

## **TAXATION: A TOOL FOR ENVIRONMENTAL CONSERVATION**

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### **Abstract**

*The study investigates the perception of some environmentalists, accountants in practice, tax practitioners, academics in the fields of environment, tax and accounting, as well as other respondents, with a view to finding out their take on the introduction and practicability of environmental taxes in Nigeria and ascertaining whether there are significant differences in their mean responses both between and within the various categories of respondents. Using a cross sectional survey research design, data were elicited from the responses of 146 respondents using a research questionnaire consisting of structured questions on a 5 point likert scale, revealing varying degrees of agreement with certain assertions. Using descriptive statistics and the Analyses of Variance (ANOVA), we found that most respondents believe environmental taxes will not affect the economy negatively and there is no significant difference on the perception of respondents on the influence of environmental taxes on economic development in Nigeria. We also found among other things that there is a significant difference in respondents' perception on the practicability of environmental taxation in Nigeria. We therefore recommend an immediate introduction of the tax in Nigeria as its perceived benefits are enormous in the areas of revenue generation and environmental conservation.*

*Keywords: Conservation, Taxation, Environment, Externalities, Environmental Taxation*

## INTRODUCTION

Environmental challenges in Nigeria today are increasingly drawing government attention to find ways of reducing environmental damage while ensuring that much harm is not done to economic growth. Governments have a range of tools and mechanism at their disposal, which includes regulations, innovation policies, information programmes, environmental subsidies amongst others, notwithstanding the environmental problems that are on the increase day by day (OECD, 2011).

According to Schofield (2009), taxation has been a useful tool used by government in collecting revenue and also in preventing and encouraging certain behaviour. As taxation is monetary in nature, it is equally a good way of encouraging or discouraging country citizens to behave in a certain way as deemed appropriate by the government. Throughout the world taxation is used as a means of encouraging good environmental practices and dissuading the citizens of the country from practices that could further damage the environment. Environmentalism in Nigeria came into the lime light to a certain degree in the earlier 1970s but mostly in the 1990s to date, due to pressures of environmental degradation especially, the ozone layer, oil spillage in the Niger Delta region, pollution by the cement industries and Textile manufacturing industries (Iliya & Kennedy, 2015). As a mode to carry out government policy, taxation laws were amended to suit the evolving policies of the day. The greatest changes came about in the 2010s period as the country geared itself to suit its policies towards the (Rio +20) Convention as signatory to it. Crude oil being an unsustainable substance that ends up impacting on the eco - system heavily with adverse effect on the environment. The important and encouraging feature of the industry today is its commitment and dedication to mitigating environment pollution that results from industrialization (Kennedy 2014).

In Nigeria like many other countries around the globe, taxes play a pivotal role in ensuring the continued existence of the nation as well as its citizens' general wellbeing. 'A tax whose tax base is a physical unit (or a proxy of it) that has a proven, specific negative impact on the environment' (OECD, 2010). Unlike other forms of taxation, designed primarily for revenue-raising or as an instrument directed to marginally influence behavior, Environmental taxation strives for fundamental and structural changes in the behavior of economic actors (Backhaus 1999). With the dwindling oil revenue in Nigeria, the fight against environmental degradation and going green may be nearly impossible due to paucity of fund, which suggests the need to broaden the nation's tax base and also help to conserve our environment.

Studies like Iliya and Kennedy (2015); Olatunji and Olaoye (2015), have suggested the importance of introducing environmental taxation in Nigeria as a way out of the numerous environmental maladies bedeviling the Nigeria nation. This study examines the perception of

various concerned stakeholders on the possibility of introducing environmental taxes and its perceived success in Nigeria.

### **Objectives of the Study**

The broad objective of the study was to investigate the possibility of using taxation as a tool for environmental conservation in Nigeria. Specifically, the study sought to:

- i. ascertain the possible effect of environmental taxes on economic development in Nigeria;
- ii. investigate the practicability of environmental taxes in the Nigerian environment
- iii. determine the possible effects of environmental taxation on pollution control and environmental conservation,
- iv. ascertain the possible effects of environmental taxation on corporate and government environmental policies.
- v. examine the possible effects of environmental taxation on voluntary environmental disclosures.

