

**PROBLEMS AND PROSPECTS OF PERSONAL INCOME TAX
ADMINISTRATION
CASE STUDY: ADAMAWA STATE BOARD OF INTERNAL REVENUE**

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DECLARATION

I hereby declared that this research project was written by me and that it has not been presented in any form for MBA Degree elsewhere. All authors cited and quotations are duly acknowledged.

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APPROVAL PAGE

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DEDICATION

This project is dedicated to God Almighty the giver of all knowledge, wisdom and understanding who made it possible for me to indulge in this program.

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To God be the glory for keeping me alive and giving me the strength, good health and determination to embark on the project.

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ABSTRACT

This research examined the problems and prospects of personal income tax administration, the procedure adopted and the achievement so far made between 2005-2009. The major aim behind this study was to identify the problems hindering the efficient and effective administration of Personal Income Tax in Adamawa State and also to look at the future prospects of this administration in the State. To achieve the objectives of the study, Adamawa State Board of Internal Revenue was taken as a case study. Questionnaires were served to the management, employees (tax officers/inspectors) and taxpayers. Similarly, inter view was conducted with the staff and responses obtained were tested and analyzed with the aid of binomial distribution model. Findings from the analysis reveal that there are traces of inefficient administration of Personal Income Tax and continuous declining of personal income revenue in the State. To address these problems, useful recommendations were made aimed at making Personal Income Tax collection machinery and administrative organs as efficient as possible. Some of the recommendation made include, improvement of staffing, provision of adequate funding to the Board, proper books of accounts of business should be kept and audited annually, enlightenment of taxpayers on the importance of revenue generated, organizing seminars and workshops to tax officers and taxpayers.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The history of direct taxation in Nigeria dates back to 1904 when the system of personal tax was introduced in Northern Nigeria by Lord Lugard. The Native Revenue Ordinance was introduced in 1917 also in Northern Nigeria and extended to the East in 1928. The three regions, as Nigeria was previously constituted, had various legislations for direct and indirect personal taxes prior to independence in 1960, Augulu (2004).

It was not until 1961 that a Uniform Tax Law came into force for the whole Federation known as the Income Tax Management Act (ITMA) of 1961. This was based on the recommendations of the Raisman Fiscal Commission of 1958 which was embodied in the Nigeria (constitution) order in council, 1960. The ITMA has been effectively repealed and replaced by the Personal Income Tax Act, generally referred to as Decree No. 104 of 1993. The Personal Income Tax Act No. 104 (PITA) regulates Personal Income Taxation in Nigeria, Ola (1999).

Income Tax is one of the major sources of revenue for government in Nigeria, and it is a very important matter of consideration in both the State and Federal budgets. The need for tax collections as one of the avenues seek by government for raising fund is necessitated by the increased magnitude of government expenditure in providing for social amenities and in meeting other need of the society. There are two major types of taxes administered by government according to Ariwodola (2001), and Mark (2006). These are: Direct and Indirect Taxes. The

Direct taxes are those that are levied directly on an individual income while, indirect taxes are levied on products which will eventually affect the final consumers. Personal Income Tax which is the focus of this study falls under the category of direct taxes. Here in this essay, emphasis have been laid upon the problems and prospects of personal income tax administration in Adamawa State.

The revenue collection package seems very attractive but how far has the state gone in achieving its set out revenue collection targets? At the beginning of each fiscal year, every taxable person is expected to submit to the relevant tax authority a true statement of his returns. However, the number of persons who make honest returns is questionable. Experience shows that self employed professionals who have lucrative practices as well as affluent traders and partisans do not even bother to pay their taxes Adejuwon (1998).

The question arising therefore is to what extent can the tax authority depend on the accuracy of these return given? The average Nigerian citizens unfortunately will prefer to cut the value of their income to enable them reduce their tax to the barest minimum. The state government has numerous tasks before it. The existing laws have undergone several amendments with the purpose of improving on the administration of these taxes. However, the effectiveness of these amendments remain questionable over the years, the government has tried different strategies to achieve plausible to no avail, Bariyima and Gladson (2009).

1.2 Statement of the Problem

Over the years, people have been dodging from paying Personal Income Tax. This attitude is peculiar to those in the private sector who find it difficult to declare their annual Income for tax purposes. Even when they do, they under declare their Income to reduce their tax liabilities. Those in the public sector on their part take advantage of the short coming in the Personal Income Tax Act to reduce their tax liabilities. Government overtime has been losing lot of revenue as a result of tax evasion and tax avoidance. There is also the case of collaboration of the tax administrators and tax payers to defraud government of revenue. Based on the foregoing proper assessment of tax liabilities and remittance of same to the government coffers have been a mirage of some to them.

1.3 Objectives of the Study

This research work has the following objectives:

- (i) To identify the methods of collecting personal income tax revenues.
- (ii) To determine how personal income tax revenues are being collected.
- (iii) To highlight the various problems that is militating against personal income tax revenue collection.
- (iv) To examine the various prospects of personal income tax.

1.4 Research Question

The questions are in the form:

1. What are the methods used in collecting personal income tax revenue?

2. How personal income tax revenues are being collected?
3. What are the various problems that militate against personal income tax revenue collection?
4. What are the various prospects is being highlighted in personal income tax revenue collection?

1.5 Statement of Hypothesis

Hypothesis is one of the ways by which the broad problem is reduced to a testable form. Anyanwu (2004).

Hypothesis (H_0) 1: There are problems in the methods of personal income tax collection in Adamawa State.

Hypothesis (H_0) 2: There are problems in determining the personal income tax revenues collection in Adamawa State.

Hypothesis (H_0) 3: There are various problems that are militating against the personal income tax collection in Adamawa State.

Hypothesis (H_0) 4: There are no prospects in the methods of personal income tax revenue collection in Adamawa State.

1.6 Significance of the Study

The study would assist on the existing problems of personal income tax operating system in Adamawa State. The study will be useful to the following areas:-

- (a) **State Government:** It will enable the government to note the prevailing weaknesses of its P.I.T. administration. It will also enable the government to look into the relationship between it, the State Government and tax payers.
- (b) **Individual Tax Payer:** - This study will give the individual taxpayer a fair view of the existing tax law, thereby correcting general misinterpretations that are in place. It will also go further to

attempting a change in the attitude of these persons to the payment of their taxes.

- (c) **Public:** The study will enable the public to ascertain the proportion of revenue collected that is attributable to the assessment of personal income tax so that subsequent edicts enacted by the State Government will be more readily understood and accepted.
- (d) **Research Purpose:** The study will add to the various studies earlier conducted in the area of problems of personal income taxation. It will also be used as a source of secondary data for academic research on similar studies.

1.7 **Scope of the Study**

The study had covered the problems and prospects of personal income tax administration in Adamawa State as a regard to only those deduction of personal income tax at source by employers of work force under PAY-AS-YOU-EARN (P.A.Y.E.) system, direct assessment and income tax of partners in partnership business. The study had looked into all mentioned above for the period of five years (i.e. from 2005 – 2009). A case study of Adamawa State Board of Internal Revenue.

1.8 **Limitations of the Study**

The researcher during the cause of his research work encountered some limitations:-

- (i) **Time Constraint:** This research work has been carried out simultaneously with other academic obligations. Therefore, there was restriction as to the amount of time available for the administration of questionnaires and the collection of data from other secondary sources.

- (ii) **Financial Constraints:-** There was also financial constraint as the researcher could not cope with the cost of covering the whole of Adamawa State.

1.9 Definition of Terms

- i. **Relevant Tax Authority:** is the Revenue Board responsible for the administration of tax laws. The Board of Internal Revenue is the State tax authority responsible for tax assessment and collection due from individual tax payers as personal income tax.
- ii. **Total income:** is the aggregate assessable income of tax payer from all sources for the year of assessment after the deduction of the annual charges.
- iii. **Assessment:** is the process of determining tax payable after which statements of an amount determine a tax is issued to the tax payer in the form of assessment notice.

CHAPTER TWO

LITERATURE REVIEW AND CONCEPTUAL FRAME WORK

2.0 Introduction

This chapter review the pre-colonial period of personal income tax, looked into the background of the area of study (Adamawa State Board of Internal Revenue), persons chargeable to tax and how personal income tax are being collected. It also goes ahead to look into the methods use in collecting personal income tax, the enforcement procedure of personal income tax, problems of collecting personal income tax and its prospects. Lastly, this chapter also considered the importance of personal income tax, the current taxation reforms in Nigeria and its challenges, and the way forward.

2.1 Pre-Colonial Period of Personal Income Taxation

The history of man has shown that man has to pay tax in one form or the other, i.e either in cash or in kind initially to the chieftain and later to a form of organized government. The payment of taxes in Nigeria has developed over the number of years. Before the white men came, there was an existed relative well organized system of direct taxation in the Northern Nigeria under the autocratic rule of Fulani Empires. Nigeria and more particularly Northern Nigeria has a special place in the history of the system of taxation in Africa. In accordance with Islamic injunction by enjoying the devote Muslim to give a portion of their income for charitable or religious purposes provided on a regions basis for taxation in Northern Nigeria, Jumare (1993).

Further more, Northern Emirs with their highly organized and efficient administration facilitates the imposition as well as the collection

of taxes, Abubakar (2008). The major taxes being levied in the Northern part of the country during the pre – colonial period were as follows:-

- a) **Jangali:** Persons liable were cattle owners and were levied on heads of cattle.
- b) **Kharaji or Community Tax:** Were levied on Communities.
- c) **Gado:** Persons liable were deceased individuals and levied on the estate of the deceased to the Emir when there is no recognized successor.
- d) **Gaisam:** Person liable were individual and levy was on general items.

The revenue generated through taxation during this period was not adequate, the fact that there were various types of tax notwithstanding. This had contributed to the irregularity of imposition, arbitrary assessment and lack of well organized communication network. Emirs imposed taxes arbitrary in villages.

In this condition when British came, they made use of them (Emirs) in their administration. The first task of Sir, Frederick Lugard who arrived in the country as a high commissioner for Northern Nigeria was taxation reform. All various traditional taxes were consolidated and brought under a single demand after the harvest and wherever possible in currency instead of in kind, Jumare (1998).

