



## TAX ENFORCEMENT MEASURES AND TAX REVENUE GENERATION IN RIVERS STATE: REALITIES OF THE NEW NORMAL

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**Abstract:** This Survey is on Tax Enforcement Measures and Tax Revenue Generation in Rivers State. This study focuses on the best ways to carry out Enforcement Measures in the new normal, and the extent this could enhance revenue generation in Rivers State. The quest for ways to increase public revenue prompted this study. The objectives of the study is to determine the extent to which search and seizure(S&S) and litigation affects personal income tax (PIT). The study examined the relationship between tax enforcement measures and tax revenue generation in Rivers State; the pilot study consisted of two hundred and thirty-six (236) staff of Rivers State Internal Revenue Services, with adequate knowledge of the variables under study, data for the study were collected from respondents using, personal and questionnaire instruments found to be reliable with Cronbach's Alpha. Data were analyzed using descriptive and Pearson correlation coefficient statistical tools with the aid of statistical package for social sciences (SPSS 23 window). Our findings reveals: Search and Seizure(S&S), litigation has relationship with Personal Income Tax. The study recommends that litigation support should be adopted by Rivers State Internal Service as it will enhance the payment of tax by the tax payers. The penalty for tax should be made stiffer to serve as deterrent to tax defaulters; also Search and Seizure (S&S) should be followed with strict adherence to COVID 19 protocol to the later when a crime is suspected.

**Keywords:** Enforcement measures, Personal income tax, Revenue Generation, Tax

### 1. Introduction

Nigeria as a country is endowed with both material and human resources, and aside from revenue from the oil sector, taxation is another significant source of revenue for the country, especially when considering the tax system and administration in place in Nigeria despite the pandemic's challenges. As is the case in other parts of the world, the government has the legislative authority to impose any type of tax on its citizens at any rate it deems appropriate. Governments in developed and developing countries alike rely heavily on tax revenue to fund infrastructure and developmental projects. Thus, taxation can be viewed as a tool for financing large-scale public projects. Nigeria today requires an effective and efficient

tax system to generate sufficient revenue to finance economic growth and development. Numerous authors have defined the term "tax." According to one of these definitions, tax is "a mandatory payment levied on citizens by the government for the purpose of achieving its objectives." Due to its mandatory nature, citizens are expected to pay taxes. The citizenry, on the other hand, may do so voluntarily or under duress, depending on how taxpayers view the tax system and administration in general. These levies are levied on personal income, which includes wages, business profits, interest, dividends, discount, and royalties. Additionally, it is assessed against corporate profits, petroleum profits, and capital gains.

Tax, according to the Oxford Advanced Learner's Dictionary, is "money that must be paid to the government

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in order for it to provide public services." Tax is defined in the Black Law Dictionary as "a monetary charge imposed by the government on individuals, entities, or property in order to generate revenue." Taxes, as defined by Thomas Cooley, are "enforced proportional contributions from individuals and property levied by the State in exercise of its sovereignty for the support of government and all public needs." Taxation is defined in the National Tax Policy as "a financial charge or levy imposed on an individual or legal entity of the State; it is a financial burden imposed on individuals or property to fund government expenditure." It continues, "tax is not a voluntary payment or donation, but a mandatory contribution enacted by legislative authority."

The Nigerian tax administration system and its neglect of the informal sector should raise concerns about the country's tax administration. Due to the informal sector's failure to bring the categories of people who fall into this tax bracket into the tax net, thereby reducing the amount of revenue due to the government, this has contributed to a heavy strain on the formal sector of the economy. There are instances in which the Relevant Tax Authority (RTA)

colludes with those in the informal and formal sectors to evade and avoid tax. Thousands and millions of Naira are lost each year as a result of ineffective tax legislation and collection mechanisms; thus, the purpose of this paper is to implement measures to mitigate revenue loss and generate sufficient revenue.

