REPORT ON TAXES OF SELECTED COMPANIES IN NIGERIA

actionaid

Oxfam

ABOUT
Action Aid

ActionAid is a global movement of people working together to further human rights and defeat poverty for all. We work with poor and excluded communities to promote the rights of people living in poverty and take necessary action to end poverty. Because we and engage multiple agents at different times and situations, we act as enablers, advocates, facilitators and catalysts. We work to create space for the voices and interest of people living in poverty to be embedded in government policies and actions. Our works are defined in *Six Thematic Areas* of (i) Right to Health; (ii) Right to Education; (iii) Right to Human Security in Conflict and Emergencies (iv) Women's Rights (v) Right to Just and Democratic Governance and (vi) Right to Food.

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We also acknowledge the technical contributions of Chief Mark Anthony Chidolue Dike and his research team for their efforts in conducting the research as well as other partners of Oxfam in the Partnership for Development-Kebetkache Women Development & Resource Centre; Niger Delta Budget Monitoring Group; Civil Society Legislative Advocacy Centre; and BudgIT for their various contributions to the success of this research project upon which this Report is based.

We also appreciate the role of private sector companies that participated in the research and the validation exercise and finally all individuals within ActionAid and from other organisations that added value to the process.

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28th March 2017

The Chairman,

Nigeria Governors' Forum (NGF)

1 Deng Xiaoping Street, Off AIT Junction

Asokoro Extension Abuja

Through:

The Director General

NGF Secretariat, Asokoro Extension, Abuja

Your Excellency,

ADVOCACY SUGGESTIONS FOR IMPROVING TAX REVENUE

Financing for Development (F4D) is a project of ActionAid Nigeria and Oxfam seeking to improve policies and practice of government and the private sector for increasing tax revenue which ultimately provides more finance for development.

After series of engagement, stakeholders identified some issues in our tax laws and practice that reduce funds availability for development and came up with recommendations for increasing the tax revenue especially at the state level.

We hereby present them to the Governors as Chief executives of their states knowing that with political commitment towards its implementation, funds for development will become more available and better managed.

Please find enclosed the report of research on the private sector taxation; and advocacy recommendations for your consideration.

Be assured of our highest regards,

Yours Faithfully,

Ojobo Atuluku
Country Director, ActionAid Nigeria

Our Partners:

NIGER DELTA BUDGET

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CISLAC

BACKGROUND ISSUES

Income from natural resources, taxation, borrowing and grants are some of the revenue sources available to governments to finance development. In Nigeria, successive governments have paid more attention and channelled energy and time to oil revenue as a single source of financing developmental needs which has led to the neglect of other revenue sources. Over reliance on oil revenue leads to major economic and financial crisis following the international oil price volatility and dictation of international actors. There have also been possible instances of mismanagement, waste, misappropriation, outright corruption and oil spills. These may have occurred at different stages of extraction, refining and appropriation. The fall in revenue ought to be an iron test of the ingenuity and capability of respective state governments to generate wealth to augment the decline in oil revenue allocation for financing their development objectives.

ABOUT FINANCING FOR DEVELOPMENT

Financing for Development (F4D) is a joint project of ActionAid Nigeria (AAN) and OXFAM in Nigeria which seeks to achieve improved policies and practices of government and private sector on taxation. This is expected to result in increased internal resource mobilization, poverty reduction and tackling extreme inequality through more effective and efficient management of Nigeria's tremendous resources and increased citizens' participation in governance.

As part of the activities of the project we (1) conducted a research on private sector taxation policies and practice of companies and analyzed findings in the light of compliance to national taxation laws; (2) sensitized stakeholders on the findings; (3) held public-private policy debates and (4) held stakeholders' conference which led to the observed issues and recommendations which we hereby present for the consideration of the state Governors.

OBSERVED ISSUES IN PRIVATE SECTOR TAXATION POLICY AND PRACTICE IN NIGERIA

(1) Low tax compliance by individuals and private sector companies in the form of tax evasion, dodging and avoidance leading to poor revenue generation by the State Boards of Internal Revenue (SBIR)

(2) Multiplicity of taxes, levies, permits and fees are charged citizens out of their meagre earnings and sometimes these are transmitted to consumers making the prices of goods and services unbearable for citizens. This demotivates taxpayers and they seek ways of evading or dodging tax payment

(3) Non-Conducive business environment impacts the behavior of taxpayers, especially in the informal sector as cost of doing business is high; poor physical and economic infrastructure; bureaucratic bottlenecks in company registration and other business related administration discourage investment thus reducing tax potential

(4) Lack of financial and administrative autonomy of the state revenue authority- State Boards of Internal Revenue (SBIRs) detracts from their work as sometimes politicians interfere with the technical duties of the SBIRs and their operations making the Boards ineffective.