The system of lump sum assessment was improved where taxation existed assessment were made on villages according to their wealth and their ability to pay. The rates of taxes were fixed by the government but the assessment and collection were done by the direct heads. The European officials assessed the annual value of the general tax payment on the land occupied by community and also the jangali, the cattle tax. The proceeds of the general tax and jangali were divided

between the British and the native community. The local authorities were given 50% while central government took 50%.

Ogedengbe (1999) noted that the collections of such taxes were made easy by.

- (a) The fact that the administrative emirates facilitated its collection.
- (b) Islam which enjoins all devout Muslims to give a portion of their income for charitable or religion purposes.

In 1940, the Direct Taxation Ordinance No. 4 of 1940 and the Income Tax ordinance No. 3 of 1940 were enacted to some Nigerians except those in Lagos Township. It provides for the assessment of income of persons, the assessment of income of community and also the assessment of income of cattle. Provision were made for wife and alimony allowance of a maximum of £200.00, an education allowance granted on children of £25 per child up to a maximum of four (4) children. Life assurance premium not exceeding 7% of capital assured was granted allowance. On smaller income, there was a flat rate of £25.

In 1943 a more comprehensive income Ordinance was passed repealing the 1940 Ordinance. The new Ordinance also revised the rate of taxes and higher rates were introduced in certain ranges of income. The income Tax Ordinance of 1943 remained enforce until 1946 since no serious amendment to the tax law no new ones were enacted Ola (1999).

In 1952 when Nigeria became full fledge federation, the responsibility for collection and assessment of taxes passed to the original government but their powers was confirm to the tax of Africa. In 1956 Eastern Region passed the Finance Law No. 1 of 1956. The basis of computation of tax provided in the Finance Law No. 1 of 1956 was basically the same as in the Ordinance of 1943. In 1956 Tax allowances

were provided for married taxpayers, and additional for families with children up to a maximum of three (3) children. It also introduces the Pay-As-You-Earn (P.A.Y.E.) system of taxation. The Eastern Region Finance Law No. 1 became operative in the region on April, 1956 thus ceasing the application of Direct Taxation Ordinance in the region. The Western Region departed with the Direct Taxation Ordinance by passing the Income Tax Law in 1957. The PAYE system was introduced in the region by the Income Tax (Amendment) Law 1961. The Northern Nigeria passed the Northern Nigeria Personal Tax Law 1962. The law formed the basis of personal income taxation in all the States in the former Northern Nigeria.

To work towards uniformity in the taxation laws of the country, the Income Tax Management Act (ITMA) was enacted in 1961. The principles of the main provisions of the Act are applicable to all individuals in Nigeria.

In 1961, the Uniform Taxation Decree came into existence, in order to counter the wide variations in the rates of taxation and personal allowance as provided by separate tax laws in the country. Prior to this Decree, the only common feature with the laws was the provision for Pay-As-You-Earn (PAYE) system of taxation.

There was much diversity in the tax laws of various regions prior to the Uniformity Decree. This led to inter-regional conflict. In an attempt to overcome these problems and ensure non-variance in the tax law, and personal reliefs, a common known as “Raisman Trees Commission” under the Chairmanship of Sir Jeremy Raisman (1958) was setup by the government and was empowered to visualize the taxation system of individuals as a whole. The commission regulates the intergovernmental fiscal jurisdiction and revenue allocation in one with earlier commission setup by that colonial administration. This commission played a

prominent role in the growth of internal revenue in the sense that in its desire to encourage as much as possible the autonomy of the regions (now states). Auguolu (2004). It recommended jurisdiction over the personal income tax. The recommendation were embodied in Nigeria order – in – council in 1960 and formed in basis for the income Tax Management Act 1961 (ITMA). Hence all the legislators were assembled into one document in the ITMA. The ITMA was designed primarily to prevent double taxations and ensure that uniformity treatment and to keep different tax rates and allowances among the regions to a minimum.

In 1962 when the power of assessment and collection of the regional governments was extended in non-Africa, the power was confined to the income of Africans while in the north to which Adamawa State belongs, personal allowance of ~~N~~480 to both male and female taxpayers were granted by the 1962 Northern Nigeria Law. Life assurance was the actual premium paid, subject to a maximum of N600 or $\frac{1}{5}$ of the taxpayer's total income whichever is lower. Allowance was also granted in respect of dependent relatives of any amount spent subject to a maximum of ~~N~~200. Agyeman (1997).

Following the creation of the State in 1976, by the Military government, various ministries were created through which the functions of the State were to be channeled. The ministry of finance, to which the state revenue division belongs, performed the financial functions. The Decree relating to the collections of revenue were incorporated into the state edicts and were applied concurrently.

In 1980 in accordance with the budget considerations of the federal government, personal allowance was granted to individuals with respect to their income levels. Individual at income levels below ~~N~~2,500 were granted ~~N~~600, whereas those above ~~N~~2,500 were entitled to

₦1,200 plus 12.5% of earned income in excess of ₦6,000. added to this was a guaranteed minimum tax provision applicable where an individual relief, and allowances exceed his income or when it is considerable, tax payable should be 1% of earned income or tax in accordance with the schedule rate which ever is higher. Children allowances were also granted to a widow who remarries in relation to the deceased husband children subject however to a maximum of four (4) children. A withholding tax of 12.5% was introduced on both gross rents and dividends paid to the beneficiaries. In 1985, Decree No.4 promulgated by the federal government was incorporated into the State Edict, relating personal allowance granted to individuals. Hence, for trial purposes of computing allowances, individuals in an earned income category of less than ₦2,500 were granted allowance of N1200 or ₦600 plus 12.5% of earned income in excess of ₦6,000.

2.2 Background of the Area of Study (Adamawa State Board of Internal Revenue)

The Adamawa State Board of Internal Revenue was not in existence until the enactment of edict No. 1 of 1987. the Board is responsible for the collection of all government revenue as well as rendering services in the State and is functioning as a division in State Ministry of Finance before the enactment of edict No.1 of 1987. the Decree No. 104 of 1993 section 85A sub – section two (2) stipulate the composition. The State Board shall comprise:-

- a. The Executive Head of the State Service as Chairman, who shall be a person experienced in taxation and can be appointed by the Governor from within the state service
- b. The Directors and Heads of Departments within the State Service (Board of Internal Revenue).

- c. A Director from the State Ministry of Finance
- d. A Legal Adviser to the State Service.
- e. Three other persons nominated by the commissioner of Finance base on their own personal merit and
- f. The Secretary of the State Service who shall be an ex – officio member.

The Board is vested with range of power for the efficient performance of its statutory duties as stipulated in the edict. These include.

- a. The power to acquire, hold and dispose of any property taken as security for or in satisfaction of any tax of penalty.
- b. Sue and be sued in its official name.
- c. Grant the right of installment payment to tax payer.
- d. Extend in its discretion, the time within which to pay tax under CIMA.
- e. Authorize any person to accept service of any document to be sent, served upon or delivered to the Board.

The main duties of the Board include:

- a. Ensuring effectiveness and optimum collection of all taxes, penalties due to the government under the relevant laws.
- b. Making recommendation where appropriate to the Joint Tax Board on tax policy, tax reform, tax legislation, and exemption as may be required from time to time.
- c. Appointment, promotion and discipline of employees of the Board.
- d. General control of the management of the Service/Board on matter of policy, subject to the provision of the law setting up the Service/Board. Tabansi. (2001).

2.3 Persons Chargeable to Tax

Tax is payable on anything that can be described as income and it is payable on each year of assessment on the total income. The following persons are chargeable to tax.

- i. An individual is chargeable to tax for the year of assessment of the individual taxable income for that year.
- ii. An income of a partnership, but the income of a partner from partnership is chargeable to tax in the hands of the partner concerned.
- iii. An executor is chargeable to tax on the income coming to his hands from the estate of a deceased individual if such income is not otherwise disposed and assessed in the hands of named beneficiaries.
- iv. Where a trust settlement is established and any income accrued from the trust or settlement. The trustee is chargeable to tax on that income.
- v. An infant or any disable individual is liable to pay tax on any income received by him or her.
- vi. Tax may be charged on income of a village, community or family, especially where it is not practicable to ascertain income of the individual members of that village, community, family as the case may be.

Under the provision of personal income Tax Decree 1993 (P.I.T.D.). The following persons are not chargeable to tax:-

- i. Person employed in the Nigeria Army, the Nigeria Navy, the Nigeria Air force, the Nigerian police force other than in a civilian capacity.
- ii. Every residents of the Federal Capital Territory (F.C.T) Abuja.

- iii. A person residents outside Nigeria who derive profit or income from Nigeria.
- iv. Officers of the Nigerian foreign services

An individual can only be assess to income tax only in the State where is due to be resident before the year of assessment. The resident factor is of paramount important in determining whether or not an individual is liable to income tax. Income tax is chargeable on all income arising in Nigeria, and in addition, an income arising outside Nigeria depending on the resident's status and on certain cases the domicile of the individual Auguolu (2004), and Bariyima (2009).

2.4 How Personal Income Tax are being collected

Assessment is the process of determining tax payable after which statements of an amount determine a tax is issued to the tax payer in the form of assessment notice as said by Ariwodola (2001). There are two bases period on which assessment can be based. It could be on actual year basis in which case the year of assessment is based on the income of the taxpayer for the same year or proceeding year basis, in which case tax is payable on the income of last year. Income assessed on proceed year basis are mainly on self – employed persons income from trade, business, profession or vocation, dividend, interest, rental income and so on while that on actual year basis is mainly on employment income such as salaries and wages.

2.4.1 (A) Self – Employed Assessment

On each year of assessment which is 1st January of every year, “Income Tax Declaration form A” is sent to taxpayer to fill determining a true and correct statement of their income from all sources for the year which ends 31st December, every year. Detail of allowances and relief's

that taxpayer wishes to claim must be indicated in the form according to Tabansi. (2001).

The assessment raised in self employed person must be paid by them within three months after the date of the notice of assessment. If the tax payer disagrees, he must object to the assessment within three months stating specifically the reasons for his disagreement. The Director may accept such objection and raised a revised assessment or reject the issue a notice of refused to amend such assessment this according to P.I.T Decree of 1993: Ariwodola (2001).

