LECTURE NOTE
COURSE CODE: ACC 313
COURSE TITLE: INTRODUCTION TO TAXATION
NUMBER OF UNITS: 3 Units
COURSE DURATION: Three hours per week

COURSE LECTURERS: Mr. Igbinovia, M.I. & Dr. Ohiokha Godwin

INTENDED LEARNING OUTCOMES

At the completion of this course, students should be able to:

i. Explain the meaning purpose and principles of taxation

ii. Discuss the administration of taxation in Nigeria

iii. Solve problems on Personal income tax in Nigeria involving the taxation of employees and a sole trader

iv. Apply the principles of Basis period, commencement rule, cessation rule and change in accounting date to tax questions.

v. Explain capital allowance and demonstrate mastery of the capital allowance computation.

COURSE DETAILS:

Week 1: Meaning, purpose, principles and Classification of taxation

Week 2: Administration of taxation in Nigeria

Week 3: Personal income tax in Nigeria

Week 4: Taxation of employees

Week 5-6: Taxation of sole a trader

Week 7-8: Partnership Assessment

Week 9-10: Basis period for assessment; principles of commencement rule, cessation Rule, right of election and change in accounting date

Week 11: Computation of capital allowance

Week 12: Revision

RESOURCES

• **Lecturers' Office Hours:**

• Mr. Igbinovia, M.I., Wednesdays 12:00-2:00pm.

• Mr. Ohiokha Godwin, Friday 2:00-3:00pm.

Books:

• *Principles of personal income tax in Nigeria by Anyaduba, J.O.* most recent edition

• *Fundamental principles of Nigerian Taxation by Seyi, Ojo. Most recent edition*

• *Personal Income Tax (amendment) Act, 2011.*

Grading system
Grading shall consist of:
Continuous assessment: 30%
End of Semester Examination: 70%

Academic Honesty: All classwork should be done independently, unless explicitly stated otherwise.
• You may discuss general solution strategies, but must write up the solutions yourself.
• If you discuss any problem with anyone else, you must write their name at the top of your assignment, labelling them "collaborators".

• **NO LATE HOMEWORKS ACCEPTED**
• Turn in what you have at the time it's due.
• All home works are due at the start of class.
• If you will be away, turn in the homework early.
• Late Assignments will not be accepted, but penalized according to the percentages given on the syllabus.

Week 1: MEANING, PURPOSE, PRINCIPLES AND CLASSIFICATION OF TAXATION

A tax is a compulsory levy backed by law imposed on a person, object or transaction by government. It is different from other forms of payment to government. Although they are all compulsory payments to government, their differences are stated below

Differences between taxes and other charges and levies

Basis	**TAXES**	**CHARGES, TOLL LEVIES, AND OTHER FEES**
Payers' claim	A tax payer cannot demand an equivalent benefit from the government that is commensurate to the amount of tax paid	A payer can lay claim to an equivalent benefit from charges or fees contributed. Or has violated an offence amounting to the equivalent value.
Purpose	Taxes are mere contributory aid to the government	Fines, penalties are levied as a punishment for crime committed, or as payment for services rendered.
Emergence process	Tax must pass through the process of law making in the state before it becomes a tax.	Fees, fines, penalties and other categories of charges are arbitrarily fixed
Specific benefit	While a tax is a statutory collection which is not directed to the provision of a specific benefit. Has no quid pro quo	Other charges are imposed for a particular service rendered of offence violated. Has a quid pro quo
backing of law	Tax is a compulsory contribution backed by law	Charges, fees, tolls, do Not necessarily need legal backing.

Purpose of taxation

Taxes are imposed to serve the following purposes;

i. Revenue generation

ii. Macroeconomic stability

iii. Discourage certain pattern of behaviour

iv. Environmental Conservation

Principles of a good tax system

A good tax system should be based on the following principles for optimal efficiency and effectiveness. They are the principles of convenience, simplicity, economy, equity, certainty, flexibility and stability.