(5) Corruption among tax collectors reduces the amount of tax revenues that reach the coffers of government as they engage in sharp practices such as printing and issuing fake receipts

collecting less than proper taxes from business and clearing them while diverting the collected amounts to their personal pockets

(6) Political corruption also occurs when politicians approve payment for contracts without deducting relevant taxes leading most times to loss of tax revenue. While they cry on the one hand for lack of funds to finance development they waive taxes for cronies

RECOMMENDATIONS FOR CONSIDERATION TO IMPROVE TAX REVENUE AT STATE LEVELS

(1) Efforts to Increase level of tax compliance across all public and private sector organizations should be renewed by doing the following:

- *greater provision of social infrastructure*
- *Increased sanction against defaulters by the authorities*
- *Promotion of 'specific use tax principles' (promote tax to service agreement within certain jurisdictions)*
- *Quarterly sectoral reporting/ publication of companies' tax compliance*

(2) Although the Joint Tax Board is working at this, there should be stringent application of the provisions of the Taxes and Levies (Approved list of collections) Cap T2, LFN 2004, as amended. Fewer taxes would motivate taxpayers than multiple and non-harmonized collections

(3) Make the business environment more conducive by:

- *Reducing the cost of doing business to minimal levels*
- *Provision of economic and physical infrastructure such as credit facilities, good roads, security, power supply, etc*
- *Reducing bureaucratic bottlenecks in business registration and other administrative requirements*

(4) Ensure financial, administrative and operational autonomy of SBIRs and every political interference that reduces their effectiveness should be stopped

(5) As a way to stem corruption, SBIRs should begin automation of tax payment and processes beginning with establishing a state wide registry of taxpayers, issuing TINs to individuals and businesses and linking tax payment with banking using the example of BVN and more importantly, punish corrupt tax officers

(6) MDAs should publish quarterly reports on all contract awards and the status of relevant tax to the contract. In that way, political interference and granting of politically motivated waivers will be stemmed

(7) Promote efficient and effective service delivery of social and economic benefits to citizens which will encourage them to pay taxes. Researches have shown that citizens are happier to voluntarily pay tax when services work

CONCLUSION

We are convinced that these steps will increase revenue available to states for financing development.

Financing for Devt → Offen Adm Aid

CSR, Ways, I

Tax harmonization (3) Multiple taxation

Non-Compliance (2) → Tax for service

Authority
Cost of service
Professionalizing the state board.

Use of Consultants (1)

FG (9 taxes)
SG (25 taxes & levies)

Tax administration
Processing
Procedures
& Enforcement

EXECUTIVE SUMMARY

The assignment was to conduct research into wages, taxes and corporate social responsibility of select companies in Nigeria. As has been demonstrated severally, Nigeria has depended on crude oil revenue for far too long. This dependence made the country to relapse into complacency that precluded developing alternative sources of revenue to finance development.

In this regard, taxation has been found to be a strong economic tool not only for increasing public revenue but also for income distribution, especially for the progressive type, which addresses problems of inequality and social injustice.

The following are recommended for closing observable tax loopholes thus:

1) Focus should be on how to expand the value added tax based as its tax to Gross Domestic Product is in dire need of improvement. If the government of the day gets it right, all tiers of government will benefit immensely.

2) Incentives and Company survival are symbiotic and mutually reinforcing. This should however be conducted under an open, transparent and accountable manner such that the economy understands the tax revenues being given up today for a much vibrant and virile sector wherever such incentives are applied.

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If the government of the day gets it right, all tiers of government will benefit immensely.

3) A statewide taxpayer registry be established and taxpayer enumeration exercise embarked upon for the purposes of determining eligible taxpayers that can be found in the various states.

4) For effective revenue mobilization from taxes, revenue Authorities should follow through with the requirement of the tax law requiring companies to render returns of employee incomes in the immediate past year. They should insist on the use of annual aggregate incomes of taxpayers as the final basis for tax computation and not the monthly incomes, which is given to being prorated to the month the incomes effectively vary only.

   This is also consistent within the context of Section 3 of PITA, LFN 2004, as amended.

5) The redundant provisions of section 3 in PITA (as amended), LFN 2004, needs to be scrapped.

6) The informal sector should be incentivized more to come out and declare their income for assessment to tax

7) The government should give effect to the provisions of section 85 of the Personal Income Tax Act, LFN 2004 (as amended) by demanding tax clearance from individuals and business enterprises before they are granted any government service or benefits

8) PAYE remittances should be 10 days after salaries are actually paid. It does not make any sense to penalize a struggling company that is barely able to pay its workers for what revenue Authority terms as 'bad behaviour'.

Taxpayer registry be established and taxpayer enumeration exercise embarked upon for the purposes

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PAYE remittances should be 10 days after salaries are actually paid.