Generally, assessment of self – employed individual is based on the information supplied by the taxpayer as the tax official cannot accurately determine their income. Such information supplied may be accepted and therefore assessment base on it, or rejected. The commissioner may refuse to accept the returns if he reasonably believed that the income of the taxpayer has been understated considering his circumstances. The commissioner will then proceed to raise assessment using his Best of Judgment (B.O.J.) to determine the amount assessable total or chargeable income of such individual.

2.4.2[B] Pay-As You- Earn Assessment

This is the system whereby tax is deducted at a certain rate from employee's income at The source of payment. The PAYEE deduction is made by the employer on the remuneration, bonuses, commissions, direct fees and so on, paid to his employees and pensioners. The burden of taxation under this system is spread over twelve (12) months as payment is made install mentally. However, the PAYE Scheme can be operated if the employer is so directed by the Director of Internal Revenue Board as stipulated. At the beginning of each year of assessment, employees are required to compute "income for declaration

forms” and to submit the forms to the relevant tax authorities for coding. On the completion of the coding of an employee, form will forward to the employee a notice of his coding showing how his total personal and other income for the year have been arrived at: the amount of the relief will also be entered on the tax deduction card of the employee to the employer for tax deduction every month.

Under this system, PAYE is deducted at source by the employer who had been directed by the Director of Internal Revenue Board on payment made by him on the employee with respect of any emoluments, such deduction shall be paid to the revenue Board before the 10th day of the following month after deductions. The amounts of tax which the employer has to deduct for every month depend on:-

- a. The employee total gross pay since the beginning of income tax year.
- b. The income tax allowance and
- c. The total deducted on previous pay days for each month.

The employee first works out of the pay to the employer and then adds to that pay the total of and previous payments made to the employee from first January to date and then subtract the gross pay to date the resulting figures is taxable pay to date. In the tax table which shows the total tax due to date of any figure of taxable pay. From the figure already deducted; the remainder is the amount to be deducted from the employee’s gross pay for the month in question.

Where the tax already deducted exceeds the total shown in the table refund will be made by the employer within the income tax year without further reference to tax office. Other cases of refund in respect of which applications are received from the employee’s after the end of the tax year will be processed by the office.

2.5 Methods of Collecting Personal Income Tax

We have two methods of collecting Personal Income Tax. The actual year basis and the preceding year basis. The preceding year basis, in which case tax is payable on the income of last year. Income assessed on preceding year basis are mainly on self-employed persons income from trade, business, professional, dividend etcetera and the actual year basis in which case the year of assessment is based on the income of the taxpayer for the same year and is mainly on employment such as salaries and wages.

2.6 Enforcement Procedures of Personal Income Tax

An objection can be made by the taxpayer if he is aggrieved by the assessment made on his income. If he cannot come into terms with the revenue Board, the taxpayer has a right to appeal to an independent provision tax appeal committee. First such appeal must be made to the “Area Appeal Committee” and then to the “Central Tax Appeal Board” if he is not satisfied of the outcome. In addition, he has the right to appeal to “High Court” which is the final arbitrator, if he still disagrees. The “Independent Appeal Tribunals” can be confirm or reduce or amend the assessment considering the evidence and argument presented before it as described in Adamawa State Board of Internal Revenue (2000) report: Adesola (1998).

The director of the Board of Internal Revenue may institute court action against tax defaulter in a court of competent jurisdiction. The court includes the native court, magistrate court and high court. The full cost of the suit is recoverable from the person charged as a debt due to the government as stated under section 92 of Personal Income Tax Decree 104 of 1993 and Neil (2010).

Another means of enforcement is the power to distrain of property of the tax defaulter by the Director of the Board as in section 42 of the Decree. The Decree in addition imposes 100% penalty on the taxpayer if he fails to pay the tax due within the specified period section 42 of the same decree accords.

In order to ensure that person's liable to tax pay/settled their tax liabilities, the Tax Clearance Certificate (TCC) was introduced in the early 1970's it is mandatory on anyone who has anything to transact with the government or simple issue like traveling abroad to present TCC for the past three (3) years. In itself issue of a certificate will not have any marked on the extent of tax evasion but because of the wide variety of relatively ordinary events requires the production of TCC for in proceeding three years. This issue of production (TCC) had of course occurred during the second and third republic where politicians were asked to produce (TCC) for some years before they could stand to contest for any election as stated in Nigeria taxation by Ola (1999) and Bariyima (2009).

2.7 Problems Engendered by Erratic Review of Tax Laws

Due to the erratic and untimely review of tax laws, some problems developed. These problems were noted by Ukwari in his book the "History of Nigerian Fiscal Policy" (1998) and also William (2000) some of these problems mainly caused by changes in government. The problems are as follows:-

- i. The ITMA was enacted to bring in uniformity, but it was unable to achieve this objective. Instead, it brought about another complicated problem with regards to the rates payable. Additionally, "it was merely reduced the severity of the evil of total

regional autonomy in the income field”. This is so because, the act could not go beyond the power bestowed in it by constitution.

- ii. The Decree No. 51 that was enacted in 1992 brought about contentions in the armed forces. Therefore bringing about the enactment the rates of tax payable by those affected.

Ola (1999) also noted additional problems brought about by the reviews.

- (a) Due to these review, the taxpayers have taken advantage of the loopholes found in the tax law to create ways in which they can avoid taxes. This is because the reviews are done within short time space with respect to the authority of leading authority of the time.
- (b) The frequent review of the tax laws have brought about a situation where the tax officials take advantage of the frequent changes to extort money from the taxpayers who are ignorant of the tax rate changed and the allowances claimable. Subsequently it has brought about the distrust from the taxpayers in the administration system of the country.

The reviews are carried out by different governments who have different programs in mind. Some of these problems only take into account the objectives of the program at hand without really considering the economic situation of the country.

2.8 Problems of Collecting Personal Income Tax

Parthasarathi (2004) and Pablo (1990) enumerated the following as those problems encountered by the tax official when administering personal income tax.

- i. **Low voluntary compliance:-** This low voluntary compliance reduces income tax coverage and revenue: There is a great difference in the income tax paid by self-employed persons and total aggregate of self-employed persons. The system of tax collection from self-employed persons is such it gives allowance for tax avoidance. Attempts to enforce these on individual, the problems of identification of tax evaders and determination of their true taxable income.
- ii. **Problems of inadequate communication facilities:-** There is a poor communication link between the taxpayers and government such that these taxpayers are not conversant with current tax laws.
- iii. There are difficulties in locating the tax payers and determining their assessable income. The problem of identifying taxpayers and those who are to be categorized as self-employed also comes about.
- iv. **Staffing problems:-** There is a shortage of qualified and trained persons. Therefore, collection efforts are retarded and this induces a large amount of uncollectible taxes.
- v. **Tax Avoidance:-** This involves using the tax laws to limit (minimize) his tax liability. Example, reducing one's income, and increasing the number of his children.
- vi. **Tax Evasion:-** Is a fraudulent, dishonest or concealment of facts and figures with the intention of avoiding the payment of or reducing the amount of tax otherwise payable. Example failure to submit returns, failure to pay tax etcetera.
- vii. **Collaboration by Tax Administrators and Tax Payers:-** There is also the case of collaboration of the tax administrators and tax payers to defraud government of revenue.

2.9 Prospects of Personal Income Tax

Bariyima and Gladson (2009), Ankita (2009): the prospects are:

1. The tax authorities should properly review and evaluate the assessment and collection procedures so as to encourage compliance by the taxpayers. The usual practice of reprinting parts of the tax laws and sending same to the taxpayers expecting that they should understand is not encouraging since these laws are written in legal jargons or terms that are not easily understood. Moreover, tax forms should be made less complex. Vast improvement can be made by improving the design of the forms.
2. Government should embark upon other means of publicity such as radio messages, television advertisement, post bills as well as the use of town criers to inform taxpayers of changes in tax legislation and need for compliance.
3. Suitable personnel should be recruited and Revenue personnel generally trained and retrained to cope with the demands of the job. Staff should also be motivated through good salary package to insulate them from fraud and other corrupt practices.
4. The setting up of Revenue Courts should be embraced by the various state governments. These Courts should be made to impose heavy monetary penalties and criminal sanctions.
5. The handling of tax clearance certificates should be well decentralized such that neither the assessor nor the collector can issue tax clearance certificates. The Audit Unit of the Authority should be strengthened to always audit tax remittance by collectors at all levels. This measure will go a long way to curb corrupt practices among tax officials.
6. A legislation compelling banks to inform the tax authorities, on request of any income standing in the account of any taxable

person (especially the self-employed taxpayers) should be put in place by the various state governments.

7. Government should endeavour to provide social amenities to all nooks and crannies of the state (not just the state capitals alone), provide employment opportunities to all by the judicious use of tax proceeds. In this way all will feel belong thereby encouraging voluntary compliance.
8. A census of the taxable population should be conducted throughout the various states. This will now update the tax register so that at any given point in time the tax office can give details of taxable adults and businesses thus reducing the incidence of tax evasion.
9. Since majority of the people are poor tax evasion becomes inevitable. Government should therefore aggressively tackle the inflationary trend and also ensure that the poor pay very minimal tax.

2.10 Personal Income Tax Increase would Discourage Business

Charles (2009), said that our representatives need to start to understand that increasing the state Personal Income Tax will only drive business away as good employees will not want to work in that State. He added to look at employee not there, the entrepreneurs need to look at employee layoff or permanent cuts. They may need to cut benefits, positions and relax work rules to help the state. All state workers (more especially private sectors) may need to take a pay cut. This could include payroll freezes, non-replacement of open positions in order to limit their future expenses.

2.11 Importance of Personal Income Tax

Personal income tax plays a vital role in the national economy. It is the major sources of revenue of the government. In addition, it is also a means of achieving the social and economic objectives as laid down in the constitution. Wataru (1998) and Charlotte (1994).

Regional economic imbalance is reduced by providing incentives and concession in income tax for starting industries. Basically, personal income tax as a source of revenue has become an effective instrument to ensure balance socio-economic growth Bernd (2006).

