# ANALYSIS OF THE CONTRIBUTION OF TAXATION TO REVENUE GENERATION IN NIGERIA SINCE INDEPENDENCE

BY

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BEING A RESEARCH PROJECT SUBMITTED TO THE POST-GRADUATE SCHOOL, AHMADU RELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION.

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## DECLARATION:

I hereby declare that this project is the product of my research findings.

All articles used have been acknowledged accordingly.

## APPROVAL PAGE/CERTIFICATION:

This project entitled "Analysis of the Contribution of taxation to Revenue Generation in Nigeria since Independence" by Salihu Dam-Asabe Yahaya meets the regulation governing the award of the Degree of Master of Business Administration of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge in the above subject-matter.

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Signature of Superviser Date

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Signature of External Examiner Date

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Signature of Head of Department Date

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Signature of the Dean of Post-Graduate School. Date

## DEDICATION:

This work is dedicated to my family whose moral and financial support have made this work possible.

## ACKNOWLEDGEMENT:

Praise be to Allah, the Lord of the world, the beneficient, the merciful. I wish to acknowledge the immense contribution of my parents, colleagues and friends towards a successful completion of my project and the programme.

To my Supervisors Mallam M.M. Mirza and Mallam A.M. Abu-Abdissamad. I wish to express my most gratitude for the excellent supervision I received from them throughout the course of writing this project.

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## ABSTRACT:

Taxation is aimed at enhancing the revenue base of a nation through its contribution to the wealth of the economy. The total tax revenue for each year however differs, fluctuating from one year to another depending on how much each source adds to the total tax revenue. The contribution of each type of tax system is however dependent on many factors prominent among them are the economic situation of the time, government policies, emphasis effectiveness and reliability of the assessment cum collection system which all allows more tax revenue generation from one source than another.

The financial impact of taxation to revenue has been relatively high in Nigeria - about 70% each year. It was however discovered that this contribution is not the "optimum" and that a lot is still left to be desired about this contribution. As the economy is going through the period of economic recession, the need for a proper evaluation of the contribution of this prime revenue source cannot be over-emphasised. Some measures are clearly useful for its improvement in achieving its desired goal - "optimum tax revenue". This is the/essence of analysing tax contribution to revenue generation in Nigeria.

## CHAPTER ONE: INTRODUCTION.

### 1.1 Statement of the problem.

The main problem which this study tries to analyse is to see how much taxation has been contributing to revenue generation in Nigeria since independence. It was realised that taxation was/is the most important source of government revenue since independence contributing the highest revenue for each year. Its addition to total revenue however fluctuates from one year to another and worst of all is the fact that some sources of taxation are grossly under utilized hence taxation is not contributing its optimum. Can Nigeria earn more from taxation? In other words, what can Nigeria do to improve its tax revenue yield to better the economy of Nigeria especially during the present economic recession?

In recent time, the government of Nigeria like many other developing economies is facing a dwindling financial situation. This has been attributed to a number of factors by different scholars, prominent among them are the drastic fall in revenue from oil as a result of the global economic recession or better put, the fluctuating world oil revenue, unchecked frauds, unabated looting of public treasury and bad leadership/management of the nation's economic resources which has become a common occurence these days.

Against this limited financial background, the government is finding it difficult to cope with the increasing expectation of its citizens for the provision

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of essential services especially with regards to the provision of good drinking water, hospitals and clinics, construction and maintenance of roads and buildings, regular and stable electricity, effective communication system, defence, justice and general security for the people among others. Faced with this difficult situation and functions which it likely has to continue to perform for a long time to come noting in particular that these functions involves a huge outlay of expenditure, the government option or logical thing to do in this circumstance is to fall back on its single most important and reliable source of revenue generation in Nigeria. This is so because government has no alternative but to explore avenues possible especially asking it citizen to pay their taxes promptly so as to provide the afore-mentioned facilities. It should not be forgotten that taxation is the government revenue source whose reliability is very great.

1.2 Objectives of the Study.

The objectives of this study include:

(a) To re-examine and analyse the trend of the contribution of taxation to the over all revenue generation of the Government;

(b) Study the generic spread of the tax system in its revenue generation effort to identify the inadequacies if any;

(c) To examine the volume and cause of fluctuating tax revenue in Nigeria in relation to some Countries in the World and proffer solutions that would help to reduce the problem;

(d) Up-dating the knowledge on this subject matter whose literature is relatively scare and scanty.

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1.3 Organisation of the Study.

This study is made up of five chapters - ranging from Introduction to its Conclusions.

Chapter one of this project contains topics that are necessary to introduce the reader to the body of the project. This is meant to familiarise the reader with the general view of what is contained therein.

After having been introduced to the subject matter by the beginning chapter, chapter two focuses on the review of literature on taxation. This deals with the theoritical framework on the subject matter - the definations, roles, objectives among others. Chapter three is concern with the methodology used in this research. Since the preceeding chapters has highlighted all about taxation, the next stage will automatically border on the method or system we want to use for our research.

The next chapter which is chapter four is the core of this study. It is the chapter that is concerned about the collection, arrangement and analysis of the data required to analyse the trend of tax revenue to discover what the trend has been in Nigeria since independence - which is the subject matter of this project.

From the analysis and findings obtained, the last chapter then summarises, concludes and recommends options for the government.

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1.4 Scope of the Study.

This study is designed in such a way that only the aspect of taxation as a revenue generating source is considered bearing in mind that other sources exist.

Although various tax revenue sources are available to the three tiers of government (Local, State and Federal) in Nigeria, this project confines itself to only federally generated revenue. The time frame is from independence to date noting that tax existed before even the independence.

1.5 Significance of the Study.

The importance of this study in contributing and enhancing awareness in this area cannot be over-emphasised. Specifically however, this project is intended to:

(a) Contribute to the literature on tax and enhance knowledge particularly in this area whose literature is relatively scanty in Nigeria and possibly to up-date such literature where they are available;

(b) During this period of financial dis-equilibrium and economic recession in Nigeria occasioned by a fall and fluctuating oil revenue which is our main sources of foreign earnings, an examination of the impact of the alternative most important source of revenue becomes inevitable;

(c) The importance of taxation to government revenue is highlighted to enhance the citizen knowledge in order to encourage the voluntary compliance to individual tax obligation;

(d) The study of the trend enhances the knowledge of the problem associated with tax revenue hence this project tries to preffer solution to encourage greater revenue generation and stability.

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## 1.6 Limitation of Research.

Every research work is subject to some weaknesses which constitute some difficulties to the research study.

One major problem is that of time. The time required to write this project and submit for approval is in itself a constrain to effective research study.

There is also the problem of fund which would limit the scope and depth of the research.

The data obtained from the Central Bank publications also contained a few variations depending on the period of such publications.

These obvious limiting factors not withstanding the project will stand the test of time.

# CHAPTER TWO - LITERATURE REVIEW.

## 2.1 THE CONCEPT OF TAXATION:

Taxation like most topics or subject matter in social sciences is difficult to give a universal definition acceptable to everyone for all times and for all purposes. Despite this fact however, some literature on it have attempted to define it in such a way that it will at least give insight or a general picture of what tax is all about.

The International Encyclopedia of social sciences for example define taxation as "A general concept or devices used by govefnment to extract money or other valuable things from people and organisation by the use of law"[1].

Hugh Dalton in his classic work, principles of public finance perceived tax or taxation as "A compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payers in return and not imposed as a penalty for any legal offence"[2].

Similar to the above definition is the opinion of Summerfeld, Hershel and Brock in their book; an Introduction to taxation, they defined taxation as "any nonpenal yet compulsory transfer from private to the public sector, levied on the basis of pre-determined criteria and without receipt of a specific benefit of equal value, in order to accomplish some of a nation's economic and social objectives"[3].

1. International Encyclopedia of the social sciences, Vol. 15 p.512.
2. Halidu Abubakar, Public finance and Budgeting, principles, practice and Issues.
3. Summerfeld, Hershel and Brock, an introduction to taxation.

From these definitions above among several of its kind, it could clearly be seen that the concept of taxation is seen by different people basically the same although some little differences might be observed however alot sees taxation more or less as a legal instrument adopted in the modern societies to exact money from citizen (residents) to promote the advancement of the society hence taxes are imposed on both individuals and corporate bodies for the government to earn revenue to accomplish its numerous objectives. According to Halidu Abubakar in his book, Public finance and Budgeting, taxation is defined as the individual's contribution to the cost of government or the cost of providing collectively consumable goods and services like defence, immunization etc.