### **Null Hypotheses of the Study**

1. There is no significant difference on the perception of respondents on the influence of environmental taxes on economic development in Nigeria
2. There is no significant difference in respondents' perception on the practicability of environmental taxation in Nigeria
3. There is no significant difference in the perception of respondents groups on environmental taxation ability to minimize pollution and conserve the environment.
4. There is no significant difference in the perception of respondents groups on environmental taxation influence on corporate and government policies in Nigeria.
5. There is no significant difference in the perception of respondents groups on the extent to which environmental taxation can influence voluntary environmental disclosures by companies in Nigeria.

## **LITERATURE REVIEW**

### **Prior Studies**

Olatunji and Olaoye (2015) investigate the developmental implications of environmental taxation in Nigeria. Specifically the study examined the relationship between environmental taxation and environmental quality in the country, its influence on cost effectiveness of Nigeria firms and its contribution to the improvement of standard of living of the citizenry. The study found out that

environmental taxation is coterminous with improved environmental quality, that environmental taxation has no significant influence on cost effectiveness of Nigerian firms and that environmental taxation has not culminated into improved standard of living in the country. Thus the study concluded that government should ensure that the structure and administration of environmental taxation in Nigeria should be void of loopholes that can permit tax evasion and avoidance and that the proceeds from environmental taxes should be channeled towards remediation of environmental degradation and infrastructural development in the country.

Examining environmental tax as a flood mitigating tool, Uwuigbe , Uwuigbe and Iyoha (2015) administered Questionnaires to selected respondents. Relying on the Spearman Rank Order Correlation, the degree of association between the dependent and the independent variables was investigated. Their result revealed a moderate positive correlation between the imposition of environmental tax on nylon packages and the reduction of flood. The study concludes that the implementation of environmental taxes on nylon packaging companies will lead to a reduction in the use of nylon as the major packaging system in Nigeria. The study recommends a change in the packaging system in Nigeria as most of our products are made by nylon. They further stated that paper bags or cloth bag should be adopted just as it is being done in many developed countries.

Iliya and Kennedy (2015) examine barriers and challenges of introducing environmental taxation in Nigeria which are intensifying pressure on the Federal Government to find ways of reducing environmental impairment through pollution while minimizing harmful effect on the economic growth. The absence of any estimation of damage costs and lack of implementing best practices of environmental taxes as done in other countries awareness for the need of public acceptance and support for environmental taxes is felt need. Benefits received and stakeholder theories were used, and data collected through primary and secondary sources. The results of the study revealed that the industries are making mere promises to the government in their effort to control pollution through regulatory mechanisms without compliance. They advised the federal government of Nigeria to formulate plans to design a tax process that might encompass environmental tax policies, such that the tax is designed placing its burden on those who are responsible for causing a particular environmental problem(s) and also proved for statutory incentives to minimize administrative cost to the government and compliance cost imposed on the tax payers.

### **Theoretical framework: Double Dividend Hypothesis**

Proponents of the double-dividend hypothesis posit that environmental taxes have the ability to improve the environment as well as the economic efficiency simultaneously. The first dividend

intuitively makes sense as decreasing the emission of harmful pollutants help improves the environment. The shift from distorting taxes such as the income tax has brought about improvement in economic efficiency. Fullerton and Metcalf (1998) note that for every \$1 extracted in taxes, a \$1.35 burden falls on the economy. In a sense, the private sector invariably bears a 35 cent excess burden for no particular reason. The second dividend is aims to eliminate some of this excess burden. Also, Fullerton and Metcalf opines that the literature on Pigovian taxes have placed greater emphases on the revenue dividend, neglecting the environmental dividend of environmental taxes. They argue, because they fail to recognize that all taxes impose costs on someone. These taxes could outweigh the environmental benefit. By implication, the government must use the Pigovian tax revenue to lower another tax so as to minimize the economic damage of a tax. They added that the effectiveness of any Pigouvian tax is highly dependent on its ability to supplement or replace an existing pollution regulation. If the tax replaces a pollution regulation, it will most likely be environmentally neutral, even if it is revenue-positive. On the other hand, if it supplements the regulation, the resultant effect will depend on effectiveness of the original regulation, as it may or may not be environmentally and revenue-neutral. The position ab initio significantly determines the outcome of a proposed tax.