2.12 Current Taxation Reforms in Nigeria

In 2002, a study Group (the SG) was inaugurated to review the entire tax system in Nigeria. The terms of reference included:

- a. Review all aspects of the Nigerian Tax System and recommend improvements therein.
- b. Review the entire tax administration and recommend improvements in the structure for the whole country.
- c. Consider measures to bring international developments in tax administration to bear in Nigeria, Abubakar (2008).

In 2004, a Working Group (the WG) was inaugurated to review the report and recommendations of the SG. – The WG agreed with the SG's recommendations for a National Tax Policy and recommended the creation of an autonomous National Customs & Revenue Authority to assimilate all tax administration powers and duties with funding from retained tax revenues. The WG also reviewed each SG proposed modification to existing tax laws and provided comments thereon. They include, strengthening of Tax Administration, proposed prioritized strategies for implementing the proposed reform and passage of new tax

Bills. Subsequent to the report of the WG in 2004, the government has presented the following tax legislation to the National Assembly:

- i. The Federal Inland Revenue Service Act to establish the agency as an autonomous body and guarantee its funding from a percentage of retained tax collections.
- ii. Amendments to the Personal Income Tax Act, Companies Income Tax Act and the VAT Act.
- iii. For the most part, the amendment Bills reflect the recommendations of the SG and WG. 7

It is expected that the new tax legislation will be passed into law by 2006, however, today, 4 out of the 8 Tax Bills, namely; Bill for an Act to establish the FIRS as an autonomous Service, Bill for an Act to amend the Companies Income Tax Act, Bill for an Act to amend the Petroleum Profit Tax and Bill for an Act to amend the National Automotive Council Act have been passed by the National Assembly and signed into laws by President, Olusegun Obasanjo, on April 16, 2007, while the remaining four Tax Bills are still at the fiscal debate stage of the parliament, Abubakar (2008).

2.13 Challenges Affecting the Current Taxation Reforms in Nigeria

A thorough examination of the current national taxation policy reveal that it is comprehensive when compared with earlier attempts at designing a policy. However, there are some perceived challenges that this draft is likely going to face because of the experiences of past taxation laws.

These challenges are as follows: Abubakar (2008).

- a. **Administrative Challenge:** Experience has shown that the institutional capacity to administer taxes effectively is woefully lacking in this country. Procedures, reinforced by third party

audits, appear to ensure that taxes are paid and received albeit with potentially serious and costly internal lags. However, Nigeria lacks capacity to assess the reasonableness of the returns submitted by taxpayers, including costs and staffing, skills, pay scales, and other funding, and computer and Information Technology (IT) infrastructure. Meanwhile the current draft has not put in place an administrative strategy.

- b. **Compliance Challenges:** A recurring problem with PIT Nigeria is the non-compliance of employers to register their employees and to remit such taxes to relevant authorities. To address this, in 2002 the government amended the 1993 PIT Act to make non-compliant employers liable to penalties up to N25,000, as well as liable for the payment of all tax arrears. Employers failing to keep proper records would also face a penalty of N5,000. A fine this small tends to encourage tax evasion since the penalty for being caught is lower than the cost for non-compliance. The issues of unremitted funds from the PAYE system and withholding taxes particularly among government ministries and agencies as well as lax adherence by all three levels of government to the approved list for (tax) collection, as stipulated by the 1998 Taxes and Levies Act 21, have over the past five years attracted the attention of Joint Tax Board (JTB). This same issue of compliance was not properly addressed in the draft national tax policy.
- c. **Lack of Equality:** Tax in Nigeria especially (PIT) Personal Income Tax always fails in Nigeria for lack of equitability. Even the present draft sent to the National Assembly could not provide solution to this challenge. In spite of the fact that the self-employed outnumber paid workers and that they earn as much

as four times that of the formal sector employees, the bulk of PIT today is paid by employees whose salaries are deducted at source.

- d. **Challenge of Multiplicity of Taxes:** There is the challenge of multiplicity of taxes which is a major problem with the draft document. Already Nigeria is known for having problems with compliance. How does the Federal Ministry of Finance grapple with this problem because it is not contained in the strategy document. It must be noted that a good tax policy set out the fundamental objectives of a country's tax system and prescribe some guidelines that would shape government policy actions.
- e. **Poor Taxation Drive from Tiers of Government:** The political economy of revenue allocation in Nigeria even with the current draft document does not prioritize tax efforts. It is, instead, anchored on such factors as equality of states (40 percent), population (30 percent), landmass and terrain (10 percent), social development needs (10 percent), and internal revenue effort (10 percent). The approach, discourages a proactive revenue drive, particularly for internally generated revenue, makes all government tiers heavily reliant on unstable oil revenues which are affected by the volatility of the international oil markets. Aside from the national syndrome of cake sharing; the instability and volatility of oil revenue should have created an opportunity for improved tax efforts within the provisions on taxation ratified in the 1999 Constitution. Although some state governments have initiated measures to enhance their tax generation attempts, the outcome has not reflected any level of serious effort.

2.14 The Way Forward of the Current Taxation Reforms in Nigeria

Abubakar (2008) has enumerated them as:

- i. **Pass the Draft National Tax Policy into Law:-** The way forward from is for the government to implement the tax policy. A lot of resources and time has been invested in the current draft national tax policy. Even though there are obvious flaws in some areas, there is the urgent need for the National Assembly to pass it into law. A tax regime that lacks the policy hub cannot achieve the desire objectives.
- ii. **Improve Compliance Strategy:-** Compliance has always been a problem in Nigeria's tax system. Even the current draft national tax document did not spell out clearly the compliance strategy. During the military era, the Tax Force Unit was used to enforce tax compliance. However, with democratic rule, this is not allowed and the use of the traditional court system is not only too cumbersome but also time consuming. to this effect, a bill for a tax court has been prepared by the State to replace the Tax Force. The bill has been discussed at the cabinet level, and is currently being amended by the Ministry of Justice after which it will be presented to the National Assembly. When this bill becomes operational, it is hoped that compliance will be improved.
- iii. **Improve Administration of Tax:-** One of the major challenges of tax in Nigeria is the administration of tax. Even the current draft national tax policy suggested the use of tax consultants to collect revenues from government ministries and agencies. This is a major flaw as PAYE does not give a true picture of performance. This is revenue that is collected at source with minimal effort and could easily be collected by government tax

or revenue officials. Thus, the practice of including certain taxes (PAYE and other revenue deducted at source) within the government machinery as components of a revenue benchmark for tax consultants will not be a solution.

- iv. **Stakeholders' Consultation:-** it is also imperative for government to consider taxpayers' and other key stakeholders' interests in fiscal policy formulation and implementation in order to achieve improved tax compliance rate in the country. In other words, since taxes are statute-derived, government should encourage far-reaching consultation across the broad spectrum of the economy in tax law formulation.

2.15 Personal Income Tax Issues for International Students (Case: United States)

Today, thanks to globalization and international integration, more and more students from all over the world come to the United States to study. The majority of international students are considered to be nonresident aliens under the U.S. Internal Revenue Code. There are many differences between the U.S. income tax system and the systems of other countries. It can be quite a burdensome process for international students to fill out all the necessary forms and statements that accompany the filing of U.S. income tax returns. Tax preparers should familiarize themselves with the current tax requirements and compliance rules for Federal income tax report with respect to foreign students attending U.S. colleges and universities, Fay and Jack (2010).

The Taxpayers Relief Act of 1997 (TRA) brought significant changes to the lives of foreign students residing in the United States. In prior years, international students were obligated to file income tax

returns, regardless of whether they earned any income. Not following these instructions result in fines and trouble with immigration authorities.

Before TRA, IRC section 871 (c) had stated that any visa holder who was not engaged in a trade or business should be treated as engaged in a trade or business for purposes of that section. When filling out necessary forms and statements, international students had to provide information such as their passport number, visa number and type. Social Security number or identification number, their purpose for coming to the United States, their foreign address, the name and contact information of the international programs director, the monetary amount of scholarships received, and the exact number of days spent in the United States during the past three years. Students who were not eligible to obtain a Social Security number had to appear personally in a government office to prove their identity and receive a taxpayer ID number (TIN). Every international student had to go through this routine, regardless of whether the student had any income or scholarships.

Professor John Bogdanski and William Kenny recognized the reporting burden for international students and tried to alleviate the complex tax requirements the students faced. In 1997, they challenged the IRS to re-examine a discrepancy between form 1040 – NR, which required all international students to file the form-even if they did not have any scholarships or gross income to declare and Treasury Regulations section 1.60 12-1 (D) (I) (I), which indicates that international students are not obligated to file the form unless they received a scholarship or earned some income.

In 1997, in the wake of the criticism from Bogdanski and Kenny and the passage of TRA, the IR changed some rules for filing tax forms by foreign students. Under the revised rules, nonresident alien students were required to file a tax return for any tax year, only if they had U.S –

source income (2008 Instructions for Form 1040 NR). In addition, the LRS made some clarifications to its instructions with regard to students who received scholarships. According to the regulations, a foreign student who receives scholarship income that is exempt under LR section 1 17 lists all of the differences in the taxation of scholarships, depending upon their source, use or purpose.

The following are other important rules for nonresident alien students, Fay and Jack (2010):

- a. In most cases, a nonresident alien is taxed only on U.S source income. All wages and any other compensation for services performed in tie United States considered to be from U.S sources (publication 519, "U.S. Tax Guide for Mens," 2009).
- b. All international students who come to the United States must file a fully completed Form 8843, Statement for Exempt Individuals and Individuals with a Medical Condition, even if they do not have to file a tax return. Those foreign students who come under F, J, M, or Q visas are considered to be exempt individuals for the substantial presence test. This exemption from the substantial presence test has a limitation: A student will lose exempt status if remaining present as an exempt individual in the United States during any part of five calendar years. This rule applies even though the visa remains valid. This can be changed by a treaty (LRC section 770L[b][5][E][ii] and Publication 519).
- c. Nonresident alien students who perform personal services can use Form 8233 to claim exemption from withholding of tax on compensation for services that are exempt under a U.S tax treaty with a student's home country (Instructions for Form 1040NR).
- d. Any nonresident alien is entitled to a refund of any Federal Income Tax withheld from salaries, w ages, or any other compensation for personal services (Treasury Regulations obtain this withholding exemption under a tax treaty).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter looked into the population of the study, sample of the study, methods of data collection and instrument for data collection and also instrument of data analysis.

