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AN EXAMINATION OF THE REVENUE PROFILES OF STATE GOVERNMENTS IN SOUTH WESTERN NIGERIA

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Abstract

This study examined the revenue profiles of state governments in South-Western Nigeria. A simple random sampling technique, incorporated with the Slovin formular, was used to select 356 respondent's tax officers, 353 taxpayers through structured questionnaires administered. Approved budgets of the selected states from 2002 to 2011 were used for secondary data collection respectively. The descriptive statistics results showed that Ekiti state has the minimum generated revenue of co-efficient 0.10 and the least stable with standard deviation (SD) value of 2.71. On the average, the maximum revenue is generated by Lagos state with co efficient of 16.25 followed by Ondo state with coefficient of 11.94. Revenue generation in Ondo state is least stable with SD of 0.404 compared to that of Lagos state with SD of 0.391. Ogun state,though ranked third in revenue performance in South Western Nigeria with coefficient of 7.63 has the most stable revenue profile with SD of 0.177. The study concluded that value added tax (VAT) has the tendency to enhance the revenue profiles of the sampled states.Hence, policy makers efforts should be aimed at increasing the base , minimise avoidance and evasion of VAT .

Keywords: Revenue, Vatable Persons, Poverty alleviation, Taxation

INTRODUCTION

Revenue from taxes remains the most significant contributor to nation's fiscal and economic development (IMF, 2007). This is evidenced by the attention problems of taxation have received over the years in literature (Keen, 2006). The relevance of revenue from taxation is a core motive for increased suggestion that emerging economies such as Nigeria must increase resources from within for sustained economic growth and fiscal deficit reduction through effective tax policy (Wawire, 2006). The large increase in fiscal deficit or programmed balanced budget has been attributed to the rapid expansion in government expenditure when compared to collected revenue, thus promoting fiscal deficit discussions in most developing countries like Nigeria over the past decades (Qasi and Sulaiman, 2010).Unfortunately, according to Egwaikhide (1999), government expenditure continued to exceed collected revenue unabated which resulted in budget deficit. The main consequence of the persistent volatility in the world market price of crude oil which remains as the main source of revenue into Nigeria Federation account result in persistent decline in collectable revenue, hence the need to empirically investigate the government revenue profile.

In Nigeria, the need to control the fiscal deficit through generation of higher revenue especially from non-oil sector, occupies the attention of every tier of government and redirect focus on taxes such as Value Added Tax (VAT) as a reliable revenue source especially in the presence of rising expenditure (Matthew, 2010). According to Lindholm, 1970, the basic principles of VAT were developed in Germany and America; it has also established itself as a strong source of revenue for government (Keen and Lockwood, 2010). The enabling law for the value added tax was the VAT Decree 102, made on 24th August, 1993 in Abuja by the then Head of State and Commander in Chief of Nigeria, General Ibrahim Babangida.

Problem Statement

The presumptions that VAT makes it easier to raise revenue and a beneficial expansion of the armoury of tax instruments available to governments, and in that sense improves the economic development of the state or nation adopting it requires some evaluation on empirical grounds. Hence, the concern of this study is to empirically assess these presumptions.

Nigeria, as a developing country is confronted with a lot of problems that serves as stumbling block for an effective and efficient tax system. Such problems include the weak economic structures that impede collection of certain taxes, poor data base system and the limited ability of the tax authority in terms of education and experience (Tanzi and Howel, 2000). Despite the reforms that the nation had witnessed in tax administration in the past eleven years, a lot of grounds are needed to be covered (Jonathan, 2010). It is obvious that most wealthy Nigerians, who have the means, generally do not pay tax or tax due. Our basic problem perhaps is that the enforcement machinery of our tax laws is so innocuous that anybody can go against it without any qualms. Those charged with its administration are more often than not so ill-equipped, ill-trained and neglected that they become disillusioned, frustrated and therefore hardly give their best services. Tax administration in Nigeria is generally poor in spite of the efforts of government, tax administrators, practitioners and institutions to improve tax administration. There are still myriad of problems militating against effective tax system and the regressiveness of the Value Added Tax has not insulated it from these problems (Delfin, Marna, Sherman and Karen, 2005).