1. Convenience: A good tax system must be based on the ability to pay. That is, the burden of tax must within the tax payers' financial ability.

2. Simplicity: A good tax system must not be complex. Its concept and principles must not be ambiguous. This implies that they must be straightforward, coherent, and must be understood by majority of the citizens and also must be simple to operate. Its administration should not be complex but consistent among the different tax organs of government.

3. Economy: this implies efficiency in Administrative. The cost of administering a tax should not be higher than the revenue yield from such tax. Also a good tax system must not be, a disincentives to investment or inimical to economic growth.

4. Equity: An ideal tax must be administered on the principles of equity and fairness. It implies that tax burden among different tax payers are shared based on their capability or involvement. Equity involves both vertical and horizontal equity. Vertical equity, it means that those in unequal circumstances should

pay different amount of taxes. The importance of this criterion is to install confidence in the tax payer who will be more willing to pay their taxes if they believe that the system is fair and equal Horizontal equity implies that those in equal circumstances should pay an equal amount of tax.

5. Certainty: a good tax system should not be vague, its scope must be clearly stated and its interpretation must not be ambiguous. This criteria also means the certainty that the tax can and will be enforced, because a tax that is easily evaded usually causes resentment and often a decline in tax payer morality. Also the tax which every person is bound to pay ought to be certain and not arbitrary.

6. Flexibility and Stability: The tax system should be flexible and responsive to changes in the legal, socio-political and economic environment. It must also possess stability, driven by the system and not distorted by changes in government.

Classifications of Taxes

Taxation can be classified according to Incidence, basis of taxing and distribution of burden.

Classification according to incidence

Taxes can be classified into either direct or indirect. The distinguishing factor between these two is that the burden of one can be transferred and possibly shared (indirect taxes) and the other cannot be shared or transferred (direct taxes).

Direct Taxes: these are levied directly on the person who is expected to pay the tax. With this type of taxation, the taxpayer will be duly advised through a notification known as ‘assessment notice’ and he will also be given receipt for the tax paid. Direct taxes include personal income tax, company income tax, petroleum profit tax, Pay As You earn (PAYE), capital gain tax, capital transfer tax, education tax, withholding tax, luxury tax and information technology tax.

b. Indirect Taxes: These are taxes demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another. Indirect taxes could be borne by a person other than the one from whom the tax is collected. Such taxes are usually levied on the manufacturer but paid by consumer. Nevertheless, the ability to share or transfer an indirect tax will depend on the elasticity of the commodity. Indirect taxes on highly elastic commodities are difficult to share or transfer. The taxpayer of indirect taxes never get notified nor have actual knowledge of such levy. Indirect tax include Value Added Tax (VAT), stamp duty, customs duty, excise tax.

Classification according to basis of taxing

Tax may be classified based on the mode of payment of the tax. That is whether par unit or ad valorem. UNIT or specific tax is levied on the volume of what is being taxed. Most excise duties for instance are specific in nature, e.g. tobacco tax is charged by weight of the tobacco. AD VALOREM tax is levied on the value of the tax base, e.g. income tax could be charged at 10% to 40% depending on the level and type of income.

Classification according to pattern of distribution of burden

2. Proportional, Progressive and Regressive Taxation. This classification is based on the way in which the burden of the tax is distributed among the tax payers. For a. Proportional Tax, the amount paid as tax is directly proportionate (equal) to the amount raised (calculated) as the value of the property taxed (also known as tax base). That is, the percentage of the tax rate remains the same as the tax base increases. It is also referred to as neutral tax. E.g Value Added Tax

b. Progressive Tax: This is the form of tax in which the percentage of the tax rate increases as the tax base of a person increases. Therefore a person with higher income would pay a greater percentage of tax than a person who earns a lower income. The progressive tax system preaches fairness and equity by asking the richer to pay more tax than the poor. E.g. Personal income tax.

c. Regressive Tax: This is a tax whose structure is such that the percentage of tax rate paid becomes smaller as the value of the property taxed (tax base) increases. Thus a person earning higher income pays lesser tax than a person earning lower income. This tax encourages people to be productive because more income means lesser percentage of tax, but it fails to take care of the economic needs of the poor masses that constituted the majority of the population in developing countries. Not only that, it is a low revenue yielding tax.