3.1 Research Design

Research design presents an overview of the study by indicating the research strategy adopted in ensuring that the study provides answers to fundamental questions raised in the research or to ensure that the hypothesis are tested. A brief statement of how data was analysed is also necessary, Nwogu (2002).

A random sampling technique method was used in distributing the questionnaires in the board. 130 questionnaires were distributed in the board, out of which only 110 was retrieved. And also, 50 questionnaires were distributed to tax payers accidentally, out of which 40 were retrieved. Both primary and secondary data were used in collecting data.

3.2 Population of the Study

The population is the entire employees of the Board of Internal revenue. The Board has 217 total employees.

3.3 Sample of the Study

Sampling is the act, process or technique of selecting a representative part of a population for the purpose of determining parameters or characteristics of the whole population Adamu and Tinuke (2001). Half of the populations of the staff of Adamawa State Board OF Internal Revenue was selected as the sample size for the study. Thur

110 out of 217 was selected as the sample size for the board of Internal Revenue.

A sample size of 40 tax payers was also selected. Accidental Sampling technique was used.

3.4 Method of Data Collection

Primary data

The primary data for this research work was obtained from:-

- iv. **Administering of questionnaires:-** The questionnaires was administered to management, tax officers, and taxpayers.

Questionnaire Design:- The questions in the questionnaires was structure in the form of “Yes” or “No” responses and open ended question, and was filled by the respondents.

- v. **Personal Interviews:-** Which was also conducted on both the taxpayers and officials of the Inland Revenue Office.

Secondary Data:

These are already published and collected for purposes other than the specific research need at hand.

The Secondary data that was used in this research work were:-

- i. **Official Documents:-** Which was obtained from the Adamawa State Internal Revenue Board.
- ii. **Review of Relevant Publications:-** Which include journals and seminar papers on taxation.
- iii. Budget statements which was obtained from newspapers and magazines.

3.5 Description of Instrument for Data Collection

The data used in this research was obtained from primary and secondary sources.

Primary Data:- As defined by Murray and Larry (1998) “As those data that have been observed by the researcher for the first time to his knowledge”. Primary data are collected specifically for the research needs at hand and are used in classifying research problem to make a meaning out of it. It involves the employment of observation or communication techniques such as personal interview, telephone and main interview, questionnaire etc.

Similarly, Secondary Data:- According to Murray and Larry (1998) also means as “A set of material that have been observed by some other persons or agency other than the researcher”. Secondary data are already published data collected for purpose other than the specific research needs at hand.

This type of data can be classified as coming from internal sources or external sources. Internal data are those available within the organization such as annual report and account, projected revenue report, organizational charts e.t.c. likewise external data are those data originating outside the organization. Such data includes government publications, reports and periodicals.

Also a review of library research in publication, lecture note newspapers, magazines and relevant textbooks had been used.

3.6 Data Analysis Technique

The data that was gathered could only be useful when it is processed and it's processing involves making analysis and interpretation of the data collected. Interviews and questionnaires was

presented and analyzed. The hypothesis was tested using binomial distribution formula.

$$\sqrt{\frac{P_1 - P}{N}}$$

Where: P_1 = Proportion of positive reply
 P = Probability of either of the outcome
 N = Number of sample population
 Q = $1 - P$ i.e. the proportion is negative responses
 Confidential Interval 98%
 Critical Value 2. 33

If the computed value is more than critical value, we accept the null hypothesis (H_0) and reject the alternative hypothesis (H_a). On the other hand, if the computed value is less than critical value, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a).

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

The chapter deals with the presentation and analysis of data. It constitutes the analysis of questionnaires, personal interview conducted and analysis of a table of personal income tax collection in Adamawa State over the past five years 2005 – 2009.

For the analyses of the questionnaires, the data was presented in the form of tables which represent the responses to questions in the questionnaires. The use of common percentage was employed to analyze the data. The test of hypothesis followed with the use of binomial distribution formula. The questions 4, 5, and 7 for management: the questions selected from tax officers/inspectors responses was question 5 only and the question selected from taxpayers responses was 8. These were selected because they were questions related to the hypothesis tested.

4.1 Data Analysis (Analysis of Questionnaire)

Response from Management on:

Table 4.1: Number of Tax Officers the Board has?

Response	Frequency	Percentage
Less than 10	0	0%
Between 10 – 50	2	4%
Over 50	48	96%
Total	50	100%

Sources: Response from Questionnaires, 2010

From the above, the respondent here indicate that the Board has more than enough personnel to carry out the tax assessment duties going by the volume of work done.

Table 4.2

Qualification requirement for appointment of tax officers

Response	Frequency	Percentage
School certificate	6	12%
Diploma	14	28%
B.Sc/HND	30	60%
Others	-	-
Total	50	100%

Sources: Response from Questionnaires, 2010

From the table above, majority of the respondents here suggest that Diploma to B.Sc/HND constitutes the required qualification for the appointment of tax officers. While responses signify that school certificates are also appointed officers.

Table 4.3 Staff training policy of the Board

Response	Frequency	Percentage
In-service training	42	84%
On the job training	3	6%
Seminars and workshop	4	8%
Others	1	2%
Total	50	100%

Sources: Response from Questionnaires, 2010

The responses show that the Board mainly trains its majority of workers through In-service training few other respondents indicate that the revenue Board pursuit all possible avenue for the training of its

personnel. The general responses indicates that majority of the workers were untrained before they joined the revenue service and to that effect, the revenue Board is expending so much in training them.

Table 4.4

Ability to assess, evaluate and communicate intelligently

Response	Frequency	Percentage
Yes	34	68%
No	16	32%
Total	50	100%

Sources: Response from Questionnaires, 2010

Majority of the respondents suggest that the greater number of the officer's inspector, posses the necessary ability to assess, evaluate and communicate intelligently with the taxpayers.

Table 4.5

Political pressures and administrative structure are problems to personal income tax collection.

Response	Frequency	Percentage
Yes	35	70%
No	15	30%
Total	50	100%

Sources: Response from Questionnaires, 2010

Here, majority of the respondents suggest that political pressure and administrative structure in the state has had a negative impact on personal income tax collection. This indicates that especially during the civilian administration many politicians did not declare their income for tax assessment because they belong to the ruling class party in the State. Also, responses indicate the style of administration of substantive government had affected the personal in come tax collection.

Total 4.6 Utilization of P.I.T. Revenue by government.

Response	Frequency	Percentage
Yes	17	34%
No	33	66%
Total	50	100%

Sources: Response from Questionnaires, 2010

The respondents for this question is indicative of the government diverting the P.I.T. collected to other area other than the area or thing that can benefit the tax payer directly.

Total 4.7

Improvement of P.I.T. collection since the enactment of edict No.1 of 1987.

Response	Frequency	Percentage
Yes	34	68%
No	16	32%
Total	50	100%

Sources: Response from Questionnaires, 2010

The majority of the responses here suggest that there were lot of improvement achieved in the collection of personal Income Tax after the Board was separated from operating under the ministry of Finance since 1987: this indicates that it is more efficient for the Board to operate as entity or a separate body than as a division under the Ministry.

RESPONSES FROM TAX OFFICERS/INSPECTORS ON

Table 4.8: Duration of work with the Board

Response	Frequency	Percentage
Less then 5 years	10	17%
Between 5-10 Years	14	23%
Over 10 years	36	60%
Total	60	100%

Sources: Response from Questionnaires, 2010

Responses here indicate that majority of tax officers/inspectors worked with the Board for ten years and therefore this suggests that they have a good working experience with the Board. Only few of them worked below five and ten years with the Board.

Table 4.9: Educational qualification of tax officers/inspectors

Response	Frequency	Percentage
School certificate	3	5%
Diploma	25	42%
BSC/HND	23	38%
Post Graduate Degree	2	3%
Professional certificate	7	12%
Total	60	100%

Sources: Response from Questionnaires, 2010

The respondents here is well spread indicating that educational qualification of the tax officers/inspectors of the Board at least at an average levels. This suggest that majority of them are educated to an average educational qualification in the organization.

Table 4.10: Declaration of Income for Assessment

Response	Frequency	Percentage
Every year	18	30%
Not every year	42	70%
Total	60	100%

Sources: Response from Questionnaires, 2010

The response here indicate that majority of taxpayers do not declare their income promptly as and when due for tax assessment only 33% of them declare promptly.

Table 4.11: Problem of Personal Income Tax Collection.

Response	Frequency	Percentage
Lack of awareness	4	7%
Frequency change in government	6	10%
Lack of instrument to work on	18	30%
Lack of good welfare package to tax officers	32	53%
Total	60	100%

Sources: Response from Questionnaires, 2010

Majority of the respondents indicate here that the major setback to P.I.T. collection was the lack of good welfare package to tax officers. Also lack of instrument to work on had contributes 30% to the present dwindling state of P.I.T. collection some respondents also expressed that all of the above contributed at least a certain percentage.

Table 4.12:**Welfare package and working condition effect on P.I.T collection.**

Response	Frequency	Percentage
Yes	52	87%
No	8	13%
Total	60	100%

Sources: Response from Questionnaires, 2010

Majority of the respondents expressed that present state of welfare package and working condition provided by the government to tax officers is not favouring the P.I.T collection that is, there is direct relationship between respective to tax officers/inspector and their attitude toward tax collection exercise. Hence the more an incentives good working condition and welfare package there would be tremendous improvement in the level of P.I.T collection.

The respondents from question number 4 of section B, also comment. They (respondents) expressed several views but majority of them suggest that lack of funds, material to work on and transportation are other problems seriously facing P.I.T collection in the State.

Table 4.13: Cordiality in relationship with the taxpayers.

Respondents	Frequency	Percentage
Yes	11	18%
No	49	82%
Total	60	100%

Sources: Response from Questionnaires, 2010

The respondents here indicate that a considerable number of tax officers maintained a good relationship with the tax payers. This suggests that tax payers are not being turn away by the attitude of the tax officers.