9) Companies, as agents of collection for government, under the Pay-As-You-Earn scheme should be encouraged and supported to carry out this vital task on government's behalf. Appreciation plaques and commendation certificates of compliance should be awarded at well publicized fora.

Pay-As-You- Earn scheme should be encouraged and supported to carry out this vital task on government's behalf.

10) State Revenue authorities must leverage technology to enhance their revenue profile. Filing and remittance turnaround times should be as effortless as collection of receipts as well as maintenance of the company's payer I.D. vis-à-vis taxpayer Personal I.D. on their portal.

State Revenue authorities must leverage technology to enhance their revenue profile.

11) The size of the informal sector is also a function of the economic conditions prevailing at the time. Where economic infrastructures are in place, tendency for a smaller than current informal sector exists.

12) Given that VAT is a tax on consumption and NOT on production, there has to be a creative way to improving tax revenue from VAT by adopting a manufacturing policy that seeks to widen the productive capacity of the economy exponentially.

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1 OBJECTIVE OF ASSIGNMENT

The research objective of the assignment is the inquisition about behaviour of taxpayers, companies and individuals alike, and their impact for financing development.

The role of Companies' Corporate Social Responsibility towards provision of badly needed infrastructure is also examined to determine the nexus between Corporate tax behaviour and their Corporate Social Responsibility undertaken.

The assignment therefore sought to:

- Access and analyze the taxation and wages policies of the organizations identified above and establish, with evidence, gaps in extant tax laws,
- To identify new or additional key private sector organizations (PSOs) that potentially can contribute to making huge increase on tax revenue
- To report on findings and recommend actions that would lead to reduction in tax avoidance, increase in tax revenue and finance for development

2

AN OVERVIEW OF PERSONAL INCOME TAXATION IN NIGERIA

The Personal Income Tax Act, CAP P8, Laws of the Federation of Nigeria; LFN 2004, as amended, relates to the taxation of incomes of individuals. The tax is imposed on the income of individuals, communities and families arising or due to a trustee or estate, which is determined under and subject to the provisions of the Act.

The tax is also imposed on every individual other than persons employed in the Nigerian Army, the Nigerian Navy, the Nigerian Air Force, the Nigeria Police Force other than in a civilian capacity as well as officers of the Nigerian Foreign Service, every resident of the Federal Capital Territory, Abuja and a person resident outside Nigeria who derives income or profit from Nigeria.

The tax is imposed on the income of individuals, communities and families arising or due to a trustee or estate,

Individuals and Itinerant workers

Following from the above therefore, the tax for any year of assessment with respect to an individual, is imposed only in the State in which that individual is deemed to be resident for that year pursuant to the First Schedule of the Personal Income Tax, LFN 2004. In the case of persons in the military and Foreign Service, the tax is imposed by the Federal Inland Revenue Service on behalf of the Federal Capital Territory Internal Revenue Service, which had not been established before now.

In the case of persons in the military and Foreign Service, the tax is imposed by the Federal Inland Revenue Service

In the case of an itinerant worker, tax is imposed for any year by any State in which the itinerant worker is found during the year of assessment for that year provided such an itinerant worker is credited against the tax payable, though not exceeding the amount thereof, for any income tax already paid by him to any other tax authority for the same year.

Communities

Tax is imposed on villages or other indigenous communities for a relevant year only by the law of the jurisdiction in which that community is found. The tax is charged on:

(a) the estimated total income of all its members;

(b) the estimated total income of those of its members whose income it is impracticable in the opinion of the relevant tax authority to assess individually; or

© the amount of any communal income which, in the opinion of the relevant tax authority in relation to such community, it is impracticable to apportion with certainty between its members.

Tax is imposed on villages or other indigenous communities for a relevant year only by the law of the jurisdiction in which that community is found.

Income chargeable

Section 3(1) of the Personal Income Tax Act, LFN 2004, as amended, charges to tax the aggregate amounts of which is the income of all taxable persons, for that year, from a source inside or outside Nigeria, including incomes from salaries, wages, fee, allowance or other gains or profit from employment which includes compensations, bonuses, premium, benefits or other perquisites, for each year of assessment. Incomes from gains or profits from any trade, business, profession or vocation are also charged to tax.

Tax is imposed on villages or other indigenous communities for a relevant year only by the law of the jurisdiction in which that community is found.

The exceptions to the rule are reimbursement to employees for work carried out during the course of carrying out his or her functions, which is not targeted at making a profit, medicals, cost incurred on any passage to or from Nigeria by the employee.

The provisions of Section 3(1)(b) above has been amended by the Personal Income Tax Act; 2011 and now reads:

(b) "any salary, wage, fee, allowance or other gain, or profit from employment including compensations, bonuses, premiums, benefits or other perquisites, allowance given or granted by any person to any temporary or permanent employee other than so much of any sums as or expenses incurred by him in the performance of his duties, and from which it is not intended that the employer should make any profit or gain".

