

ASCERTAINMENT OF TOTAL INCOME OF AN INDIVIDUAL: INVESTIGATION AND ENFORCEMENT CONSIDERATIONS

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ABSTRACT

*The ascertainment of total income is central to both personal and company income taxation, as it determines the tax liability of an individual and corporate taxpayer. In Nigeria, where informal economic activities and weak compliance mechanisms persist, tax authorities face persistent challenges in verifying income sources and ensuring accurate declarations. This paper examines **specifically** the process of ascertaining an individual's total income within the Nigerian legal framework, emphasizing investigative and enforcement considerations. It explores statutory provisions, administrative procedures, and practical challenges in income verification, while proposing measures to enhance the integrity, transparency, and efficiency of the tax system.*

INTRODUCTION

Taxation remains one of the most significant tools for sustainable revenue generation and socio-economic development. In Nigeria, personal income tax is governed by the Personal Income Tax Act (PITA) Cap P8, LFN 2004 (as amended), which mandates individuals to declare and pay tax on their total income. The accurate ascertainment of such income is therefore fundamental to tax equity and efficiency.

However, the process is often fraught with difficulties due to under-declaration, lack of proper records, cash-based transactions, and an expanding informal sector. Tax authorities, particularly the Federal Inland Revenue Service (FIRS) and the State Internal Revenue Services (SIRS), must employ effective investigative and enforcement mechanisms to ensure compliance and protect public revenue. This article provides an analytical overview of the legal, investigative, and enforcement dimensions of income ascertainment in Nigeria.

Legal and Conceptual Framework

Under Section 3(1) of PITA, tax is chargeable on the total income of an individual for each year of assessment. Total income includes gains, profits, and other earnings derived from:

- a. Employment (salaries, wages, bonuses, allowances);
- b. Trade, business, profession, or vocation;
- c. Rent, interest, dividends, royalties, and other investment income;
- d. Any other source not specifically exempted by law.

In ascertaining total income, the tax authority must deduct allowable expenses, reliefs, and exemptions as provided under Sections 20 and 33 of PITA. The process involves:

- i. Income identification – determining the sources of the taxpayer's earnings;
- ii. Computation of assessable income – adjusting for relevant deductions and reliefs;
- iii. Ascertainment of chargeable income – the final taxable amount after statutory adjustments.

The Commissioner of the relevant State Internal Revenue Service (or FIRS for certain taxpayers) is vested with the power to issue assessments, review returns, and conduct audits to verify income declarations.

Investigative Approach to Income Ascertainment

Given widespread tax evasion and incomplete reporting, investigation becomes an indispensable tool in income ascertainment. A tax investigation goes beyond routine audit; it involves detailed inquiry into the taxpayer's affairs, usually triggered by suspicion of non-compliance or fraud.

Methods of Investigation

- a. Documentary review: Analysis of financial statements, payroll records, and bank statements.
- b. Third-party verification: Obtaining information from employers, banks, property registries, CAC, and other institutions.
- c. Lifestyle and expenditure analysis: Comparing known expenditure with declared income to uncover underreporting.
- d. Field investigation: Physical visits to business premises or residential addresses to confirm operations and income sources.
- e. Data analytics and technology: Use of digital tax databases, TIN-linked systems, and electronic transaction trails to match income with expenditure patterns.

Role of Technology

The digital transformation of tax administration, driven by initiatives such as the TaxPro Max platform of FIRS and State e-filing systems, has improved the traceability of income. However, gaps still exist in data integration, particularly between federal and state tax authorities, which limits the comprehensiveness of income investigation.

The adoption of E-Tax Administration Mechanisms in the areas of Registration, Filing and Payment of the relevant taxes as recommended by Dr. Akpobari Fabeke Mbea, et al in his work (E-tax administration mechanisms and tax revenue in Nigeria) will go along in improving the ascertainment of total income of an individual for a particular year or period.

Enforcement Considerations

Effective enforcement ensures that identified income leads to actual tax recovery. Enforcement mechanisms are backed by the Federal Inland Revenue Service (Establishment) Act 2007, PITA, and related statutes.

Effective enforcement/compliance measures which are clearly spell out in the rules, regulations, and laws should also consider the following:

- a. Siezures of assets
- b. Revocation of licences
- c. Court orders
- d. Fines and penalties; and
- e. Imprisonment when convicted; etc

Legal Enforcement Powers

- a. Best of Judgment (BOJ) Assessment: Under Section 54 of PITA, where a taxpayer fails to file returns or cooperate, the tax authority may issue an estimated assessment.
- b. Recovery of Taxes: The FIRS Act empowers the Service to recover unpaid taxes by garnishee orders, distraint, or prosecution.
- c. Prosecution of Offences: Sections 94–99 of PITA provide penalties for failure to furnish returns, false declarations, or obstruction of officers.

Inter-Agency Collaboration

Tax enforcement increasingly depends on collaboration with agencies such as the Economic and Financial Crimes Commission (EFCC), Nigeria Financial Intelligence Unit (NFIU), Corporate Affairs Commission (CAC), and Central Bank of Nigeria (CBN). These partnerships facilitate access to financial intelligence, company ownership records, and suspicious transaction data.

Ethical and Procedural Considerations

While enforcement must be firm, it should also be fair and transparent. Tax authorities must uphold confidentiality, avoid abuse of power, and respect taxpayers' rights as provided under the Taxpayers'

Charter. An enforcement-driven system that neglects due process can erode public trust and lead to litigation.

Challenges in Ascertainment and Enforcement

Despite legal empowerment, several structural and institutional challenges hinder effective ascertainment of total income:

- i. Informality: A large segment of Nigeria's workforce operates outside formal structures, making income tracking difficult.
- ii. Poor record keeping: Many small businesses lack proper accounts or use cash-based systems.
- iii. Data fragmentation: Absence of a unified national taxpayer database linking income, assets, and expenditures.
- iv. Weak investigative capacity: Limited training and technological resources within tax agencies.
- v. Corruption and collusion: Some taxpayers or officials may compromise investigations for personal gain.

Strategies for Improvement

To enhance the process of income ascertainment and enforcement, Nigeria's tax authorities should adopt the following strategies:

- i. Integrated Data Systems: Establish a central taxpayer information database linking TINs with NINs, BVNs, and corporate records.
- ii. Digital Forensics: Train investigators in forensic accounting, data mining, and digital evidence gathering.
- iii. Voluntary Disclosure Programmes (VDP): Encourage taxpayers to regularize undeclared income through structured amnesty programmes.
- iv. Inter-Agency Intelligence Sharing: Strengthen institutional cooperation with financial regulators and anti-corruption bodies.
- v. Tax Education: Promote taxpayer enlightenment to improve voluntary compliance.
- vi. Legislative Reforms: Update PITA provisions to reflect modern realities, particularly concerning digital income and cross-border earnings.

CONCLUSION

The ascertainment of total income is the cornerstone of a fair and functional personal income tax system. In Nigeria, effective income determination requires a combination of sound legal frameworks, skilled investigation, and credible enforcement mechanisms. While technology and inter-agency cooperation have improved the landscape, persistent challenges such as informality, weak records, and corruption continue to undermine efficiency. Strengthening investigative capacity, ensuring ethical enforcement, and fostering a culture of voluntary compliance remain the surest path toward a transparent and revenue-sustainable tax system.

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