## **METHODOLOGY**

Primary data were collected using a well structured likert scale questionnaire and was administered to respondents consisting of Academics in accounting, Taxation and environmental sciences; practicing tax experts; chartered Accountants in tax practices; environmentalists as well as other categories of respondents in the South-South and South-East zones of Nigeria. Respondents were selected using stratified random sampling technique to ensure a fair representation of all categories of respondents in the sample. Descriptive as well as inferential statistics were used for the analyses of data from the 146 valid questionnaires. The ANOVA was used in testing the hypotheses alongside the mean and standard deviation. Data were analyzed using Descriptive statistics and the ANOVA within the Statistical Package for Social Sciences (SPSS).

## **ANALYSES AND RESULTS**

Respondents comprised of 9 OND/NCE holders, 87 persons with BSc/HND, 41 MBA/MSc. and 9 Ph.D holders. A total of 40.4% of respondents belong to at least one professional accountancy body (ICAN, ANAN, and CITN). Only 19.2% belong to other professional bodies outside ICAN, ANAN and CITN and 40.4% are not members of any professional body. That is 11 ACA/CAN; 8 FCA/FCNA; 14 FCTI/ACTI. 26 respondents are members of more than one of the above stated

bodies, 28 belong to others professional bodies not stated and 59 belong to no professional body.

Table 1: Categorization (Job Type)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ACCOUNTANTS IN PRACTICE	28	19.2	19.2	19.2
	TAX PRACTITIONER/ PERSONNEL	41	28.1	28.1	47.3
	ACADEMICS	50	34.2	34.2	81.5
	ENVIRONMENTALIST	16	11.0	11.0	92.5
	OTHERS	11	7.5	7.5	100.0
	Total	146	100.0	100.0	

19.2%, 28.1% and 34.2% of respondents are accountants in practice, tax practitioners/personnel and academicians respectively. Other respondents include environmentalists accounting for 11.0% of respondents and others representing 7.5% of respondents.

Table 2: Responses of respondents to statements

<b>Environmental taxes and Economic development</b>		<b>SD</b>	<b>D</b>	<b>UD</b>	<b>A</b>	<b>SA</b>
7	Environmental taxes will discourage investors due to increased cost of doing business	44	49	24	19	10
8	Revenue from environmental taxes will provide environmental infrastructure like safer energy sources and clean environment which promotes investment.	5	13	20	64	44
9	Reduction in pollution will enhance public health which improves citizens' contribution to the Gross Domestic Product.	6	11	18	62	49
10	Environmental taxes will slow down the pace of economic development in Nigeria.	37	62	22	17	8
11	Environmental taxes will lead to inflation in the economy as producers input such taxes on the prices of goods and services.	44	64	18	16	4
<b>Minimising pollution and conserving the environment</b>		<b>VPE</b>	<b>PE</b>	<b>NS</b>	<b>LE</b>	<b>VLE</b>
12	Environmental taxation will influence waste disposal behavior of corporate entities in Nigeria.	4	11	15	71	45
13	Environmental taxation is likely to improve	1	1	9	79	56

	environmental consciousness among individuals, corporate entities and government.					
14	The consumption pattern of people will be influenced if the burden of such taxes is shifted to final consumers.	8	16	20	57	45
<b>Encouraging Innovations in corporate policies and Practices</b>		<b>VPE</b>	<b>PE</b>	<b>NS</b>	<b>LE</b>	<b>VLE</b>
15	Environmental taxes will encourage Innovations in corporate policies and Practices	8	16	20	61	41
16	The existence of tax reliefs for Eco-friendly expenses will lead to the separation of Environmental costs from overheads	1	14	18	61	52
17	Waste management could be improved by the tax incentives given to eco friendly disposal practices.	8	20	17	59	42
18	Environmental taxes can prompt firms to seek alternative eco friendly ways of doing business	0	14	29	61	42
<b>Practicability of environmental Taxation in Nigeria</b>		<b>SD</b>	<b>D</b>	<b>UD</b>	<b>A</b>	<b>SA</b>
19	Environmental taxation will increase the tax burden of tax payers in Nigeria.	6	13	18	57	52
20	A high level of compliance is envisaged for environmental taxes in Nigeria.	0	3	13	67	63
21	Environmental taxes are practicable in Nigeria.	16	30	22	51	27
<b>Incorporating environmental considerations in tax laws, tax planning, tax reliefs and allowances</b>		<b>VPE</b>	<b>PE</b>	<b>NS</b>	<b>LE</b>	<b>VLE</b>
22	Environmental taxation could influence voluntary environmental disclosure in Nigeria	6	15	30	71	24
23	The claim of tax reliefs and allowances on all environmental expenditure can improve companies' voluntary disclosure of environmental information.	3	36	29	55	23
24	If the tax system is green, then financial reporting will be green.	2	12	5	67	60
25	Environmental taxation will improve general consciousness on the need to conserve the planet	1	3	6	82	54
26	Granting tax holidays and concessions to companies on the bases of their effect on the environment will improve environmental practices	3	3	5	86	49

