TAXATION AND STATE FINANCES

A CASS STUDY OF KADUNA STATE

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BY

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DECLARATION

I declare that this thesis, as herein submitted, is the result of my own research work under the supervision of Dr. Mike Kwanashie who is the Head of Economics Department and Dean, Faculty of Arts and Social Sciences, Ahmadu Bello University, Zaria. This thesis is not being, and has not been submitted in candidature for any other degree in any University. Information gotten from published and unpublished work of other people have been duely acknowledged in the text.

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THESIS APPROVAL

This thesis has been carefully read and approved as having met the regulations governing the award of a Master of Science Degree in Economics and is accepted for its contribution to knowledge in the Social Sciences.

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DEDICATION

This thesis is dedicated to my God and the Lord Jesus Christ who sustained me through two surgical operations within the period of this research. I owe all to Him

and to

Dr. Samson Onimisi, Dr. Akor, Dr. Y. Y. Dangatta, Dr. S. Inusa, Dr. Dikki and Dr. I. Bala my surgeons and doctors during my ill-health. They did their best and showed personal concern.

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ABSTRACT

The study has traced the contribution of state taxation to total state revenue. In other words, the study focused on taxation as a source of revenue generation. The need for such an effort is understandable. Over the years, especially from the early seventies, states, almost completely relied on funds from the Federal Government in order to execute state projects. An almost neat relationship could be established between the amount of revenue a state receives from the Federal Government and level of expenditure of the state for that year. One then wonders if the state governments were seeing the Federal Government as the sole sponsor of their projects. This became more crucial when Federal grants to states started falling following the fall in oil revenue and states suddenly started abandoning their projects for lack of funds. Could there be no other possible source of revenue to sustain the state government projects?

It is for this reason that taxation has been singled out for a detailed study of this nature because it is a tool that can be manipulated by the state government in line with the needs of the state. The study has showm that although tax is not yielding the maximum revenue consistent with the state's present level of economic development, it could be improved upon and it will sponsor the state development programs to a great extend.

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CHAPTER 1

INTRODUCTION

Tax is a compulsory levy imposed by public authorities for which the taxpayer receives nothing directly in return. It is a liability imposed on the tax assessees who may be individuals, groups, or other legally constituted business enterprises to pay a specific amount for the simple reason that they have an income of a minimum amount from certain specified sources which have been chosen for taxation by law.

Taxation is as old as history. It was practiced in Ancient Egypt, China and the Roman Empire. It was also in practice in Northern Nigeria ever before the advent of the British Colonial rule. "Nigeria and more particularly Northern Nigeria has a special place in the history of the evolution of direct taxation in Africa".[1] For instance, in Northern Nigeria there was the 'Kudin Kassa' (Agricultural tax), 'Jangali' (Cattle tax), 'Zakat' (a type of taxation prescribed by the Holy Koran and levied on moslems for charitable, religious, and educational purposes) and many other forms of taxes.

In its original form, taxation was "to a large extent merely one of the instruments of oppression wielded by the ruling class over the subjugated. Many of the early exactions were not so much taxes as organised and legitimate forms of robbery"[2]

Taxation in its modern sense emerged with the evolution of modern Nation States when the state, through legislation and administration, assessed individuals and business enterprises according to income or wealth. Then it became regular payments to the state and an important source of revenue for the government. "The first need of a modern government is a revenue which is indeed the breadth of its nostrils."[3]

Every tax system has various objectives which it is intended to achieve in the economy within which it operates. Generally, taxation has two main objectives. The original purpose of taxation was to raise revenue to finance government expenditures. This still remains the primary purpose of taxation in general. But since the 1940s, governments have also used changes in the level of taxation and its coverage as an important way of influencing economic activity in the economy as a whole. It is a key factor for governments' overall economic and social objectives. Tax policy provides the mechanism for influencing consumer demand, for providing incentives for saving, investment, and production. It is also used to achieve economic growth, ensure stability in the economy, achieve equitable distribution of income and wealth, allocate resources in socially desirable manner, encourage and protect new industries within the economy and so on.

However, the objectives of a tax system in a developed country differ significantly from those in a developing country. A developed economy has adequate capacity to save and invest. Also, the question of distributive justice is not an urgent one there. The main problem that faces a developed market economy is that of instability of income and employment and the tax system should be directed towards solving these problems. But in a developing economy, the problem is not only that of instability of income and employment, but it is also faced with a number of problems connected with economic growth on the one hand and removal of poverty and inequalities on the other.

Therefore, in trying to evaluate a tax system in terms of the objectives set for it, we are in essence seeking answers to questions like: Can the tax system make available more revenue for development by increasing tax rates or enlarging the tax base or improving the performance of the tax administrative machinery? Do the various taxes promote equitable distribution of income? Do some tax measures discourage the utilization of some unemployed resources? These and other similar questions can be answered only by considering what is called the characteristics of a good tax system. However, what can be regarded as the characteristics of a good tax system depend upon the objectives which it is meant to achieve. Therefore, a tax system, in order to achieve the laid down objectives, chooses and adheres to certain principles which become its characteristics. Some of the traditional characteristics of taxation that have come to be accepted are Canons of equality, certainty, convinience and economy. Others are the canons of buoyancy, flexibility, simplicity, and diversity.

Still of recent, further studies by prominent economists like Meade (1978)[4] added some more. Meade considered that the most important characteristics of a good tax system are incentive and economic efficiency and distributional effects. Other characteristics of a good tax system that would facilitate development are productivity, and in a Federal system each government must consider the taxes that are levied by other levels in order to avoid duplication and excessive taxing of one group or activity.

There are a few of these characteristics which are crucial for development in the developing countries since the objective of a developing country is always effective development in the form of promoting economic growth and the removal of poverty and inequalities and reducing unemployment. One of these characteristics is that of incentive and economic efficiency. This relates to the impact of the tax on economy and the development of the area. A tax promotes incentive and economic efficiency if it does not unduly hamper the private production of capital, does not drive people and industry out of an area but favours the location of industries in the area. Another one of these important characteristics is the Cannon of productivity. A tax system is productive if it provides the continuing maximum revenue consistent with the optimum growth rate. This requires a tax structure that is automatically adaptive to the developing economy and thus has a high degree of income elasticity.

In areas where some of the characteristics are conflicting the overall tax structure must seek to attain a compromise among the conflicting considerations.

The allocation of taxing powers to each level of government now is specified in the 1979 constitution of the Federal Republic of Nigeria. This present constitution has given the most expansive tax heads to the Federal Government as seen in schedule 1 below while the states have been left with very few elastic revenue resources.

Schedule 1.

TAX JURISDICTION BETWEEN THE FEDERAL AND STATE GOVERNMENTS IN THE 1979 FEDERAL CONSTITUTION OF NIGERIA

FEDERAL GOVERNMENT	STATE GOVERNMENTS
1. Import Duties	1. Sales or purchase Tax (except on commodities designated by the Federal Government)
2. Export Duties	2. Football Pools and Betting Tax
3. Excise Duties	3. Entertainment Tax and Estate Duties
4. Mining Rents and Royalties	4. Gift Tax
5. Petroleum profits Tax	5. Land Tax other than Agricultural land
6. Company Income Tax	6. Land Registration Fees
7. Capital Gains Tax (Legal Basis)	7. Capital Gains Tax (Administration)
8. Personal Income Tax (Legal Basis)	8. Personal Income Tax (Administration)
	9. Stamp Duties

Source: Federal Constitution of Nigeria, 1979, Second Schedule, Part 1.

Tax jurisdiction in Kaduna State shows a substantial degree of decentralization in operation between the different tiers of Government. The Headquarters is the Board of Internal Revenue in Kaduna whose functions include general policy formulation, interpretation, statistical and investigative work. The Board being the organ that is responsible for tax assessment and collection, is divided into a number of sections for effectiveness. The sections are the Pay-As-You-Earn (P.A.Y.E.), Director Assessment, Investigation and Audit, and Collection and Accounting. Each is headed by a Sectional head.

At the Local Government Level, there is a Divisional Tax Office in every Local Government Headquarters which is autonomous in handling returns, making assessments and collection of tax.

STATEMENT OF PROBLEM

Every government at one time or another is concerned about its revenue structure and the efficiency of its administration. But unfortunately, in developing countries in particular, people have not been able to define rightly the aims, objectives and mode of operations of Revenue Boards and this has contributed in no small measure to the weakness of tax administration and resource management.

