

**REENGINEERING TAX AS A STIMULUS FOR GROWTH AND DEVELOPMENT
IN NIGERIA**

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ABSTRACT

Taxation and its product, Tax have been very important vehicles for economic policies of many countries of the world. For a very long time, tax has been a major source of revenue for various levels of governments. For instance, in Nigeria, the laws of the land stipulate the categories of taxes that are collectable by each of the three tiers of government. This is with a view to enhancing basic economic growth and development at all levels of government. However, the use to which taxes are put is a major concern to the majority of Nigerians. This paper examines the major taxes accruing to various governments in Nigeria as reported by the Federal Inland Revenue Service (FIRS). The study adopted the use of secondary data as the major data collection method. Thus, the author relies on data obtained from the Federal Inland Revenue Service report for the analysis of the various revenues accruing to Nigeria. Also, various books, journals and government publications were used extensively for the analysis. Reported opinions of Nigerians on the application of these revenues for developmental activities were also reviewed. The analysis of the taxes collected from 1995 to 2004 suggests that government has not really lived up to its responsibilities in terms of the provision of basic social amenities and other infrastructures necessary for the growth and development of a nation. The study therefore, suggests some recommendations, which if accepted and embraced could enhance a better economic growth and development in Nigeria.

INTRODUCTION

Responsible governments all over the world, be it at the Federal, State or Local government level, are concerned with the provision of social goods and services for their citizens.

They are responsible for the maintenance of laws and orders within their nations and also for the protection of their territorial integrity against any external aggression. In carrying out these social responsibilities, a huge amount of money is needed. One of the major sources of fund available to government to execute its numerous programs is imposition of taxes.

Governments at various levels enact laws to impose taxes and to enforce their payment so that enough revenue can be generated to defray their expenditure.

However, despite many stringent penalties and fines in the tax laws, it appears that a lot of individuals and corporate entities still do not see the reason why they should pay correct taxes or pay taxes at all. Hence, they try in some cases to avoid payment of taxes and in other extreme cases, evade taxes (Bukar, 2004; Omoigui, 2004).

In the light of the above, it is necessary to examine the Nigerian Tax System vis-à-vis the use that the revenues generated from taxes in Nigeria are being put.

The paper is divided into six major parts, namely: the introduction (as given above); conceptual framework; specific uses of tax as a stimulus for growth and development; analysis of data; criticisms of government's handling of tax revenue; summary, conclusions and recommendations.

Taxation

According to Anyaduba (1999), taxation can be defined as the process or system of raising revenue through the levying of different types of taxes.

On the other hand, Ogundele (1999) defines taxation as “the process or machinery by which communities or groups of persons are made to contribute.... in some agreed quantum and method for the purpose of the administration and development of the society”.

He went further to say that “taxation is the transfer of real economic resources from the private sector to the public sector to finance public sector activities”.

Classification of Taxes

Broadly speaking, taxes can be classified into two, viz: direct taxes and indirect taxes.

Direct Taxes:

These are taxes that have direct bearing on the income of individuals and corporate entities. That is, they are imposed directly on the incomes of individuals and companies. The tax burden is not usually transferable; it is borne by the taxpayer. Examples of direct taxes are:

- ❖ Personal Income Tax
- ❖ Companies Income Tax
- ❖ Petroleum Profits Tax

- ❖ Education Tax
- ❖ Capital Gain Tax

Indirect Taxes

These are taxes that do not have direct bearing on the incomes of individuals and corporate entities. They are taxes imposed on the production and consumption of goods and services.

The tax burden is usually transferred from the manufacturer or producer of the goods and services to the final consumers. Sometimes it is convenient for government to levy indirect tax as a given percentage of the cost of goods produced; this type of tax is called an Ad valorem tax (Anyaduba, 1999:3).

Examples of indirect taxes in Nigeria include but are not limited to:

- ❖ Value Added Tax
- ❖ Custom Duties
- ❖ Excise Duties
- ❖ Mineral Royalties
- ❖ Casino Tax
- ❖ Property Tax
- ❖ Stamp Duties.

Collectable Taxes and Levies by Each Tier of Government In Nigeria

The administration of taxes in Nigeria is vested in the tax authorities of each of the levels of government. Nigeria operates three tiers of government, that is, the Federal, State and local governments.

Each of these tiers of government has authority by law to collect certain taxes and levies. The taxes and levies collectable by each government is as categorized below:

Federal Government

- ❖ Companies Income Tax
- ❖ Capital Gains Tax-Abuja residents and corporate bodies
- ❖ Petroleum Profits Tax
- ❖ Stamp Duties involving corporate entities
- ❖ Value Added Tax
- ❖ Withholding Tax on companies

- ❖ Education Tax
- ❖ Personal Income Tax in respect of:
 - Armed Forces;
 - Police;
 - Residents of Abuja Federal Capital Territory;
 - External Affairs; and
 - Non-residents.