LITERATURE REVIEW

Ariyo (1997) carried out a study on the tax system productivity for the period 1970-1990. His conclusion was the Nigeria revenue profile was sustainable at that period but no structure was in place to improve in the short run. The policy implication of this conclusion was that the stagnancy of the government revenue profile as fiscal demand increases due to developmental demands will make the revenue profile unsustainable in the long run Government that fails to take adequate measure to boost revenue will definitely experience fiscal deficit as expenditure increase due to increased development outweighs needed revenue to carry out the developmental activities. The value added tax being a consumption tax is a powerful instrument available to a government for economic growth and social development. Ajakaiye (2000) observed that Nigeria VAT has a number of features that theoretically make it quite straightforward and as painless as possible. Like other tax systems, the VAT reform analysis is anchored principally on revenue generation, productivity, economic efficiency, equity and administrative feasibility (Falokun, 2005).Hence, none of these parameters can be ignored in any tax system that will sustain the fiscal stability of Government. However, lack of fiscal discipline, mismatch between revenue collection and expenditure of government and a non buoyant tax structure contribute more to inadequate revenue from taxation especially in developing countries like Nigeria.

Conceptual Explanation

Taxation is basically the process of collecting taxes within a particular location. It is a monetary charge imposed by government under an enabling law, on persons, entities, transactions or properties for the purpose of generating revenue (NISER, 2013) .VAT is derived from the concept of value added, which represent the added value of a product over its cost from prior production stage. VAT is levied on the value so added and its burden is on the final consumer.

According to Owolabi and Okwu, (2011), VAT is both a consumption and indirect tax. The incidence of tax collection for the government falls on the supplier of those goods and services while the burden of the payment rests on the final consumer. VAT revenue has become a significant source of government revenue in Nigeria, hence the need for it’s empirical assessment.

Concept of Value Added Tax in Developing Countries

Conceptually, the VAT is charged on taxable supplies of goods and services made by a taxable person in the course of continuous business activities carried on by such a person. It is a tax charged on the increased value of goods or services in the process of their production or delivery.

The revenue structures of most developing countries have not been as productive as desired. Ariyo (1993) applied the test by Blinder and Solov (1973), Buiter (1983) and Zee (1988) and concluded that Nigeria was unable to get out of its fiscal deficit profile in the past two decades as a result of mismatch between government revenue and its expenditure. Ariyo and Raheem (1990) also concluded that the unsynchronized revenue and expenditure profile since 1970s caused the recurrent fiscal deficit profile of Nigeria to be unsustainable. However, Alade (2003) was of the opinion that fiscal deficits could stimulate aggregate demand and set a country on the path of recovery. Iyoha (2004) was of the opinion that given the structural and systematic problems commonly associated with less developed countries, budget deficit invariably appears in the course of governance and such are usually financed by either by borrowing from the central bank, non-banking public and external sources. He emphasized that fiscal deficits raise the level of money supply which in turn sets in motion private sector wealth and asset portfolio decisions with respect to financial and real assets. These countries had to carry out a lot of reforms in tax structures, with the general objectives of revenue adequacy, economic efficiency, equity, fairness and simplicity (Osoro, 1993). The International Monetary Fund (IMF) and the World Bank advised developing countries like Nigeria in the last decades to redirect focus to value added tax (VAT) and to maintain relatively high corporate income tax rates (Margalioth and Reuven,2006).

Tanzi and Howell (2000) further emphasised that an alternative approach to assess whether the overall tax level in a developing country is appropriate has been to compare the average tax burden of a representative group of both developing and developed countries , taking into account some of these countries characteristics. Margalioth and Reuven (2006) emphasised that the regressiveness of consumption taxes such as VAT can be compensated through judicious use of the tax revenue generated .

Emran and Stiglitz (2005), Gordon and Li (2005) challenged the conventional view, arguing that the relatively large informal sector, level of corruption, monetization, high shares of agriculture and small businesses in developing countries may justify a different tax policy design. The key assumption in their theory is that firms in developing countries can evade taxes completely by shifting entirely to cash transactions and not using the financial sector as the financial sector plays a critical role in the functioning of the tax structure. Gemmel and Morrissey

(2003) asserted that taxes on items in high demand by the poor segment of the society can enjoy a lower tax rate or outright exemption. The important implication of this for tax policy is that, on the basis of distribution and poverty, taxes on goods that are most important in the consumption bundles of the poor should be kept as low as possible.Nigeria at present adopt a single rate of 5% on all vatable goods and services irrespective of whether they are necessities or luxuries. The policy implication of no differentiation in rate of vat between luxuries and necessities is that the attempt by government to review this rate upward has been consistently resisted by the people due to the effect it will have on the consumption of necessities by the generally poor masses of the country.