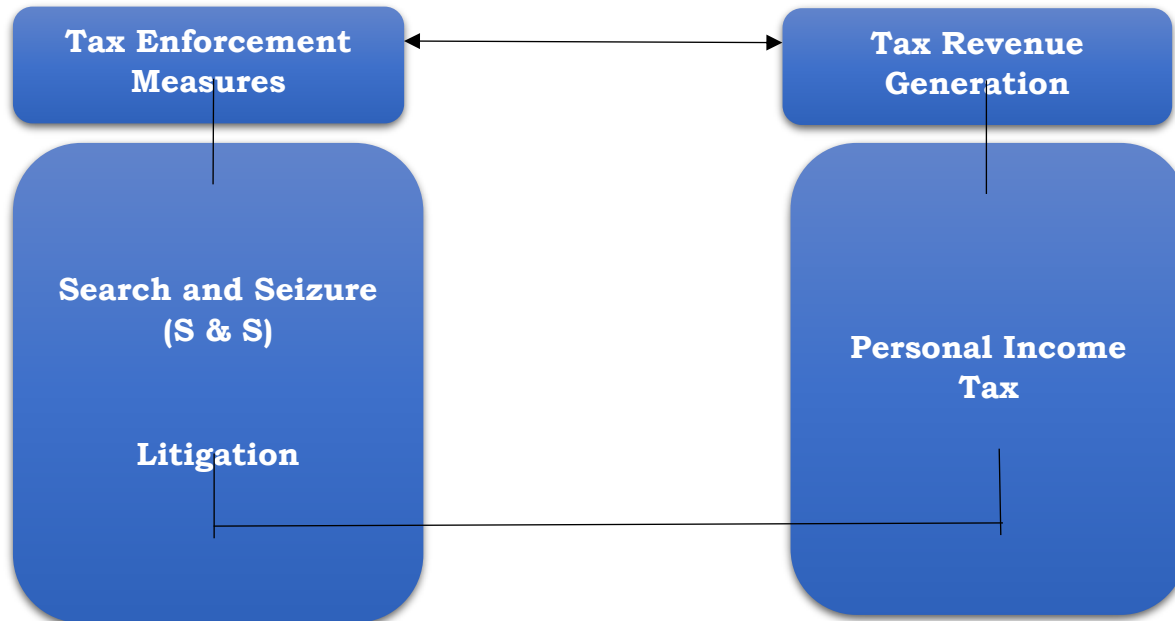
The purpose of this study is to demonstrate how Tax Enforcement Measures affect Tax Revenue Generation in Rivers State, using Search and Seizure and Litigation as proxies for Tax Enforcement Measure and Personal Income Tax as proxy for Revenue Generation. Therefore, this paper is interested in determining the extent to which Search and Seizure has a significant impact on Personal Income Tax, as well as the extent to which litigation has a significant impact on Personal Income Tax.

#### **Conceptual Framework**

Using applicable framework results in fair presentation of the variables in a study (Perez 2014). The independent (Tax Enforcement Measures) variable here are search and seizure, litigation, while for Tax Revenue Generation is Personal Income Tax.



### Conceptual Framework of Tax Enforcement Measures and Tax Revenue Generation



Source: Conceptualized from Desk Research

### Hypotheses of the Study

Consequently, the following Null hypotheses are formulated to guide the research.

HO<sub>1</sub> There is no significant relationship between search and seizure and personal income tax revenue in River State.

HO<sub>2</sub> There is no significant relationship between Litigation and personal income tax revenue in River State.

