

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

A tax is a compulsory levy imposed on the income/profits of an individual, partnership and corporate organizations for the financing of government expenditure without recourse to a corresponding benefit from taxpayer.

Every tax imposed on Nigerian companies or organisations needs continual interpretation of its specific application and effect on the various transactions of the organisation. The field of taxation changes every moment or every day as announced by the new ruling courts and also as are being made by new government. Tax is paid only on the profit of the company after all other deductions and allowances such as capital allowance, investment allowances. The rate of tax levied and payable for each year of assessment in respect of the total profit of every company is thirty kobo for every naira as contained in section 29 of Companies Income Tax Act 2007 as amended. A company which is yet to commence business after at least 6 months of incorporation shall for each year it obtains a tax clearance certificate pay a levy of (a) 20,000 for the first year and (b) 25,000 for every subsequent year before a tax clearance certificate is issued.

Where in any of the basis period for the year of assessment in which a company commenced business and the next following four years of assessment as determined under the provision of section 29 of the Act, a Nigerian company engaged in manufacturing or agricultural production, mining of solid minerals or wholly export trade, earns a total gross sales (turnover) of below one million naira, there shall be levied and paid by the company, tax at the rate of twenty kobo on every naira of the total profits.

Section 28A of Companies Income Tax Act 2007 states that where in any year of assessment the ascertainment of total assessable profits from all sources of a company results in a loss or where a company's ascertained total profits results in no tax payable or tax payable which is less than the minimum tax then shall be levied and paid by the company the minimum tax as prescribed in subsection (2) of the Act.

(a) If the turnover of the company is 500,000 or below and the company has been in business for at least few calendar years, be;

- (i) 0.5 percent of gross profits or
- 5 percent of net assets or
- 25 percent of paid up capital or
- 25 percent of turnover of the years, whichever is higher.

If the turnover is higher 500,000 be whatever is payable in paragraph (a) of this subsection plus such addition tax on the amount by which the turnover is in excess of 500,000 at a rate which shall be 0.125 percent.

The provision shall not apply to a company carrying on agriculture trade or business or the company with at least 25 percent imported equity capital and lastly, any company for the first four calendar years of its commencement of business.

Collection is basic necessity to tax revenue after assessment has been raised. The taxpayer is expected to pay the assessed tax liabilities to any of the collecting banks in his or her region with the assessment notices indicating the tax type being paid. This could be company income tax, Education tax, Capital gains tax,

Personal Income Tax for resident of Abuja, and non resident individuals, Value Added Tax. After the payment, the tax payer will be issued an electronically generated receipt from the bank (e-ticket), then, the collecting bank is expected to remit the funds same day to lead bank via Inter Switch network. The lead bank remits to Central Bank of Nigeria after two days. The receipt and on line schedule of remittance by lead banks are forwarded to Federal Inland Revenue Service office and checked before receipts are issued. The FIRS taxes are being collected by agents. These agents are the collecting banks. There are twenty-four in number (24). The Lead banks are four (4), Ministry Departments and Agencies, Nigerian Customs Services, The medium of collection are cash, cheque and electronic transfers. Accounting for revenue collected is mandatory for FIRS to all relevant government agencies and stake holders. The accounting procedure is as follows: Firstly, all revenues collected through the web portal/paydirect, KP Morgan statement of account, Auto Swift are generated.

APPRAISAL OF FEDERAL INLAND REVENUE COLLECTION SYSTEM

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