

PDF - TAXATION AND ITS EFFECT ON THE NIGERIAN ECONOMY (A CASE STUDY OF OWERRI MUNICIPAL COUNCIL) - researchcub.info **ABSTRACT**

The aim of this study was to investigate on taxation and its effects in the Nigeria economy. One of the objective carried out by the researcher was to examine peoples perception on taxation. Taxation is seen as a tool aimed at improving the performance of the national economy by such means as altering the balance between current consumption and capital investment. It looked at the work of other authors in order to make the exercise richer. Their different views were seen in different books and other materials (journal) which made this study much better than similar works in this area. In carrying out this study, the researcher used both primary and secondary data. Questionnaires and interviews were used in generating the primary data while the secondary data were obtained through library researcher and other sources. The purpose sample of 147 respondents were randomly selected for the study to avoid numerous errors in the calculation. From the data collected and analyzed, it was evident that tax collection plays a great role in the development of the Nigeria economy. Conclusively, discussion, summary, conclusion, and recommendations were made to achieve the purpose of this work.

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CHAPTER ONE

1.1 BACKGROUND TO THE STUDY

The modern view of taxation stems from the common premises that no one can be an island for him or herself. This means that in the modern society, societal members are dependent on one another. This interdependence leads to communal way of living and as such certain goods and services enjoyed by the society are usually referred to as the infrastructure of the society. The provision of the infrastructure of any society calls for a colossal amount of money which, of course the individual will find difficult to provide. There is therefore the need for a common source of fund on which to draw for the provision of the needed infrastructure.

One of the means of this common source of fund is taxation. In 1996, Moses, Williams

and Salter defined tax as a compulsory levy collected by the government to fund public expenditure. All over the world, taxes are being raised to provide services that private enterprise or individual citizens cannot provide or services that are better provided by the state.

In view of the above, a tax is a compulsory levy on the wealth of a person or body of person for the provision of the infrastructure of the state. Taxes are now seen as compulsory extractions that involve personal obligations for common public purposes. Every government has its own development programme to pursue and one way of financing such programmes is revenue derived from taxation. But in a democratic society, this power is vested in the legislature. This however, is not the case in an authoritarian regime where the imposition of tax rests on the ruling body.

Two broad classes of taxes can be identified. These are direct and indirect taxes. This differentiation is based on the extent to which a particular tax burden could be passed onto a third party by the initial tax payer. From the above, all taxes which cannot be passed onto third parties or the final consumer by the initial taxpayer are considered as direct taxes. An example includes personal and corporate tax. Indirect taxes are those taxes of which the burden can be transferred with relative ease by the initial taxpayer to third parties. An example is the sales tax or the VALUE ADDED TAX (VAT)

Income tax was first introduced in the then Gold Coast on November 1st, 1943 by the income tax ordinance 1934 (ordinance No. 27 of 1943. This ordinance was amended several times. In particular, a very lengthy ordinance, the income tax (Amendment) ordinance 1952 was passed to rectify most of the deficiencies that had been experienced in the previous enactments.

In 1961, drastic amendments were made to the consolidated edition by Act 68, followed by Act 178 and 197, in 1963, and sealed off by Act 312 in 1965. A second consolidated edition (the income tax decree, 1966-No. 78) was published in September, 1966 and a third consolidated edition (the income tax decree 1975-

SMCD5) was also published in December 1975. A series of amendments to the 1975 decree made it cumbersome in its usage. One has to grope very patiently through a labyrinth of new provisions in separate enactments to ascertain the current provision. This situation was unavoidable since every annual budget invariably introduced changes in tax provisions to amend the existing law. The introduction of the internal revenue Act 2000 (Act 592) finally repealed the SMCD 5 decree on 1st January 2001. The characteristic feature of Act 592 is that, it contains other taxes that were not included in the previous SMCD5. This is because these taxes are not taxes on income. The taxes concerned are capital gains tax and gift tax.

It is an undeniable fact that revenue from taxation forms the main source of financing the ever increasing capital and recurrent government expenditure. Tax is considered to have three functions according to the 1994 World Book Encyclopedia They are; For fiscal or budgetary (that is to cover government expenditure)

Economic (that is to promote stable economic growth) and the last but not the Least, Social (that is to lessen inequalities in the distribution of income and wealth).

The overall objective of taxation is to promote general welfare of the people. Taxes contribute to providing the income needed for essential function of government. At the same time taxes serve as a socio-economic tool which can be used to reduce excessive inequalities of wealth. Additionally, taxes can be manipulated to check inflation and promote economic stability.

Systems are put in place by governments worldwide to make every individual pay tax. In Imo State, the Imo State revenue authority (Imo State tax) is responsible for assessment of direct taxes, collection of direct taxes and payment of amounts collected into the consolidated fund. From this, the fund disbursement of the money needed by the various sectors of the economy for developmental purpose is made. As it is, there is a constant flow of revenue into the consolidated fund but government and its agencies always complain of inadequacy of revenue. This paradox can simply be explained thus, the revenue targeted has not been able to meet the expenditure

targeted. This deficiency in revenue generation from taxation can be ascribed to many factors. Some of these factors are income tax evasion; avoidance and default are on the ascendancy thus thwarting the government's efforts of meeting its social responsibilities.

1.2 STATEMENT OF PROBLEM

Following the adoption of various tax policies in Imo State, operations of traders in Kumasi, have seen a stressful transformation. It is an open truth that the traders in the informal sector have not been paying taxes and are not eager to do so.

It is upon this observation made by the researchers and government officials that the researchers embarked on this research as a way of investigating the reasons for evasion of the payment of income taxes by the traders and its effects on the economy.

1.3 RESEARCH QUESTIONS

Questions to be addressed include:

The following research question will be formulated:

Is there enlightening campaign on tax incentive?

Would tax incentive increase collection of taxes?

Are the beneficiaries of tax incentive taking advantage of incentive?

Would tax incentive create investment opportunities?

Would tax incentive help a company increase its profitability?

Does the politicians influence tax policy to favour themselves or not?

1.4 HYPOTHESIS

H0: there is a relationship between taxation and economic growth in Owerri municipal council

H1: there is no relationship between taxation and economic growth in Owerri municipal council

1.5 THE OBJECTIVE OF THE STUDY

The main objectives of the study include;

To examine why people evade income tax payment

To examine the effect income tax evasion has on the economy.

To examine the problems that tax administration faces in an attempt to mobilize tax revenue from traders in Adum-Kumasi and offer solutions with suitable suggestions and recommendations.

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