This in the case of Kaduna State is reflected in the poor returns of the tax system over the years thus causing the state government to be unable to meet her expenditure needs except for grants from the Federal Government. Tax performance in Kaduna State by any standard is below expectation. For the years under review (1970/71 - 1984), grants from the Federal Government formed the bulk of her revenue needs. For example, federal grants over these years as a percentage of the state total revenue ranged from 54.97 per cent to 90.66 per cent. From this, it will not be an exaggeration to say that for any year the state could not receive as much revenue from the Federal Government as she expected, a budgetary crisis occurred.

JUSTIFICATION

Capital formation - including investments in physical and human capital (which is here defined to include all expenditures of productivity - increasing nature) is a very important requirement for economic growth and development in every economy. This requires considerable financial outlay. And in considering the expenditure growth necessary for capital formation, the appropriate mix of investment between the public and private sectors will differ with various stages of development in any economy. In the early stage, investment in infrastructures such as roads, power, communication, educational and health services are of strategic importance. At this stage, it is the public sector that is looked upon to take the lead.

Voluntary private saving and investment, while useful and important, cannot be expected to be sufficient in themselves particularly in developing countries such as Nigeria, and of course, Kaduna State. An economic climate

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conducive to saving takes time to develop. Besides, at all stages of development there are investment projects which, though inherently unattractive to private investors, promise large social gains. The unwillingness of the private sector to put their investment funds in such projects may be based on any one of several grounds. Firstly, such investments may provide no opportunity for the private investor to exact charges commensurate with the benefits or costs - for example, investments in sanitation, roads construction etc. Secondly, returns from the investments may be too remote to attract private investors. Given these constraints and the obvious high demand for public services in the state, a case for enlarging the public sector emerges and hence the government buget is looked upon as the promising source of finance for the provision of these public services.

There are several reasons why the expansion of the public sector is desirable if not urgent. Firstly, there is evidence that large scale improvement in health, education and training expand the productive capacity by increasing the strength and stamina of workers on one hand and enlarging their fund of knowledge and skill on the other. This represents fully as much an increase in the resources at the disposal of the state as do investments which increase the stock of non-human capital. Secondly, the foregoing increase in human capital combined with investments in highways, power projects, irrigation, manufacturing and the like provide the necessary economic environment to make private investment attractive. The government in this respect has a large and inescapable role to play in the provision of social overhead capital as an engine of growth. And thirdly, an increase in the level of public participation in the economy of the state will reduce the inequality in income and wealth distribution.

A brief consideration of the relationship of these types of investment to the development proce s will make clear why the state government has to play such a central role and in turn, the strengthening of tax to yield adequate revenue is of such primary importance.

In developing countries, taxation is increasingly being assigned a positive role in the process of capital formation. This is because developing countries are caught up in a vicious circle of extreme poverty, a circle proceeding from low incomes, to high consumption propensities, to low savings and investment ratios, to low rates of capital formation, and again, to a continuation of low incomes. To break out of this circle calls for vigorous taxation and government development programs. Fiscal policy and in particular, taxation is assigned the central task of wresting in these countries sufficient savings to finance development programs.

The importance of taxation therefore, cannot be overemphasized for a state such as Kaduna which has only three sources of revenue (Statutory grants from the Federal Government, borrowing and internally generated) for meeting her expenditures.

Statutory grants have not been enough or even reliable especially of recent for state government programs, and therefore the state cannot continue to rely on the Federal Government indefinitely. One may even ask the questions: What could have been the fate of the state and the state government if there had been no oil revenue which has been the main input into the distributable pool account? And now that the oil revenue has declined so much and is becoming less consistent and reliable, can the state continue to rely on revenue from the Federal Government? Borrowing too has its grave consequences especially external borrowing which is not even favoured due to the present economic situation. It behoves the Kaduna State Government therefore to exploit fully the resources of taxation within the state so as to increase tax yield. This makes the need for a research into the process and operation of taxation very obvious because it is the surest way of raising internal revenue. It is the core and bedrock for financing any meaningful development projects through self-sustained efforts.

Also, the canon of equality which demands that the subjects of every state contribute to the support of the government as much as possible in proportion to their respective abilities seems to be violated in the tax system in the state. For example, Table 1 shows the income tax rates which on paper are progressive but not so in practice, favouring the self-employed. The employee and the self-employed enjoy the same pre-tax allowances and after these allowances are provided for, the employee pays his tax to the full since it is deducted at source, but the self-employed often does not. The many reasons for this range from collaboration between the self-employed tax payer and the tax assessing and/or collection officers, to lack of effective machinery for monitoring and assessing the self-employed among others.

As an example of the violation of the criterion of equality in the tax system, a total of 164 private enterprises in Birnin Gwari, Jema'a and Saminaka Administrative Areas did not pay any tax for the 1972/73 fiscal year.[5] It is therefore not surprising that direct assessment inspite of its revenue yielding potential forms only a small percentage of the tax revenue in the state. Its contribution ranged from 15.27 percent of actual tax collected in 1979/80 to 17.36 per cent in 1984. But for the same period under review, Pay As You Earn contributed 77.31 per cent and 77.59 per cent respectively. This further shows the need to undertake a research in taxation to explore how the tax system can ensure a fuller coverage of tax sources in the state.

TABLE 1.

NIGERIA'S AMENDED INCOME TAX RATES, 1987

TAXABLE INCOME (N)	AMOUNT DEDUCTION PER NAIRA (K)	PERCENTAGE DEDUCTION
First 2,000	10	10
Second 2,000	15	15
Third 2,000	20	20
Fourth 2,000	25	25
Fifth 2,000	30	30
Next 5,000	35	35
Next 5,000	40	40
Next 10,000	45	45
Next 10,000	50	50
Next 40,000	55	55

Source: Text of Budget Speech by the Minister of Finance 1 January, 1987.

OBJECTIVE AND SCOPE

There has been heavy reliance on Direct taxes and more particularly, the P.A.Y.E. as a source of revenue. Directly assessed tax of the self-employed and indirect taxes as means of obtaining revenue in the state have had minimum contribution.

However, direct taxation (especially of the self-employed has high revenue yielding potentials in the state because of the high degree of income inequality in the state which is characteristic of developing economies, the large number of landlords and small but flourishing businesses many of which have not been brought under the tax net.

Also, indirect taxes, if administered properly are very productive in a developing country and are less likely to reduce work effort and production as direct taxes. Due (1969) observed that:

> "It is widely agreed that a developing country must not rely too heavily on income taxation, or more correctly, it can raise a greater total revenue with a given rate of economic growth if it makes extensive use of commodity taxation than if it concentrates almost wholly on direct taxes as developed economies may do if they wish"[6]

It is therefore the objective of this research to assess the contribution of tax revenue to total state revenue which the government needs to finance her expenditures in the areas of providing social overhead capital and direct development programs to improve the lot of the people in the state.

In addition, the research is intended to point out the need for measures which will ensure a fuller coverage in the assessment of tax. Very importantly too, it aims at educating the powers - that - be and the ordinary man on the importance of taxation as the surest means of generating internal revenue in the state in the face of great challenges of the time such as the present oil glut and the general world-wide economic recession.

METHODOLOGY

To arrive at the objective of this research, a study and analyses of tax assessment, collection and enforcement procedures in the state under the existing tax laws with a view to identifying any problems or difficulties being encountered by the state's Board of Internal Revenue will be undertaken. After the analysis, attempts will be made to indicate the effectiveness or otherwise of the collection and enforcement procedures.

Therefore a multiple survey research will be adopted for this study. The work is going to be mostly analytical though. For information, a review of related literature will be undertaken. Some general work on taxation in developing countries have been done but not as it relates to state finances in Kaduna State. Such works will be consulted for relevant ideas.

Analyses of official records like government files, Gazzettes, Budget estimates and Statistical Yearbooks, Magazines and National dailies will also be read for the same purpose. Also, personal contacts for discussions and interviews with as many officials of the Revenue Board as possible - especially with Sectional Heads and Inspectors of taxes who are directly involved in the interpretation and implementation of tax policies would be undertaken. Their assessments and views on taxation in the state and its contribution to the state revenue would be noted.

