internal Revenue has not got enough highly experienced and motivated personnel to carry out its duties.
- That the Board is lacking adequate database and information system for effective tax planning, correct tax assessment, timely investigation and following-up.
- That there is lack of willingness to prosecute tax offenders by the Board.
- That the corrupt practices of some staff encourage tax evasion since dishonest members of the public believes that a small payment to the corrupt staff is better than a larger payment to the government.

- That lack of social amenities in the state has created a general sense of apathy to the taxpayers.
- That the complexity and multiplicity of the tax laws and bye-laws in Nigeria have created room for evasion. The average self-employed person on payment of Rate, Business Registration, Renewal, waster management levy etc. feels burdened to yet file in his or her return of income to the sate board of Internal Revenue for income tax assessment.
- That lack of adequate information and improper education of the citizens on their obligations to the state vis-a-visa taxes also affect their willingness to pay taxes.
- That there is also a general low level of patriotism among the citizens in the state, which affect their attitude to taxes and the willingness to pay.
- That the staff of the board of Internal Revenue has not been provided with adequate equipment and logistics for effective and efficient performance of their duties.
- That out of ₦8.7 billion contributed by income tax to the internally generated Revenue of Enugu state Government in the past ten years, those self-employed workers only contributed ₦2.7% of the amount while PAYE contributed ₦97.3%.

5.2 RECOMMENDATIONS

Having gone through the findings enumerated above the researcher has the following recommendations to make:

- That a special drive should be undertaken to arouse public consciousness on tax obligations by enlisting the co-operation of opinion leaders and traditional rulers in the various communities and cities.
- That the Board of Internal Revenue be completely removed from the civil service structure to give it greater autonomy and enable it operate with the efficiently typical of a commercial out fit. Consequently it will be able to recruit the right caliber of staff, train and maintain a better working environment for an enhanced productivity.
- That the data based for tax administration should be computerized to ensure that the system of information storage, processing and retrieval is efficient, the Board should also explore the use of information and communication technology to harness data gathering, data storage and information management on tax matters. This will eventually led to the introduction of Electronic strategic Tax Administration and Revenue Accounting

System as the system enhances efficiency, effectiveness, transparency, accountability in tax assessment and collection processes.

- That the tax enforcement machinery should be strengthened. The level of deterrent punishment should also be made stricter and there should be vigorous prosecution of offenders, to instill wholesome respect for the laws in the minds of the taxpayers and erring staff of the Board.
- That effort is intensified to identify potential tax payers to build up the data base through the following:

  [i] Landlords and Landladies be compelled to submit to the Board of Internal Revenue office nearest to them the names, addresses and occupation of people living in or using their house for business, and

  [ii] The chief and village heads to submit the names and occupation of people living in their villages.
- That tax clearance certificate or three years tax receipt to be included as condition for admission of wards or children into schools, allocation of market stalls, and baptismal certificate of children in churches.

- The state government should make effort to streamline the number and types of taxes and levies charged on its citizens but the state and local government Agency to avoid placing too much burden on the shoulders of the taxpayers that might cause them to look for possible mans of evasion.

5.3 CONCLUSION

Income tax is undoubtedly a major source of internal revenue generation by every government. However, for the government to achieve an optimal collection from both workers in its employment and self-employed, it has to combat apathy and stimulate voluntary compliance. This it has do by maintaining fiscal transparency and accountability by both itself and public officers and the reduction of the widespread wastage of public funds on unviable and wasteful projects but rather invest the revenue collected on projects that will benefits the citizens of the state. By so doing the level of patriotism among the citizens will improve and their willingness to pay income tax will start manifesting.

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Personal Income Tax Act No. 104 of 1993.

Department of Accountancy
Faculty of Business Administration
University of Nigeria
Enugu Campus.

1st November 2008

Dear Respondent,

This questionnaire being presented for your completion is purely for academic research purpose in partial fulfillment of the requirement for an award of MBA degree in Accountancy of the University of Nigeria, Enugu Campus.

It is designed to gather information relating to income tax payment of self-employed persons in Enugu State. It is also my request therefore, that you sincerely answer these questions as the success of this work depends on your willingness to do so.

I assure you that all information provided shall be treated as confidential and shall be used for academic exercise only.

Thanks for your anticipated co-operation.

Yours faithfully,

Chukwuemeka, Eric O.

RESEARCH QUESTIONNAIRE FOR TAX PAYERS

This questionnaire is designed as a tool, with which to extract the necessary information needed in carrying out a research work into the administration of income tax of self-employed person in Enugu State.

