Effect of Revenue Loss on Government Administration in Nigeria

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Abstract

The objective of this study is to examine the effect of revenue loss on government administration in Nigeria. The study made used of secondary data that were gotten on company income tax and revenue generated in Nigeria from 1981-2016. The data were sourced from CBN statistical bulletin, world development indicator and various journals. And details from budget office Content analysis was employed to analysis the data and the result showed fluctuation in terms of rise and fall in the contribution of company income tax to the total revenue at some periods and rise thereafter. The study concluded that there is positive relationship revenue loss and government administration in Nigeria. And suggested that government should review Nigeria tax policy in a way that company income tax will be boosted; proper punishment should be given to the firms found defaulting in paying tax; training should be given to tax officials on modern technology know-how on effective tax collection and the general public should be sensitized at regular interval on the importance of paying tax.

Keywords: Revenue, Company Income Tax (CIT), Tax, Value Added Tax (VAT)

1. INTRODUCTION

Most of the revenue generated by Nigeria government is through taxation and contextual observation has shown that Nigeria still lack basic social amenities such as good and motor able road, electric power supply etc. Of recent, it was aired on the news that the federal Inland Revenue service experience increase in revenue generation since the inception of the present administration. Yet, there is still deficiency in the infrastructures in the country. It is not yet known if the company income tax paid by the firms contributes to increment in Nigeria government revenue. Also, most of the past studies examine company income tax and economic growth with considering the revenue generation as aspect of the economy. Thus, this study wants to look at the company effect of revenue loss on government administration in Nigeria. With focus on company income tax (CIT).
Even before recent startling disclosures about alleged missing $48.9 billion oilrevenue was made by the former Central Bank Governor, MallamSanusiLamidoSanusi, oneissue that has never been lost in public discourse thrusts on good governance and judicious utilization of the country's resources is the need for tax payers to get value for fulfilling their own part of the governance social contract. As a country reputed for unbridled profligacy inmanaging its resources, the last few years of international oil market uncertainties, threats ofmacroeconomic instability in many developed economies, deepening poverty, growing youthunemployment level, insecurity as well as paucity of infrastructure that ordinarily shoulddrive growth in the economy, the need for Nigeria to raise tax revenue and ensure itsJudiciousutilization for accelerated development cannot be over-emphasized.Unfortunately, several years of ceaseless advocacy for fairness and transparency in the utilization of earned incomes from taxation by fiscal policy experts, civil society organizations (CSOs) and other stakeholders have not translated to concrete gains as theneeded commitment of political leaders and their public servant collaborators at all level ofgovernance to plug leakages in tax revenue generation, remittance and utilization is missingstill.

According to Chude and Chude (2015), the level of development of any nation depends on the amount of revenue generated for the provision of infrastructure. Revenue, receipts of a government or a business. Governments raise revenue mainly through taxation, in order to pay for government expenditure on capital and recurrent expenditures. Jamala, Asongo, and Tarfena(2013)opined that revenue generation provide the largest single source of government revenues in most developed and developing countries, including Nigeria. The revenues generated pay for a substantial part of government operations and services to the public. In Nigeria, the Federal, States, and the Local governments generate internal revenues. State and Local governments generate larger shares of their revenues from property taxes and sales taxes than from income taxes. Income taxes, and especially individual income taxes, are smaller sources of revenue in most developing countries, such as many nations of Africa, Asia, and Latin America.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Conceptualizing Revenue Loss