However, since much of the analytical effort of social scientists is devoted to establishing relationships between variables, some regression analysis will be undertaken. This is because a demonstration that a relationship exists does not in itself provide an understanding of the way in which the variables are related. A scrutiny of raw data may be rewarding in understanding the kind of relationship that exists between or among variables. Since the objective of this study is to find the contribution of state tax revenue to total state revenue, the regression analysis will relate state revenue to state tax revenue and other sources of state revenue. Ordinary least squares regression analysis which produces the best linear unbiased estimators and which can be shown to satisfy maximum likelihood criteria will be employed for the analysis.

PLAN OF WORK

The research is written up in five chapters. The first chapter is an introductory chapter defining some of the concepts used in the research and the problem investigated. The second chapter contains the review of literature on taxation. And the third chapter is the emperical chapter which considers almost all the statistical data and the regression analysis so as to see the performance of tax as a component of the state total revenue. The fourth chapter mainly seeks to explain the reasons responsible for the kind of result obtained in chapter three. And the fifth chapter which is the last chapter contains recommendations aimed at improving the tax system in the state and the conclusion.

CHAPTER 2

LITERATURE REVIEW

As seen above, tax is a compulsory levy imposed by the public authorities for which the taxpayer does not receive any direct quit pro quo.

Every tax scheme is composed of two basic elements – the tax base and the tax rate. The object with reference to which a tax applies is called the tax base. The tax base may be anything. Some of the common tax bases are income, value of property, sales, inventory and so on. The tax rate is the share of the value of the tax base that the individual must pay per unit of time.

The authorities while determining a tax base are expected to give due considerations to various variables like the cost of collection, administration and various effects of the tax base. The exact coverage and rates of the tax is sought to be determined by an optimum combination of these variables.

A tax could be proportional, progressive or regressive. A proportional tax is one in which the tax liability increases in the same proportion as the income increases. A progressive tax is one that, with increasing income, the tax liability does not only increase in absolute terms but as a proportion of the income. And in a regressive tax, the ratio of tax payments to income declines as income increases.

Every tax system is expected to yield some revenue which should grow with time. A tax revenue could increase for various reasons. If it increases with the growth of its base without an extension of tax coverage or an upward revision of its rates, then it is said to be buoyant. That means that the tax has an inherent tendency to yield more revenue with the growth of its base. Numerically, the buoyancy of a tax is measured as a ratio of the proportionate increase in the tax revenue to the proportionate increase in the tax base. The revenue of a tax could also increase either because of an extension of its coverage or upward revision of its rates. Such a tax is said to be elastic. The elasticity of a tax refers to its responsiveness to steps taken by the authorities to increase the revenue it generates. Quantitatively, the elasticity of a tax would be measured as a ratio of proportionate change in its returns to the proportionate change in its coverage or rates.[7]

Mansfield(1975)[8] says that tax elasticity in some sense is the automatic response of tax revenue to income changes, that is that revenue increase, excluding the effects of discretionary changes (which he defined in his research as legal changes in tax rates or in the tax base, the introduction of new taxes and certain administrative efforts). Tax buoyancy according to him measures the total response of a tax revenue to changes in income. A high tax elasticity is said to be a particular desirable attribute as it follows growth in expenditure, preferably related to development to be financed by rising tax revenue without the need for politically difficult decisions to raise taxes. However, in fact, many sources of government revenue may have low elasticity, in which case the authority must seek additional revenue by discretionary changes. Then growth in tax revenue may come about through a high buoyancy[9] - including growth through discretionary changes - as opposed to the natural growth through elasticity.

Mansfield(1975), states that although the elasticity of a tax revenue is often presented in aggregate models as a single number, it is more realistic to see it as the weighted average of the sum of the elasticities of seperate taxes that often have widely divergent responses to changes in income. This overall tax elasticity must then be examined by studying the seperate elasticities of individual taxes. In turn, the income elasticity of each tax may be decomposed into two elements; the elasticity of the tax to the base and the elasticity of the base to income. He summarized these ideas symbolically as follows:

T_t = total tax revenue.

T_k = revenue from k_{th} tax

Y = Income (GNP).

B_k = base for k_{th} tax

Elasticity of tax revenue to income $E_{T_tY} \equiv \frac{\Delta T_t}{\Delta Y} \times \frac{Y}{T_t}$

Elasticity of k_{th} individual tax to income $E_{T_KY} \equiv \frac{\Delta T_K}{\Delta Y} \times \frac{Y}{T_K}$

Elasticity of k_{th} individual base to income $E_{B_KY} \equiv \frac{\Delta B_K}{\Delta Y} \times \frac{Y}{B_K}$

Given these definitions, it follows that in a system of n taxes;

$$E_{T_tY} \equiv \frac{T_1}{T_t}\left(\frac{\Delta T_1}{\Delta Y} \times \frac{Y}{T_1}\right) + \cdots \frac{T_K}{T_t}\left(\frac{\Delta T_K}{\Delta Y} \times \frac{Y}{T_K}\right) + \cdots \frac{T_n}{T_t}\left(\frac{\Delta T_n}{\Delta Y} \times \frac{Y}{T_n}\right) \quad (1)$$

Identity (1) shows that the elasticity of total tax revenue to income is the weighted sum of individual tax elasticities. In addition, as stated in identity (2) below, the elasticity of any seperate tax may be decomposed into the product of elasticity of the tax to its base and the elasticity of the base to income. Taking the k_{th} tax for example;

$$E_{T_KY} \equiv \left(\frac{\Delta T_K}{\Delta B_K} \times \frac{B_K}{T_K}\right)\left(\frac{\Delta B_K}{\Delta Y} \times \frac{Y}{B_K}\right) \quad (2)$$

Finally as stated in identity (3) below, the elasticity of the total tax revenue to income in a system of n taxes depends on the product of the elasticity of tax to base and base to income for each seperate tax, weighted by the importance of that tax to the total system.

$$\begin{aligned} E_{T_tY} \equiv\ & \frac{T_1}{T_t}\left[\left(\frac{\Delta T_1}{\Delta B_1} \times \frac{B_1}{T_1}\right)\left(\frac{\Delta B_1}{\Delta Y} \times \frac{Y}{B_1}\right)\right] + \cdots \\ & \cdots \frac{T_K}{T_t}\left[\left(\frac{\Delta T_K}{\Delta B_K} \times \frac{B_K}{T_K}\right)\left(\frac{\Delta B_K}{\Delta Y} \times \frac{Y}{B_K}\right)\right] + \cdots \\ & \cdots \frac{T_n}{T_t}\left[\left(\frac{\Delta T_n}{\Delta B_n} \times \frac{B_n}{T_n}\right)\left(\frac{\Delta B_n}{\Delta Y} \times \frac{Y}{B_n}\right)\right] \quad (3) \end{aligned}$$

The analysis of income elasticity in this manner enables the identification of sources of fast revenue growth or conversely, the causes of lagging revenue growth. It also makes it possible to identify that part of revenue growth within the control of the authorities. On the one hand, the tax-to-base constituent of elasticity may be raised by an improvement in administration. In this sense, the tax-to-base constituent of elasticity is partly within the control of the authorities. On the other hand, the growth of the tax base lies outside the control of the authorities (apart from the influence of tax policy itself) and is largely determined by the way in which the structure of the economy changes with economic growth. In designing taxes that would prove income elastic, the predicted response of the tax base to income and the potential for an effective and/or improving level of administration should both be taken into consideration.

Tax buoyancy on the other hand measures the total percentage change in tax revenues, including discretionary changes associated with a given percentage change in income. For the system as a whole, buoyancy is represented by

$$\frac{\Delta T_t}{\Delta Y} \times \frac{Y}{T_t}$$

and for any given tax by

$$\frac{\Delta T_k}{\Delta Y} \times \frac{Y}{T_k}$$

The difference between tax-to-income elasticity and tax buoyancy which is obtained by seperating the automatic and discretionary tax revenue changes shows the importance of discreationary tax changes. Mansfield(1975) when he applied this method to Paraguay, found out that whereas tax elasticity coefficient was 1.14, the tax buoyancy had a coefficient of 1.69.

Nigeria being a Federation has a fiscal structure. A fiscal structure refers to the allocation of powers to raise revenues and incur expenditures between tiers of government. A tier of government may be entitled to a set of revenues but no powers to raise them; or, as is sometimes the case, the powers to raise revenues may be vested in one authority but the revenues so raised may be assigned to another. Fiscal relationships, on the other hand, refer to the exercise of this powers between tiers of government. For example, the fiscal relationship between the Federal and State authorities refers to the exercise of fiscal powers - of revenue and expenditure between these two tiers.