For the purpose of this project however, I am adopting the above definitions to advance my mission as we have acknowledged earlier that there is no universal definition of taxation acceptable to every-one for all times and purposes. The impact of taxation on revenue generation is principally looked at from two dimensions: the direct and indirect taxes. The line of distinction is drawn in that direct tax is paid by the person on whom it is legally imposed, while the indirect tax shift part or the whole payment to another person.

For tax to be effective in every community it must contain some basic elements among which are:

(a) the definition of the tax base i.e. the object on which the tax is imposed;

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(b) Its rate structure i.e. how it is graduated to conform to certain basic objectives of the taxing authority;

(c) the identification of the person (or corporate body) who bears the legal liability of the tax, particularly when it is a direct tax.

2.2 OBJECTIVES/FUNCTIONS OF TAXATION.

Taxation is a very important instrument of the government hence it is used extensively in all sphere of the economic activities of the Country. People feel obliged to pay tax i.e. the tax payers. Individual as well as corporate bodies pay tax. Individual pay tax as a sense of civic responsibility and patriotism to his Country while the corporate bodies pay tax as their social responsibilities to the government. By the imposition of taxes therefore, the government has series of objectives it wants to achieve. Prominent among them are:

(1) Raising Revenue - The main objective of taxation is principally to provide government with revenue to meet its recurrent and capital programmes. It provides a very dependable and elastic source of revenue to the government. Through a number of tax systems, governments are able to raise large sum of money to help execute their programmes. Basically, however, taxation grew out of the desire to generate revenue for the maintenance of basic public services. The level to which this goal can be realised is dependant on the taxable capacity of the Country that is the size and distribution of the population.

Closely linked with the taxable capacity is the amount of tax effort put in by the government to efficiently harness all major tax sources. It is generally believed however that the developing countries do not raise enough revenue through taxation due to inadequate 'taxable potential' as rightly observed by Nicholas Kaldor who said "It is probably not exaggerated to say that the typical under-developed country collects in-direct taxation no more than one fifth or possibly one-tenth of what is due"[4].

(2) Stability - Taxation is also an instrument of social policy used to redistribute income and wealth however in Nigeria, it is more relevant as an instrument used to create wealth and income in form of employment. Government can tax or increase tax to reduce the consumption, production and importation of some goods and services likewise, they can also promote exports through a package of tax incentives. Inflation could also be contained through the indirect tax measures.

(3) Income Distribution - Taxation is the instrument used to adjust or rectify the differential in income that is through a system of progressive income taxes, government tries to redistribute income in excess of certain level or relieving income below certain level from taxation. This is summarised by Kalechi in his essay on problems of financing economic development in a mixed economy. He said "The task of taxation are to restrain consumption so that the amount of investment needed for non-inflationary growth can be undertaken and to do so in such a way that the consumption of higher income groups is restrained more

4. M. C. Taylor - Taxation for African Development p.160.

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more proportionately than the consumption of lower income group"[5].

Taxation is universally acknowledged as a deliberate corrective measure to series of economic, social and political factors which produces a lot of inequality of income in the modern society.

2.3 ATTRIBUTES OF A GOOD TAXATION SYSTEM.

What has occupied the mind of scholars over the years is the answer to the question: What criteria should be used to evaluate a good tax system? Economic, social as well as various philosophers have identified some of the measures. A.A. Ani in his paper titled "The future of tax legislation in Nigeria", he identified those qualities as:

(a) Taxation must be flexible and from time to time reflect changes in economic, social and technical conditions of the society. To him however, if this fact is accepted, there is the need for a constant periodic review of the structure of the system rather than just changes in the rates of tax.

(b) Ensure correct choice of taxes taking into consideration the effect of taxes on tax payers and the economy as a whole.

(c) Identify what is being taxed either income, capital or turnover. For instance, income tax law should tax only tax income while turnover tax law should deal with only turnover.

(d) Distribute the tax burden fairly, equitably and justly.

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Taxation being a punitive legislation must apply to all citizens. Where there are reliefs and exemptions, these must also apply to all citizens. Where such reliefs outstrip the income of a citizen, such a citizen must not be taxed again except where another law is passed to tax all citizens.

(e) Facilitate the use of fiscal policy for growth and stabilisation. This implies that the Federal Government should have control tools since the function of growth and stability are pursued at the central level.

(f) Ensure efficiency of Tax Administration. Efforts must be made to ensure that the tax-payer understands the process of tax administration particularly as regards his tax liability, how this is arrived at, method of paying, time of payment which should be convenient to him.

(g) Provide tools for catching up with tax evaders and plugging of loopholes in the tax laws.

### 2.4 SOURCES OF TAX REVENUE TO THE FEDERAL GOVERNMENT OF NIGERIA.

Government revenue is a generic term for all monetary receipt accrueing to government from both tax and non-tax sources. As could be seen from the above definition, government derive its revenue from both tax and non-tax sources but for the purpose of this thesis, focus is on the various kinds of tax revenue sources available to the Federal Government of Nigeria. According to Aboyade's report of 1977 which was set-up in order to review the inter-governmental tax jurisdiction, it resolve the tax jurisdiction leaving the federal with the following tax sources:-

(a) Personal Income tax;

(b) Corporate tax;

(c) Petroleum profit tax;

(d) Capital Gain tax;

(e) Capital transfer tax;

(f) Excise duties;

(g) Custom duties.

(a) Personal Income tax - This is a kind of income based tax. It is normally very effective because of the large proportion of the working population engaged in paid (money) employment and it is always deducted at source leaving the income earner with the balance. In paying the personal income tax, there are two payment methods, one through the Pay As You Earn (PAYE) system and the other is through direct assessment. The former is the mode used for persons who are employed in both the organised private and public sectors while the latter is applicable to self employed persons in the private sector. The income Tax Management Act of 1961 regulates personal income tax throughout the Federation.

(b) Corporate tax - Company income or profit tax is the corporate equivalent of the personal income tax and it is imposed on the net profit of incorporated business organisations. In Nigeria, the Company Income tax is corporate profit accrueing in, derived from, brought into or received in the country by any Company or Corporation other than a sole proprietor. The taxes are generally

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based on a lump sum percentage that applies equally to all profit declared. For Countries that has a high level of industrial and commercial activities like U.S.A. and Britain, a large sum of revenue could be realised but in Nigeria, the revenue contribution of Corporate income tax is still very negligible. This tax is regulated by Company Income tax Act 1979 - CITA. It sees to the assessment and collection precedures for all corporate bodies other than those in the production of crude oil or gas.

(c) Petroleum profit tax - This tax is distinct from the Company profit tax and is levied on the profits of all Companies engaged in petroleum.operations (including sale of disposal of charqeable oil). The petroleum profit Tax Act 1959 regulate income on the oil producing Companies, including N.N.P.C.. The oil producing Companies are in joint ventures with N.N.P.C. to produce crude oil for sale. The sale of crude oil, less the cost of sale and overheads, less allowances provided by this Act, represent what is regarded as chargeable profit. This is charged to tax at present rate of 85 per cent. The Federal Board of Inland Revenue is however vested with the sole responsibility for assessing and administering petroleum profit taxes by virtue of the powers vested on it by the Petroleum profits Tax Act of 1959. Petroleum profit tax continue to contribute substantially to government's total revenue annually and it accounts for the bulk of total tax revenue from both direct and indirect sources (total taxation).

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(d) Capital Gain Tax - This imposes a tax on the profits derived from the sale of capital items e.g. property, shares in companies etc. The rate of tax is 20 per cent of the net gain after deducting the original cost of asset, less the expenses of sale. It is regulated by the Capital Gain Tax of 1967.

(e) Capital Transfer Tax - This is intended to tax capital being transferred from one person to another other than by outright sale. Capital is deemed to be transferred to another person when the owner dies, but the transferee bears the tax. Gifts of property from father to children during life-time are deemed to be capital transfers liable to tax. Because the law was designed to catch those who are really wealthy, property less than ₦100,000 are not caught. The capital transfer Tax Act 1979 is the regulating instrument.

