

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

There has been in existence various tax policies before enactment of the direct tax ordinance by Fredrick Lugard in 1946. However, the deficiency of the ordinance was dealt within 1950 through the introduction of basis principles of taxing income of individual other than Limited Liability Company. The original purpose of taxation was to raise money to finance public expenditure since 1940 it has also become accepted that “taxation is one of the instrument used by government of the day on managing the economy” assessment of taxes on an individual in Nigeria purposely to achieve the set of objectives. It is also required to ascertain the effective and efficient execution of tax machinery set up by the Nigeria government to administer taxes in Nigeria, these are Federal Board of Internal Revenue (F.B.I.R) and State Board of Internal Revenue (S.B.I.R). Proper personal income administration avoidance which is very common and rampant in Nigeria.

Personal income tax is charged on all income which accrues to people residing in Nigeria. It is also levied on all income arising within Nigeria no matter where the tax payer resides or his / her nationality.

The Oyo State Board of Internal Operates under both the Personal Income Tax Law of 1962 as amended by Personal Tax Law (Amendment) Edict 1962 (Edit Number (1) of 1977 and other federal tax law.

The background of taxation as a whole dated back as far a biblical days when the European Colonized were in government of Nigeria. The payment of the tax was made by money based on flat rate per head, later other forms of revenue like stamp duty, capital gain tax and betting business commission were also introduced business commission were also introduced and embraced by our

people.

The decrees and acts that are in we as follows Finance (Miscellaneous taxation provision) No 2 decrees 1997. The Federal military government hereby decrees are as follows:

The personal income tax decrees 1993 The company's income tax of 1999. The petroleum profit act of 1959. The value added tax decree 1993.

1.2 STATEMENT OF THE PROBLEM

In the previous year, the government machinery in tax administration encounters a lot of problems. The problem of personal income tax nowadays is the sources of income. People have been engaging in avoidance and evasion of tax from time to time since the Board Inland Revenue Imposed taxation. However, the major problem confronting tax, administration in Nigeria particularly the Internal Revenue Board of Oyo state is highlighted below:

- i. Inability to provide adequate and appropriate guidelines and interpretation of legislation to the tax payer.
- ii. Problem faced by the tax collectors in order to know the exact amount of individual income from each source of income.
- iii. Inadequate orientation of the tax payer about the importance and usefulness of tax especially for people in rural area.
- iv. Problem of tax avoidance and evasion, which is yet to be cured by the state Internal Revenue Board.

1.3 RESEARCH HYPOTHESIS

For the purpose of this research work, the researcher attempted to find out the validity of the following hypothesis;

Ho: The high rate does not bring about the tendency to evade or avoid tax in Nigeria particularly in Oyo State.

Hi: The high tax rate brought about the tendency to evade avoids tax in OyoState.

1.4 PURPOSE OF THE STUDY

The aim of this project is to know the procedure, problem and prospect of personal tax administration in Nigeria and also to know whether the high rate of tax bring about evasion avoidance tax.

1.5 SCOPE OF STUDY

The scope of this study deals with the areas of the study project i.e the area they will cover. The scope of this study is strictly restricted to personal income tax administration on OyoState under PAY – AS – YOU EARN SYSTEM (PAYE) and directly assessed income of self employed individuals. The exercise will cover a period of four years 1999 to 2002 so as to highlight the trend for better analysis of data that will be obtained. So that reasonable conclusion could be drawn from it.

1.6 LIMITATION OF STUDY

The most prominent constraint is the high level of illiteracy among tax payers. It has in one way on the other contributed to the wrong computation of tax. Another factor is the total ignorance of tax payer in keeping proper accounting records. Adequate accounting records of business man and other self employed people is not kept for the tax authority to examine. There is also difficulty in study due to dishonesty by staff and this increase corruption in tax system. In conclusion, having consigned out within the available time limit and on the basis of available data. It's worth noting that the quality of this research work was not reduced as a result of these barriers but rather the resource available was effectively and efficiently used.

1.7 SIGNIFICANCE OF THE STUDY

This research work will make an analytical review on personal income tax administration in Nigeria. The operation of the PLTA law and the procedure, problem and prospect of the research work. It is intended to show the effectiveness of the tax collectors and effect of avoidance and evasion on revenue collection from the tax payer and highlight the purpose of taxation.

1.8 DEFINITION OF TERMS

Direct Tax: – Is the tax that is leveled on income of individual and business firms which is actually paid by person on whom it is legally imposed.

Indirect Tax: – Is the tax levied indirect on people as they are levied on goods and services.

Stamp Duties in Nigeria: – Stamp duties are takes on instrument or every written document.

Fixed Duties: – This is one of the duties which do not vary the consideration for the document.

Unearned Income:- Is the opposite of the earned income and they are income not derived as a result of an individual direct effort of includes investment income such as dividends rent premium.

Tax Evasion: – Is when a tax payer will fully or intentionally failed to report a source of taxation income or seeks to reduce his tax authority.

Tax Avoidance: – It is any endeavor on the part of the tax payer to reduce his tax liability by taking specifics advantages of the provision of the law.

Executor: – It includes any person administration the estate of a diseased person.

Personal Relief and Allowances: – These are the reduction allowance to individual for a year of assessment.

Place of Residence: – Is a place available for individual domestic use in Nigeria on a relevant day

Tax: – Is a compulsory levy imposed on eligible citizen corporate bodies as well as goods and services to enable the government to finance its activities.

Taxation: – Is the tax paid into government purse from the income derived from business, trade, employment, petroleum, and profit etc.

Tax Policy: – This is line of action adopted by government in respect of taxation. It should be noted that taxation is one of the major fixed policy instruments used

in regulation the economy booting, investment, resulting, inflation etc.

Tax Administration: – This is concerned with interpretation and application of tax laws.

Tax Rate: – Is the amount of tax payable per unit of tax base.

Tax Base: – Is the object on which tax are levied.

Tax Person: – Any individual or body of individual and any corporation, trust or executor was having any income which is chargeable with tax under the prevision of personal income tax act (PITA) 19o61.

Tax Authority: – As a person or body of person responsible under the law of a territory for the imploring tax on the income of individual and companies and for the administration of tax law.

Year of Assessment: – This is the running for a period of twelve months (12) from 1st January to 31st December.

Assessment Income: – It is the amount of income from each source in the year immediately proceeding the year of assessment.

Tax Effort Index: – Is a measure of personal income tax performance.

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