Okigbo(1965)[10] observed that the evolution of the present fiscal structure and relationships have had to be worked out sometimes, in response to the needs of the time. A guide to an understanding of the current pattern can be found therefore through a survey of consequences of the constitutional changes that began in 1900 A.D which up to 1960, were in two major phases.

The British right from 1900 A.D, had the responsibility of administering the territory of what became known as Nigeria. From 1900 to 1906, when there were three territories each with its own fiscal arrangements, shortfalls in revenue were made up by the British treasury. After that, two territories - the Lagos and Colony and the protectorate of Southern Nigeria were merged to become one territory while Northern Nigeria still remained a territory of its own.

The definition of fiscal relationship between the centre and the local authorities was first tried and developed by Sir Frederick Lugard when he was appointed Commissioner of Northern Nigeria in 1900 A.D. He allowed the chiefs (Emirs) a substantial amount of administrative and financial autonomy when he issued the Native Revenue Proclaimation No.4 of 1904 in which he allowed them both a share of the tax receipts of the government up to 50 per cent and complete freedom in the disbursement of their own share of the revenue.

The Native authorities depended for their revenue on the following sources; their share of the general tax, the jangali (cattle tax), court fines and fees, market dues, forest dues (especially in the south), ferry licences and other licences which went to the Native authorities.

On the issue of allocation and assignment of governmental responsibilities among tiers of government, Adedeji(1970)[11] observes that in almost all federations, there has been no firm guiding principle. This is because the criteria of efficiency and economy seem always to have been subordinated to political considerations. As a result of this, there is usually little correspondence between the assignment of different responsibilities and duties to the federal and regional (or state) governments and their financial resources, with the latter being at a disadvantage. The consequence of this asymmetary between functions and resources very often leads the lower tier of government to transfer some of its functions to the federal government, to borrow to a self-defeating level, to depend on financial assistance from the federal government, or, less frequently, to raise taxes, to such a level that they begin to have a disincentive effect on output, saving and investment.

In considering how to classify taxes, economists commonly make two broad divisions: first between Direct and indirect taxes, and secondly, between Income and outlay taxes.

By direct taxes is meant those in which the taxpayer is in direct contact (either personally or through correspondence) with the tax assessor or tax collector whereas indirect taxes are those in which the taxpayer is not in direct contact with the tax assessor or tax collector. The second distinction relates to taxes that fall on income no matter how that income is spent or indeed whether it is spent or not (income taxes) and those liabilities which only arise when one goes to spend money (outlay taxes).

One can notice that the two sets of classification overlap though not completely. For example, in the case of export duties, the taxpayer is not in any sense in direct contact with the tax collector and under the first classification , such taxes would rank as indirect. The burden is however, with respect to income and is in no way associated with the expenditure pattern of the taxpayer. These two classifications are rather too narrow. For the purposes of clarity and convinience therefore, one can identify the following categories of taxes: income tax divided into personal income and company income; taxes on foreign trade, on imports and exports; taxes on domestic trade, excise and sales tax; property taxes; fees, licences and charges.

Turning to a study of the several taxes which normally compose a tax system, one could however, pick on one of the two major classificationsmentioned above - indirect and direct taxes.

Prest(1962)[12] shows that indirect taxes are of predominant importance in the revenue system of developing countries. Adedeji(1970)[13] in agreeing with this stance, showed that in 1963-64 for example, import taxes accounted for 60 per cent of the Federal Government's revenue, and 72 per cent, 71 percent, and 56 percent of the Northern, 'ester, and Eastern Nigerian governments respectively, a situation which may be explained on historical grounds, on the relatively high ratio of foreign trade to the gross domestic product, and on administrative convenience. However, it is the conventional st nce on the part of public finance authorities to review progrcos in improving the revenue systems of developing countries in terms of gradual shift from indirect to direct taxes. The reasons for this are obvious. For example, indirect taxes are often criticized on grounds that they distort market prices, causing productive resources to be allocated less efficiently, and because in general, they have a regressive impact. Prest's(1962) position is in basic agreement with this conventional approach. While he recognises that there are several pressures leading to an emphasis on indirect taxes, he also argues that there are considerable pressures which make for the reliance on them difficult and economically undesirable.

Nevertheless, not all views in public finance are accepted dogma. This is why Douglas Dosser[14] in his work is suspicious of the categorical statements of the superiority of direct taxes over indirect taxes and develops the thesis that the general and simple propositions often advanced to condemn indirect taxes are of doubtful validity, and moreover, cannot be automatically particularised for a given country. He argues that no strong a priori case exists for the alleged superiority of direct taxes on welfare grounds, and equity, he points out is at best a slippery concept that varies over time and space.

On direct taxes, developing contries derive only a small proportion of their revenue from this source because as in the case of African countries, there are so many problems that result in only a small proportion of the population falling within the purview of the tax.

Some African economists have demostrated how two of the more important direct taxes - the personal income tax and the company income tax may be restructured so as to improve their performance.

Adedeji(1970)[15] maintains that it is necessary to turn to the personal income tax for the additional revenues that Nigeria needs to finance her development plans. This he argues is because increases in revenue cannot infinitely be expected from such traditional sources of government revenue as the taxation of imports and exports. In his analysis, he visualized that the Nigerian personal income tax has the potentiality for development, the only problem being that the base of the tax, besides being narrow, is emasculated with too many allowances and reliefs, and the rates of the tax are comparatively light. But structural reforms he argues, must be accompanied by administrative reform. On the issue of administration, Adedeji was convinced that a transfer from local to state level administration, or, even better, Federal administration, is mandatory for effective administration.

In discussing company taxation, Nizar Jetha(1965)[16] faces a problem with so many ramifications for policy purposes that he, **understandably** limited his analysis to three principal issues: Capital allowances, company versus corporate income taxes and the unique problem of controlled (closely held) companies. In considering the issue of capital allowances, he tried to find out whether a case can be made for measures that encourage the substitution of capital for labour in an economy in which the supply of labour is very high and capital is scarce. On this issue, Jetha favoured the encouragement of capital-intensive investments although he observed that it is possible to be overgenerous with capital allowances. On the choice of company or corporate taxation, he preferred the latter because he viewed it as more likely to gain grounds, if for no other reason than it is more productive of revenue. 'Controlled' companies he observed, except care is taken, cause the unique problem of providing an opportunity for the owners to avoid high marginal income tax rates by excessive retention of profits.

On agricultural taxation, Haskell C. Wald(1959)[17] observing that its contribution falls far too short of its potential both in raising revenue and for purposes of economic development policy, develops some necessary conditions for improving its performance.

Wald(1959) pointed out that the amount of revenue needed to be raised is the logical starting point for tax legislation. The very size of the agricultural sector in most developing countries gives the indication that a substantial portion of the required revenue should be raised in that sector, with the magnitude of that portion depending upon the level and distribution of agricultural income, and upon the agriculture's place in the overall development plan.

After the government sets the revenue goal for the agricultural sector, it is ready to assess the means for meeting that goal. Although it is not possible to examine here each fiscal tool which might be employed to absorb funds from the agricultural sector, it is useful to mention the wide variety of available measures: (1) various types of land and produce taxes; (2) seperate income taxes on agriculture or inclusion of agricultural income under a global income tax; (3) export taxes; (4) general and selective sales taxes which burden the agriculturalist as a producer or consumer; (5) Mandatory deliveries of agricultural commodities to the government at low fixed prices; (6) fiscal policies, including government marketing boards; and (7) betterment levies, which might be improved whenever the benefits of development projects are localized. Although most of these measures have wide applicability, not all of them will be appropriate in all countries.

A discreet fiscal policy requires choosing the best possible combination of revenue measures rather than relying on any one measure alone. In its basic design the combination should probably provide for (1) a means of mass taxation which would raise large amounts from a broad sectment of the agricultural population without imposing excessive burdens on particular groups; (2) a more exclusive tax policy to the wealthier recipients of agricultural income; (3) one or more taxes designed to tap windfall revenues that may arise out of fluctuations in export prices or out of domestic developments; and (4) special taxes for regulatory purposes.