20%

a deduction of N5,000 plus 20% of earned income.

Effects of this amendment include:

(1) Discontinuance of free pay; and

(2) Remunerations of temporary (including out sourced) and casual workers which have now been brought into the tax net.
Section 33 of the principal Act was also amended in terms of reliefs granted on income of taxpayers.

Per Section 33 of the Principal Act:

1. There shall be allowed as personal relief in the case of every individual, a deduction of N5,000 plus 20% of earned income.

2. (a) Alimony not exceeding N300 p.a. paid to a former spouse.

   (b) N2,500 per unmarried child maintained by the taxpayer in the preceding year up to a maximum of 4 children.

   (c.) Dependent relatives' allowance of N2,000 up to a maximum of 2 relatives(i.e.N4,000) if borne wholly by the taxpayer.

   (d) Life assurance relief.

N2,500

per unmarried child maintained by the taxpayer in the preceding year up to a maximum of 4 children.

(e) N3,000 p.a. or 20% of the earned income (whichever is higher) in the case of a disabled person using special equipment.

In addition to the amendment is the Sixth Schedule to the Personal Income Tax Act, LFN 2004 which provides clarification and guide to the application of Section 5 of the Amendment for reliefs and allowances as follows: –

(i) A consolidated relief allowance shall be granted on income at a flat rate of N200,000 plus 20% of gross Income, subject to a minimum tax of 1% of gross income (whichever is higher):

(ii) Tax-Exempt: The following deductions are Tax-exempt:-
  a) National Housing Fund Contribution (NHF)
  b) National Health Insurance Scheme (NHIS)
  c) Life Assurance Premium (LAP)
  d) National Pension Scheme (NPS)
  e) Gratuities

(iii) After the relief allowance (CRA) and exemptions had been granted in accordance with 1 and 2 above, the balance of income shall be taxed as follows:

20%

20% of the earned income (whichever is higher) in the case of a disabled person using special equipment.

200,000

A consolidated relief allowance shall be granted on income at a flat rate of N200,000 plus 20% of gross Income,

Historical Perspective

The year 1993 however marked a turning point for the consolidation of statutes in existence before then. The following were therefore consolidated:

a) Personal Income Tax Decree No. 104 of 1993
b) Value Added Tax Decree 102 of 1993
c) Education Tax Decree of 1993

Pay-As-You-Earn and Direct Assessments

The Pay-As-You-Earn regulation under the Personal Income Tax Act (as amended), LFN 2004 provides for the operationalization and collection of Personal Income Tax Act. It describes those who are responsible for the collections and remittance of these taxes to the relevant tax authorities.

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For those in paid employment, the tax is deducted from the incomes of employees by the employers and remitted on or before the 10th day of the following month the salaries are due and assumed as paid.

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Penalty and interest accrues on the unremitted taxes to the government beyond the date of remittance and is based on 10% of the unpaid/unremitted sum with interest at prevailing bank rate, usually at 21%.

The Direct Assessment filers on the other hand are taxpayers that are self-employed and who are required to self-assess their incomes to tax. They also have up till March 31st of every year following the year in review to file their self-assessment to the relevant tax authorities. Early filers under the administration of this scheme enjoy a 1% bonus for filing

1%

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Company Income Tax

The Companies income tax is an instrument of the creation of law by the National Assembly for purposes of imposition of taxes on the income or profits of corporate entities in Nigeria. For this to apply, the corporate entity must be carrying on business in Nigeria, whether resident or non-resident, even though conflicting judgements subsist around issues on who actually carries on business in Nigeria for the purpose of subjecting non-resident companies to Nigerian tax.

Rates of Companies Income Tax

The Companies Income Tax has understandably witnessed changes overtime in terms of the tax rates. The tax rate was 40% on profit in excess of N6,000 as at 1st April, 1975 to 31st March, 1976 while it was notched up to 45% and 50% in 1978 and 1979 respectively.

This was however reduced by 5% with effect from 1st April, 1979 to 31st December, 1986 which equally witnessed the removal of the N6,000 threshold. The rate further came down by a further 5% to 40% effective 1st January, 1987 and settled at 30% from 1996 not before it was reduced to 35% in 1993.

National Tax policy and role of Tax Incentives for development

Tax Incentives are special exclusions, exemptions, or deductions that provide special credits, preferential tax rates or deferral of tax liability. Tax incentives can take many forms including tax holidays for a limited duration, current deductibility for certain expenditures or reduced import tariffs or customs duties.

Tax incentives in Nigeria generally take the forms of reducing the effective tax rates applicable to a target sectorial beneficiary, reducing risks attached to investment and thereby increasing the rate of return.