### 2. Literature Review

#### Tax enforcement

Tax enforcement is inevitable in the Nigerian tax system and administration; this is because of the ingenuity of the tax payers in keeping what is due to the government or not paying their complete tax to the tax authority (Kiabel & Nwokah, 2009). Tax enforcement in Nigeria tax system has become one of the integral parts of the tax

administration given the ingenuity of taxpayers, individual and corporate bodies in keeping aside part of what is due to the government as taxes or not remitting same at all (Tanko,2015). Tax enforcement remains a desideratum and indeed inevitable in effort to improve revenue base in Nigeria. Tax law enforcement remains unavoidable in the tax system and administration in an effort to administer all the tax laws in Nigeria because it has the effect of punishing offenders by either distraintment or prosecution and act as deterrence for other members of the public while engendering voluntary compliance to the laws (Tanko, 2015).

According to Kiabel and Nwokah (2009) states that revenue generation from internal sources is imperative and beneficial to the government than revenue generated from external sources. Hence, the necessity for state government to source for internal revenue in no small measure depends



on strong administrative revenue collection machineries. It is glaring that due to persistent inability to change statutory revenue collection from federation account most states opt for reduction in social and economic spending, reduction in wastes to cut cost of governance, and enforcing compliance to enhance revenue generation. In furtherance, state government's weak bookkeeping, accounting and auditing architecture and the crowding-out effects of Federal Government of Nigeria (FBN) bonds issuances in the domestic bond market has posed stringent constraints for states to access the debts market to raise long term funds to provide social economic infrastructure for her citizens. Thus, inability of most state governments to provide admissible audited financial statements, acceptable projects feasibility report proposals, Irrevocable Standing Payment Order (ISPO), and other conditions has prevented most states from accessing the capital market to borrow long term funds to finance capital projects.

Enforcement laws involves the use of application of all those relevant laws that will help and assist the tax official in the performance of his duties, laws not necessarily relating to the taxation but are relevant to the enforcement of tax laws. The various enforcement measures under the Nigerian Tax Act include litigation, exercise of search and seizure, exercise of power to lay distress, denial of Tax Clearance Certificate, imposition of penalty and interest, authority to the Attorney-General of the federation (AGF) to deduct unremitted withholding tax from funds due to relevant agencies of government and authority to the Nigeria Customs Services (NCS) to refuse clearance to any defaulting shipping company (Arogundade, 2005). Enforcement must be convincing to tax payers to do the right thing. It is essential to note that the justification for legitimizing enforcement will be eroded if wrongly and harshly applied. Tanko (2015) stated that tax authority catches tax defaulters and cheats, increase level of compliance by enforcing relevant tax laws. While KPMG

(2016) observed the aggressive tax enforcement procedures adopted by tax authorities in Nigeria, in recent times to enhance compliance to recover unpaid taxes from defaulting tax payers, enforcement compliance with tax provisions, defaulting companies has been sealed up. Hence, enforcement is the driving force that promotes tax compliance, and the inevitability of tax enforcement engenders self-assessment that can impact positively on revenue drive of the tax authority. The veritable plan of action available for administrators capable of enhancing tax revenue is tax enforcement. Elleman and Obaro (2011) identified different types of tax enforcement procedures capable of inducing compliance as aggressive tax drive campaign by relevant complying unit to meet non-complying companies to convince their decisions to effect tax payment, the use judgment debts, sealing up of office premises and seizing movable properties of indebted taxpayers to compel him to pay the taxes due, the legitimate right to distrain the taxpayers of his goods, chattel real estate, financial instructions belonging to the indebted taxpayers for the purposes of sale to the tax amount due to government are possible enforcement procedures. Over the years, there has been a battle between the defaulting taxpayers and the relevant tax authorities in respect of enforcement of delinquent taxes. Taxpayers always seek to find ways or means to throw the burden of income taxation off their shoulders, thereby refusing to comply with the provisions of the relevant tax laws. There are set down procedures and standards that are to be followed by the tax officials that include, penalties, civil and criminal litigation, distrain of defaulting taxpayer's property, use of tax clearance certificate, etc. for effective enforcement of such delinquent taxes in the Nigeria tax laws (Musa, 2014). However, the researcher will only lay emphasis on; litigation, power to distrain and search & seizure.