State Government:

Personal Income Tax, this includes:

- (a) Pay-As-You-Earn (PAYE);
- (b) Direct (self and government) Assessment;
- (c) Withholding Tax (Individuals only);
 - Capital Gains Tax involving individuals;
 - Stamp Duties (Instruments executed by individuals);
 - ❖ Pools betting and lotteries, gaming and casino Taxes;
 - ❖ Road Taxes;
 - ❖ Business premises registration and renewal levy;
 - Urban areas as defined by each state; Maximum of N10, 000 for registration and N5, 000 per annum for renewal of registration;
 - ❖ Rural areas: New registration is N2, 000 while renewal is N1, 000 per annum.
 - ❖ Development levy (individual only) not more than N100 per annum on all taxable individuals;
 - ❖ Naming of street Registration fees in state capital;
 - ❖ Market taxes and levies where state finances are involved.
 - ❖ (10)Right of occupancy fees on land owned by the State Government in urban areas of the state

Local Government:

- ❖ Shops and Kiosks rates;
- ❖ Tenement rates;
- ❖ On and off liquor license;

- ❖ Slaughter slab fees;
- ❖ Marriage, birth and death registration fees;
- ❖ Naming of street registration fee (excluding state capitals);
- ❖ Market and Motor park fees (excluding markets where state finances are involved);
- ❖ Domestic animal license fees;
- ❖ Bicycle, truck, canoe, wheelbarrow and cart fees other than mechanically propelled
- ❖ Trucks;
- ❖ Cattle Tax payable by cattle farmers only;
- ❖ Merriment and road closure levy;
- ❖ Radio and Television (other than Radio and Television transmitter) license and
- ❖ vehicle radio license (to be imposed by local government of the state in which the
- ❖ vehicle registered
- ❖ Wrong parking charges;
- ❖ Public convenience, sewage and refuse disposal fees;
- ❖ Customary burial ground permit fees;
- ❖ Religious places establishment permit fees;
- ❖ Signboard and Advertisement permit; and
- ❖ Trade permit

The various sources of tax revenue for each tier of government were deliberately detailed above so as to know how each of them generates its income.

Reengineering Tax as a Stimulus for Growth and Development

Responsible governments all over the world design fiscal policies that will enhance the achievement of sustainable economic growth and development. In his remarks on the “Quality of Fiscal Adjustment”, Figaredo (2005) states that financial transactions taxes can drive financial transactions underground when levied at high rates. He explained further that fewer financial transactions result in falling revenue yield, the economy loses productivity, and the banking system suffers. He argued that repeated tax amnesties erode taxpayers’ incentives to comply with tax laws, and damage the credibility of tax authorities. According to him, “not only do they result in lower revenue over the longer term, their benefits typically accrue to the better off in society”. On durable revenue reform, international experience suggests that the most promising measures focus on expanding tax base. Eliminating exemptions and tax incentives contributes to the overall efficiency of the tax system and also improves revenue productivity (Figaredo, 2005: 3-5). In a deliberate attempt to promote sustainable growth and development in Arizona, the Governor, Janet Napolitano, in accordance with the Growing Smarter Acts, appointed the “The Arizona Growing Smarter Oversight Council” volunteers and

key state agency representatives with the responsibility of continuously assessing the success and challenges of Arizona's planning and growth management legislation-the 1998 and 2000 Growing Smarter Acts. According to her, "to ensure Arizona's desirability as a geography that combines incredible natural resources with a dynamic and energetic economy, livability and quality growth must be integrated with our everyday lives and expectations for our future growth and development" (Napolitano, 2006: 1-4).

The idea of sustainable development is a "going concern" in America and other European countries. For instance in America, the prospect of economic integration raises sizeable challenges for sustainable management of the environment and natural resources.

According to Bourdages (1997), the implementation of sustainable economic growth and development presupposes that certain conditions must be fulfilled. These conditions include democracy, autonomy, fairness, interdependence, responsibility and accountability. It also requires compliance with certain fundamental principles such as environmental and economic integration; maintenance of biological diversity and conservation of natural resources; precaution, prevention and evaluation; co-operation, partnership and participation; education, training and consciousness raising. The governments of America have developed a plan of action for the sustainable development of the Americans, and this is based to a large degree on these conditions and principles.

For a better understanding of the above topic, a look at the concept of sustainable growth and development, and the basic conditions of sustainable growth and development is desirable.

Conclusions

There is no gain saying the fact that tax revenue constitutes a major source of government revenue (public revenue). Revenue collected through various taxes is meant to be used for various specific projects to better the lives of citizens in a country. In the light of this, it is strongly advised that cognizance should be taken of the "specific uses" that Lagos State government has been putting its revenue to. These include: re-habilitation of old roads and construction of new ones, canalization and drainage system, construction of pedestrian bridges, provision of BRT buses, to ease the transportation problem in the state, and the beautification of Lagos State to mention just a few. All these have multiplier effects on the economy, such as creation of jobs for thousands of people, opening up links between rural and urban areas and inducing new investors into the state with the utmost objective of stimulating economic growth and development in the state. It is advised that other state governments and even the federal government should emulate this lofty idea of good governance in order to make life better for the citizens of this country. Governments at all levels should embark upon public expenditure

that will stimulate economic growth and development so that apathy among many taxpayers in this country will be a thing of the past.