The policy direction such tax regime engenders particularly as those contained in the current

creation of law by the National Assembly for purposes of imposition of taxes on the income or profits of corporate entities in Nigeria. For this to apply, the corporate entity must be carrying on business in Nigeria, whether resident or non-resident,

40%

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National Tax policy document include

Incentives codified in single legislation
Incentives tailored towards specific macro-economic targets
Incentives must be sector focused
Incentives must be time bound

While the reality is that security, currency convertibility, political stability and market or source of raw material supply weigh higher on an investor's scale of preference than fiscal incentives; experience in developing countries have shown that tax holidays are susceptible to tax planning and are also avenues for tax avoidance schemes.

In Nigeria, experience has shown that many of the "infant industries" hardly grow to adulthood as tax incentives are used for tax planning (like tax shelters) to minimize tax burden. Poor infrastructure, insecurity and poor governance and corruption are also fundamental problems in Nigeria. Without concerted effort in these areas, efforts on other fronts, however sound, would be frustrated.

Useful tax incentive schemes include:

Tax Holidays for the newness of product
Low tax rate
Accelerated Capital Allowances
Investment Allowance
Investment Tax Credit (ITC)
Joint Venture and
Production Sharing

The strategy has been to use these instruments to entice business capital into favoured sectors of the economy. The target sectors and the instruments also used to achieve these are in the following areas:

Spare Parts Fabrication: 25% ITC on QCE for wholly engaged companies;

TAX

Experience in developing countries have shown that tax holidays are susceptible to tax planning and are also avenues for tax avoidance schemes.

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Poor infrastructure, insecurity and poor governance and corruption are also fundamental problems in Nigeria.

Export: Profit from supply of intermediate goods for manufacture of goods for exports are tax exempt

Export Processing Zone (EPZ): Approved enterprises are exempted for all Federal, State and local government taxes, levies and rates

Petroleum operations: JVC and PSC tax regimes provides for a lot of incentives

Mining of Solid Minerals: 3 year tax exemption is applicable to new investment

Managing Tax Incentives for Business Growth and national development

Objective of tax incentive program must be set forth with government carrying out the following:

Government should estimate the anticipated costs and benefits of the incentive programme in a manner similar to other types of tax expenditure analysis

Incentive programme should be designed to minimize the opportunities for corruption (Approval process and utilization)

Tax incentive regime should have a definite "sunset" provision to allow for a determination of the merits of the programme.

Government should carry out periodic assessment of success or failure of each incentive programme

In a bid to give legal backing to tax policy however, there is always the need to crystalize its tenets in tax laws enacted by the National Assembly. Tax policy also provides the kennel on which sound and well thought through tax laws are built for growth of thriving businesses.

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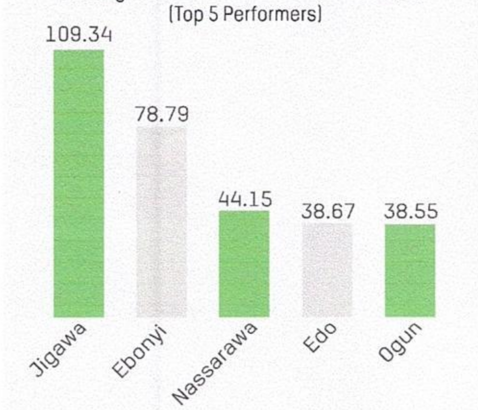
3
REVENUE PERFORMANCE
OF TAXES IN NIGERIA

The informal sector is of vital importance to the promotion of the socio-economic development of Nigeria. Over 90% of the workforce in Nigeria operate in the informal sector and this makes the informal sector a key contributor to Nigeria's economic growth and also a powerful tool in the fight against poverty.

States Internally Generated Revenue

Average Annualised Growth rate of IGR (%)
(Top 5 Performers)



90%

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Revenue Performance of Personal Income Tax Act in Nigeria: The Lagos Model

Between 2000 and 2010 Lagos State increased tax revenue from N600 million to N20 billion, and it is currently the only state in Nigeria to have achieved fiscal independence, to a large extent with its Internally Generated Revenue per population put at N24,295.84 as at 2014.

The huge increase in revenue is predominantly made up of the state's internally generated revenue, which includes personal income tax, land sales tax, transfer fees and car licenses.

Lessons that can be gleaned from the Lagos experience include:

1) Strong economic growth contributing to the rise in tax collected between 2000 and 2010,

2) Growing middle class of educated people in the state expanding the tax base,

3) The Lagos State Internal Revenue Service (LIRS) also took steps to reach the large informal sector by transforming the membership bases of informal trade associations into tax bases, and by employing women to promote dialogue with women's market trade associations in order to collect tax.