RESPONSE FROM TAX PAYERS ON:

Table 4.14: Payment of taxes when due:

Respondents	Frequency	Percentage
Yes	36	90%
No	4	10%
Total	40	100%

Sources: Response from Questionnaires, 2010

From the above table, it is shown that the majority of the respondents pay their taxes when due, that is 90% to 10%. This infers that when it comes to payment of taxes this is done promptly, by most tax payers (self-employed persons).

Table 4.15: Keeping of proper books of accounts:

Respondents	Frequency	Percentage
Yes	26	65%
No	14	35%
Total	40	100%

Sources: Response from Questionnaires, 2010

From the above table, it is seen that most of the respondents keep proper books of account that is 65% to 35%. This infers that a majority of tax payers (self-employed persons) have a strong basis for computing their assessable income.

Table 4.16: Encountering problems when rendering income to the tax officer

Respondents	Frequency	Percentage
Yes	18	45%
No	22	55%
Total	40	100%

Sources: Response from Questionnaires, 2010

From the above table, it is shown that a slim majority of the respondents do not have problems when rendering their incomes to the tax offices that is 55% to 45%. This infers that relative to the number of people who maintain proper account, there is quite a number of those who still encounter problems of income computation and also rendering of income returns to the Tax Board.

Table 4.17: Consultation of tax experts

Respondents	Frequency	Percentage
Yes	10	25%
No	30	75%
Total	40	100%

Sources: Response from Questionnaires, 2010

From the above table, it is shown that the majority of the respondents do not employ the use of tax experts when rendering their income returns to the tax Board that is 75% to 25%. This infers that a small number of self-employed people are aware of the use of these tax experts or have enough money to consult them.

Table 4.18: Knowledge of income tax rates

Respondents	Frequency	Percentage
Yes	32	80%
No	8	20%
Total	40	100%

Sources: Response from Questionnaires, 2010

From the above, a large majority of the tax payers that 80% to 20% are aware of the current tax rates. This infers that most taxpayers are aware of what proportion of their income is being taken as tax.

Table 4.19: Perception on the fairness of tax rates

Respondents	Frequency	Percentage
Yes	12	30%
No	28	70%
Total	40	100%

Sources: Response from Questionnaires, 2010

The table above shows that a majority of the respondents that is 70% to 30% believe that the current tax rates are not fair. This indicates that the taxpayers believe that the amount of tax levied on their income are too high, especially taking into cognizance the present economical state.

Table 4.20: Knowledge of claimable allowances

Respondents	Frequency	Percentage
Yes	32	80%
No	8	20%
Total	40	100%

Sources: Response from Questionnaires, 2010

The above table shows that a large majority of the respondents are aware of the allowances claimable against their income. This indicates that a large number of the tax payers are aware and subsequently have knowledge of the amount of allowances claimable and the types of these allowances.

Table 4.21: Inadequacy of the allowance claimable

Respondents	Frequency	Percentage
Yes	30	75%
No	10	25%
Total	40	100%

Sources: Response from Questionnaires, 2010

The above table shows that majority of the respondents that is 75% to 25% believe that the allowances claimable are inadequate. This infers that the tax payers do not believe that the amounts of allowances are not adequate to cover the needs of the taxpayers. For example, a respondent stated in a questionnaires that the allowance of N2,500.00 per child is not capable of covering the expenses or catering for that one child in a month.

Table 4.22: Awareness of seminar organized by tax administrators

Respondents	Frequency	Percentage
Yes	6	15%
No	34	85%
Total	40	100%

Sources: Response from Questionnaires, 2010

The above table shows that a large majority of the respondents are not aware of any seminars organized by tax administrators on tax issues. This infers that the State Internal Revenue Board (SIRB) has not sufficiently embarked on enlightening members of the public on current tax issues especially with the use of forums like seminars.

Table 4.23: Benefits of attending seminars organized by tax administrators

Respondents	Frequency	Percentage
Yes	40	100%
No	-	-
Total	40	100%

Sources: Response from Questionnaires, 2010

This table shows that all respondents who attended seminars organized on tax issues benefited from these seminars. This indicates that the use of seminars contribute appreciably to tax education, that is

enlightening the public on current tax issues which include tax rates, allowances, claimable, mode of assessment etc.

4.2 TESTING OF HYPOTHESES

As mentioned earlier, binomial distribution formula would be used in testing the hypothesis stated in this research. Confidential Interval 98%, critical value 2.33.

The formula for the binomial distribution is.

$$\sqrt{\frac{\frac{P_1 - P}{P_1 - Q}}{N}}$$

Where:

- P_1 = Proportion of positive reply
- P = Probability of either of the out come
- N = Number of sample population
- Q = $1-P$ i.e the proportion is negative responses

The confidential interval 98%, critical value is 2.33. If the computed value is more than the critical value, we accept the null hypothesis (H_0) and reject the alternative hypothesis (H_a). On the other hand if the computed value is less than the critical value we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a).

4.3 Calculation of computed value: “Management Question”.

The table below shows the expressions of respondents (management) on the following questions.

- Does the Revenue Boards Tax Officers and Inspectors posse the necessary ability to assess, evaluate and communicate intelligently with the tax payers?

- In your opinion, do you think the political pressures and administrative structure pose any problem to Personal Income Tax Collection?
- Do you see any improvement in P.I.T. collection since the enactment of Edict No. 1 of 1987 which separated the Board from operating under the Ministry of Finance?

Table 4.24:

Responses (Management)	Yes	No	Total
Fo 4	34	16	50
Fo 5	35	15	50
Fo 7	34	16	50

Where Fo = Observed Frequency

Hypothesis 1 (Fo 4)

Yes (P_1) = 68% = 0.68

No (Q) = 32% = 0.32

N = 50 Questionnaires served

P = 0.5

Therefore:

$$\sqrt{\frac{\frac{0.68 - 0.5}{0.68 - 0.32}}{50}} = \underline{2.12}$$

DECISION:

Since the computed value 2.12 which is less than the critical value (2.33), we therefore reject the null hypothesis and accept the alternative hypothesis, that is the Revenue Board's tax officers and Inspectors possess the necessary ability to assess, evaluate and communicate intelligently with the tax payers.

Hypothesis 2

$$\begin{aligned}\text{Fo 5 Where} &= P_1 = 70\% = 0.70 \\ &N = 50 \\ &Q = 30\% = 0.30 \\ &P = 0.5\end{aligned}$$

$$\sqrt{\frac{\frac{0.70 - 0.5}{0.70 - 0.30}}{50}} = \underline{2.24}$$

Decision

Since the computed value is 2.24 which is less than the critical value (2.33), we therefore reject the null hypothesis, that is political pressures and administrative structure are problems to P.I.T collection.

Hypothesis 3 (Fo 7)

$$\begin{aligned}\text{Where} &= P_1 (\text{Yes}) = 68\% = 0.68 \\ &\text{No (Q)} = 32\% = 0.32 \\ &P = 0.50 \\ &N = 50\end{aligned}$$

Therefore

$$\sqrt{\frac{\frac{0.68 - 0.50}{0.68 - 0.32}}{50}} = \underline{2.12}$$

Decision

Since the computed value is 2.12 which is also less than the critical value, we therefore reject the null hypothesis and accept the alternative that is there is an improvement of P.I.T collection since the enactment of Edict No. 1 of 1987.

4.4 Calculation of computed value (Tax Officers/Inspectors)

The table below shows the expressions of respondents (tax officers/inspectors on the question below):

- In your opinion, do you see the present stated of welfare package and working condition provided by the government to tax officers affect Personal Income Tax Collection?

Table 4.25:

Responses (tax officers/inspectors)	Yes	No	Total
Fo 5	52	8	60

Hypothesis 4 (Fo 5)

$$\begin{aligned} \text{Fo 5 where} &= P_1 (\text{Yes}) = 87\% = 0.87 \\ &\text{No (Q)} = 13\% = 0.13 \\ N &= 60 \\ P &= 0.50 \end{aligned}$$

Therefore

$$\sqrt{\frac{0.87 - 0.50}{\frac{0.87 - 0.13}{60}}} = \underline{3.33}$$

Decision

Since the computed value is greater than the critical value, we accept the null hypothesis and reject the alternative hypothesis: that is the present stage of welfare package and working condition provided by the government to tax officers is not favouring the P.I.T collection that is there is direct relationship between respective to tax officers and their attitude toward tax collection exercise.

4.5 Calculation of Computed Value (Tax Payers)

The table below shows the expression of respondents (tax payers) on the question below:

- Do you think the allowances claimable are inadequate?

Table 4.26:

Responses (tax payers)	Yes	No	Total
Fo 8	30	10	40

Hypothesis 5

$$\begin{aligned} \text{Fo 8 where } P_1 (\text{Yes}) &= 75\% = 0.75 \\ \text{No (Q)} &= 25\% = 0.25 \\ P &= 0.50 \\ N &= 40 \end{aligned}$$

Therefore

$$\sqrt{\frac{0.75 - 0.50}{\frac{0.75 - 0.25}{40}}} = 2.24$$

Decision

The computed value is 2.24 which is less than the critical value 2.33 we therefore reject the null hypothesis and accept the alternative hypothesis, and that is, the allowances claimable are inadequate.

4.6 Discussion of Findings:

For the researcher to find out, whether the ability of the tax officers to assess, evaluate and communicate with the tax payers have any effect on P.I.T. collection? Whether the political pressures and administration structure pose any problem to P.I.T. collection? And whether there is any improvement in P.I.T. collection since the enactment of edict No. 1 of 1987 which separated the Board from operating under Ministry of Finance. To these responses obtained from

the management of the Internal Revenue Board through the use of questionnaires provided the basis for the statistical analysis carried out in this chapter. The outcome of the first analysis was able to prove that the central proposition or the observed frequency was correct. Therefore from the analysis, it can be concluded that all the three observed frequencies tested had a definitive impact on the P.I.T. revenue collection.

The second test, which tried to find out, whether present State of welfare package and working condition provided by the government do affect P.I.T. collection. To these respondents obtained from the tax officers/inspectors of the Board through the used of questionnaire entailed the basis for the statistical analysis carried out again in this chapter. Out comes of this analysis was correct such that it can be concluded that poor welfare package and working condition do not favouring the P.I.T. collection that is, there is direct relationship between respective to tax officers and their attitude toward tax collection exercise.