All the tax revenue sources we have examined above fall under the direct tax imposed in Nigeria, we shall now look at the sources of indirect tax in Nigeria.

(a) Excise duties - Excise duties is a form of indirect tax imposed on the manufacturers of certain line of commodities. It is a kind of tax used by the government to facilitate the regulation or discourage the production and consumption of goods that involves social cost not covered by regular market prices. The responsibility for the imposition and collection of excise duties is exclusively that of the Federal Government in Nigeria although it contribution to government revenue currently is small.

(b) Custom Duties - Basically custom duties consist of two categories of taxes: Import duties and Export duties.

These are taxes on the importation as well as the exportation of goods and services. In the earliest years in Nigeria, Custom duties was not only feasible significant consumption levy but likewise one that accorded reasonably well development objectives. Authors like Due and Friedlander have suggested that "so long as a Country can prevent smuggling, custom can be enforced more effectively than domestic taxes on transactions since goods can be forced to pass through the bottle-necks of customs houses and not admitted until duties are paid"[6]. The Federal Government of Nigeria imposes the rate and commodities on which taxes are to be collected but the actual execution of the collection process is done by the department of customs.

Other tax revenue - Categorised under this headings are taxations not specifically classified into either direct or indirect sources like the stamp duties tax etc.

2.5 TAX JURISDICTION IN NIGERIA.

Tax jurisdiction determine what level of government should impose which tax. It should however be noted that the principle of "functional distribution" is the basis for tax jurisdiction and revenue autonomy for the various tiers of government in Nigeria. Thus taxing powers are vested in that level of government most likely to administer the taxes efficiently and without prejudice to the overall national interest. Therefore accord with the principles of fiscal autonomy. The Aboyade and Okigbo Revenue Allocation and Fiscal Review Committee are instrumental to the tax

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6. Halidu Abubakar - Public finance and Budgeting, principles, practice and issues p.166.

jurisdiction in Nigeria. The Aboyade Report considered among others tax jurisdiction problem and resolved as follows:-

(1) <u>Federal Government:</u>

(a) Import duties

(b) Export duties

(c) Excise duties

(d) Minning rents and royalties

(e) Petroleum profits tax

(f) Companies Income tax

(g) Capital gains tax (the legal basis only)

(h) Personal Income tax (the legal basis only)

(i) Personal Income tax armed forces, external affairs and Federal Capital Territory;

(j) Sales and purchase tax (legal basis)

(k) Stamp duties (legal basis only).

(2) <u>State Government:</u>

(a) Sales or purchase taxes (except on commodities so designated by the Federal Government) Administration and retention.

(b) Football pools and other betting taxes

(c) Estate duties

(d) Gift tax

(e) Land tax (other than Agricultural land)

(f) Land registration (legal basis only)

(g) Capital gains tax (Admin. and retention)

(h) Personal Income tax (Admin. and retention)

(i) Company tax (Admin. only).

(j) Stamp duties (Admin. and retention).

(3) <u>Local Governments:</u>

(a) Property tax

(b) Market and trading licences and fees

(c) Motor park dues

(d) Entertainment tax

(e) Motor vehicle tax and drivers' licence fees

(f) Land registration (Admin. and retention)

(g) Licence fees on T.V. and radio (Admin. and retention).

This tax jurisdiction is in line with the arrangement in the 1979 Nigeria Constitution.

2.6 TAX ADMINISTRATION IN NIGERIA.

The administration of the various tax Acts and the direct tax itself is under the care and management of the Federal Board of Inland Revenue. The Board has the following as members:-

(1) The Chairman - Director of Federal Inland Revenue Department;

(2) Four Deputy Directors

(3) Legal Adviser to the Federal Inland Revenue Department;

(4) Principal Assistant Secretary, Ministry of Finance

(5) Representative of Nigerian National Petroleum Corporation;

(6) Representative of Customs and Excise

(7) The Registrar of Companies.

The Federal Board of Inland Revenue is responsible for the administration of the following taxes listed below; assessments and collections are carried out in the area offices which are located in every State Capital. These

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taxes include:-

(a) Companies Income tax

(b) Petroleum profits tax

(c) Collection of stamp duties

(d) Companies pre-operation levy

(e) The Income tax of:

(i) External Affairs Officers

(ii) Non-Residents

(iii) Armed Forces personnel

(iv) Federal Capital Territory Residents

(v) Capital Gains tax

(vi) Sales Tax in Abuja.

The Chairman of the Federal Board of Inland Revenue is also the Chairman of the Joint Tax Board. The joint tax Board is a body constituted under section 27 of the Income Management Act, 1961.

Each State of the Federation is represented on the Joint Tax Board. Specifically the Board:

(i) Endeavours to promote uniformity both in application of Income Tax Management Act 1961 and in the incident of Income Tax on individuals throughout the Federation; and

(ii) Advises the Federal Government on matters connected with amendments to tax laws, and the general administration throughout the Country.

(iii) The consideration and approval of benefits and pensions schemes which may be submitted to it from time to time. Once a scheme is approved, scheme is valid for

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Income Tax purposes throughout the Federation. The Federal Board of Inland Revenue is protected and guided in its operation by the various legislations imposing tax on individuals and corporate bodies in Nigeria. These are:-

(1) The Income Tax Management Act 1961 as amended;

(2) The Companies Income Tax Act 1979 as amended;

(3) The Petroleum profits Tax Act 1959 as amended;

(4) The Industrial Development (Income Tax Relief Decree;

(5) The Capital Gains Tax Decree 1967;

(6) The Stamp Duties Ordinance 1958;

(7) Income Tax (Armed forces and other persons special provision) Decree 1972;

(8) Capital Transfer Tax Act 1979.

For realisation of the tax objectives therefore, there must be co-operation between the three operations of tax - The Tax Administrator, the tax payer and the tax practitioners.

The Custom duties as mentioned earlier in this thesis is collected by the Board of Customs and Excise. They are responsible for the collection and administration of tax on Import, excise and export. The Customs is an organ of the Federal Ministry of Finance. It is headed by a Director but the Ministry of Finance is the supervising Ministry. They are found in boarders, sea and air ports e.t.c.

### 2.7 PROBLEMS OF NIGERIA TAX SYSTEM AND TAX ADMINISTRATION.

The problems which beset any tax administration can be essentially traced to the factors of TAX EVASION and TAX AVOIDANCE. Tax avoidance is an attempt by the taxpayer to minimise the impact of tax burden by legitimate means, that is using provisions in the tax law to their individual advantage. The principles had been established by the Courts that a tax payer has the right to arrange his affairs so as to keep his tax burden as low as possible because nobody, rich or poor owes any public duties to pay more tax than the law demands. (Gregory V. Helvering in the Supreme Court of United States of Ameria).

Avoidance devices usually involve:-

(i) transforming income into capital or capital gains;

(ii) transforming capital gains into non-taxable income;

(iii) transforming receipts into interest free or indefinite loans;

(iv) transforming capital expenditure into recurrent expenses;

(v) Transfer of legal ownership of assets to persons taxable at high rates while retaining effective control of the assets or the power to enjoy the income from those assets.

On the other hand, tax evasion takes the form of wilful or conscious failure to comply with the tax law and in a broader sense encompasses situation where tax-payer as a result of carelessness or negligence fail to pay taxes which are legally due.

Evasion devices are usually in the following forms:-

(a) Over-invoicing of imports and under-invoicing of exports;

(b) Falsification of accounts and other documents;

(c) Claim for fictitious expenses in order to reduce taxable income;

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(d) Concealment of information about income and assets held outside the country where the tax payer files his returns especially where tax is imposed on worldwide income;

(e) Leaving the country without paying tax legally due.

In Nigeria, there are some factors that aid the existence of these two problems (tax avoidance and tax evasion). They are themselves problems to the operation of a good tax system and administration.

(1) Taxpayer Identification:

In Nigeria, the compilation of taxpayer roll is still being undertaking manually. This makes proper identification of taxpayer very difficult particularly in our society where voluntary compliance is still very low.

Companies as well will not usually come forward and would sometime operate until they are actually discovered or when they require tax clearance certificate. Many business even operate without being registered and in some cases without committing such business transaction into writing, thereby making detection very difficult as well as determining the extent of the business transacted. Manay urban centres are not properly planned thereby making the location of some businesses very difficult to identify.

