

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

According to Ade Obembe (1986), Nigeria income tax (Published by motivate enterprises Lagos).

The history of income tax is facilitating subject. Two features of vietries importance, first income tax in an old tax muchof it structured was established in 9th century, through its 100 years of existence, it was a proportional taxed based on certain percentage, these were subsequently changed on as a result of two wars of legislature has it.

Taxation was first introduced by Sir Pit in (1799) as a temporary tax aimed in providing finance or nepoleons watsand later abolished 18th century as a result of Amen peace. Whatever the intention of government in imposing taxes on individual or business or organization. Certain principle has to be put into consideration with the view of adopting fair administration methods, some of which are as follows:

- i. A good source of income: good taxation must be certain and regular to collect and calculate.
- ii. Equality: citizen should be level on the basis of their ability to pay.
- iii. As a fiscal weapon: a good tax system should be capable of being a fiscal measure.
- iv. It should be productive: A good tax system should not disturb production and efficiency.
- v. The Cost: Should not be too higher than proceed arising.
- vi. The rate to be paid as tax should not be too high as to leave inadequate amount for deal prayer as to cater for the basic necessities.
- vii. The rate to be by low and not to be left to the description of tax collectors.
- viii. The so called enacted should be simple so as to facilities easy understanding by tax payers..
- ix. The time of tax collection period from famous should be during the harvesting period.

These principles are therefore not only a necessary but a guide to word effective in the administration of taxation and development (WHITE MAN AND WHEAT KOFT 1971) income tax and survival London Maximal Limited.

2.2 THEORETICAL FRAMEWORK

A tax is noted earlier as a compulsory contribution imposed by public authority, irrespective of the exact amount of service rendered to the tax payers in return by (High pattern) in his book "Principle of Public Finance" payer a certain benefit such as provision of goods roads, good water supply, e.t.c. and if is aim at general administration of the country. There are two broad devices of taxes: these are taxes levied directly.

i. DIRECT TAXES: These are taxes are levied directly on the income of the tax payer and his properties they are called taxes because their burden falls directly on the tax payer. They constitute effective sources of revenue to the federal government because:

- i. Their collection cost are less particularly where pay as your earn system is used
- ii. They could be used as an instrument of fiscal policy to control inflation
- iii. They are certain and government budget on them
- iv. Their change up tax evaluation is more difficult than direct tax
- v. They tend to be equitable because they secure equality of burden of taxes among the payers.

Inspite of these credits, direct taxes have the following demands:

- a. They are paid consciously and therefore the impact is highly felt by the payer.
- b. These is tendency of arbitrariness in the assessment
- c. They could be used as political weapon to fight the opposition parties
- d. They can cause heavily and resentment in different quarters like the abariot (1929), on rest in western Nigeria (1986 and 1968).

It is worthwhile to mention some of the most important direct taxes, includes personnel income tax, company tax, among others. Researcher shall dwell a little on personnel income tax because this directly affects.

1. PERSONAL INCOME: According to Nigeria taxation (1986) journal of character institute of Nigeria volume 1, income upon which personal income charged could be defined as the total income from all source for years, including balancing charge less any relief are deducted from the gross income before a fixed rate is charged on the balance called chargeable income.

The assessment and collection of income tax are rounded in a long series of act of parliament. The principle which was planned in the year (1842), up to (1906).

The rate of taxes is suggested by the government according to their financial requirements. Variation of the code also suggested by them to the official income tax is not in the theory a permanent tax. It is based on the provision of act of forced.

The first of such a division indirect taxes is that of pay as you earn (PAYE) system where by each employee pays certain percentage of taxes to the government based on the nation of higher pay contract higher rate. The amount of which is devucted by the employee. A flat rate is imposed regardless of difference system exist in the of an individual, income tax management act ITMA 1961 amendment.

This very owns to the reason before discussed under demerit of taxes. Other form of the direct taxes mention above are income (any tax which is a compulsory company, income tax at 1961).

Capital tax embraces such as annual tax assets periodic taxes on increment available in Ilorin west local government.

2. INDIRECT TAXES: These are taxes which are levied on goods and services that are sold to public. They are called indirect tax because the incidence does not fall direct on the payer. It is being bore by the wholesaler, manufacturer or the retailer, company income tax act fall direct on the payer. It is being bore by the wholesaler, manufacturer or the retailer, company income tax act of 1961 EDDY C. N. (1988;4).

However, small or large it may be, taxes are paid on any thing that is bought in the market. The revenue according to the government terms their source is mistakable one, these includes:

i. EXCISE DUTIES: These are taxes levied on the locally manufactured goods such as cigarette, beer, cements. These types of taxes are not in operation in Ilorin west local government, it indirectly benefit from it through the statutory allocation from the federal government, therefore, it is worthy of amplification on direct taxes.

ii. They are difficult to evade because they are being taxes on direct taxes

iii. Its collection are simple and therefore yield revenue to the government quickly

iv. They unconsciously paid and therefore resentment and up heavals

v. They do not directly affect savings.

2.3 CURRENT TRENDS IN THINKING

These are imposed by various government for various reason some of which are levied in order to generate revenue to enable the government perform there basic function which includes:

a. The protection of citizens against external aggressor.

b. The maintenance of law and order and the provision of social services to the entire populations.

Taxes are also being imposed with the view to redistribute and bridge income gap this enables the highly placed people pay more than the lower (ACKAH-Nyamike E. E. and Milton C. Taylor) prevailed individual in the community. This is being done by the government through the establishment of progressive tax structure to achieve this aim.

It is also be used to check information that is to reduce excess liquidity in circulation and also being used to discourage the consumption of certain goods and services by placing heavy taxes on the luxury and patronage by the customer.

Taxation is also aimed at checking unemployment by changing a very own tax on the point of corporate industries so as to ploughed back their profit back problem.

2.4 SUMMARY OF THE CHAPTER

This chapter gives literature review of the topic taxation and revenue generation; it also examines the general principles of taxation in Nigeria and the purpose in which tax were collected for. The instrumental tools in controlling the economic in terms of inflation, deflation, import duties royalties e.t.c.

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