It is axiomatic to post that there has been increased awareness and advocacy towards transparency in the management of revenue from natural resources, especially from oil rich nation is like Nigeria which is an oil and gas producing nation is immersed in 'resource curse' phenomenon. This is because despite the huge revenue from oil and gas activities its citizens do not get much benefits accruing from such enormous resources, Aderinokun(2010) also concluded that; 'Efficient, transparent governments, closely watched by citizens with access to accurate, timely information on the country spending can help restore trust in public institutions and strengthen democracy". Transparency ensures that information available can be used to measure the authorities' performance and guard against any possible miss-use of power. In this, transparency seeks to achieve accountability. Without transparency trust will be lacking therefore, adequate transparency is critical to ensuring that resources and wealth is managed for the benefit of the whole population (Nicolas 2009). In some nations, the lack of accountability and transparency in these revenue can exacerbate poor governance, leading to corruption and conflict and increasing inequality. Hence the argument that an abundance of natural resource more often becomes a 'curse" than a "blessing" for developing nations (Katsouris: 2009). Strengthen transparency and accountability in the oil and gas sector in Nigeria is an opportunity to reduce revenue loss and stem corruption. Firming the governance of the sector and thereby reducing the many incentives for the abuse of power and capture of revenues which distort policy and politics in Nigeria and undermine the potential for oil revenues to be used to accelerate economic and social development.(Muller,:2010).

The world over, it is generally accepted that greater transparency is needed in natural resource rich countries to entrench accountability, curb corruption and strengthen good governance.(NEITI, 2009). The principle of transparency which goes with openness requires government to provide the citizen with a right to know what is going on in governance. With regards to fiscal transparency this includes clarity of roles and responsibilities; public availability of information; open budget preparation execution and report and independent assurances on integrity. Davis (2009) said: Transparency in revenue is a forceful arrow in the quiver to combating corruption and fraud, improve productivity and output and also increase accountability in the government administration process. According to El-Rifai (2003) Revenue transparency will act to increase accountability in both the executive and legislative branches of government at all levels (federal, State, and local Government.), reducing opportunities for corruption and the potential for waste of public funds. Revenue from Extractive industries, Tax, Oil and Gas developed with the participation affected communities, theses revenues should serve as a basis for poverty reduction and economic growth. Too often, though theses revenues are squandered, fueling corruption, conflict and social divisiveness. Furthermore according to Ezekwesili (2010) transparency in revenue leads to proper management and financial accounting, without which processes and cost cannot be mapped, reported, reviewed and benchmarked. In addition transparency in revenue generation reduces waste of resources by its insistence on the utilization of minimum input, cost reduction and process improvement.

2.1.2 Challenges of Tax Administration

The problems of tax administration in Nigeria include the following:

i. **Poor enforcement**: Government agency in charge of collection of taxes lack the will to enforce punishment on tax defaulters which in this study are the registered companies.in other words, no effective sanctions-civil or criminal appear to be effectively imposed against the tax defaulters.

ii. **Corruption among tax officials:** Corruption and other sharp practices are found to be rampant among some tax officials. The printing of forged revenue receipts and incidence of forged tax clearance certificate are common in the country. There are cases of tax officials concluding with taxpayers and companies to bid down the amount of tax to be paid. This has been found to jeopardize the amount of revenue accruing to the governments at all levels

iii. **Mismanagement of tax revenue**: The way the tax revenue is managed by the authority has a lot of effect on the rate of compliance among tax payers. Where tax revenue is not properly and judiciously utilized, the urge to pay tax has decline. Incidentally, the level of corruption among government officials has been on the increase over the years. This no doubt would have affected the voluntary compliance adversely as people have no basis for paying tax.

iv. **High tax rates:** High tax rate may tempt a payer to evade tax at the margin. Government tax policy to raise tax with a view to increasing tax revenue could backfire especially as tax defaulters find it more rewarding to remain outside the tax net. The higher the tax rates, the more profitable it is to avoid and or evade tax. It also imposes a relatively greater burden on the honest tax payers.

v. **Neglect of tax administration:** As pointed by Taylor (1970), characteristically however, government show no general tendency to establish a priority for tax administration, even when they are confronted with the fact that employment of an additional tax inspector will result in an increase in tax collection of as much as 29 times his salary. The staffing position in the tax department of many states and even at the federal level is worse and they are under-staffed.