4) LIRS has worked to reduce corruption by requiring payments to be made through banks (rather than in cash), and to increase compliance through education and penalties.

5) It has also increased the number of tax field officers from 300 to 6000 staff to educate citizens, register new tax payers and assist them in making payments.

20bn

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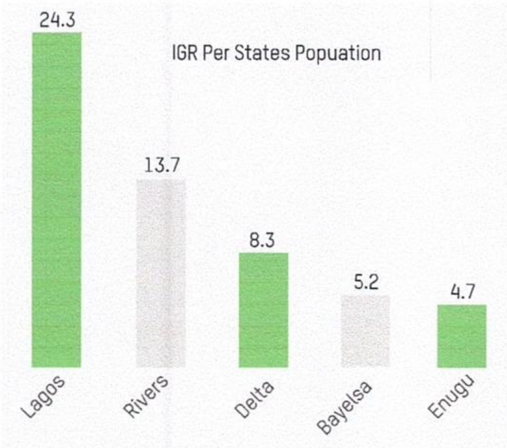
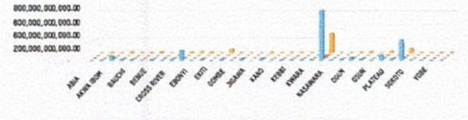


States Internally Generated Revenue Mix 2008-2014



Lagos IGR and Lessons for other States

Lagos is reckoned as Africa's fourth largest economy dominated by manufacturing, transport and services, and construction sectors with a GDP size of about US$131 billion.

The tax compliance rate is put at approximately 56%, with active taxpayers constituted by 8% of the public sector, 7% of organised private sector and 18% of the informal sector.

Specific reforms undertaken by the state include administrative and financial autonomy for the State Internal Revenue Service, freedom to hire skilled technicians, investment in technology, tax Simplification, ease of collections and payments, revenue automation, establishment of 36 LIRS tax stations that issue automated receipts, 40 mini tax offices in major markets assisting with taxing the informal sector (an Informal Sector Unit is on ground to meet the particular tax assessments of professionals in private practices) and establishment of annual Tax stakeholders' conferences held regularly.

Others include constant taxpayer education and enlightenment campaign, enforcement, training for tax officers, issuance of notices, distraint tax defaulters' assets; prosecution of tax defaulters by the State, among others.

Monthly vs Annual Aggregate Incomes' Charge to Tax

It is worthy of note that the PITA, LFN 2004 (as amended) requires that taxes be paid on wages, salaries, gains and profit from employment. It further sets out to provide annual consolidated reliefs against such incomes assessable to tax.

This nominal recognition of relief against annual aggregated income therefore presupposes that total income, however incremental, is summed up and assessed to tax, annually.

$131bn

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8%

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36

36 LIRS tax stations that issue automated receipts, 40 mini tax offices in major markets assisting with taxing the informal sector (an Informal Sector Unit is on ground to meet the particular tax assessments of professionals in private practices)

income therefore presupposes that total income, however incremental, is summed up and assessed to tax, annually.

Tax calculation

A Taxpayer's employment contract indicates that he earns N1,200,000 per annum asides bonuses and overtime allowances. This is a N100,000 per month gross income to the employee. Where such employee clocks 5 hours in overtime in a particular month during the year, the employee earns additional N17,500 for the month to which the allowance relates.

The question therefore arises if the employees monthly or annual aggregate income is taxed as both do not produce the same result for reasons that can be seen below:

Taxpayer's pay check:

Gross Income:	1,200,000.00
Add: Overtime	17,500.00
Total	1,217,500.00

Assuming the other 5 reliefs, as granted under the law is not in contemplation here, this translates to a tax payable as:

Taxable Income: 0.8(1,217,000)-200,000
= N773,600

Therefore:
Tax payable: 0.12(1,217,000)-66,000 =N80,040 p.a. and N6,670/month

However:
The monthly income tax of this employee determines tax only to the month the taxpayer earned a higher wage/salary, therefore, the company determines tax payable in the following manner:

For the month to which the overtime relates:

Tax payable: 0.12(1,217,000) -66,000
=N80,040p.a. and
N6,670/month

For the other 11 months:
Tax payable: 0.12(1,200,000) - 66,000 =N78,000 p.a. and N6,500/month

N1.2m

A Taxpayer's employment contract indicates that he earns N1,200,000 per annum asides bonuses and overtime allowances.

Whilst the sum of tax from the annual aggregate income of the taxpayer is

N6,670 x 12: N80,040 p.a.

What is actually collected and remitted is

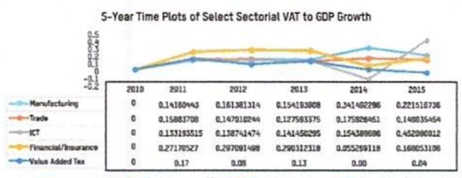
N71,500 + N6,670: N78,170 p.a.