(2) Sources of Income:

Taxation can only be effective if all the sources of an individual income is known but in the case of Nigeria many peoples' income are grossly under-estimated due to inadequate disclosure of some sources of income and the lack of enough machinery to discover the inadequacies. It is also known that a source of income can be brought into the net only if it is identified by the tax law as liable to tax. Under the law for example, sources of income identified as liable to tax are:-

(a) trade or business

(b) Investment income

(c) Fees, dues and allowances

(d) Any other sources of annual profits or gains.

However, the law is inadequate as it makes some sources untaxable.

(3) Administrative Problems:

Taxpayers usually take advantage of loopholes in a tax administration which they regard as weak like the case of Nigeria. Sometimes too, they hide away from a tax administration which operates harsh laws or which tends to be arbitrary.

The following are some of the administrative problems that causes weakness in a tax administration in Nigeria:

(i) Inadequate manpower in terms of quality and quantity, lack of training facilities and inability to recruit competent personnel;

(ii) Another administrative problem is the lack of enough employees career prospect and incentive for them to stay and put in their best;

(iii) poor remuneration and working facilities weakens the employee moral;

(iv) Communication gap between the various arms of tax administration e.g. between one tax administration and another, in a Federal system of government such as obtains in Nigeria, as well as a gap in communication between the tax

> administration and the tax paying public is indicative of weakness.

2.8 HISTORICAL BACKGROUND OF TAXATION IN NIGERIA:

Taxation is one of the of the oldest and commonest source of revenue to government all over the world. The basic type and nature of taxes levied on every community is however affected in character and scope by the existing political, economic and social activities of such society.

In Nigeria, like most other sub-Saharan African countries, there was in existence what might be called an indigenous form of taxation before the advent of colonial rule. For some, colonial rule only helped the existing tax system by restructuring and strengthen them leaving the objects and base the same. Example of this could be found in the Northern Nigeria where an efficient and organised administration facilitated the imposition and collection of the taxes. Rabiu rightly pointed out that:

> "In the Muslim ruled States of the North, the Chiefs, Judges, and tax Collectors were well organised before the British came. So when the British came they made use of them in their administration ....... All the various traditional taxes were consolidated and brought under a single 'general' tax payable on a single demand after the harvest, and whenever possible, in currency instead of in kind"[7].

In the Northern Nigeria, the first task of Frederick Lugard, the then High Commissioner was tax reform. He studied the Northern system which he detailed in two of his

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7. Halidu Abubakar - Public finance and Budgetin, principles, practice and issues p.92.

memoranda, the native revenue proclamation No.4 of 1904 and No.2 of 1906. During this time, Community tax was operational in the North and with time, it metamorphosed into "Native Revenue Ordinance of 1917. Lugard later extended the Northern system to the Southern Nigeria after the amalgamation of 1914. He introduced it to Benin in 1917, Ibadan and Egba area of Yorubaland in 1918, and extended it to the Eastern Nigeria in 1928. The law that guided taxation in Nigeria then was "the native Revenue Ordinance of 1917". The Ordinance of 1917, 1918 and 1928 were later incorporated into the District Taxation Ordinance No.4 of 1940 which repealed the Native Revenue Ordinance. This Ordinance was enacted to plug all the loopholes in the former laws. However, the inadequacies inherent in this Ordinance started manifesting themselves inspite of the rapid advancement of the Country hence to over-come these problems, M. J.C. Mundy was appointed and commissioned while Arthur Richards set-up a Committee to look into the "Mundy Income Tax report and drafted an Income Tax bill hence Income tax ordinance of 1943 (No.29 of 1943 Cap.92) was passed into law.

The present tax laws in Nigeria were borne out of the Raisman Commission of 1957. The recommendation was the basis for providing in Section 70 of the Nigeria Constitution (1960) which conferred an exclusive power upon Parliament to make laws for Nigeria or any part thereof with respect to taxes on Income and profits of

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Companies while section II and III conferred concurrent powers upon parliament to make laws for Nigeria or part thereof with respect to certain uniform principles in respect of Personal Income Tax. In exercise of these powers, the Federal Government enacted the Income Tax Management Act 1961 and Lagos Territory which was been administered as a Region enacted the Personal Income Tax (Lagos) Act, No.23 of 1961. The Income Tax Management Act came into operation on 1st April, 1961, all the other regional laws on taxation had to be amended to bring them into conformity with the Federal law.

Finally, the 1979 Constitution as amended has placed the taxation of income and profits in the exclusive legislative list of Federal Government and this envisages a move towards uniformity.

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1. Abubakar Halidu, Public finance, budgeting, principles, practice and Issues.

2. Ani A. A., The future of tax legislation in Nigeria - A Seminar paper of 15th May, 1991.

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# CHAPTER THREE: RESEARCH METHODOLOGY.

This chapter deals with the way the research was conducted.

## 3.1 DATA COLLECTION - INTRODUCTION.

Depending on the nature of a research study, some sources notwithstanding the hardship in reaching such sources are available for data collection. Primarily there are two main sources - the primary source and secondary sources.

## 3.2 SOURCE OF DATA.

This project made use of only the secondary data. It was collected from the statistical data published by the Central Bank of Nigeria quarterly economic and financial review and the annual report and statement of account. These publications already contained all the yearly data on the revenue generation for some period of years.

## 3.3 METHODOLOGY AND INSTRUMENT INVOLVED.

Since the required data were obtained in the Central Bank publications, the research was conducted by:

(a) Extracting the required stastical information (data) from the relevant publications both in the economic and financial review of the Central Bank of Nigeria and the annual report and statement of amount. Such publications contained all the comprehensive revenue sources for each year.

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(b) Arrangement and classification of the data into their yearly result and grouping the results for a decade under a table in order to analyse the result.

(c) The researcher employed the use of percentage method as the statistical tool or instrument for the analysis of the data to evaluate the the performance of, or contribution of taxation over the years.

3.4 LIMITATIONS TO THE RESEARCH METHODS.

It should be stressed that it is not only taxation that produces all the Federal Government revenue in Nigeria, other sources do exist but for the purpose of this work, the influence of other sources were not considered. The study therefore restricts itself to only taxation aspect of revenue generation.

Also, the use of only secondary data is a limitation in the sense that some primary data should have been employed to aid the reliability of data collected. This is considered a limiting factor because, during the process of compiling the data, a little variation was discovered in the figure contained in some publications from some others.

To get an accurate performance over the years, other more sophisticated research method could have been used but to the best of researcher's knowledge, the use of percentage is alright for a good work on the analysis of the subject matter of this project.

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# CHAPTER FOUR.

## PRESENTATION AND ANALYSIS OF DATA.

### INTRODUCTION:

This is the core chapter of this project. The topic under study requires the collection of tax revenue data since the period of independence and it is from the analysis of the data that the trend or the contribution of taxation to revenue generated in Nigeria can be understood. The data will be presented and analysed in this chapter.

Essentially the data used is obtained from the annual publications of the Central Bank of Nigeria economic and financial review as well as their statement of accounts. Other data were obtained from the Federal Inland Revenue and data relating to export and import duties were collected from department of Customs and Excise. It therefore means that this project made use of only the secondary data as earlier stated.

Because of the large volume of data and the period involved, the data have been categorised into three different periods with each representing a decade from indenpendence to date. Separate table is therefore used to present the different decades of the period under review. (1960 - 1969, 1970 - 1979, 1980 - 1988 and 1989 - 1991). For effective analysis, the use of percentage was employed as a tool. An analysis of the contribution of the tax components such as direct tax, indirect tax will be examined to see the nature of tax contribution over the years.

With this brief introduction, we shall now proceed to the main analysis of the data collected. Tables are used in presenting the data being analysed.