2.1.3 Measures required to meeting these Challenges

If tax administration is to meet the challenges, if it is to ensure dynamic economy that is healthy, vibrant and buoyant, the under-listed measures need to be considered.

i. The need for opening and accountability, special levies collected over the years must be publicly declared and any disbursement published on the basis of full disclosure.

ii. The need for professionalism within the tax system: According to Okele (1999), drafting errors both in the original decree and some of the amendment to date form most of the short coming of tax administration with the effect that such errors represent a recipe for confusion and ambiguities.

iii. **Enlightment campaign**: Creating tax awareness among potential tax payers and bring to their knowledge the nature and types of taxes under the Nigeria tax laws. This enables understanding and therefore promotes compliance.

iv. **Staff quality**: To talk of efficient tax administration in the 21st century, without good quality personnel, is to talk of an helmet without the prince. "To this end, staff training programmes should be embarked upon and attainment of high education levels in tax related field should be encouraged.

v. Staff inducement is necessary to encourage them to be more dedicated to their assignment.

vi. An internal audit section should be set up in each tax board to carry out period assessment and monitoring of the performance of the board.

vii. To ensure efficient and effective administration each tax revenue board should have a planning and research unit to interpret tax data and information, locating weakness in the tax system and proposing policy, measures for better tax administration.

Oyebanji (2014), stated the possible solutions to tax evasion in Nigeria among are; Taxpayers should be educated about their civil responsibility; Strengthen taxpayer recruitment; Bureaucratic documentation should be reduced to avoid forgery; the activities of tax officials should be monitored to minimize the incidence of fund embezzlement; Establishment of Revenue Court; Tax policies and tax laws in Nigeria should be made consistent as well as stiff penalty for contravening any section of the law. Also, the following strategies employed by tax revenue authority officials in reducing tax evasion problem in Oyo states include: Enforcement of penalties; Door to door visit in all areas, Priority on tax education, Introduction of taxpayer identification number, Computerization of tax administration; Prosecution and penalty and enhance taxpayer registration and de-registration.

2.2 Empirical Literature

Revenue mobilization as a source for financing development activities in Nigeria has been a difficult issue primarily because of various forms of resistance, such as evasion, avoidance and other form of corrupt practices

(Abata, 2014). Revenue could be defined as the annual or periodically yield of taxes, exercise as the other sources of income that a nation state or public sector collects or receives into their treasury for public use. Dixon (2000) sees revenue as the total amount obtained from the sale of a merchandise services to customers. According to Procter (2005) revenue is an income. Fayemi (2001) sees all tolls, taxes, impress, rates, fees, duties, fine, penalties, fortunes and all other receipt of government from whatever source arising over a period either one year or six months. Flesher and Flesher (2007) defined revenues as an increase in owners' equity resulting from the performance of a service or sale of something. Walgenbach and Glison (2006) defined revenues as the increase in owners' equity a firm earns by providing goods or services for its customers.

According to Okezie (2003), the primary purpose of revenue generation is to raise income for government expenditure. It is the best and quickest mode of raising revenue open to government for economic activities in order to increase the quality of life of its citizens. Jamala, Asongo, Mahai and Tarfena, (2013) postulated some problems of revenue collection which are stated below: Loopholes and Shelters: Tax loopholes develop when tax laws create ways for taxpayers to legally avoid paying taxes on some earnings. Tax shelters shield certain kinds of income from some or all taxation. People can move income from a place that is subject to standard taxation, such as a personal savings account, into a sheltered place, such as a low-tax or tax-free investment. A very simple type of shelter involves transferring capital income (dividends and interest) from someone who has a high marginal tax rate to someone who has a low marginal tax rate, (Rosen et al., 2009). Akpan (1993), identified embezzlement and diversion of funds as a problem of tax collection, that result in the loss of huge sum of revenue to fraudulent staff charged with the responsibility of tax collection. it was stated that nonperformance of employee due to poor motivation and lack of training as a major threat to effective tax collection. Hence tax collectors should be adequately motivated in order enhance effective tax collection. Tabanshi, (1997) pointed out that another problem of tax collection is the failure by tax payers to submit their correct information for assessment. Zorto (1996) cited in Jamala et al (2013) enumerated inadequate legal policies, poor system of accountability of the tax officials and lack of adequate awareness/campaign on the importance of tax, as some of the constraints of tax collection and filing.