Shortfall: N1,870 p.a.

Value Added Tax and Government Revenue

The Value Added Tax (VAT), as a tax type, is an important flow of revenue generation for the Federal Government. By virtue of Section 7 of the Federal Inland Revenue Service (FIRS) Act 2007, the FIRS is mandated to administer the Value Added Tax Act and collections thereto while its vertical distribution is in accordance with a 15-50-35 sharing formulae to Federal – State – Local government respectively at the end of collections by the relevant agency of government.

Legally, the rate approved in all ramifications, at present in Nigeria is 5% on all VATable goods and services.



	2010	2011	2012	2013	2014	2015
Manufacturing	0	0.14160443	0.161381314	0.154193808	0.341402286	0.221516736
Trade	0	0.15883708	0.147010244	0.127593375	0.175928451	0.148035454
ICT	0	0.133193515	0.138741474	0.141450295	0.154389686	0.452080012
Financial/Insurance	0	0.27170527	0.297091489	0.290312318	0.055269118	0.168053106
Value Added Tax	0	0.17	0.08	0.13	0.00	0.04

Below is a 5-year time plot of VAT growth by some select sectors.

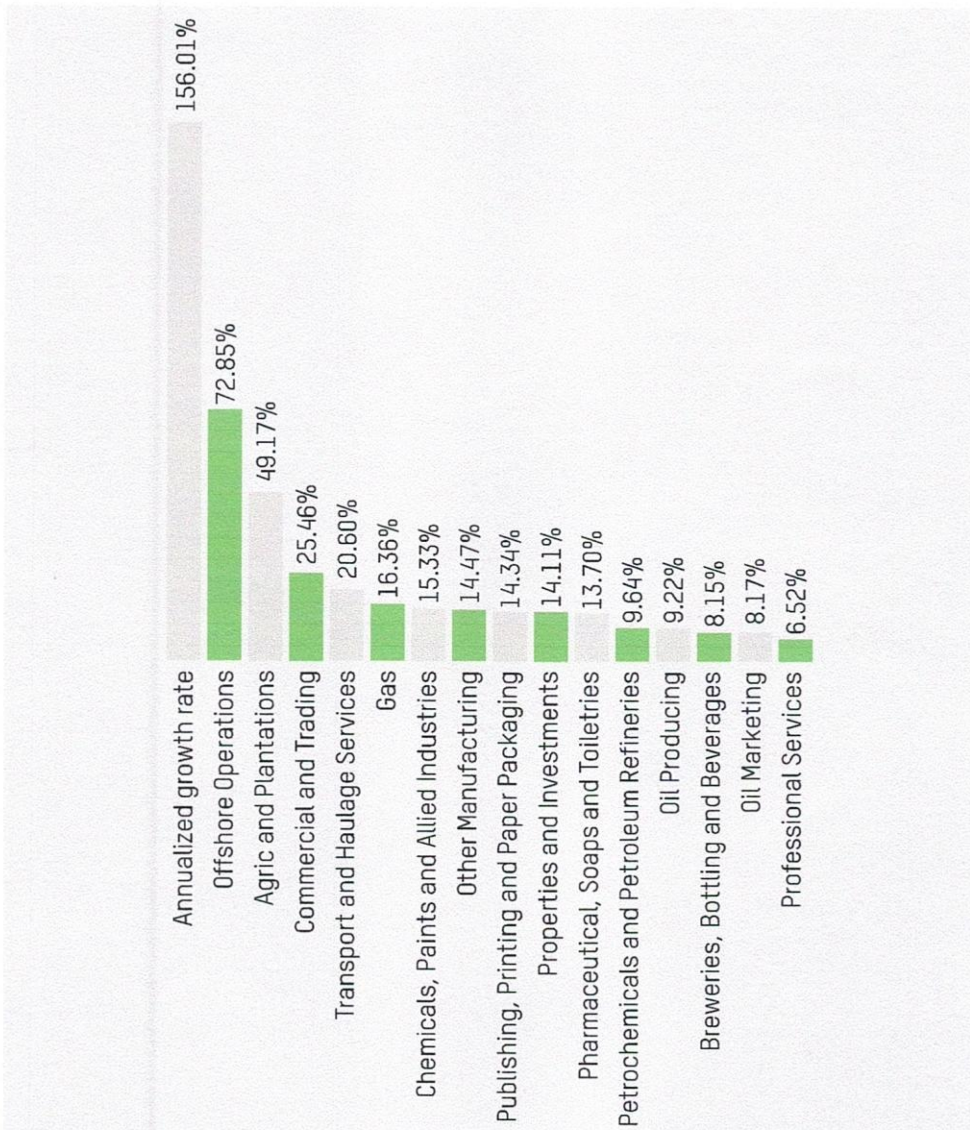
Growth Trajectory of Education Tax, Company Income Tax, Petroleum Profits Tax and Value Added Tax

The year on year growth of education tax, company income tax, petroleum profit tax and value added tax are presented below. The growth has been on a spiral compared to Company income tax and value added tax and begins to taper off beyond 2014.