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TABLE 'I' - TAX REVENUE IN NIGERIA (1961 - 1969):

| Sources | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 |
|---|---|---|---|---|---|---|---|---|---|
| Tax Revenue | 103,253 | 112,683 | 112,683 | 129,362 | 143,625 | 133,674 | 125,731 | 125,140 | 175,262 |
| Import duties | 60,174 | 59,016 | 61,278 | 75,799 | 84,821 | 58,504 | 54,985 | 54,511 | 75,804 |
| Export duties | 13,495 | 12,381 | 13,536 | 14,626 | 15,765 | 14,264 | 14,034 | 14,516 | 18,739 |
| Excise duties | 6,407 | 6,529 | 9,299 | 12,199 | 16,538 | 33,730 | 30,142 | 24,468 | 35,971 |
| Company Income Tax; | - | - | - | - | - | - | - | - | - |
| Personal Income Tax; | 23,177 | 27,430 | 28,570 | 26,738 | 26,501 | 27,176 | 26,660 | 31,645 | 44,748 |
| Other Tax Rev. | - | - | - | - | - | - | - | - | - |
| Mining (Roy.etc) | 4,275 | 13,137 | 8,501 | 9,888 | 12,805 | 10,353 | 27,813 | 10,556 | 11,805 |
| Int. & Payt. | 6,351 | 6,887 | 12,091 | 6,880 | 9,174 | 9,671 | 13,821 | 11,673 | 11,901 |
| Post & Telegraph | 4,435 | 5,046 | 5,398 | 5,128 | 6,626 | 2,739 | - | - | - |
| Miscellaneous | 18,696 | 17,712 | 15,807 | 17,713 | 19,958 | 26,716 | 12,300 | 12,361 | 24,532 |
| TOTAL = | 137,010 | 148,638 | 154,488 | 168,971 | 192,188 | 183,153 | 179,665 | 159,730 | 223,500 |

SOURCE: CENTRAL BANK OF NIGERIA: ECONOMIC AND FINANCIAL REVIEW 9 AND 10 1971/1972.

TABLE 'II' - RELATIVE CONTRIBUTION OF REVENUE (1961 - 1969)

| SOURCES | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 |
|---|---|---|---|---|---|---|---|---|---|
| Tax Revenue | 75.3 | 71.22 | 72.97 | 76.56 | 74.73 | 72.98 | 69.98 | 78.34 | 78.42 |
| Import duties | 43.9 | 39.70 | 39.68 | 44.86 | 44.13 | 31.94 | 30.60 | 34.13 | 33.92 |
| Export duties | 9.84 | 8.33 | 8.77 | 8.66 | 8.20 | 7.79 | 7.81 | 9.09 | 8.38 |
| Excise duties | 4.68 | 4.39 | 6.02 | 7.22 | 8.61 | 18.42 | 16.78 | 15.32 | 16.09 |
| Company Income Tax; | - | - | - | - | - | - | - | - | - |
| Personal Income Tax; | 16.9 | 18.45 | 18.50 | 15.82 | 13.79 | 14.84 | 14.84 | 19.81 | 20.02 |
| Other Tax Rev. | - | - | - | - | - | - | - | - | - |
| Mining (Roy.etc) | 3.12 | 8.84 | 5.51 | 5.85 | 6.66 | 5.65 | 15.48 | 6.61 | 5.28 |
| Int. & Payt. | 4.64 | 4.63 | 7.79 | 4.07 | 4.77 | 5.28 | 7.69 | 7.31 | 5.32 |
| Post & Telegraph | 3.24 | 3.39 | 3.50 | 3.03 | 3.45 | 1.50 | - | - | - |
| Miscellaneous | 13.65 | 11.92 | 10.24 | 10.46 | 10.38 | 14.56 | 6.85 | 7.74 | 7.98 |
| TOTAL = | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

SOURCE: COMPUTED BY THE RESEARCHER FROM THE DATA OBTAINED FROM THE CENTRAL BANK OF NIGERIA ECONOMIC AND FINANCIAL REVIEW.

The data presented in Tables 'I' and 'II' form an interesting disclosure about the nature of revenue generated in Nigeria during the period under review (1960 - 1969).

It clearly shows the importance of taxation as a revenue source and the variations (fluctuation) in all the revenue generated by the sources.

From the tables above, containing the figure on the first decade of indenpendence, taxation contributed more than 70% of the total revenue for each year except 1967. For instance in 1961, tax revenue was 103,253 out of total revenue of 137,010 in 1962. It was 112,682 of 148,638, 1963 - 112,683 of 154,418, 1964 - 129,362 of 168,971 and 1969 - 175,262 of 223,500 representing 75.3%, 71.22%, 72.97%, 76.56% and 78.42% respectively. It is true that it fluctuated in its contribution from one year to another signifying either a decrease or increase, this fluctuation was very slight, for example in 1962, tax revenue fell from 75.3% in 1963 to 71.22%. Also between 1963 and 1964, tax revenue increased by 1.75% that is from 72.97% in 1963 to 75.56% in 1964. On the whole, tax revenue could be said to be relatively stable during the first decade of Nigeria's independence with a little variance from year to year. The variations were mostly caused by changes in tax policies.

The bulk of the tax revenue throughout the period under study was supplied by the indirect tax. For instance, it accounted for 85, 253 of 103,253 total revenue in 1961, 102,624 of 112,683 in 1963, 106,498 of 133,674 in 1966 representing 58.42%, 54.47% and 58.14% respectively. However, within the indirect taxes, the greatest amount of revenue was from the import duties. In 1962, import duties accounted for 59,016 of the total indirect tax of 85,253; in 1967 54,985 of 99,071 representing 69.22% and 55.50% respectively. In short, the import duties did not produce less than 52.77% throughout the decade. The contribution of the other indirect taxes (export and excise duties) were relatively small. Of the 102,624 indirect tax in 1964, export and excise duties accounted for only 26,825 representing 26.13%. Its contribution to the total indirect tax fluctuated within the range of 24% to 28% until 1966, when it contribution rose to 45.07%, and 44.59% and 41.70% in 1967 and 1968 respectively. The contribution of the personal income tax which happened to be the only direct tax accounted for during the period was relatively low i.e., it added 23,177 of 103,253 in 1961; 28,570 of 112,683 in 1963 in 1963; 26,501 of 143,625 in 1965 and 35,971 of 175,262 in 1969 among others representing 22.45%; 25.35%; 18.45% and 20.52% respectively.

There were contributions from other non-tax revenue but for the purpose of this project, our analysis shall revolve around the tax revenue sources only.

Contribution of taxation to revenue generation 1970 - 1979 for effective analysis of tax revenue trend in this period, tables containing the data will be presented below for easy analysis.

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TABLE 'III' (₦ MILLION)
REVENUE OF THE FEDERAL GOVERNMENT (1970 - 1979)

| SOURCES | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|---|---|---|---|
| Direct Tax | 144.4 | 451.2 | 624.4 | 852 | 3,032.1 | 2,990.2 | 3,852.4 | 4,839.8 | 3,965.3 | 5,753.7 |
| Comp. Tax | 45.8 | 63.0 | 80.4 | 75.5 | 146.6 | 261.9 | 222.2 | 476.9 | 527,4 | 575.1 |
| Personal Income Tax; | 0.8 | - | - | 1.2 | 11.1 | 15.9 | 3.5 | 3.3 | 3.3 | 2.9 |
| Pet.Prof.Tax | 97.6 | 383.52 | 540.5 | 769.2 | 2,872.5 | 2,707.5 | 3,624.9 | 4,330.8 | 3,415.7 | 5,164.1 |
| Other Tax Income; | 0.2 | 5.0 | 3.5 | 7.0 | 1.9 | 4.9 | 1.8 | 28.8 | 15.9 | 11.6 |
| Indirect Taxes; | 369.4 | 491.2 | 481.1 | 516.2 | 498.2 | 760.7 | 882.7 | 1,145.6 | 1,698.2 | 1,143.9 |
| Imp.Duties | 215.6 | 284.8 | 274.4 | 307.9 | 328.2 | 629.4 | 724.3 | 964.2 | 1,436.2 | 870.6 |
| Exp.Duties | 41.2 | 37.8 | 26.9 | 12.5 | 5.5 | 5.8 | 6.1 | 4.2 | 2.8 | 0.2 |
| Exc.Duties | 112.6 | 168.6 | 179.8 | 196.0 | 164.4 | 125.5 | 152.3 | 177.2 | 259.2 | 273.1 |
| Int.&Payt. | 26.4 | 36.6 | 44.8 | 49.8 | 127.1 | 162.7 | - | - | - | - |
| Min.(Roy.& Rent); | 168.8 | 127.0 | 223.8 | 246.8 | 854.2 | 1,564.0 | - | - | - | - |
| Miscel. | 24.2 | 63.0 | 30.7 | 29.6 | 25.4 | 37.1 | - | - | - | - |
| TOTAL = | 633.2 | 1,169.0 | 1,404.8 | 1,695.3 | 4,537 | 5,514.7 | - | - | - | - |
| T.T.REV.= | 513.8 | 942.4 | 1,105.5 | 1,368.2 | 3,530.3 | 3,750.5 | 4,735.1 | 5,985.4 | 5,660.5 | 6,897.6 |
| TOTAL GOVT. REVENUE; | - | - | - | - | - | - | 6,765.9 | 8,042.4 | 7,469.3 | 10,912.4 |