The third test which tried to find-out, whether the allowances claimable are adequate? To these respondents obtained from the taxpayers, the Board through the used of questionnaires entailed the basis for statistical analysis carried out in this chapter. The outcome of third analysis was able to provide that the observed frequency was correct. Therefore from the analysis, it can be concluded that the observed frequency tested had a definite impact on the P.I.T. collection.

TABLE 4.27 PERSONAL INCOME TAX COLLECTIONS IN ADAMAWA STATE 2005 - 2009

		2005		2006		2007		2008		2009	
		Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
1	Direct assessment	100,000,000	96,895,957	100,000,000	95,882,000	80,000,000	83,521,500	70,000,000	211,400,952	200,526,020	173,517,500
2	P.A.Y.E	691,450,200	611,775,847	686,071,170	683,180,800	800,000,000	762,099,870	700,000,000	962,837,272	1,055,600,000	1,332,600,876
	Total	791,450,200	708,671,804	786,071,170	779,062,800	880,000,000	845,621,370	770,000,000	1,174,238,224	1,256,126,020	1,506,118,376

PERCENTAGE

		2005		2006		2007		2008		2009	
1	Direct assessment	13%	14%	13%	12%	9%	10%	9%	18%	16%	12%
2	P.A.Y.E	87%	86%	87%	88%	91%	90%	91%	82%	84%	88%
	Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Adamawa State Board of Internal Revenue, Accounts and Records Office.

15th March, 2010

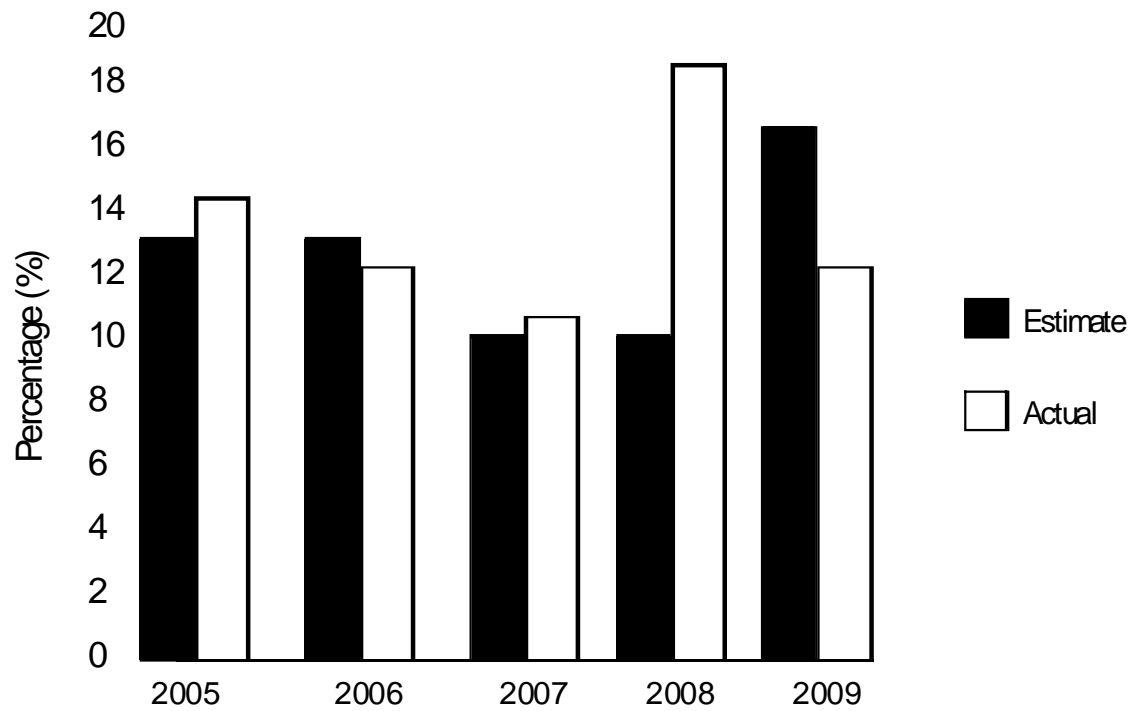


Fig.4.1 Estimate and Actual collection from Direct Assessment

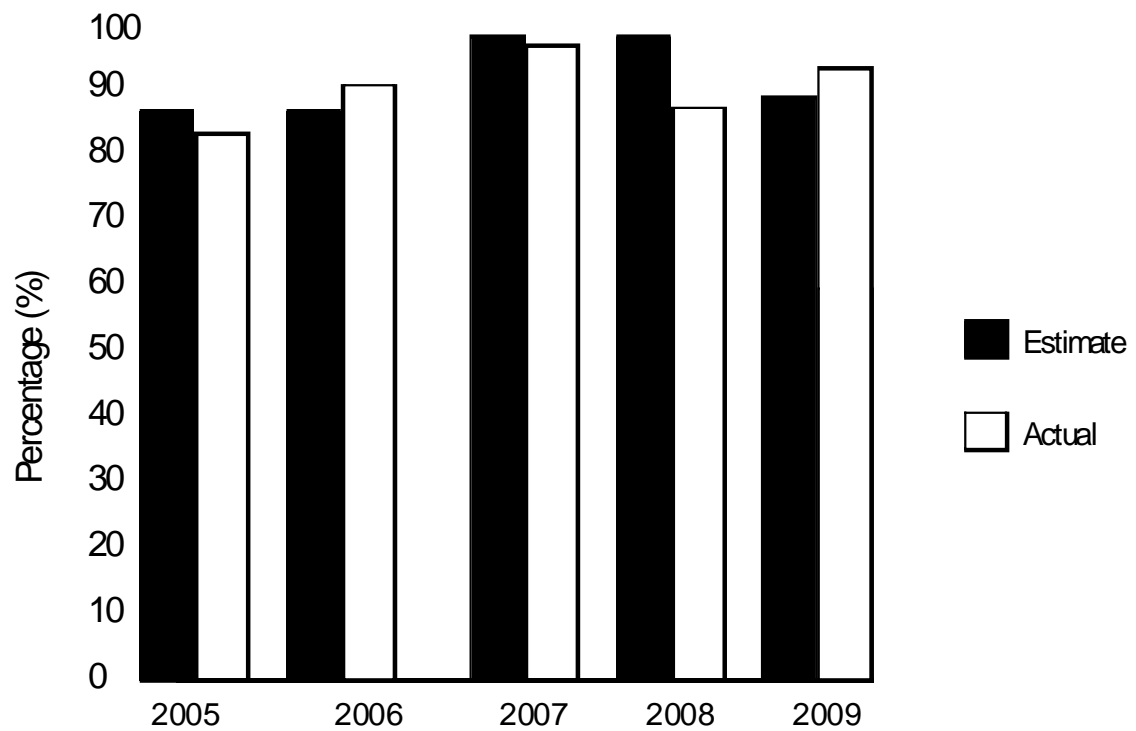


Fig.4.2 Estimate and Actual collection from P.A.Y.E

Over the past five years, except in 2005, 2008 and 2009: the amount of personal income tax collected through direct assessment has decreased. Although there have been decrease in collection, the percentage decrease have dwindled year after year. This can be attributed to problem associated with tax collection and also the increase in relief granted to individuals over the years.

The total amount of direct taxes are collected from personal income tax under the sub-head of PAYE have been larger than the one for direct assessment over the past five years (see table 4.27).

4.7 Personal Interview

A personal interview was conducted with some of the staff of the State Internal Revenue Board. They were asked about the problems the Board encountered when administering personal income tax on self-employed persons. They enumerated the following problems as those associated with the collection of personal income tax from tax payers especially the self-employed persons. These include:

- a, **Tax avoidance and tax evasion:-** Tax avoidance as Ola S. (1999) defined is a deliberate legal act of a tax payer to pay less than he ought to pay “while tax evasion is whereby a taxable individual or company neglects to pay the tax due from him or reduces the tax liability by making untrue or fraudulent claims. According to them, most of the taxpayers in Adamawa practice such fraudulent act.
- b, **Low level of education:-** Some of the taxpayers in Adamawa State are illiterates. Thereby making dissemination of necessary information very difficult. Transactions of such matters have to be done in Hausa. People find it difficult to fill in tax return forms.

c, **Low voluntary compliance:-** Which involves the submitting of inaccurate return by taxpayers to the Board and also the reluctance from taxpayers to pay their taxes.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RCOMMENDATION

5.0 Introduction

Government in general requires funds and resourses to undertake projects and programme aimed at improving the living standard of its citizens. On this note, State government therefore have to support the meager statutory allocation received from the Federal Government and it is in search of alternative sources of revenue that attention is now shifted to personal income tax, which is a sources of revenue open to State Government especially Adamawa State. This chapter consists of summary, conclusion and recommendation of the personal income tax administration in Adamawa State.

5.1 Summary

Personal income tax as one of the source of revenue to government, which used to finance government expenditure, it should be devoid of all forms of impediment that hinders its efficient administration. Therefore this research work was purposely undertaken to look into the problems and prospects of Personal Income Tax Administration in Adamawa State Centered on Board of Internal Revenue.

As was mentioned earlier that, it was Edict No. 1 of 1987 that setup the Adamawa State Board of Internal Revenue to administered Personal Income Tax collection and to be headed by the Executive Chairman.

To achieve these objectives of the study, a review of existing literature was carried out and reveals that the way to efficient and effective administration of P.I.T. was to a great extent on the administrative structure.

This study is broken down into five chapters with this chapter inclusive. Chapter one introduces the reader to personal income tax administration in Adamawa State. It outlined the objectives, aims and significance of the study. It also highlighted problems encountered in the tax collection mechanism in Adamawa State. The chapter included a statement of problem, scope and limitation of the study and definitions of some terms used in the study.

Chapter two deals with the related literature. This literature review consists of the historical background of personal income tax in Adamawa State, persons chargeable to tax, collection procedures and enforcement procedures and the problems associated with personal income tax administration, as well as the prospects of personal income tax.

