



SOW
Professional Services Ltd

RC 1516645



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DIRECT ASSESSMENT ADMINISTRATION IN NIGERIA

METHOD OF OPERATIONS



DIRECT ASSESSMENT

DEFINITION

It is a system through which self-employed persons are assessed and charged to pay tax based on their personal income generated. The self-employed include but not limited to: Professionals (Lawyers, Architects, Accountants, Surveyors, Consultants etc). Contractors, Politicians, Mechanics, Traders, Welders, Vulcanizes, Farmers, Carpenters, Tailors, Butchers, Hairs Dressers, Bricklayers, Dyers, Traders, Artisans, Musicians, Comedians, Athletes and all residents in a particular State who have any source of income.

The Personal Income Tax Act (Cap P8 LFN 2004) as Amended in 2011 imposed tax on individuals who are either in employment or are running their own small businesses, under a Business Name or Partnership or as a Director in an Organisation.

PERSONAL INCOME TAX (AMENDMENT) ACT 2011

The Acts empowered the Federal and States Tax Agency/Boards to identify persons living in or earning income from Nigeria who are required to pay tax, and to assess incomes and tax their incomes using specified guidelines and rules. This law also guides the tax official in identifying the residence of potential taxpayers, as well as the sources

and origins of their incomes for the purpose of taxing the income.

Though collection of Personal Income Tax is a Federal responsibility, this tax is generally collected by State governments from those that are resident in their various States, regardless of whether they are Federal, State, Local Government, or Private Sector workers. The Federal Inland Revenue Service, also collects this tax but, only from residents of the Federal Capital Territory as well as what may be described as highly mobile Federal Workers, Staff of the Ministry of Foreign Affairs, other Nigerians and foreigners outside the country, but earning income in Nigeria (non-residents), Expatriate Workers resident in Nigeria, Police Officers, and Military Officers. Civilians working in Police and Military formations, however, pay to their respective States of residence.

TYPES OF PERSONAL INCOME TAX

Under the Act, Personal Income Tax for Individuals are divided into 2 types:

1. Pay As You Earn (PAYE): This is imposed on individuals, who are in employment and is expected to be deducted at source and remitted monthly, by the employers of such employee.
2. Direct Assessment: This is imposed on individuals who are in self-employment or Partnership. The process and procedures guiding this type of payment are discussed in further.

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The above mentioned categories of people can be assessed through the following:

(A) SELF-ASSESSMENT

It is a system where a taxable person voluntarily assess himself, file tax returns and pays to the State Internal Revenue Agency (SIR) of his or her residence. For instance Tax Payer who resides in Lagos has a responsibility to pay to Lagos Internal Revenue Services (LIRS).

The self-assessment filed may be subjected to review from time to time by respective State Internal Revenue.

(B) GOVERNMENT ASSESSMENT

It is a system where the tax payer is assessed by State Board of Internal Revenue after a Tax Payer has filled and returned his annual tax returns for the relevant year of assessment

(C) BEST OF JUDGEMENT ASSESSMENT (BOJ)

It is a process where the State Internal Revenue uses the Information available to it to raise an assessment on a tax payer, who fails to file his returns within the stipulated period as allowed by law.

PROCEDURES FOR SELF-ASSESSMENT

1. Collect the Self-Assessment form from the Head Office or any Area Revenue Office nearest to you
2. Complete the form honestly, indicating your actual Income for the relevant years of assessment.
3. Indicate the correct tax you should pay based on the approved self-assessment tax table

4. Pay the tax to any of the designated Bank Accounts or Transfers and make sure you collect an-e-receipt instantly.
5. Payment could be made in cash, cheques or bank draft to designated bank accounts as stipulated the State Internal Revenue Agency.
6. Having assessed and paid, the Revenue will review to ascertain the correctness of the assessments; and may accepts or review the assessment either upward or downward.

The process of Direct Assessment filing has been automated by many State of Internal Revenue Agency in Nigeria, hence, online processing of this is available, depending on your State of residence.

It is also important to note, that as Sole Proprietor or a Director of a Company registered with a Business Name status, the tax clearance for the Sole Proprietor or a Director suffice for the business organisation.

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