Name: ……………………………………………………………………

Address: ………………………………………………………………

L.G.A.: …………………………………………………………………

Please tick [√] as appropriate

1. Sex: Male [ ] [b] Female [ ]
2. Age: [a] 18 and blow [ ]
   [b] 19 – 24 [ ]
   [c] 25 – 30 [ ]
   [d] 31 and above [ ]
3. Marital Status: [a] Single [ ] [b] Married [ ]
4. Educational Attainment:
   [a] Higher Institution [ ]
   [b] Secondary Education [ ]
   [c] Primary Education [ ]
   [d] None [ ]

5. What is the ownership form of your business?

   [a] Sole proprietorship [ ]

   [b] Partnership [ ]

   [c] Limited Liability [ ]

6. How long have you been in this business?

   [a] Below 3 years [ ] [b] 4yrs. – 9 years [ ]

   [c] 10 yrs – 15 years [ ] [d] 16 yrs. and above [ ]

7. Have you submitted your return of income to the tax office this year? [a] Yes [ ] [b] No [ ]

8. If No, Are you aware that you should do so every year?

   [a] Yes [ ] [b] No [ ]

9. Have you received demand notice or notice of assessment from tax office this year? [a] Yes [ ] [b] No [ ]

10 Does lack of income tax assessment affect your payment negatively [a] Yes [ ] [b] No [ ]

11 Have you paid your income tax this year?

   [a] Yes [ ] [b] No [ ]

12 Have you paid income tax since you started this business?

   [a] Yes [ ] [b] No [ ]

13 Have you been harassed for non-payment of income tax since you started this business?

   [a] Yes [ ] [b] No [ ]

14 Has the tax office taken record of you and your business since you started?

[a] Yes [ ] [b] No [ ]

15 Have the tax collectors ever come to your office for records or tax collection [a] Yes [ ] [b] No [ ]

16 Does lack of records in the tax office to detect who has not paid his tax affects your income tax payment?

[a] Yes [ ] [b] No [ ]

17 Are you aware that there are penalties for non-payment of income tax? [a] Yes [ ] [b] No [ ]

18 Does non-implementation of penalties for ax evasion by the tax office affect your tax payment?

[a] Yes [ ] [b] No [ ]

19 List below where you have been asked to produce tax clearance certificate as a condition before benefiting from them: ……………………………………………………………

……………………………………………………………………

……………………………………………………………………

RESEARCH QUESTIONNAIRE FOR ENUGU STATE BOARD OF INTERNAL REVENUE

This questionnaire is designed as a tool, with which to extract the necessary information needed in carrying out a research work into the administration of income tax of self-employed person in Enugu State.

1. Name: …………………………………………………
2. Sex: ……………………………………………………
3. Marital Status: ………………………………………..
4. Highest Educational Attainment: …………………..

Tick [√] as appropriate

5. Does the Board of Internal Revenue have enough skilled staff to carry its duties of tax assessment and collection for both PAYE and direct tax? [a] Yes [ ] [b] No [ ]
6. Does the BIR have the records or statistics of taxable self-employed persons in the state? [a] Yes [ ] [b] No [ ]
7. If yes, how does the BIR get information about these taxable self-employed persons in the state? ……………………………
   ………………………………………………………………………
8. Does the self-employed persons in the state voluntarily file return of their income with the BIR? [a] Yes [ ] b] No [ ]

9. Does the BIR collect information from landlords and caretakers of their tenants and their occupation?

[a] Yes [ ] [b] No [ ]

10 Does the BIR send demand notice of assessment to the taxable self-employed persons in the state?

[a] Yes [ ] [b] No [ ]

11 What does the BIR rate [in percentage] the income tax payment of self-employed person in the state? ………………

…………………………………………………………………...

12 What are the measures put in place to identify income tax defaulters amongst self-employed workers in the state?

……………………………………………………………………

……………………………………………………………………

13 How many of the self-employed persons has the BIR taken to court for non-payment of income tax for the past 5 years?

……………………………………………………………………

14 What are the problems of the BIR in relation to assessment and collection of income tax of self-employed persons in the state? ……………………………………………………………

……………………………………………………………………

15 What remedies does the BIR suggest to the problems above? ……………………………………………………………

……………………………………………………………………………..

16 Please fill the table below with annual figures relating to the sub-heads.

S/NO	YEAR	TYPE OF TAX	
		PAYE	DIRECT
1	2008		
2	2007		
3	2006		
4	2005		
5	2004		
6	2003		
7	2002		
8	2001		
9	2000		
10	1999		