SOURCE: C.B.N. ECONOMIC AND FINANCIAL REVIEW DECEMBER 1975 VOL.13 NO.2.
C.B.N. ECONOMIC AND FINANCIAL REVIEW JUNE 1982 VOLUME 20 NO.1

TABLE 'IV' - RELATIVE CONTRIBUTION OF REVENUE (1970 - 1979):

| SOURCES | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|---|---|---|---|
| Direct Tax | 22.80 | 38.60 | 44.45 | 50.26 | 66.83 | 54.22 | 56.94 | 60.18 | 53.09 | 52.73 |
| Company Tax | 7.23 | 5.39 | 5.72 | 4.45 | 3.23 | 4.75 | 3.28 | 5.93 | 7.06 | 5.27 |
| Personal Income Tax; | 0.12 | - | - | 0.07 | 0.24 | 0.29 | 0.05 | 0.04 | 0.44 | 0.29 |
| Petroleum prof.Tax | 15.41 | 32.78 | 38.48 | 45.37 | 63.31 | 49.10 | 53.58 | 53.85 | 45.73 | 47.32 |
| Other Tax Rev. | 0.03 | 0.43 | 0.25 | 0.41 | 0.04 | 0.08 | 0.03 | 0.36 | 0.21 | 0.11 |
| Indirect Taxes | 58.34 | 42.02 | 34.25 | 30.45 | 10.98 | 13.79 | 13.05 | 14.24 | 22.74 | 10.48 |
| Import Duties | 34.05 | 24.36 | 19.53 | 18.16 | 7.23 | 11.41 | 10.71 | 11.99 | 19.23 | 7.98 |
| Export Duties | 6.5 | 3.23 | 1.91 | 0.74 | 0.12 | 0.11 | 0.90 | 0.05 | 0.03 | 0.00 |
| Excise Duties | 17.78 | 14.42 | 12.80 | 11.56 | 3.62 | 2.28 | 2.25 | 2.20 | 3.47 | 2.50 |
| Int.& Payment | 4.16 | 3.13 | 3.19 | 2.94 | 2.80 | 2.9 | - | - | - | - |
| Mining (Royalties, Rent); | 26.66 | 10.86 | 15.93 | 14.56 | 18.83 | 28.36 | - | - | - | - |
| Miscellaneous | 3.82 | 5.39 | 2.1 | 1.75 | 0.55 | 0.67 | - | - | - | - |
| TOTAL = | 100 | 100 | 100 | 100 | 100 | 100 | - | - | - | - |
| TOTAL TAX REV.= | 81.14 | 80.62 | 78.69 | 80.71 | 77.81 | 68.00 | 69.98 | 74.42 | 75.78 | 63.21 |
| TOTAL GOVT. REV.= | - | - | - | - | - | - | 100 | 100 | 100 | 100 |

SOURCE: COMPUTED BY THE RESEARCHER FROM THE DATA ON TABLE 'III'.

A look at tables 'III' and 'IV' shows clearly the importance of tax in terms of its contribution to the total revenue during this period (1970 - 1979). In 1970 through 1979, it contributed not less than 68% of the total revenue for each year. It was particularly impressive in 1970, 1971 and 1973 when it contributed 513.8m out 633.2m; 942.4m out of 1,169m and 1,368.2 of 1,695.3m accounting for 81.14%; 80.62% and 80.71% respectively. The tax revenue increased in absolute term throughout the decade except for 1978 when there was a fall from 5,985.4 to 5,660.5 indicating a drop of 5.43%. The case of its percentages were different, it fell in the first three years (1970 - 1972), then increased in the fourth year (1973), dropped in the next two years, rose in the following year etc. It was a case of fluctuating revenue trend. In all, the contribution of taxation cannot be over-looked since it contributed about 75% most part of the decade. It experienced a drastic fall in 1975 and 1979 when it fell from 77.81% in 1984 to 68% in 1985 and from 75.78% in 1978 to 63.21% representing a drop of 9.81% and 12.57% respectively.

Of importance during this period was the direct tax whose contribution to the total revenue increased astronomically in its absolute and percentage contribution especially in 1974 over the previous years. In 1974, 1975, 1976, 1977, 1978 and 1979, it contributed 3,032.1 out of 3,530.3; 2,990.2 of 3,750.5; 3,852.4 of 6,765.9;

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4,839.9 of 8,042.4; 3,965.3 of 4,769.3; 5,753.7 of 10,912.4 representing 66.83%, 54.22%, 56.94%, 60.18%, 53.09% and 52.73% respectively. However, the bulk of the direct tax came from the new found wealth, the petroleum profit tax which contributed for example, 2,707.5 of 2,990.2 direct tax in 1974, 3,624.9 of 3,852.4 in 1975 and 5,164.1 of 5,753.7 in 1979 among others. These figures represented 90.5%, 94.09% and 89.75% of the total direct tax revenue for these years. Another cause for the increase in revenue contribution of direct tax was the introduction and continous increase in absolute term of Company Income tax throughout the decade except for 1973 when a decrease was experienced. In 1970 through 1979, it contributed the figures contained in Table 'III' above however, it percentage to total revenue was still relatively small ranging from 3% to 7%. The impact of indirect tax depreciated during this decade contributing especially from 1974 to 1979 - a percentage of 10% to 22%. There was a drastic fall in 1974 when it fell from 30.45% in the previous year to 10.98%. This was as a result of the impact of Petroleum profit tax. Despite this fall in indirect tax revenue, the import duties still maintained its lead in revenue generation within the indirect taxes contributing between 7% to 24% most part of the years under consideration. It dropped drastically in 1979 when it fell from 1,436.2 to 870.6 representing 39.38%. A major case of this fall was the relaxed policy of the Politicians and increased smuggling activities. The contribution of Excise duties was between the range of 11% to 17% during the first four years of this analysis, a drastic drop to 3.62% in 1974 and maintained the low ebb within 2% to 3% throughout the years to 1979. The contribution of the export tax was highly insignificant both in absolute and relative term especially from 1974 when it accounted for less than 1% of the total revenue. The fall in export duties was most noticeable in 1979 when it added 0.2m representing 0.00% to the total revenue.

It is significant to conclude the analysis of this decade by specifically saying that from all indications of the trend, there was no revenue source that was constant, all fluctuated.

Next is the analysis for the third decade (1980-1988).

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TABLE 'V' (₦MILLION)

FEDERAL REVENUE FOR (1980 - 1988)