#### **Litigation**

It is a personal action which is instituted to compel



payment or the doing of some other thing which is purely civil. It is a proceeding in a court of competent jurisdiction by one party against another for the forceful compliance or protection of a private right or for the redress or prevention of a private wrong. The civil action maybe involving a private party suing another private party or a private party suing or being sued by the Government but the proceedings do not involve criminal proceedings. Under the Federal Inland Revenue Act civil actions are provided for under Section 34(1) and states as follows: "Without prejudice to any other provision of this Act, or any other Law listed in the first schedule to this Act, any amount due by way of Tax shall constitute a debt due to the service and maybe recovered by a civil action brought by the Service." Civil litigation presupposes that the Federal Inland Revenue Service (hereinafter referred to as FIRS) has legally engaged the defaulting Tax payer with all the statutory demand Notices, Reminders and distraint. Civil litigation is therefore undertaken as a last resort to redress a particular civil wrong perpetrated against the Service.

#### **Search and Seizure**

Though interpretation may vary, this right sometimes requires law enforcement to obtain a search warrant before engaging in any form of search and seizure. In cases where evidence is seized in a search, that evidence might be rejected by court procedures, such as with a motion to suppress the evidence under the exclusive rule. Tanko (2015), in their study, Tax Law Enforcement: Practice and Procedure, they found that search and seizure often scare a tax payer and serves as an efficient apparatus by tax authority to enforce tax on a tax Direct Assessment, also they found out that most tax seizure lead to court litigation and expenses on both side, furthermore they found out in their study that tax search and seizure are not the effective way to enforce taxes.

#### **Tax Revenue Generation**

Bhatia (2001) contends that revenue receipt includes

"routine" and "earned" income. For these reasons, according to him, revenue do not include borrowing and recovery of loans from other parties, but it includes tax receipts, donations, grants, fees and fines and so on. Similarly, Pearce (1986) defined government revenue as all the money received other than from issue of and debt, liquidation of investments. Government revenue includes tax collections, charges and miscellaneous revenues, utility and insurance trust revenue for all funds and agencies of a government. Public revenue according to Stephen and Osagie (1985) is concerned with various ways in which the government raises revenue.

Hofer and Schedal (1978), described strategy as a game plan through which aims and objectives of an organization is achieved. They also defined strategy of revenue generation as the fundamental pattern of present and planned resource department, and environmental interaction that indicate how the organization will achieve its aims and objectives. However, for effective revenue generation, Hofer and Schedal (1978) suggested the following strategies: Introduction of additional sources of revenue, Providing an incentive for extra efforts of the revenue generation staffs, Periodic training by officer of the revenue generation, Efficient and effective collection of existing taxes, Public enlightenment and campaign that will educate the tax payer on the importance of prompt payment.

#### **Personal Income Tax (PIT)**

The pay as you earn (PAYE) system is adopted in Nigeria because it is more economical and convenient to collect. Below a certain income level tax, some allowances are usually given to the taxpayer. The history of personal income taxation in Nigeria can be said to be dated back to the age of man prior to the period of the European colonization, these are a type of personal income taxation in Nigeria dating back to the days of one's great - grand fathers whereby communities' tax



themselves through communal labor to execute community projects to help them. Review of literature has shown that the inter-tribal wars, which existed in the olden days, were attributed to search by stronger towns or communities to get more towns or communities under their control. The weaker towns/communities conquered become the subject of the stronger one, paying taxes to them while securing will be provided in turn. During the era, people cheerfully paid taxes in kind by rendering services such as clearing the bush paths, digging of toilet pits, wells and go on for the benefit of the community as a whole. Failure to render such services usually resulted in seizure property reclaimable on payment of money or which represent money and even lead to ostracizing. This is still being practiced in some parts of towns or villages of this country today especially in the Igbo and Yoruba speaking areas. And this is the reason behind fund lurching in every festive period for executing the community development project common among the Igbo's and Yoruba's today.