WEEK 2: ADMINISTRATION OF TAXATION IN NIGERIA

Nigeria practices a federal system of government where powers and responsibilities are shared among the various levels of government. The federal constitution of Nigeria gives direction to Nigerian Fiscal federalism which consist of the taxing powers and responsibilities of various levels of government. According to Abiola (2002), taxing power is the power of a level of government to impose a tax by its own law and prescribe conditions for the collection and due administration of the tax either by its own agency or that of another level of government. Taxing power must be derived from the constitutionally.

In other words, power is the ability of government to levy tax or raise revenue through taxation.

The administration of taxes are carried out by government agencies at various levels. At the federal level, the Federal Inland Revenue Service (FIRS), the State internal revenue service, and the local government revenue authority for states and local governments respectively. The Joint tax board is the umbrella body for all tax authorities in Nigeria. The joint state revenue committee implements the decisions of the Joint tax board at the state levels.

Composition and functions of the Joint Tax Board

The Joint Tax Board comprises the chairman who is usually the executive chairman of the Federal Inland Revenue Service, and a representative from each state of the federation. Its functions include:

i. To harmonize tax practices, provide direction and leadership in Nigerian tax system and resolve conflict among the various relevant tax authorities,
ii. Imposes its decision on the procedures and interpretation of the various Tax laws in Nigeria.
iii. Advises government on tax policies and suggest relevant amendment to tax laws where necessary.

Composition and functions of the Federal Inland Revenue Service

This is the operational arm of the Federal Board of Inland Revenue. It is made up of

i. The executive chairman who is appointed by the president with confirmation from the national assembly;
ii. A representative of the Attorney general of the federation;
iii. The governor of the central bank of Nigeria or his representative;
iv. The group managing director of the NNPC or his representative;
v. The chairman of the Revenue Mobilization, Allocation, and Fiscal Commission or his representative;
vi. A representative of the minister of finance
vii. Six appointed representatives of the president with relevant qualification and expertise from each geopolitical zones.
viii. The Chief Executive Officer of the National Planning Commission or his representatives

ix. The Controller general of the Nigerian custom service or his representative;

x. The registrar general of the Corporate Affairs Commission

The functions of the FIRS include but not restricted to;

a. The assessment, collection and enforcement of payment of taxes due to the federal government.

b. Review tax regime in consultation with other relevant ministries and agencies of government and promote the application of tax revenue to stimulate economic growth and development.

c. Update and review tax policies of the federal government.

d. Carryout tax education and enlightenment of citizens to improve tax compliance.

e. With the help of law enforcement agencies, carry out tax audit and investigation into issues of tax evasion.

f. Provide accurate statistics, database, reports and records of taxpayers and tax revenue in Nigeria.

Composition and functions of the State Internal Revenue Service

It is the operational arm of the State Board of Internal Revenue located in each states of the federation.

The SIRS is made up of;

i. The executive chairman who is appointed by the state governor with confirmation from the state house of assembly;

ii. A director from the state ministry of finance;

iii. The directors and Heads of Departments within the state service;

iv. Three persons nominated by the Commissioner of Finance in the state;

v. A legal adviser to the State service.

vi. The secretary to the State service who shall be an ex official member.

Composition and functions of the Local Government Revenue Committee

The revenue committee has an operational arm called the treasury. It is located in each of the 774 local government of Nigeria, consisting of the chairman, who is the supervisor for local government councilors and two other persons nominated by the finance, three local government chairman who are persons experienced on revenue matters. Their functions include;

i. The assessment and collection of all taxes, fines and rates under its jurisdiction.

ii. The administration of the treasury.