| SOURCES | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|
| Direct Taxes | 9,161.1 | 6,827.3 | 5,608 | 4,330.9 | 5,629.9 | 7,798.4 | 5,880.9 | 13,739.2 | 14,068.9 |
| Pers.Inc.Tax | 4.0 | 12.5 | 12.5 | 4.5 | 13.3 | 15.1 | 11.1 | - | - |
| Comp. Income Tax; | 579.2 | 734.0 | 734 | 561.5 | 787.2 | 1,004.3 | 1,019.3 | 1,235.2 | 1,572.4 |
| Petroleum profit tax; | 8,564.3 | 4,846.4 | 4,846.4 | 3,746.9 | 4,810.3 | 6,719.6 | 4,811.1 | 12,504.0 | 12,496.5 |
| Other Tax Rev | 13.6 | 14.6 | 15.1 | 18.0 | 19.1 | 59.4 | 39.4 | - | - |
| Ind. Taxes | 1,813.5 | 2,535.5 | 2,482.7 | 1,985.2 | 1,616.0 | 2,183.5 | 2,346.9 | 3,540.8 | 4,264.1 |
| Import dut. and fees; | 1,407.2 | 1,880.9 | 1,801.7 | 1,114.8 | 924.2 | 1,199 | 1,298.7 | 2,722.9 | 3,360.1 |
| Exp.duties | 0.1 | - | 0.3 | 1.1 | 1.0 | 5.6 | 6.8 | 3.5 | 12.8 |
| Excise Dut. | 406.2 | 654.6 | 680.7 | 869.3 | 690.8 | 978.9 | 1,041.4 | 814.4 | 891.2 |
| Other Rev. | - | 2,817.4 | 3,673.7 | 4,192.6 | 3,945.3 | 4,707.2 | 4,609.8 | 7,819.8 | 8,977.8 |
| Interest and payment; | - | 522 | 659 | 635.1 | 422.2 | 390.2 | 310.8 | 351.8 | 540 |
| Mining(Rents & Royalties) | - | - | - | - | - | - | - | - | - |
| Fees, NNPC earnings; | - | 2,238.6 | 2,968.5 | 3,506.1 | 3,458.9 | 4,204.1 | 3,002.5 | 6,242.2 | 8,435.6 |
| Miscellaneous | - | 56.8 | 46.2 | 51.4 | 64.2 | 112.9 | 72.4 | 45.8 | - |
| Econ.Rec.F. | - | - | - | - | - | - | 1,224.1 | 1,170.0 | 1.7 |
| TOTAL = | 15,234 | 12,180.2 | 11,764.4 | 10,508.7 | 11,191.2 | 14,689.1 | 12,837.6 | 25,099.8 | 27,310.8 |

SOURCE: C.B.N. ECONOMIC AND FINANCIAL REVIEW OF SEPTEMBER 1989 VOL.27 NO.3 AND MARCH 1987 VOL.25 NO.1; JUNE 1990 VOLUME 2.

TABLE VI
RELATIVE CONTRIBUTION OF REVENUE (1980 - 1988)

| SOURCES | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|
| Direct Taxes | 60.14 | 56.05 | 47.67 | 41.21 | 50.31 | 53.09 | 45.81 | 54.73 | 51.51 |
| Pers. Income Tax | 0.03 | 0.10 | 0.11 | 0.04 | 0.12 | 0.10 | 0.09 | - | - |
| Company Income Tax | 3.80 | 6.03 | 6.24 | 5.34 | 7.03 | 6.84 | 7.94 | 4.92 | 5.76 |
| Petroleum profit tax | 56.22 | 39.79 | 41.20 | 35.66 | 42.98 | 45.75 | 37.48 | 49.82 | 45.76 |
| Other tax revenue | 0.09 | 0.12 | 0.13 | 0.17 | 0.17 | 0.40 | 0.31 | - | - |
| Indirect taxes | 11.90 | 20.82 | 21.10 | 18.89 | 14.44 | 14.86 | 18.28 | 14.11 | 15.61 |
| Import duties and fees | 9.24 | 15.44 | 15.31 | 10.61 | 8.26 | 8.16 | 10.12 | 10.85 | 12.30 |
| Export duties | 0.00 | - | 0.00 | 0.01 | 0.00 | 0.04 | 0.05 | 0.01 | 0.05 |
| Excise duties | 2.67 | 5.37 | 5.79 | 8.27 | 6.17 | 6.66 | 8.11 | 3.24 | 3.26 |
| Other Revenue | - | 23.13 | 31.23 | 39.90 | 35.25 | 32.04 | 35.91 | 31.15 | 32.87 |
| Interest and Payment | - | 4.28 | 5.60 | 6.04 | 3.77 | 2.66 | 2.42 | 1.40 | 1.98 |
| Mining (Rents & Royalties) | - | - | - | - | - | - | - | - | - |
| Fees, NNPC Earning | - | 18.38 | 25.23 | 33.36 | 30.91 | 28.62 | 23.39 | 24.87 | 30.89 |
| Miscellaneous | - | 0.47 | 0.39 | 0.49 | 0.57 | 0.77 | 0.56 | 0.18 | - |
| Economic Recovery Fund | - | - | - | - | - | - | 9.54 | 4.66 | 0.00 |
| TOTAL = | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

SOURCE: COMPUTED BY THE RESEARCHER FROM THE ABOVE DATA (TABLE V).

In the third decade of our independence (1980 - 1988), taxation contributed a substantial amount of the revenue in Nigeria like the previous periods. For instance in 1980, 81, 84 and 88, it contributed 10,974.6 out of 15,234; 9,362.8 out of 12,180.2; 7,245.9 out of 11,191.2 and 18,333 out of 27,310.8 among others. This represented 72.04%; 76.87%; 64.75% and 67.13% respectively. Although the contribution of taxation within this period varied between 60% to 76%, there were alot of fluctuations (increasing and decreasing). In the first four years (1980 - 1983), the absolute contribution of tax revenue decreased i.e. from 10,974.6 in 1980 to 9,362.8 then 8,090.7 and 6,316.11 in the fourth year while it percentage increased from 72.04% to 76.87% in 1981 but redueced to 68.77% in 1982 and 60.10% in 1983. The following two years increased both in absolute and percentage terms. Throughout this period, there was no drastic increase or decrease in the tax revenue even though it was fluctuating.

The direct tax was responsible for the bulk of the total tax contributed during this period. Its added between 40% and 61% of the total revenue. Its greatest contribution was in 1980 when it produced 9,161.1 of the 15,234m representing 60.14%. The first two years witnessed an increase in its percentage contribution however in the third year (1982), it decreased from 6,827.3 to 5,608 indicating a reduction from 56.05% to

47.67%. It was increasing and decreasing throughout the period. 1987 saw a significant increase from 5,880.9 to 13,739.2. Of utmost importance to the increase was the petroleum profit tax which expanded rapidly and supply most of the revenue. In 1980, it supplied 8,564.3 out of 9,161.1 and in 1985, it was 6,719.6 out of 7,798.5 representing 93.49 and 86.17 respectively. Petroleum profit tax alone was responsible for more than 75% of the yearly direct tax revenue. There was a massive improvement over 1986 figure of 4,811.1 to 12,504.0 representing a difference of 7,692.9m. It percentage therefore increased by 12.34%. The absolute value of the company income tax also improved especially as from 1984 when it increased from 561.5 to 787.2 and since then it increased up till 1988. This was due to the seriousness of the Buhari/Idiagbon government on compnay that defaulted tax and the improved tax policy relating to its collection. Under the direct tax however, the contribution of the personal income tax both in absolute and percentage term was very low. Though its contribution fluctuated throughout the period, it contribution was less than 1%. The other revenue from direct tax also added is less than 1% even though it increased throughout in absolute term.

The direct tax contribution was between 11% and 21% which was relatively low and the bulk as in the previous periods was enhanced by the import tax that added to total revenue at the range of 9% to 16%. The impact of the export duties was highly negligible especially in 1980, 82 and 84 when it did not contribute anything to revenue. It added less than 1% throughout the period under review.

The last period and the recent time (1989 - 1991). This is the last period considered in this analysis. It was included to review the current trend of tax revenue in Nigeria.

TABLE 'VII'
REVENUE OF THE FEDERAL GOVERNMENT:

| SOURCES | 1989 | 1990 | 1991 |
|---|---|---|---|
| Oil revenue | 41,334.4 | 54,713.2 | 68,832.2 |
| Petroleum profit tax | 24,161.7 | 26,909.0 | 38,615.9 |
| Rent, Royalties & NNPC | 17,172.7 | 27,804.2 | 30,216.3 |
| Non-Oil revenue | 8,865.6 | 13,857.3 | 19,326.5 |
| Company Income tax | 1,977.4 | 3,408.7 | 3,826.7 |
| Customs & Excise duties | 5,950.2 | 8,724.6 | 12,459.4 |
| Federal Govt. Independent Revenue; | 938.0 | 1,724.0 | 3,040.4 |
| Total Federally collected Revenue; = | 50,200.00 | 63,570.5 | 88,158.7 |

SOURCE: C.B.N. ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR 31ST DECEMBER 1991.