With particular reference to developing economies, it seems that there is scope for additional taxation on the agricultural sector. For example the amount of food farmers in a certain developing country may produce may be limited not by the availability or fertility of land, but by the immediate needs of the agricultural population, who may prefer to have maximum leisure and a minimum material income and therefore work just hard enough to cover their essential needs. In such circumstances, additional taxes levied on them will tend to make them work harder and produce more than their standard of material consumption. Taxation in this case will then act as an incentive to produce more rather than force them to consume less. Nigeria is, generally speaking, favourably placed in this regard because shortage of land is not a critical factor in agricultural production.

The problems of taxation in connection with economic development are generally discussed from two points of view which usually involve quite distinct and often conflicting consideration - the points of view of resources and of incentives. Those who believe that it is the lack of resources that causes insufficient growth and investment are mainly concerned with increasing resources available through additional taxation even at the cost of worsening disincentive effect. But those who believe that it is the lack of adequate incentives which is the main cause of insufficient growth and investment are interested in improving the tax system through the granting of additional concessions of various kinds with less regard to any unfavourable effects on public revenue. It appears however, that a great deal of the prevailing concern especially in developing countries with incentives is misplaced.

Philips(1969)[18] undertook a study on the role of income Tax Relief in the decision making of investors in an attempt to assess the significance of the program to the beneficiaries in Nigeria. The sector that enjoys this relief is the pioneer companies. The Nigeria's pioneer companies tax relief was first introduced in 1852 but the enabling legislation now is the Industrial Development (Income Tax Relief) Act 1958. The relief takes the form of complete exemption from company income tax for a period ranging between 2 to 5 years depending on the volume of investment.

However, it must be noted at this point that it is one thing to offer tax relief to companies and it is another thing whether the relief is actually crucial in the decision making of the company to start and continue production.

This is because, the fact that benefiting companies have produced substantial returns is no proof that the tax incentives that they enjoyed is not superfluous. They could have achieved the same result even without any tax incentives. Philips' study sought to throw some light on the significance of Nigeria's income tax relief device to industry.

By May 1968, 340 applications were submitted for tax relief. Out of this number, 179 were approved, 94 rejected and 67 were pending. Out of the 179 applications that were successful, only 101 emerged with effective pioneer status, that is, they have fully commenced operations and have obtained the necessary certificates - "qualifying capital expenditure" and "production day" certificates.

Philips in his study, however, cautions that the attempt to assess the role of tax relief in investment decisions would seem to suggest that there is already some generally accepted theory of investment decisions, with the role of the tax factor clearly defined. This, in fact, is not the case since various considerations like the availability of finance, the expectations about future prices and output, technological conditions, current rate of capacity utilization, etc are likely to influence the decision to invest. Therefore, of the various theories which attempt to emphasize the role of some of these factors, none of them provides an adequate explanation of investment behaviour, let alone the role of taxation. However, although the manipulation of taxation to stimulate investment may lack a theoretical basis, the manipulation have some a priori notions about the role of the tax factor in investment decision. Thus, one of the accepted influences on investment decision is the profitability of the venture and the liquidity of the investor.

Prodedurally, since Philips' aim was to assess the importance of the income tax relief in relation to other factors, he first of all tried to identify those other factors which motivate investors and then to isolate the significance of tax holiday from these. He also asked the companies to rank these sets of factors according to their degree of importance to their businesses. His findings show that the companies mentioned many factors that influenced their decision to invest. Clearly, market considerations appeared to be of great importance to these companies. Nigeria's potentially large market featured very prominently as 37 out of the 52 respondents mentioned it (the survey covered 99 pioneer companies). Also many businesses wanted to avoid being shut out by rising protective duties thus either loosing existing markets to competators or finding it more difficult to come in later. Many of the companies, especially British companies, already had a ready-made market created by export activities of their parent companies, The activities of competetors, coupled with rising tariff walls were such that it was no longer rational to stick to the former pattern of manufacturing abroad and exporting to Nigeria. It will appear therefore that "defensive investment" constituted a major share of investment by these companies. This finding agrees with the general one that the defence of a firm's trading position takes precedence over the search for increased profits in decision to set up in Africa.[19]

Also some sort of government involvement in the project either in the form of government invitation to establish or government participation in the venture was also revealed to be very crucial. This serves two purposes for private investors. One is that it helps to guarantee against charges of exploitation and also, tends to insure against government taking actions that will be inimical to the interests of the companies later on.

Tax incentives were mentioned by only one-third of the respondents and this may be taken to indicate its relative unimportance in the decisions of these companies. Therefore, the argument that tax concessions granted to foreign investors increase the inflow of capital from abroad cannot be pushed too far. This is further shown in a study[20] conducted in Nigeria, it was found that only 6 out of 26 British companies operating in Nigeria attached much importance to the generous tax incentives offered in Nigeria. Also, another study[21] in Nigeria found out that only 16 per cent of respondents selected tax incentive as a factor in the choice of Nigeria over other countries.

From these results therefore, it would appear that tax incentive have had only marginal influence on the decision of these companies to invest. In fact, if the tax incentives were so crucial in the investment decision of investors, one would have expected that the investors whose applications for tax relief were rejected would not have set up. But this was not the case. In fact, 34 of the 94 unsuccessful applications went ahead with their investment decisions, which suggests that tax incentive was not a crucial factor. Having said this however, we cannot generally discount the importance of this tax incentive since there will obviously be individual differences in emphasis on it. One can only say that although the incentives have not been crucial, they are nevertheless of some importance.

A fairer explaination for insufficient growth and investment in developing countries could be shortage of resources and this, because of the failure of government in developing countries to effectively tap the resources available through taxation and use these resources judiciously in the execution of relevant development projects.

Still on the question of raising sufficient funds for development in developing countries, some views have been expressed that point to the low level of per capita income in those countries which is said to be the cause of the low levels of savings and investment ratios. But some writers on developing countries like S.J. Patel(1956)[22] still argue strongly that inspite of the low levels of per capita income, the savings and investment ratios can, and must be raised. Patel worked out the distribution of National Income in India for 1950-51 and from his study, concluded that it is doubtful if the low rate of savings in an economy (and particularly, in developing economies) can be blamed entirely on the low level of per capita income. The share of National income going to the upper income groups and the share of property income in total income are probably more important determinants of the potential rate of savings.

In the computations that he did in this study, Patel indicated that the share of property income in India and the United States of America were not too different. From the study, he drew the following conclusions:

Firstly, more than half of the National Income was accounted for by the income of the self-employed.

Secondly, wages and salaries represented 23 per cent of the total, which is smaller than the share that went to wage and salary earners in the United States of America.

Thirdly, gross income associated with property ownership in India amounted to a little more than 23 per cent of the total[23].

The first and the last conclusions are significant for our purpose. For example, in general terms, the income from property in the United States of America varied between 20 and 25 per cent for the ten years preceding his research. But whereas in the United States of America the group which receives this share of income saves and invests a substantial part of it, their counterparts in India do not - a common feature in developing countries.

The same situation can be said to exist in other developing countries as shown by a comparative study of income distribution in the United States of America, Ceylon, Japan and the Philippines done by the Economic Commission for Asia and the Far East (ECAFE). The study showed that the degree of income inequality was more or less the same in the countries covered[24]. It was seen for example, that in Ceylon 10.6 per cent of income receivers received about 37.0 per cent of the income, and that in the Philippines, 10.0 per cent of the population received 33.3 per cent of the income[25].

In the light of these data, it is difficult to accept the argument that these countries cannot afford to save and invest a higher proportion of their income than the present meagre proportion. It is clear that in these countries, the potential rate of savings is quite higher than the actual rate of savings. Patel(1959) gave a plausible explanation for the marked divergence between the two thus:

> "Although per capita income in India is low, the possible rate of savings does not have to be significantly lower than in the developed countries, for the proportion of saving generating income or gross property income in both cases is approximately the same. The low rate of productive investment in India may therefore, be explained, not by a reference to the low average income but by the propenderance of 'feudal' income (in property income) which in the main is sterile at the present for further development"26

Economic development in developing countries can be accelerated if this large part of productive resources that accrue to these 'feudal' proprietors and intermediaries can be made available for productive investment. One of the Central tasks of fiscal policy should be to mobilise such 'surplus' for purposes of economic development. Taxation can and must mop up a great part of the surplus which at the moment is not being used for productive investment. The problem is to discover the surplus and to channel it into investment without, in the process, destroying or gravely restricting its occurrence. Furthermore, taxation must also mobilise the increase in the surplus that arise as a result of initial incremental efforts. This will be increasing the incremental saving ratio.