Composition and functions of the Joint State Revenue Committee

The committee found in each state of the federation shall consist of the chairman of the state internal revenue service, as chairman; chairmen of each local government revenue committee; the legal adviser to the state board of internal revenue; the state sector commander of the Federal Road Safety Corp; a representative of the revenue mobilization, allocation and fiscal commission; and a staff of the state internal revenue service, who shall be the secretary to the committee. Their functions include;

i. Harmonizing tax administration of each states of the federation

ii. Implement the decisions of the Joint Tax Board

iii. Advises the joint tax tax board, the states and the local government on issues concerning revenue

WEEK 3: PERSONAL INCOME TAXATION IN NIGERIA

Personal income tax in Nigeria is guided by the Personal Income Tax (Amendment) (PITA) Act 2011. The Personal Income Tax (Amendment) Bill was assented to by the President in December 2004 but dated the Act 14th of June 2011. This act is a result of series of amendments to the Income Tax Management Act, 1961.

A brief history of Personal Income Tax rates tables in Nigeria (1995-date)

1995-1997

First #10,000	5 %
Next #10,000	10 %
Next #20,000	15 %
Next #20,000	20 %
Above #60,000	25 %

1998-2000

First #20,000	5 %
Next #20,000	10 %
Next #40,000	15 %
Next #40,000	20 %
Above #120,000	25 %

2001-2010

First #30,000	5 %
Next #30,000	10 %
Next #50,000	15 %
Next #50,000	20 %
Above #160,000	25 %

2011-date

First #300,000	7 %
Next #300,000	11 %
Next #500,000	15 %
Next #500,000	19 %
Above #1600,000	21 %
Over #3,200,000	24%

Relevant Tax Authority

For the purpose of the personal income tax, the relevant tax authority is the person or body of persons responsible under a law of a territory, imposing personal income taxes on the income of the individual or registered business, for the discharge of government constitutional duties.

For individuals, a sole proprietor or a group of individuals, the relevant tax authority is the tax authority of the state in which the person is deemed to be resident for that year. For partnership, the relevant tax authority is the tax authority of the state in which the principal office or place of resident of the partnership in Nigeria is situated on the first day of the year.

For executors, the relevant tax authority is the tax authority of the state in which the deceased was last deemed to be resident or would have been resident prior to his death.

For trustee of any trust or settlement, the relevant tax authority is the tax authority of the state in which the seat of administration of the trust or settlement is first administered when income is from one state, or the relevant tax authority as determined by the Federal Inland Revenue Service.

Place of Residence

The place of residence is a major determinant of the relevant tax authority of individuals, registered businesses, executors, trust and settlements. It is the place that is available for the domestic use of the individual in Nigeria on the first day of the year other than hotels, guest house or other temporary place of resident. These temporary place could serve as the place of resident if there exist no permanent place of residence.

Tax Jurisdiction

Below are various categories of personal Income Tax payers and their relevant tax Authority

Consolidation and increases in Personal Relief Allowances

The Personal Income Tax (Amendment) Act, 2011 introduces a Consolidated Tax Relief Allowance (CTRA). All the previously segregated personal income tax relief or allowances under the Personal Income Tax Act, 2004 has been put together into a single Consolidated Tax Relief Allowance (CTRA). The N5,000 plus 20 percent of earned income of the old Act is replaced with a Consolidated Relief Allowance (CTRA) to be computed as the higher of N200, 000 or 1 percent of gross income, plus 20 percent gross income. The CTRA replaces the previous relief allowances such as housing allowances (N150,000), transport allowance(N20, 000), entertainment (N6, 000), children allowance (N5, 000), dependent relatives allowance etc .The additional implication of this amendment is that CTRA stand fully claimable by all individuals who are liable to pay income tax under the Personal Income Tax Regime, irrespective of whether are in paid or self-employment.