The earliest trace of any form of direct taxation was in the Northern Nigeria. The organized forms of administration by emirs, who are highly respected leaders and the spirit of Islam which made it possible for people to contribute towards charity, laid a sound foundation in Northern Nigerians. Prior to 1900, there were a number of levies or forms of personal tax on agricultural products and

livestock like the "Zakka", "the Kurdin", and the "Jangali" taxes. The "Zakka" tax prescribed by Holy Korean as levied on Muslim for charitable, religious and educational purposes. This is levied on cattle and gains. KurdinKasa, an agricultural tax is levied on non-Muslims. The "ShukkSukka" is levied on farmers on plantain tax. The cattle owners were subjected to "Jangali" a cattle were subjected to "Khara" or community tax. In addition, there existed a form of death duty called "Gado" and a type of gift to the superiors termed "Gaisua", Nigerian income tax in modem form began in 1940 although there was a simplified type of tax dating back to 1927 and Northern Nigeria was one of the first sections in Africa to use direct personal taxation under the Fulani Emirs prior to the advent of the British.

### 3. Methodology

The research design that was adopted in this study is quasi-experimental design. The reason is that the entire population cannot be studied and a survey is considered appropriate. The population of this study is the fifteen (15) branches of Rivers State Internal Revenue Service (RIRS) operating in Rivers State. A total of five hundred and seventy-six (576) staff was used as samples for the study adopting the Taro-Yamen's formula. Analysis was carried out using the Pearson Product Moment Correlation Coefficient (PPMCC) with the aid of Statistical Package for Social Sciences (SPSS) version 21.0.

### 4. Analysis and Discussion

**Table1 Relationship between Search and Seizure and Personal Income Tax Correlation Result for Search and Seizure and Personal Income Tax**

		SS	PIT
Search and seizure	Pearson Correlation	1	.945**
	Sig. (2-tailed)		.000
	N	70	63
PIT	Pearson Correlation	.945**	1
	Sig. (2-tailed)	.000	



N 70 63

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 21.0

**Ho<sub>1</sub>:** There is no significant relationship between search and seizure and personal income tax( $r = 0.945$ ,  $p = 0.000 < 0.01$ ).

Based on the results illustrated, the previous fourth bivariate null hypothetical statement is hereby rejected as the study finds that: There is a significant relationship between search and seizure and personal income tax.

**Relationship between litigation and personal income tax**

**Table 2 Correlation Result for litigation and personal income tax**

		Litigation	PIT
Litigation	Pearson Correlation	1	.929**
	Sig. (2-tailed)		.000
	N	70	63
PIT	Pearson Correlation	.929**	1
	Sig. (2-tailed)	.000	
	N	70	63

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 21.0

**Ho<sub>1</sub>:** There is no significant relationship between litigation and personal income tax ( $r = 0.929$ ,  $p = 0.000 < 0.01$ );

Based on the result illustrated, the previous bivariate null hypothetical statement is hereby rejected as the study finds that: there is a significant relationship between litigation and personal income tax.

**5.0 Conclusion and Recommendations**

The researcher thus concludes as follows: Search and seizure significantly influences personal income tax even in the pandemic era; Litigation significantly influences the personal income tax. Search and Seizure is appropriate when a crime is suspected and therefore will enhance tax revenue if adopted even in line with the COVID 19 protocol, Tax penalty should be stiffer enough to serve as deterrent to would-be tax defaulters and the rate of penalty should be on a percentage basis, whereby if the tax payable is say ₹200,000 (Two hundred thousand naira) a reasonable percentage should be attached to the figure of

the tax payable to deter defaulters and this will also save the consistent changes in the tax rate and will stand a test a time ; also, distraint should be encouraged, Litigation support should be adopted by Rivers State Internal Service as it will enhance the payment of tax by the tax payers.

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