We can now ask the question:- What are the most appropriate taxes that can be relied on for maximum revenue generation in the developing countries? This question does not admit a general answer in the widely varying conditions of the developing countries. The only feature that is common to them is that they all suffer from shortage of revenue which is blamed on the fact that they have a low 'taxable capacity'. But before addressing the issue of taxable capacity in developing countries, it is obvious that the shortage of resources being experienced by governments of developing countries is mainly due to the fact that tax potentials in these countries are not fully exploited. Also, it is very common to spot glaring discrepancies in most developing countries between the amount of incomes of various types as compared in National Output Statistics and the incomes declared in tax returns or computed on the basis of tax receipts. Therefore it is probably no exa geration to say that the typical developing country collects no more than one third of what is due in taxation.

Turning now to the issue of taxable capacity, to start with, there is no one single, simple and widely accepted definition of what taxable capacity is. So some three related ones are stated here. Some people simply consider taxable capacity as the maximum proportion of the National Income that can be diverted for public purposes by means of taxation. Others see it in terms of the sacrifice the community is able to sustain. They also believe that the greater the per capita income, the greater, presumably, the taxable capacity. Some other people see it as the maximum percentage of the Gross National Product(G.N.P.) that can be collected in taxation without certain undersirable phenomena such as revolution (or serious political unrest), inflation, reduced rates of growth etc occuring as a consequence.

Whereas a precise definition of taxable capacity has continued to elude scholars, we can talk of a host of determining variables with respect to the problem of raising a given proportion of the National Product in taxation both in the short-run and in the long-run.

In the short-run, the distribution of income and wealth in a community will have an important bearing upon the taxable capacity because it will affect the marginal utility of income and wealth and hence the sacrifice which the taxpayers will have to make. Also, the taxable capacity depends in part on the use that is made of the tax proceeds. Again, the higher the proportion of government expenditures that is spent overseas, the more difficult it will be to raise a given percentage of Gross Domestic Product (G.D.P.) in taxation because the circular flow of income and expenditure and taxation is broken. The rate, structure, mode, and timing for payment of taxes are also important variables. Similarly, political and other factors will have their own impact. Good and a purposeful leadership, and an understanding of, and sympathy throughout the community for what the government is trying to do enables more income to be raised at even less cost.

In the long-run, similar variables also operate. If the government is helping the economy to grow through capital accumulation, provision of social overheads, improving the productive efficiency of labour, encouraging the adoption of better techniques of production and so on, the taxable capacity will improve no matter how defined.

From the facts above, we can say that what determines the taxable capacity of a country depends on the real income per head, the degree of inequality in the distribution of income and wealth, and the relative importance of different kinds of economic activities. Added to these factors is the administrative competence of the tax administrative machinery of the government and the role of the government itself.

CHAPTER THREE

TAX AS A SOURCE OF REVENUE FOR ECONOMIC DEVELOPMENT IN KADUNA STATE

This chapter presents and discusses the available data on revenue, the statistical estimations done and a critique of the tax system.

Table II shows the total tax revenue of the state for the years 1970/71 to 1984.

TABLE II

KADUNA STATE TOTAL TAX REVENUE, 1970/71-1984

	YEAR	REVENUE (N'000)
	1970-71	3,450.00
	1971-72	3,493.00
	1972-73	4,369.00
	1973-74	4,225.00
	1974-75	5,721.00
	1975-76	5,558.00
	1976-77	3,093.00
	1977-78	6,398.00
	1978-79	9,286.00
	1979-80	14,369.02
	1980	13,987.52
	1981	26,025.00
	1982	28,500.01
	1983	34,758.00
	1984	40,000.00

Sources:

1. Kaduna State Government Estimates
2. Kaduna State Statistical Year Book, 1983, P. 143

The tax revenue shows a gradual increase even though with some fluctuations between 1970/71 and 1976/77. After this time, the increase in tax revenue was substantial. This later increase in tax revenue must have been in response to growth in the tax base, wider coverage of the tax base, and probably some upward revision of the tax rates since the government has been in the habit of revising the tax rates. This shows that with an efficient tax administrative machinery, the tax revenue could have shown a consistent trend of growth throughout the period, or at least, from the early 1970s to the early 1980s. This is because it was the era of the 'oil boom' in the country when lots of employment opportunities were created with significant pay increases enjoyed by employees, Udoji Award and bonuses declared by government and private companies for their employees. This period also witnessed a considerable increase in the profits of the self employed and numerous contractors. With these, it could safely be said that the growth in the tax revenue of the state is an indication that the tax system has the characteristics of buoyancy and elasticity. However, a quantitative estimation of the tax buoyancy and elasticity of the state cannot be done due to the fact that there are no figures for the state income neither can we find a way of disaggregating the G.N.P. in order to come out with the state income or any acceptable proxy. Another reason why such estimation cannot be done is the fact that the tax rates had been revised upward and downward a number of times during the period covered by the study and so it will be difficult to come out with a rate of change in the tax rate which can be used for the estimation.

The increase in the tax revenue for the period covered by this study was over eleven times. This clearly shows the potentials of the tax system. In fact, it is interesting to note that even with the massive retrenchment of workers that started in early 1984, the tax revenue was still increasing.

Table III shows us the revenue structure of the state between 1970/71 and 1978/79. The revenue was derived from three main sources - state revenue from taxation, state revenue from other sources besides tax and grants from the Federal Government.

TABLE III

KADUNA STATE ACTUAL RECURRENT REVENUE BY SOURCE OF REVENUE 1970/71 - 178/79 ₦'000

HEAD OF REVENUE	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
LOCAL REVENUE	6,334.00	6,206.000	7,276.000	7,639.000	26,188.000	16,107.000	32,328.000	72,258.100	64,293.300
STATE REVENUE FROM TAXATION	3,450.00	3,493.00	4,369.00	4,225.00	5,721. 00	5,558. 00	3,093. 00	6,398. 00	9,286. 00
Peronal Income Tax	2,852.00	3,158.00	3,986.00	3,621.00	5,244. 00	5,358. 00	2,868. 00	6,228. 00	9,008. 00
Purchase sales Tax	482.00	206.00	219.00	434.00	281. 00	-	-	-	278. 00
Other State Taxes	116.00	129.00	164.00	170.00	196. 00	200. 00	225. 00	170. 10	-
STATE REVENUE FROM OTHER SOURCES	2,884.00	2,713.00	2,909.00	3,414.00	20,467. 00	10,549.000	29,235. 00	65,860. 10	55,007. 30
Licences, fees and fines	1,184.00	1,620.00	1,935.00	2,438.00	2,392. 00	3,072. 00	3,534. 00	4,730. 8	4,290. 8
Earnings and sales	994.00	225.00	226.00	235.00	386. 00	614. 00	806. 00	1,499. 1	1,163. 7
Rent on Government Property	324.00	400.00	363.00	416.00	491. 00	611. 00	653. 00	764. 7	825. 8
Interest	190.00	347.00	177.00	49.00	212. 00	309. 00	338. 0	588. 0	588. 0
Reimbursements	128.00	73.00	104.00	102.00	1,133. 00	5,804. 00	23,652. 0	58,822. 4	48,014. 5
Recurrent Grants	-	-	15.00	24.00	15,502. 00	22. 00	140. 00	0. 02	-
Miscellaneous	64. 0	48.00	89.00	150.00	531. 00	112. 00	112. 00	112. 0	125. 0
REVENUE RECEIVABLE FROM FEDERAL GOVERNMENT	16,508.00	19,880.00	19,530.00	19,223.00	40,747.000	100,100. 00	76,105. 00	101,056. 20	93,426. 50
Import Duties	704.00	345.00	661.00	16.00	1,028. 00	-	81. 00	-	-
Export Duties	2,160.00	1,089.00	580.00	58.00	534. 00	-	2,086. 00	-	-
Excise Duties	4,720.00	6,230.00	6,099.00	7,734.00	9,433. 00	-	-	-	-
Mining Rent and Royalties	70.00	392.00	45.00	38.00	-	-	-	-	-
Distributable Pool	8,854.00	11,831.00	12,145.00	10,602.00	62. 00	-	2,988. 00	-	-
Subsidy	-	-	-	775.00	-	-	-	0. 01	-
TOTAL	22,842.00	26,093.00	26,808.00	26,862.00	66,935. 00	116,207. 00	108,433. 00	173,314. 3	157,720. 3

Sources:

1. Kaduna State Government Estimates
2. Kaduna State statistical Year Book, 1983, P.

Between 1970/71 and 1973/74, the state revenue collected from taxation exceeded the state revenue collected from other internal sources. But the trend was reversed as from 1974/75 to 1978/79 even though the revenue from taxation continued to increased except for 1976/77 when it dropped. However, a closer look at this Table will show u that grants from the Federal Government to the State each year during this period exceeded the total revenue generated by the state by far. This is an indication that the state must have depended heavily on grants from the Federal Government.