2.3 Theoretical Framework

2.3.1 Laffer curve

According to the theorist (Prof. Arthur Laffer), the Laffer curve shows the relationship between government revenue raised by taxation and all possible rate of taxation. It considers the amount of tax revenue raised at the extreme tax rates of 0% and 100%. This theory is of the opinion that a 100% tax rate raises no revenue in the same way that 90% tax rate raises no revenue. This is because at 100% rate, there is no longer incentive for a rational tax payer to earn any income, thus the revenue raised will be 100% of nothing. It therefore follows that there must exist at least one rate in between where tax revenue would be a maximum. This theory is one the opinion that increasing tax rate beyond a certain point will become counterproductive for raising further tax revenue because of diminishing returns (Afuberoh, 2014). This theory is adopted in line with the objectives of this study. This talks about the relationship between revenue and tax rate which suit what the study wants to achieve

3. METHODOLOGY

This study would rely on secondary data. Data will be gotten from CBN statistical bulletin, Budget office and from various journals. The data that would be gotten will be on company income tax and revenue generated in Nigeria from 1980 to 2016. And 2010-2019 dada on Budgeted/Actual revenue generationsIn order, to achieve objective of this study, content analysis would be used to analysis the data.

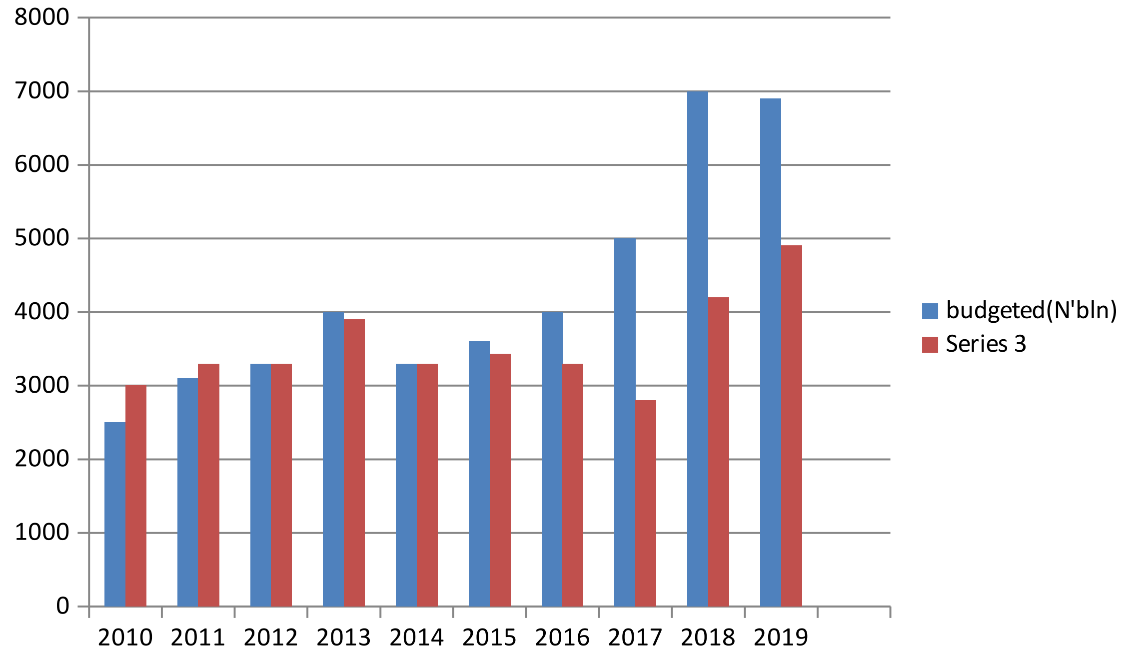
4. RESULT AND DISCUSSIONS

This section centered on the data generated from various and the analysis

Company Income Tax and Revenue GenerationAnd Loss

Year	CIT (Million)	Total Revenue (Million)	% Contribution of CIT to Total Revenue
1981	430	13290	
1982	550	11433	
1983	517	10508	
1984	783	11440	
1985	1004	13297	5.5%
1986	1103	14222	
1987	1235	12516	
1988	1551	13850	
1989	1914	13990	
1990	2997	14775	12.69%
1991	3829	100991	
1992	5417	190453	
1993	9554	192769	
1994	12275	201910	
1995	21878	459987	4.62%
1996	22000	523597	
1997	26300	582811	
1998	33300	463668	
1999	46200	949187	
2000	51100	989187	5.1%
2001	68700	231600	
2002	89100	173184	
2003	114800	257510	
2004	113000	392050	
2005	140300	554750	3.3%
2006	244900	596510	
2007	275300	572750	
2008	290666	7866590	
2009	295717	48445925	
2010	202870	73036671	11%
2011	297516	11116900	
2012	298460	10657724	
2013	299900	16602015	
2014	299010	10,068.85	
2015	256456	6,912.50	
2016	2998025	5,679.03	11.3%

Source: World Development IndicatorCBN statistical Bulletins
Researcher's Computation



Source: Based on Data obtained from Budget Office