Recommendations

In order to achieve economic growth and development through specific uses of tax, the following recommendations are suggested:

Tax Education: It is very essential for government to give adequate tax education to the general public. Since changing the errant mindset of older Nigerians on tax matters is nearly impossible, it becomes imperative to inculcate a new mentality in the next generation of taxpayers. This may be a long-term solution for an endemic problem but certainly will yield better result. The idea of liaising with the ministry of education to inculcate the need to pay tax in our young people as being proposed by Omoigui (2004) is also a welcome one. She was however, quick to say “But I accept that the government also needs to win the trust and confidence of the people if we are to get them to pay taxes”.

National Tax Policy: The idea being considered by Omoigui, chairman of the Federal Inland Revenue Service (FIRS), to draft Nigeria’s first ever-national tax policy is a welcome one. The national tax policy should be projected and implemented based on the principles of fiscal neutrality, efficiency (i.e. fiscal performance), fiscal treatment equality, fiscal norm sustainability, minimizing cost of collecting, substantiating the public expenditure, public expenditure performance, tracing the public funds, the equality of treatment upon public funds and multi annual budget.

Stimulation of Effective Demand: Government should invest in specific productive and viable projects that would create employment for the generality of the people. This will enhance people’s ability to demand for goods and services.

Stabilization of Prices and Employment: Market mechanism (i.e. the forces of demand and supply) alone may not likely achieve economic growth and development in a country. The more advanced and free the market mechanism, the more prone the economy is to the vagaries of income, employment and price fluctuations. Therefore, public expenditure can be devised as an anticyclical tool to create “effective demand” thereby, stimulating investment activities. It is instructive to emphasis that the total demand needs to be controlled so that the demand flows match the supply flows, otherwise, the stimulating effect may lead to an inflationary tendencies.

Public Expenditure and Redistribution of Income and Wealth: The inequality of income and wealth is an important evil of market mechanism. Inequalities in income and wealth do not only

result in economic injustice but also distort production and employment patterns. Specific use of tax for public expenditure such as direct purchases, production of vital public goods and subsidies can ensure the supply of certain goods and services to the desired level. An example of this was the establishment of the Nigerian National Supply Company (NNSC) and purchase of fertilizers and selling them to farmers at subsidized rates.

Public Expenditure and Economic Growth: In developed economies, public expenditure helps to maintain a smooth growth rate through economic stabilization, stimulation of investment activities and social welfare. In developing economies like Nigeria, public expenditure has an important role to play in reducing regional disparity, developing social overheads, creation of infrastructure for economic growth in terms of communication and transportation facilities, education and training, research and development and so on. It is therefore, imperative for governments at all levels to ensure that the public expenditure that are embarked upon are those that will stimulate economic growth and development.

Efficient and Effective Budgetary Allocation: For there to be economic growth and development in this country, governments at all levels should strive very hard to ensure the efficiency and effectiveness of budgetary allocation on the basis of priorities, transparency of public expenditure and assuring the multiplication effect of public expenditure on the real economy.

Recognition of Benefits to Tax Producers: In order to use tax as a stimulus for economic growth and development, government fiscal policy should rather function in the benefit of tax producers than in the benefit of tax collectors and such policy should rely on a real partnership between state and contributor.

Possible Reduction in Tax Rate: Government may consider possible reduction in tax rates so as to encourage compliance by different categories of taxpayers. For instance, the government of Romania has reduced profit tax from 25% to 16%, whereas, Nigerian Companies Income Tax is 30% (Government of Romania, 2006: 3). This 30% tax rate is considered to be high and needs to be reviewed downward. A possible decrease in tax rate if well managed will lead to an increase of the taxation base by development of the existing business and increase of direct foreign investments. This will also reduce the share that underground economy has on GDP.

Possible use of Single Tax Rate: Government may consider the application of single taxation rate, both for Personal Income Tax and for Profit Tax. The taxation rate should be a competitive one as compared to the countries that Nigeria competes with, in order to attract direct foreign investment.

Collaboration With the Economic and Financial Crimes Commission (EFCC): A part from the conventional processes for getting and punishing tax offenders in Nigeria, the Federal Inland Revenue Service should partner with the Economic and Financial Crimes Commission to track down those who are flouting the tax laws.

Adherence to the Basic Conditions and Principles of Sustainable Economic Development: Finally, strict adherence to the basic conditions for sustainable economic development such as Democracy, Fairness, Interdependence, Responsibility and Accountability; general principles of sustainable development such as Environmental and economic integration, Maintenance of biological diversity and conservation of natural resources, Precaution, prevention and evaluation, Cooperation, partnership and participation, Education, training and awareness as explained earlier in this paper is a very good impetus for specific uses of tax as a stimulus for growth and development of any nation.

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