The Value Added Tax (VAT), as a tax type, is an important flow of revenue generation for the Federal Government.

5%

Legally, the rate approved in all ramifications, at present in Nigeria is 5% on all VATable goods and services.


Annualized growth rate 156.01%
Offshore Operations 72.85%
Agric and Plantations 49.17%
Commercial and Trading 25.46%
Transport and Haulage Services 20.60%
Gas 16.36%
Chemicals, Paints and Allied Industries 15.33%
Other Manufacturing 14.47%
Publishing, Printing and Paper Packaging 14.34%
Properties and Investments 14.11%
Pharmaceutical, Soaps and Toiletries 13.70%
Petrochemicals and Petroleum Refineries 9.64%
Oil Producing 9.22%
Breweries, Bottling and Beverages 8.15%
Oil Marketing 8.17%
Professional Services 6.52%

Present VAT collection effort at the current rate of 5% reveal that annual revenue from VAT could top N950 billion by end of fiscal year 2020 going by its current trend. This is further buttressed by a strong coefficient of determination. What is more is the fact that a 2-period moving average provides a minimal deviation of the VAT collection results from their actual values even though it shows a sticky movement of VAT collection beyond N800bn at the end of the next 5 years.

This is reflective of this forecast tool and the present economic downturn which has impacted all economic strata.

N950bn

Present VAT collection effort at the current rate of 5% reveal that annual revenue from VAT could top N950 billion by end of fiscal year 2020 going by its current trend.

5
FINDINGS

The findings of the study may not come as a surprise for some while greeted by bewilderment by others. It however provides lucid explanation as to the tepid response the push for financing development has continued to receive from taxpayers overtime.

Ordinarily, an employer of labour has nothing to do with the Personal Income tax other than to deduct the relevant amount due the tax authorities and remit same without further delay. Experiences however show that management policies and practice may impact the efficacy of this remittance one way or the other.

Experiences however show that management policies and practice may impact the efficacy of this remittance one way or the other.

This was therefore the raison d'etre for the commissioning of this assignment and for which the result of the findings are now presented thus:

1) The Value Added Tax is a tax type that is capable of yielding revenue in trillions for the government if properly administered and if the informal sector is reined in.

VAT is a tax type that is capable of yielding revenue in trillions for the government if properly administered

2) There exists two incomes upon which taxes are calculated at the point of deduction and payments i.e. one during the year and another at the end of the year with both arriving at different results.

3) Conduciveness of business environment impacts the behaviour of t a x p a y e r s , especially the self-employed vis-à-vis whether to remain in the informal sector of voluntarily declare the incomes for tax purposes.

4) The Personal Income Tax Act, LFN 2004, as amended, readily places punitive measures on the chargeable person i.e. the companies where they fail to deduct and remit or file returns but does not reward them when they do right by the tax system.

5) State Revenue autonomy, both financial and administrative, is sine-qua-non to accelerating the process of helping revenue to become more professional minded and result driven.

6) Inadequate enhancement of capacity stifles growth path of revenue as revenue Officers are only as good as the last training they received in aid of ensuring proper dispensation of assigned tasks.

5.1 Recommendations

1) States must therefore leverage the provisions of Paragraph 10 of the Operation of Pay As You Earn (PAYE) Regulations [S.L. 18 Of 2002. 1993 No. 104e.] Under Section 80 (6) of the Personal Income Tax Act, LFN 2004, as amended. A good place to start is by the establishment of a taxpayer registry and taxpayer enumeration at the various States.

2) Government must do all within its means to make the business case for a conducive and congenial business environment as a catalyst for encouraging business to self-report their incomes and pay the taxes thereon.

3) Demand for tax clearance from individuals and businesses as well as ensuring that artisans and vocational skilled workers are registered under associations within the remit of the relevant tax authorities would assist in expanding the tax net and grow

Demand for tax clearance from individuals and businesses as well as ensuring that artisans and vocational skilled workers are registered under associations within the remit of the relevant tax authorities

State revenue base.

4) The Government must evolve ways of making chargeable persons feel like value contributing agents of the tax collection process rather than vilifying them unduly.

5) It is recommended for all cadres of staff o f State Revenues to undertake training overtime to bring them up to speed regarding current fiscal issues and familiarity with amendments to the tax laws for effective dispensation of their assignments.

It is recommended for all cadres of staff of State Revenues to undertake training overtime to bring them up to speed regarding current fiscal issues