The above table showed the company income tax (CIT) and revenue generated by the Nigerian government from 1981-2016. The data showed that there is fluctuation in the contribution of CIT to the total revenue for the periods. From 1981 to 1985, the contribution of CIT to the total revenue was 5.5%. From 1986 to 1990, the contribution of CIT to the total revenue was 12.69%. From 1991 to 1995, the contribution of CIT to the total revenue was 4.62%. 1996 to 2000 showed that CIT contributed to total revenue by 5.1%. 2001-2005 contribution of CIT to the total revenue was 3.3%. 2006 to 2010; 2011-2016 data showed that CIT contributed to the total revenue by 11% and 11.3% respectively. Also from the column chart we could see that the period where Budgeted revenue was at per with Actual was 2012,2014 for others there where slight difference and for 2018, 2019 there was a noticeable difference between Budgeted and Actual revenue generation.

4.1 Discussion of the Findings

The study is to examine revenue loss and its effect on government administration in Nigeria. From the above result, there is mixed reaction in contribution of CIT generated to the total revenue. There was sharp and high contribution of CIT to the total revenue generated from 1986 to 1990 but decline was experienced from 1991 to 1995 period. This could be as result of introduction of VAT in that period. Since VAT was introduced, logically, revenue is should increase as well. CIT started contributing positively to the total revenue from 2006 to date. The result showed high level contribution of CIT to the total revenue. This could be the change of government in Nigeria political system that had resulted to good and effective tax policies and its implementations. Also we could say reason for not reaching the budgeted goals mostly is due to Loss in revenue through corruption, Tax Evasion.

5. CONCLUSION AND RECOMMENDATIONS

This study concluded that company income tax contributed positively to total revenue generated in Nigeria. Thus, this study suggested that the government should review Nigerian tax policy in a way that company income tax will be boosted; proper punishment should be given to the firms found default in paying tax; training should be given to tax officials on modern technology know-how on effective tax collection and the public should be sensitized at regular interval on the importance of paying tax.The implications of these results may cause inevitable distraction to the potential performance of government in the public sector; therefore, threatening its competence to finance public expenditure and undermining legitimacy of government due to noncompliance to pay tax become significant to substantial budget deficit. Therefore, until those underlying causes and mechanism to curb tax evasion were addressed, tax evasion may continue to be widespread.

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