Where, VPE: Very Poor Extent; PE: Poor Extent; NS: Not Sure; LE: Large Extent; VLE: Very Large Extent; SD: Strongly Disagree; D: Disagree; UD: Undecided; A: Agree; SA: Strongly Agree.

Table 3: Descriptive Statistics

S/N	Statements	Mean	Standard Deviation
1	Reduction in pollution will enhance public health which improves citizens' contribution to the Gross Domestic Product	3.94	1.065
2	Environmental taxation will influence waste disposal behavior of corporate entities in Nigeria	3.97	0.982
3	Environmental taxes will encourage Innovations in corporate policies and Practices	3.76	1.141
4	Environmental taxes are practicable in Nigeria	3.29	1.287
5	The claim of tax reliefs and allowances on all environmental expenditure can improve companies' voluntary disclosure of environmental information.	3.40	1.086

Table 4: ANOVA test result for categorization (Job Type)

		Sum of Squares	Df	Mean Square	F	Sig.
Environmental taxation will influence waste disposal behavior of corporate entities in Nigeria	Between Groups	5.125	4	1.281	1.340	.258
	Within Groups	134.766	141	.956		
	Total	139.890	145			
Environmental taxes will encourage Innovations in corporate policies and Practices	Between Groups	4.291	4	1.073	.821	.514
	Within Groups	184.319	141	1.307		
	Total	188.610	145			
Environmental taxes are practicable in Nigeria.	Between Groups	40.471	4	10.118	7.138	.000
	Within Groups	199.865	141	1.417		
	Total	240.336	145			
The claim of tax reliefs and allowances on all environmental expenditure can improve companies' voluntary disclosure of environmental information.	Between Groups	11.120	4	2.780	2.449	.049
	Within Groups	160.037	141	1.135		
	Total	171.158	145			
Reduction in pollution will enhance public health which improves citizens' contribution to the Gross Domestic Product.	Between Groups	3.146	4	.786	.687	.602
	Within Groups	161.299	141	1.144		
	Total	164.445	145			

Table 5: ANOVA result showing F Statistics

S/N	Statements	Factor (Job Type) F-Stat (prob)
1	Environmental taxation will influence waste disposal behavior of corporate entities in Nigeria	1.340
2	Environmental taxes will encourage Innovations in corporate policies and Practices	0.821
3	Environmental taxes are practicable in Nigeria	7.138
4	The claim of tax reliefs and allowances on all environmental expenditure can improve companies' voluntary disclosure of environmental information	2.449
5	Reduction in pollution will enhance public health which improves citizens' contribution to the Gross Domestic Product	0.687

### Test of Hypotheses

**Hypothesis 1:** there is no significant difference on the perception of respondents on the influence of environmental taxes on economic development in Nigeria. With a calculated F value of 0.687 and a critical value with  $\alpha$  of 0.05 and a degree of freedom 4, 145 of 2.43, we therefore accept the null hypothesis that there is no significant difference on the perception of respondents on the influence of environmental taxes on economic development in Nigeria, and reject the alternate hypothesis that there is a significant difference on the perception of respondents on the influence of environmental taxes on economic development in Nigeria. This is further supported by the low standard deviation statistics, indicating a low level of variability in respondents' perception on the subject matter. This hypothesis was tested using responses from question 9 of the questionnaire.