TABLE 'VIII'

RELATIVE CONTRIBUTION:

| SOURCES | 1989 | 1990 | 1991 |
|---|---|---|---|
| Oil revenue | 82.3 | 79.8 | 78.1 |
| Petroleum profit tax | 48.1 | 39.2 | 43.8 |
| Rents, Royalties & NNPC | 34.2 | 40.5 | 34.3 |
| Non-Oil revenue | 17.7 | 20.2 | 21.9 |
| Company Income tax | 3.9 | 5.0 | 4.3 |
| Custom and Excise duties | 11.9 | 12.7 | 14.1 |
| Federal Government Independent revenue; | 1.9 | 12.5 | 3.5 |
| Total federally collected revenue; = | 100 | 100 | 100 |

SOURCE: COMPUTED BY THE RESEARCHER FROM THE DATA ABOVE.

The above tables (VII and VIII) presented here contains data that deals with the recent revenue trend in Nigeria. Tax revenue still recorded the highest contribution by having 32,089.3 out of 50,200 in 1989; 39,042.3 out of 63,570.5 and 54,902 out of 88,158.7. This resulted into 63.92%; 61.42% and 62.28% respectively. Taxation in essence contributed about 62% in the years under review. Even though taxation have increased in absolute term throughout the three years in the following order, 32,089.3; 39,042.3 and 54,902; the percentage change differed i.e. it fluctuated. In 1990 it decreased from 63.92 in 1989 to 61.42 but increased in 1991 to 62.28. An increase of 0.88%.

Of importance to the total tax revenue was the petroleum profit tax that added 24,161.7 out of total tax revenue of 32,089.3 in 1989; 26,909 out of 39,042.3 and 38,615.9 out of 54,902 in 1991 representing 75.30%; 68.92% and 70.34% respectively. The contribution of the Company income tax increase in absolute term within the three years but fluctuated in percentage term for instance it increased in 1990 by 1.1% but decreased in 1991 by .7%.

The indirect tax (made up of customs and excise duties) have contributed between 11.9% to 14.1%. This tax increased in absolute and percentage term throughout the three-year span.

SUMMARY OF FINDINGS:

From our analysis of the trend of tax revenue in Nigeria since independence, we have been able to discover a number of important points as regards the nature of the tax revenue generated in Nigeria. Some of these vital points are listed below:

(a) The Federal Government of Nigeria earns its revenue from many sources but taxation stands out as the highest contributor of the total revenue yearly since independence. In fact, the trend has been about 70% or more, majority of the tiems since independence to date.

(b) The total tax revenue has not been stable. It has been fluctuating from one year to the other signifying either a decrease or an increase in absolute as well as relative (percentage contribution) terms.

(c) At the inception of independence and throughout the first decade, the indirect tax produced the highest tax revenue however, the bulk of the indirect tax was obtained from the duties on import (import duties). The trend of the import duties being the highest contribution of the indirect tax continued throughout the periods.

(d) At the second decade of our analysis, we discovered that the direct tax had taken over as the highest generic contributor to tax revenue. This was due to the impressive performance of the petroleum profit tax which started during this decade and continued to be the leading revenue contributor till date. It has even reached a situation where petroleum profit tax alone contributed about a half of the total revenue thereby leading to a diminish impact of the indirect tax whose contribution has gone down drastically.

(e) Despite the fact that export duties and personal income taxes added only a small proportion to the total revenue, they are even on declining trend in their contribution in recent periods. The worst situation is that in the recent time, they sometimes added an insignificant or nothing to the total revenue.

(f) The other tax revenue source that did not add anything to Nigeria revenue during the first decade of independence continued to enjoy some increase particularly during the second decade however, the proportion of its contribution is small.

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# CHAPTER FIVE
## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

### Introduction:

This is the last chapter of this project. It presents the highlight contained in this study - the main objective set to achieve, the analysis and the findings from such analysis. Conclusions are drawn from the findings. Finally, suggestions/recommendations are made with regard to how the government can enhance more efficiency and effectiveness in the contribution of taxation to the revenue generated yearly.

### Summary of the Project:

The project is aimed at analysing the contribution of taxation to the revenue generated in Nigeria since independence. The data required were collected from the secondary source - precisely the quarterly publications of Central Bank of Nigeria Economic and Financial Review and the Annual Report and Statement of Account. The large data involved made the use of table to group the data into a ten year period convenient.

The statistical tool of percentage was employed for an effective finding which aided the outcome that taxation contributed highest to government revenue yearly throughout the study period though such revenue fluctuated from year to year potraying either an increase or decrease either in absolute or relative term or both. These fluctuations were acknowledged to be a direct response to the variation in this contribution of the tax components which were influenced by the variation in tax policies.

Conclusion:

Based on the analysis and the findings, the following conclusions are drawn.

(a) Despite the fact that taxation is the highest and most important source of government revenue in Nigeria, its contribution still leaves much to be desired. of tax revenue is being lost either through the non-effective use of available taxes or the fact that alot of tax revenue are left un-tapped.

(b) The inconsistency and lack of continuity in tax policies are mostly responsible for the fluctuation (increase or decrease) in the tax revenue for each year. While some policies enhances increase in tax revenue, others are meant to reduce the tax burden on individual or company to serve as an incentive, however, this reduces the total tax yield.

(c) The government does not give equal attention to all sources of tax. While concentrating on some, others are neglected. The practice normally result in loss of revenue accruable from tax. Evidence of this is the concentration of government on petroleum profit tax since the discovery of oil during the second decade of our independence.

(d) The practice of tax evasion and avoidance by disgruntled and unpatriotic citizens have resulted in a substantial amount of tax revenue being lost by the government through the years. Also the activities of business men/houses who either refuse to register their Company or declare a false profit is of no less importance in reducing the total tax revenue available to the government.

(e) The general administrative and management problem coupled with the Nigerian factor which doesn't make anything work is responsible for hampering the effective assessment and collection of the tax revenue as at and when due.

(f) The trend of the economy determines which of the tax sources will contribute what to the revenue and this goes to influence how tax rate could be fixed; increased or decreased to obtain more tax revenue.

Recommendations:

With the analysis carried out, and conclusions drawn, it can be said that the issue of the analysis of the contribution of tax to revenue generation since independence in Nigeria has been reasonably diagnosed and the attendant problems inhibiting the attainment of optimum tax revenue highlighted and examined.

It is necessary at this juncture to proffer some suggestions that could enhance the required improvement in the generation of revenue through tax. Some of the suggestions we consider most important are:-

(a) The managers of tax should effectively implement the tax laws to cover all the loopholes contained in it to avoid the current high rate of tax avoidance and tax evasion. This can be done by enforcing the law and dealing seriously with tax defaulters. The law should be a no respecter of any person so that it will not only be seen as being made but must be well implemented to the latter. The current practice of demanding three-years tax clearance before one could hold a political office should be extended to other spheres of life. Such laws will help to improve the personal income and company taxes which are relatively low throughout the period under review.

(b) There should be consistency in tax policies in the Country and where need for changes arises, such change must be seen to be a continuity of the previous ones, against the lack of particular direction of our current tax policies. The motive behind every tax policy should be to generate more revenue even though its impact on the citizen must be considered.

(c) A general administrative overhaul should be embarked upon to get rid of the bad eggs within the tax administrators, collectors or officers whose main duty is to connive with tax payers to sabotage the effort of the government through illegal diversion of taxes or encourage total refusal of tax payers to fulfil their civic responsibility. Government on its part should ensure judicious use of the tax collected particularly in the provision of social amenities that are currently in bad shapes so as to enhance the voluntary tax compliance of the citizens. Leaders should also demonstrate their committment to the course of the Country by, leading by example - being the first set of people to pay their taxes at and when due as against the present practice where the rich within the society avoid tax more than even the poor. Companies which are not living up to expectation should be seriously dealth with. An effective machinery should be put in place to enhance effective assessment and collection of taxes (the withholding tax and self assessment systems are steps in the right direction) but more reforms should be made to fill any gap dectected.

(d) Adequate education and enlightment programmes should be organised by the Federal Inland Revenue to enhance people's understanding of the essence of tax in order to change their resistance culture. Such enlightment should be continous and the use of popular media within such locality should be used like radio, paper, chiefs and representative of the people while the local language(s) should be used as the communication medium.

(e) While we do agree like the theory of A-B-C inventory model that the most important thing should be given the greatest priority. In this case, the highest priority should be given to the most important tax in terms of contribution, others should however not be neglected instead, they should be effectively harnessed to produce the maximum tax revenue so as to obtain the objective of the optimum tax revenue generation.

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