The tax structure of the state between 1970/71 and 1984 is depicted in Table IV below.

TABLE IV

KADUNA STATE TAX STRUCTURE FROM 1970/71 - 1984, ₦'000

YEAR	SOURCE OF REVENUE		TOTAL TAX REVENUE
	PERSONAL INCOME TAX	TAX FROM OTHER SOURCES	
1970-71	2,852.00	598.00	3,450.00
1971-72	3,158.00	334.00	3,493.00
1972-73	3,986.00	383.00	4,369.00
1973-74	3,621.00	604.00	4,225.00
1974-75	5,244.00	477.00	5,721.00
1975-76	5,358.00	200.00	5,558.00
1976-77	2,868.00	225.00	3,093.00
1977-78	6,228.00	170.00	6,398.00
1978-79	9,008.00	278.00	9,286.00
1979-80	13,669.02	700.00	14,369.02
1980	13,425.02	562.50	13,987.52
1981	25,225.00	800.00	26,025.00
1982	28,400.01	1,000.00	28,500.01
1983	31,094.00	3,653.06	34,758.00
1984	38,247.00	1,753.00	40.000.00

Sources:

1. Computed from Kaduna State Statistical Year Book, 1983, P. 143.
2. Other Tax Records of the State Revenue Department

This Table shows that personal Income tax is the highest contributing tax item, with pay-As-You?Earn (P.A.Y.E.) contributing the higher percentage of the personal income tax Direct Assessment which is the other component of the personal income tax. This becomes clearer when we look at Table V below which gives the yield of Direct Assessment between 1972/73 and 1975/76. If we substract the amount of tax collected through Direct Assessment from the personal income tax figures for any of these years, we shall be left with the amount contributed through the P.A.Y.E. system.

TABLE V

DIRECT IN ASSESSMENT TAX, NO. OF TAX PAYERS AND AMOUNT OF TAX COLLECTED BY ADMINISTRATIVE AREAS 1972/73-75/76

ADMINISTRATIVE AREA	NO OF TAX PAYERS	AMOUNT OF TAX COLLECTED ₦	NO OF TAX PAYERS	AMOUNT OF TAX COLLECTED ₦	NO OF TAX PAYERS	AMOUNT OF TAX COLLETED ₦	NO OF TAX COLLETED	AMOUNT OF TAX COLLECTED ₦
Dawa Administrative Area	33	312	36	1,672	70	1,929	94	8,129.12
B/Gwari Administrative Area	5	-	5	-	26	39	31	369.46
Dutsin-Ma Administrative Area	62	379	61	2,682	45	3,216	52	4,433.91
Jema'a Administrative Area	41	-	47	-	95	542	136	5,371.00
Funtua Administrative Area	99	-	99	4,744	-	-	196	19,617.00
Kaduna Administrative Area	1,558	63,945	1,651	93,824	946	72,414	894	68,729.46
Katsina Administrative Area	124	3,258	138	12,011	243	9,597	434	26,110.89
Kachia Administrative Area	12	-	12	-	31	731	52	2,415.25
Saminaka Administrative Area	4	-	4	-	-	-	17	1,029.00
Zaria Administrative Area	352	27,028	352	40,960	-	-	701	86,270.00
Ikara Administrative Area	-	-	-	-	-	-	23	187.00
Kankia Administrative Area	-	-	-	-	52	1,634	71	2,257.49
Malumfashi Administrative Area	-	-	-	-	-	-	80	4,566.00
Mani Administrative Area	-	-	-	-	11	527	18	2,373.97
Total	2,290	94,922	2,405	155,893	1,519	90,629	2,799	231,859.55

Note: Total does not cover all Administrative Areas

Source: Kaduna State Statistical Year Book, 1976, P. 75

From the Table, we can see that the performance of Direct Assessment is very poor judging that a total of 2,290 self employed tax payers in 1972/73, for example, paid just about ₦94,922.00 as tax. And in 1975/76, the number of these tax payers increased to 2,799 who paid only ₦231,859.55 as tax. There is no doubt that there are very wealthy traders and businessmen in Kaduna State which this tax is supposed to include. Therefore the poor returns of this tax suggests that yeither most of these taxpayers evaded paying the tax completely or avoided it to a great extent.

The data in Table VI below show us the percentage contribution of tax to state total internally generated revenue.

TABLE VI

PERCENTAGE TAX CONTRIBUTION TO TOTAL STATE INTERNALLY GENERATED REVENUE, 1970/71-1984

YEAR	STATE TAX REVENUE (₦'000) (1)	TOTAL STATE INTERNALLY GENERATED REVENUE (2) (₦'000)	(1) AS A PERCENTAGE OF (2)
1970-71	3,450.00	6,334.000	54.47
1971-72	3,493.00	6,206.000	56.28
1972-73	4,369.00	7,278.000	60.03
1973-74	4,225.00	7,639.000	55.31
1974-75	5,721.00	26,188.000	21.85
1975-76	5,558.00	16,107.000	35.51
1976-77	3,093.00	32,328.000	9.57
1977-78	6,398.00	72,258.100	8.85
1978-79	9,286.00	64,293.800	14.44
1979-80	14,369,02	64,139.630	22.40
1980	13,987.52	49,481.416	28.27
1981	26,025.00	37,383.185	69.61
1982	28,500.01	45,635.420	62.45
1983	34,758.00	62,972.525	55.20
1984	49,000.00	62,825.504	63.66

Sources:

1. Kaduna State Government Estimates
2. Kaduna State Statistical Year Book, 1983, P. 143

It can be seen that tax contributed over 50 per cent of the state internally generated revenue between 1970/71 and 1973/74, and again, between 1981 and 1984. The peak of its contribution was in 1981 when it contributed 69.62 per cent with the least in 1977/78 when it contributed a mere 8.85 per cent. This table presents tax as the most important source of the state internal revenue which if properly administered will go a long way in meeting the states expenditure needs.

Table VII gives us the state's total revenue by source for the years 1970/71 to 1984. The usefulness of this Table is that it enables us to present Table III in a neater form and to even improve on it in addition to enabling us to calculate the percentage contribution of both state internally generated revenue and grants from the federal government to the state as shown in columns 7 and 8 respectively. The Table (in column 8) clearly shows how dependent the state has been on grants from the federal government

From the presentation so far, it is very clear that there are two major sources of revenue for the states. These are grants from the Federal Government and state tax revenue.

TABLE VII KADUNA STATE TOTAL REVENUE BY SOURCE 1970/71-84

YEAR (1)	STATE REVENUE FROM TAXATION (2) ₦000	STATE REVENUE FROM OTHER SOURCES (3) ₦000	TOTAL STATE INTERNAL REVENUE (4) ₦000	GRANTS FROM FEDERAL GOVERNMNT (5) ₦000	TOTAL STATE REVENUE (6) ₦000	4 AS A PERCENTAGE OF 6 (7)	5 AS A PERCENTAGE OF 6 (8)
1970-71	3,450.00	2,884.000	6,334.000	16,508.00	22,842.00	27.73	72.27
1971-72	3,493.00	2,713.000	6,206.000	19,880.00	26,086.00	23.79	76.21
1972-73	4,369.00	2,909.000	7,278.000	19,530.00	26,808.00	27.15	72.85
1973-74	4,225.00	3,414.000	7,639.000	19.223.00	26,862.00	28.43	71.56
1974-75	5,721.00	20,467.000	26,188.000	40,747.00	66,935.00	39.12	60.88
1975-76	5,558.00	10,549.000	16,107.000	100,100.00	116,207.00	13.86	86.14
1976-77	3,093.00	29,235.000	32,328.000	76,105.00	108,433.00	29.81	70.20
1977-78	6,398.00	65,860.100	72,258.100	101,056.20	173,314.30	41.69	58.31
1978-79	9,286.00	55,007.800	64,293.800	93,426.50	157,720.30	40.76	59.24
1979-80	14,369.02	49,770.610	64,139.630	119,276.00	183,294.00	34.99	65.10
1980	13,987.52	35,493.396	49,481.416	158,725.79	208,207.06	23.76	76.23
1981	26,025.00	11,358.185	37,383.185	360,935.79	398,315.39	9.38	90.62
1982	28,500,00	16,235.410	45,635.420	270,000.00	315,635.42	14.46	85.54
1983	34,758.00	28,214.525	62,972.525	192,300.00	255,272.22	24.66	75.33
1984	40,000.00	22,825.504	62,825.504	179.900.00	242,725.50	25.38	74.11