**Hypothesis 2:** There is no significant difference in respondents' perception on the practicability of environmental taxation in Nigeria. With a calculated F value of 7.138 and a critical value with  $\alpha$  of 0.05 and a degree of freedom 4, 145 of 2.43, we reject the null hypothesis that there is no significant difference in respondents' perception on the practicability of environmental taxation in Nigeria, and accept the alternate hypothesis that there is a significant difference in respondents' perception on the practicability of environmental taxation in Nigeria. This is also supported by the standard deviation statistics of 1.287, indicating a high level of dispersion in respondents' perception on the practicability of environmental taxation in Nigeria. This hypothesis was tested using responses from question 21 of the questionnaire.

**Hypothesis 3:** There is no significant difference in the perception of respondents groups on environmental taxation ability to minimize pollution and conserve the environment. With a calculated F value of 1.340 and a critical value with  $\alpha$  of 0.05 and a degree of freedom 4, 145 of 2.43, we accept the null hypothesis that there is no significant difference in the perception of respondents groups on environmental taxation ability to minimize pollution and conserve the environment, and reject the alternate hypothesis that there is a significant difference in the perception of respondents groups on environmental taxation ability to minimize pollution and conserve the environment. This hypothesis was tested using responses from question 12 of the questionnaire.

**Hypothesis 4:** There is no significant difference in the perception of respondents groups on environmental taxation influence on corporate and government policies in Nigeria. With a calculated F value of 0.821 and a critical value with  $\alpha$  of 0.05 and a degree of freedom 4, 145 of 2.43, we accept the null hypothesis that there is no significant difference in the perception of respondents groups on environmental taxation influence on corporate and government policies in Nigeria, and reject the alternate hypothesis that there is a significant difference in the perception of respondents groups on environmental taxation influence on corporate and government policies in Nigeria. This hypothesis was tested using question 15 of the questionnaire.

**Hypothesis 5:** There is no significant difference in the perception of respondents groups on the extent to which environmental taxation can influence voluntary environmental disclosure in Nigeria. With a calculated F value of 2.449 and a critical value with  $\alpha$  of 0.05 and a degree of freedom 4, 145 of 2.43, we reject the null hypothesis that there is no significant difference in the perception of respondents groups on the extent to which environmental taxation can influence voluntary environmental disclosure in Nigeria, and accept the alternate hypothesis that there is a significant difference in the perception of respondents groups on the extent to which environmental taxation can influence voluntary environmental disclosure in Nigeria. This hypothesis was tested using question 23 of the questionnaire.

### Summary of findings

The following findings were made from the survey and analyses carried out;

1. There is no significant difference on the perception of respondents on the influence of environmental taxes on economic development in Nigeria.
2. There is a significant difference in respondents' perception on the practicability of environmental taxation in Nigeria.

3. There is no significant difference in the perception of respondents groups on environmental taxation ability to minimize pollution and conserve the environment
4. That there is no significant difference in the perception of respondents groups on environmental taxation influence on corporate and government policies in Nigeria
5. There is a significant difference in the perception of respondents groups on the extent to which environmental taxation can influence voluntary environmental disclosure in Nigeria.

## **RECOMMENDATIONS AND CONCLUSION**

The findings of the study give impetus to the following recommendations;

There should be an urgent tax reform to discuss among other things, environmental tax introduction and broadening of the tax base. The bases for arriving at allowable expenses and capital allowance for company income tax and petroleum profit tax should also be revisited by adding environmental friendliness as a prerequisite for allowing an expenses or claiming capital allowance on qualifying capital expenditure for tax purpose.

The rate for the tax should be graduated giving concessions to small scale businesses and the FIRS should be saddled with the responsibility of administering the tax. The double dividend theory should be adopted when structuring environmental taxes to ensure that both economic and conservation benefits are maximized.

Adequate education and enlightenment of the public on the importance of the tax in environmental conservation and Environmental tax on vehicles emitting CO<sub>2</sub> should be collected at the point of annual vehicle particulars renewal.

The study investigated the perception of various categories of stakeholders on the practicability of environmental taxation in Nigeria. From the study, it is obvious that respondents are optimistic on the perceived benefits to be derived when environmental taxes are introduced in Nigeria. Adopting environmental taxes will be a timely move in a period where there is constantly increasing pressure on government to radically savage the environment from continuous depletion. If saving the world and the future is a joint effort, then everyone must support the adoption and implementation of this multi -benefit tax by accepting it, morally supporting it as well as ensuring adequate compliance.