METHODOLOGY

Descriptive analysis using standard deviation and mean were employed to give a vivid account of the revenue profile of each sampled state. The revenue profiles of Ondo, Oyo, Ogun, Ekiti and Lagos states for ten years were obtained from the approved budgets of the states and these were analysed using bar –charts, standard deviation and mean to determine comparative difference between each of the sampled state. The samples for the primary data questinnaires were derived from the respondents groups for the selected states using the Slovin formula cited in Asaolu, Agorzie and Unam (2012). A simple random sampling technique was used to select the respondents' tax officers from the four departments namely income tax, other taxes, compliance and general administration of the ministries. The samples for the study in respect of the staff of the Federal Inland Revenue Service (FIRS) included three tax controllers each from the Lagos Mainland and Lagos Island respectively, the three tax controllers in Oyo state and the two tax controllers in Ogun, Ondo and Ekiti states respectively. The sampling technique is adopted due to the technical nature of the information to be derived from the respondents and in agreement with the Slovin formula given below.

$$n = \frac{N}{1 + Ne2}$$

Where:

n=Sample size

N=Population size

e= Margin of error

Applying the desired error margin of 5% on the population of tax officers, vatable persons and household of Vat rated goods in all the five states under study, 361 respondents' tax officers and Vatable persons and 360 household of Vat Rated Goods were selected.

ANALYSIS & FINDINGS

Results in Table 1 show the descriptive statistics of internally generated revenue of each sampled states across the sample period. The result indicates that Ekiti state has the minimum (0.10) generated revenue for the entire period. The standard deviation value (2.71) for the states also rank Ekiti state as the least stable in terms of internal revenue generation. Based on the result, Oyo states rank second in terms of volatility/least stable revenue generating state after Ekiti. On the average, the maximum IGR is generated by Lagos followed by Ondo states. However, IGR generation in Ondo state is least stable (SD = 0.404) compared to that of Lagos states (S.D = 0.391). The maximum obtained for each of the states after logarithmic transformation is 16.25 for Lagos state, 7.63 for Ogun state, 7.54 for Oyo state, 6.49 for Ekiti and 11.94 for Ondo state. The overall result indicates that Lagos and Ondo states are the leading revenue generating states in Southwest, Nigeria. Available information from CBN has earlier described Lagos as the hub of commerce in the nation while the status of Ondo is boosted by presence of oil which generates extra revenue for IGR generating ventures

Table 1: Descriptive statistics of IGR of southwest states for the sample period

Variable	Mean	Standard deviation	Minimum	Maximum
Lagos	15.821181	.3912034	9.255273	16.252853
Ogun	7.411318	.1768557	7.20412	7.633469
Oyo	7.055537	.4886398	6.516943	7.543322
Ekiti	1.287601	2.714597	0.102141	6.48606
Ondo	10.12476	.4049884	8.26531	11.94374
Descriptive statistics of revenue across states and sample period				
IGR	12.31883	5.870234	2.964812	17.06519

Contributions of Tax authority in the Value Added Tax Revenue performance

Results in Table 2 shows the contributions of Tax authority in the Value Added Tax revenue performance. The results indicate that content of the manual of tax procedure plays a significant role ($F = 8.60$, $p< 0.05$) in the performance of value added tax. This result highlights the need for Tax authorities to provide an explicit manual of procedure in order to enhance the performance of tax. Adequate motivation of staff is also found to significantly ($F = 16.43$, $P < 0.05$) contribute to the performance of VAT. Another significant variable is the extent to which VAT has contributed to reducing budget deficits of government. Analysis of opinion elicited from tax authority indicates that VAT plays a significant role ($F = 3.19$, $p < 0.05$) in reducing budget deficit. Results also indicate that security challenges contribute negatively ($F = 2.39$, $p < 0.05$)

to efficiency of VAT collection. However, the extent of staff training on tax assessment and collection procedure is not significantly related to performance of VAT. The result simply indicates that staff training is not adequate and could have been one of the observed low performances of tax workers. Similarly, result indicates that internal controls in place for assessment, collection and remittance of VAT are not adequate to ensure transparency, probity and accountability in the revenue mobilization system.