Chapter three deals with the methodology adopted and data collection methods. The use of questionnaire to the employees of the Board selected at random (among the management and tax officers/inspector) and to tax payers and also the use of interview which was conducted with some members of the board. The responses obtained were presented and tested with the aid of binomial distribution formula and findings were evidenced.

Chapter four deals with the analysis of the data proper. The hypothesis were tested here, the outcomes of the first analysis was able to prove that the central proposition or the observed frequency was correct, that is all the five observed frequency tested had a definitive impact on the P.I.T. revenue collection. The outcomes of the second test was correct such that poor welfare package and working condition as well as relationship between tax officers and tax payers had a negative effect on the P.I.T. by the Board. And the outcome of the last analysis was able to prove that the observed frequency was correct. Therefore from the analysis it can be concluded that all the three observed

frequency tested had a definitive impact on the P.I.T. collection (i.e. the rates are unfair, claimable allowances are inadequate and seminars have not been organized by the Board).

5.2 Conclusion

Basically, governments need to provide economic development, facilities and amenities for its citizens. To do this effectively and efficiently, there is absolute necessity for governments to have adequate funds.

The present dwindling State of P.I.T. and the Board inefficiency in the administration of P.I.T. over the years and consequently the low P.I.T. revenue yield; were directly connected with the findings revealed by the analysis.

The introduction of various forms of levies and fees were not the feasible and long term solution to the problem of financing government's expenditure in Adamawa State, these levies might not even contribute significantly to the coffers of the state government unless there is an efficient and effective administrative machinery for its collection, enforcement, and accounting.

With the coming to stay of taxation as a vital means of influencing the socio-economic activities of Adamawa State, all that is to be done is to improve the collection, assessment and enforcement procedures in order to make it acceptable by the citizens less onerous to tax administrations and more reliable as a source of revenue generation to the State Government.

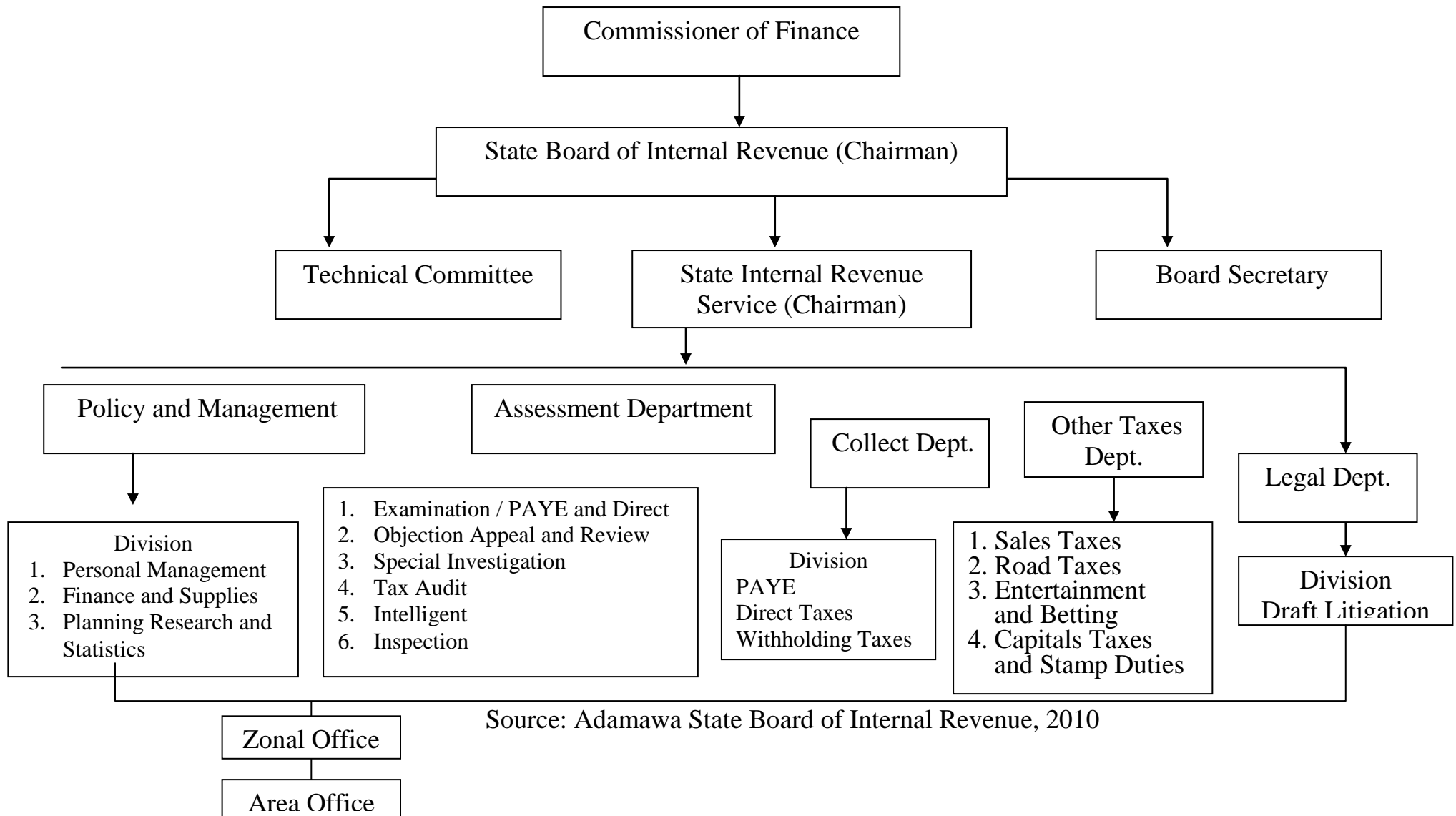
5.3 Recommendation

In view of the problems militating against the effective tax administration of personal income tax in chapter four of this research work, the following recommendations if given due regards, personal income tax administration will be enhanced and hence a positive effect on revenue generation.

The following are the recommendations:

- i. Since majority of the people are poor tax evasion becomes inevitable. Government should therefore aggressively tackle the inflationary trend and also ensure that the poor pay very minimal tax.
- ii. Government should endeavour to provide social amenities to a nooks and crannies of the state (not just the state capitals alone), provide employment opportunities to all by the judicious use of tax proceeds. In this way all will feel belong thereby encouraging voluntary compliance.
- iii. **Provision of adequate funding:-** For the system to operate efficiently and effectively there is need for adequate funding. With the present, low level of funding given to the State Board of Internal Revenue by the State Government, the Board has found it very difficult to carry out its activities. The State Government should allocate more funds to the Board as to cover its overhead costs, and other general administrative expenses. This will go along way in improving the collection mechanism of the Board.

ORGANIZATION CHART OF ADAMAWA STATE BOARD OF INTERNAL REVENUES



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RESEARCH QUESTIONNAIRE

Topic: Problems and prospects of Personal Income Tax Administration
Case Study: Adamawa State Board of Internal Revenue.

Instruction: Please tick as appropriate

SECTION “A” (TO MANAGEMENT)

1. How many tax officers does the Board (Adamawa State Board of Internal Revenue) presently have?
 - Less than 10 ☐
 - Between 10 -50 ☐
 - Over 50 ☐
2. What is the qualification requirement for appointment of tax officers?
 - School certificate ☐
 - Diploma ☐
 - B.Sc./HND ☐
 - Others please specify ☐
3. What is the staff training policy of the Board?
 - In-service training ☐
 - On the job training ☐
 - Seminars and workshops ☐
 - Others ☐
4. Do the revenue Board’s tax officers and inspectors posses the necessary ability to assess, evaluate and communicate intelligently with the tax payers?
 - Yes ☐
 - No ☐

5. In your opinion, do you think the political pressures and administration structures pose any problem to personal income tax collection?
- Yes []
 - No []
6. In your opinion, do you think government is utilizing the personal income tax revenue for the purpose for which it was collected?
- Yes []
 - No []
7. Do you see any improvement in personal income tax collection since the enactment of Edict No. 1 of 1987 which separated the Board from operating under the Ministry of Finance?
- Yes []
 - No []

SECTION “B” (TO TAX OFFICERS AND INSPECTORS)

1. How long have you been working with the Board?
- Less than 5 years []
 - Between 5 – 10 years []
 - Over 10 []
2. What is your educational qualification?
- School certificate []
 - Diploma []
 - B.Sc/HND []
 - Postgraduate Degree []
 - Professional certificate []
3. How often do people declare their income for tax assessment?
- On time (every year) []
 - Not on time (not every year) []

4. What actually do you think contributes to the present dwindling State of Personal Income Tax collection?

- Lack of awareness []
- Frequent changes of government policy []
- Lack of instrument to work on []
- Lack of good welfare package to tax officers []

5. In your opinion, do you see the present states of welfare package and working condition provided by the government to tax officers affect personal income tax collection?

- Yes []
- No []

6. What do you think are the other problem(s) if any facing your function as tax officers? Please briefly comment

7. In your opinion, is there any cordiality in your relationship with the tax payers?

- Yes []
- No []

SECTION “C” (TO TAX PAYERS)

Age:.....

Occupation:.....

1. Do you pay your taxes when due?

- Yes []
- No []

2. How often do you pay your taxes?

- Annually []
- Biannually []
- Monthly []

3. Do you keep proper books of account?
- Yes []
- No []
4. If “Yes” what final account do you keep?
-
-
5. If no, how do you estimate your gain?
-
-
6. Do you encounter problems in rendering accurate returns to the tax officers?
- Yes []
- No []
7. If “Yes” enumerate:.....
-
8. Do you have an idea of allowances claimable?
- Yes []
- No []
9. Do you think the allowances claimable are inadequate?
- Yes []
- No []
10. Do you know the current income tax rates changed?
- Yes []
- No []
11. Do you think the present tax rate is unfair?
- Yes []
- No []

12. When returning accounts to the tax office, do you consult a tax expert?
- Yes []
 - No []
13. If “Yes” does your expert recommend ways in which to reduce your liability? (i.e tax assistance which is legal)
- Yes []
 - No []
14. Have you heard of any seminars organized by the Internal Revenue Board?
- Yes []
 - No []
15. Do you attend these seminars?
- Yes []
 - No []
16. If “Yes”, do you acquire more understanding of the tax laws relating to personal income tax?
- Yes []
 - No []