Our study should be viewed in the light of its limitations. First, we examine Taxation as a tool for environmental conservation in Nigeria using the opinion of respondents in South- south and South- East Nigeria. This may not be representative of the views of all stakeholders in Nigeria. Secondly, the smallness of the sample size may hinder the Generalisation of this study. However, in spite of the above limitations, we believe that this study has added to the scanty

literature on the adoption and practicability of environmental taxation in Nigeria even as it has perhaps for the first time aggregated the views of various stakeholders on the adoption of environmental taxation in Nigeria. Our study has implication for both regulatory and management actions.

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## APPENDIX: QUESTIONNAIRE

### SECTION A

Please read the questions carefully and indicate your option by placing a tick in the appropriate box.

1. Highest academic qualification

SSCE [ ] OND/NCE [ ] B.Sc./ HND [ ] MBA/MSC [ ] Ph.D. [ ]

2. Professional qualification

CNA/ACA [ ] FCA/ FCNA [ ] FCTI/ACTI [ ] More than one of the above [ ] OTHERS [ ] None [ ]

3. Categorisation

Accountant in practice [ ] Tax practitioner [ ] Academician [ ] Environmentalist [ ] Others [ ]

### SECTION B

Please tick as appropriate from the following preferences.

Key:

VLE	LE	NS	PE	VPE
Very Large Extent	Large Extent	Not Sure	Poor Extent	Very Poor Extent
SA	A	UD	D	SD
Strongly Agree.	Agree	Undecided	Disagree	Strongly Disagree

<b>Environmental taxes and Economic development</b>		<b>SA</b>	<b>A</b>	<b>UD</b>	<b>D</b>	<b>SD</b>
4	Environmental taxes will discourage investors due to increased cost of doing business					
5	Revenue from environmental taxes will provide environmental infrastructure like safer energy sources and clean environment which promotes investment.					
6	Reduction in pollution will enhance public health which improves citizens' contribution to the Gross Domestic Product.					
7	Environmental taxes will slow down the pace of economic development in Nigeria.					
8	Environmental taxes will lead to inflation in the economy as producers input such taxes on the prices of goods and services.					
<b>Minimising pollution and conserving the environment</b>		<b>VLE</b>	<b>LE</b>	<b>NS</b>	<b>PE</b>	<b>VPE</b>
9	Environmental taxation will influence waste disposal behavior of corporate entities in Nigeria.					
10	Environmental taxation is likely to improve environmental consciousness among individuals, corporate entities and government.					
11	The consumption pattern of people will be influenced if the burden of such taxes is shifted to final consumers.					
<b>Encouraging Innovations in corporate policies and Practices</b>		<b>VLE</b>	<b>LE</b>	<b>NS</b>	<b>PE</b>	<b>VPE</b>
12	Environmental taxes will encourage Innovations in corporate policies and Practices					
13	The existence of tax reliefs for Eco-friendly expenses will lead to the separation of Environmental costs from overheads					
14	Waste management could be improved by the tax incentives given to eco friendly disposal practices.					
15	Environmental taxes can prompt firms to seek alternative eco friendly ways of doing business					
<b>Practicability of environmental Taxation in Nigeria</b>		<b>SA</b>	<b>A</b>	<b>UD</b>	<b>D</b>	<b>SD</b>
16	Environmental taxation will increase the tax burden of tax payers in Nigeria.					
17	A high level of compliance is envisaged for environmental taxes in Nigeria.					
18	Environmental taxes are practicable in Nigeria.					
<b>Incorporating environmental considerations in tax laws, tax planning, tax reliefs and allowances</b>		<b>VLE</b>	<b>LE</b>	<b>NS</b>	<b>PE</b>	<b>VPE</b>
19	Environmental taxation could influence voluntary environmental disclosure in Nigeria					
20	The claim of tax reliefs and allowances on all environmental expenditure can improve companies' voluntary disclosure of environmental information.					

21	If the tax system is green, then financial reporting will be green.					
22	Environmental taxation will improve general consciousness on the need to conserve the planet					
23	Granting tax holidays and concessions to companies on the bases of their effect on the environment will improve environmental practices					