Table 2: Contributions of Tax authority in the Value Added Tax Revenue Performance

	F	**P value**
Content of manual procedure	8.60	0.000***
Staff training	0.57	0.6842
Motivation	16.43	0.000***
Taxpayers identity	2.03	0.0897*
Internal control	0.62	0.6486
VAT computation	0.26	0.9041
Reduction of budget deficits of Government	3.19	0.0137**
Agricultural contribution	1.37	0.2447
Contribution of Imports, Manufacturing and services sector	1.05	0.3907
Security problems and political instability	2.39	0.0376**

******,**,**** *sig at 1%, 5% and 10% respectively*

Contributions of Taxpayers in the Value Added Tax Revenue Performance

The result of assessment of contributions of taxpayers in the value added tax revenue performance is presented in Table 3. The result indicates that the present compliance level of VAT taxpayers is adequate ($F = 23.81$, $p<0.05$). Also, VAT is not being perceived as a fraudulent means of exploiting the ordinary people ($F = 1.34$, $P > 0.05$). This means that the populace still considers tax as a responsibility to the government, ceteris paribus. Self assessment nature of VAT is significant ($F = 6.15$, $p< 0.05$) as an encouraging factor for taxpayers' voluntary compliance. However the perceived level of integrity of government and its agencies does not significantly contributes to the high compliance rate of taxpayer. Also, the result lends credence to the statement that the uniform rate of % on both luxuries and necessities translates to regressive tax and a higher burden on the masses.

Table 3: Contributions of Taxpayers in the Value Added Tax Revenue Performance

	F	P value
Adequacy of compliance level	23.81	0.000***
VAT is exploitative	1.34	0.2541
Self assessment nature of VAT	6.15	0.0001***
Integrity factor	1.67	0.6033
Uniform rate of Tax	3.03	0.0176**
VAT system and structure	2.98	0.0364**

******,**,**** *sig at 1%, 5% and 10% respectively*

POLICY IMPLICATIONS

Specifically, the study examined the revenue profiles of State Governments in South-Western Nigeria and evaluated the relevance of Value Added Tax as a means of revenue generation which has been of great interest to policy makers. However, the contribution of this study was to empirically highlight such relevance which has been generally lacking in Nigeria, and more specifically at state government level.

Findings from the results obtained in respect of the examination of the revenue profiles of state governments indicated that Lagos and Ondo states are the leading revenue generating states in South Western Nigeria while Ekiti is the least revenue generating state over the sampled period respectively.Ogun state has the most stable internal revenue during the sampled period.Available information from central bank of Nigeria (CBN) has earlier described Lagos as the hub of commerce in Nigeria which is consistent with the result of this study.

CONCLUSION AND RECOMMENDATIONS

Based on the findings of the study, the following conclusions can be drawn: First, VAT has the potential to positively enhance revenue generation of the sampled states only if proper attention is paid to industrialization of the states, proportionate distribution of income among populace is ensured and effort at increasing the number of vatable industries is highly maintained

From the conclusion of the study, it is recommended that Government and policy makers should concentrate on efforts at ensuring that more VAT is generated.through direct strategies that will increase the base, minimise avoidance and evasion of the tax.

Policies that will endear the states to industrial development should be implemented. This will not only increase the number of vatable industries but provide employment that will increase the income of the people which in turn increase consumption expenditure and VAT respectively.This will increase the overall economic development and sophistication of the economic structure in the South-Western Nigeria.

There is also a need to empower the people economically to bolster their consumption capability therby enhancing sustainable revenue generation since VAT revenue will be affected if there is no populace expenditure.Poverty alleviation programmes that increase the capacity of the people to consume should be embarked upon by government and poverty reduction non-governmental organisations.

The Federal Board of Inland Revenue (FBIR) as the regulatory authority of VAT should fully analyse the effect on the people, whenever VAT rate is to be increased, when government desired increased revenue as increase in VAT rate necessitate an increase in the consumption expenditure of the people.

Deliberate policies of internal control should be put in place by the FBIR to ensure that all Vatable entities (VAT collectors) are brought into the board tax net to avoid collection of VAT from the taxpayers by entities and non remittance of such to the board. This would have a negative impact on the VAT collections.

LIMITATIONS AND SCOPE OF FUTURE RESEARCH

The basic limitation of future research in Government revenue profiles is as engendered in the official secrets act which forbids civil servants from releasing government documents that relates to revenue and expenditure without prior approval which is difficult to obtain presently. However, with the recent adoption of International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) by Nigeria, accessibility to these important documents will be easier. The scope of future research should be extended to other revenue sources of government that are presently untapped such as property taxes and solid minerals taxes.

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