Sources:

1. Kaduna State Statistical Year Book, 1983, P. 143
2. CBN, Annual Report and statement of Accounts, 31 December, 1985 P. 87

Although by definition, tax is a compulsory levy imposed by the Public authorities on the tax assesses for which there is no direct quit pro quo, yet the government is expected to use this tax revenue to finance development projects that will raise the living standards of the people and in turn, raise their taxable capacity with time. The next section therefore takes a look at some indices of economic development and their distribution in the state. At the end of the section, an attempt is made to provide some similar data (although the data is not comprehensive) for Kano and Lagos States just for the sake of enabling us to do some rough comparison.

INDICES OF SOCIO-ECONOMIC PERFORMANCES

To start with, Table VIII below gives a summary of figures of business establishments in the state. It reveals some information to us which is useful for the purpose of assessing tax potentials. Such information is in areas such as the growth of the number of these establishments, their staff strength, Wages and Salaries, Gross Output, Industrial Costs and Value added.

TABLE VIII

COMPARATIVE FIGURES FOR MANUFACTURING ESTABLISHMENTS IN KADUNA STATE

ITEM	1970	1971	1972	1973	1979
Number of Reporting Establishment	38	43	45	58	223
Number of empoyees	17,984	19,402	20,997	23,349	23,124
Wages and Salaries ₦000	11,182	13,532	13,952	16,993	6,295
Gross Outpute ₦000	17,488	126,728	113,824	116,298	346,345
Industrial Cost ₦000	62,338	58,750	50,734	65,686	186,169
Value Added ₦000	55,150	67,978	63,090	100,611	160,176

Note: 1970-72 cover establishments employing 10 or more persons
1973 cover establishments employing five or more persons.

Source

1. Kaduna State Statistical Year Book, 1976, P. 8

It is accepted, or a known fact that the state has no tax jurisdiction over some of these establishments such as the limited liability companies except over their employees. But a number of these establishments fall under the state tax jurisdiction.

From 1970, the number of establishments reporting increased from 38 to 58 in 1983 and to 223 in 1979. Their staff strength also increased from 17,984 to 23,349 persons and fell to 23,124 respectively. The wages and salaries of their employees rose from ₦11,182m to ₦16.993m but fell to ₦6.295m for the same period under consideration. During this period, their gross output went from ₦17.488m to ₦116.298m and to ₦346.345m. A consistent growth trend was also observed for the value added which rose from ₦55.150m to ₦100.611m and to ₦160.176m respectively.

This kind of analysis is important because it gives a picture of the nature and level of economic growth in the state which is important for determining both the tax base, types of taxes to be pursued and the revenue therefrom.

However, it is necessary to point out at this point an unresolved riddle revealed by this statistics which has a direct effect on tax yield. Take, for example, the figure for 1979. It is hard to understand how the number of reporting establishments was as high as 223 (higher than any year) and yet the total number of employees was as low as 23,124 with wages and salaries falling to an unprecedented low level of ₦6.29m while gross output and value added stood at record heights of ₦346.345m and ₦160.176m respectively. One can only guess that probably, the establishments decided to become capital-intensive as some information such as the rise in industrial costs may suggest. But if that assumption is wrong, then it is clear that such apparent distortion of facts will have negative effect on tax yield.

Table IX and X show the provision of public utilities such as water supply and medical institutions by Local Government Areas in the state. Facilities such as these are considered necessary for improving the living standard of any people.

Table IX shows that only nine out of the fourteen Local Government Areas of the State had pipe borne water as at December 1982. That means that up to 1982, five Local Government Areas (Mani, Ikara, Kachia, Saminaka and Kankia) did not have pipe borne water supply.

TABLE IX WATER SUPPLY IN KADUNA STATE BY LOCAL GOVERNMENT AREAS (IN MILLION LITERS PER DAY) 1977-1982

YEAR	KADUNA SOUTH	KADUNA NORTH	KATSINA	ZARIA	FUNTUA	DUTSIN-MA	B/GWARI	JEMA'A	M/FASHI	DAURA
1977	36	44	18	25	5.0	2.5	0.23	1.3	0.5	0.2
1978	36	44	18	25	5.0	2.5	0.23	1.3	0.5	0.2
1979	36	44	18	25	5.0	2.5	0.23	1.3	0.5	0.35
1980	36	44	18	25	5.0	2.5	0.23	1.3	0.5	0.35
1981	36	89	25	34	5.0	2.5	0.23	1.3	0.7	0.35
1982	36	89	25	59	5.0	2.5	0.23	1.3	0.7	0.35

Source: Kaduna State Statistical Year Book, 1983, P. 97

Looking at Table X below which is on the provision of medical facilities as at December, 1978 it is observed that throughout the state at that time there was not a single specialist hospital owned by the state government.

TABLE X

NUMBER OF MEDICAL INSTITUTIONS CLASSIFIED BY TYPE AND LOCAL GOVERNMENT AREA AS AT 31 DECEMBER 1978

LOCAL GOVERNMENT	GENERAL HOSPITAL	HEALTH CENTRE	DISPENSARY	LEPROSY CLINIC	M. C. H.CLINIC	SPECIALISED INSTITUTION	MATERNITY AND HEALTH CARE CENTRE	TOTAL IN 1978	TOTAL IN 1977
KATSINA	3	2	21	50	4	-	-	80	46
FUNTUA	1	3	12	35	4	-	-	55	41
DUTSIN-MA	1	-	13	34	-	-	-	48	38
MANI	-	-	8	29	3	-	-	40	37
KANKIA	1	2	14	31	4	-	-	52	44
MALUMFASHI	1	1	10	26	3	-	-	41	38
DAURA	2	2	11	21	6	-	-	42	38
ZARIA	4	2	26	35	10	-	-	77	74
BIRNIN GWARI	1	1	4	12	-	-	-	18	17
KACHIA	2	1	26	45	5	-	-	79	74
IKARA	-	2	20	29	3	-	-	54	42
SAMINAKA	1	1	24	25	1	-	-	52	47
JEMA'A	1	1	25	52	5	-	-	84	62
KADUNA	4	1	16	24	3	-	-	48	26
Total	22	19	230	448	51	-	-	770	624

Source: Kaduna State Statistical Year Book, 1983, P. 163.

A look at the Table also reveals that the provision of these medical facilities was not only inadequate, but the distribution was highty skewed. For example, in the whole state, there were only 22 General Hospitals and whereas Zaria and Kaduna Local Government Areas had 4 each, others like Kankia, Funtua , Dutsin-ma Birnin-Gwari, Saminaka and Jema'a had only one each. Mani and Ikara Local Government Areas had none. And although the Table showed a generally remarkable improvement in the provision of these facilities between 1977 and 1978, the problem of unequal distribution still remained a strong one. Some Local Government Areas had quite a number of new medical institutions opened for them. For example, Katsina had 34 medical centres, Funtua 14, Kaduna 22 and Jema'a 22. But other local Government Areas had only a few of such new medical institutions. For example, Birnin Gwari had only one, Mani 3, Daura 4, etc.

The explaination for the inadequacy of these facilities is lack of sufficient revenue. The revenue of the state from the Federal Government and internal sources grows at a rate slower than the rate of demand for these facilities. Besides, the skewed distribution of these facilities has denied many parts of the state the benefit of enjoying them which in turn, has the effect of reducing taxpayers' voluntary compliance which will again lead to less revenue accruing to the state from taxes. The effect of all these will be a continuous reduction in state tax revenue and growing incapability of the government to meet its obligation to the people in the state.

In the area of education, records show that the number of primary schools increased from 624 in 1970 to 831 in 1975/76 and to 2,885 in 1980/81. Enrolment in these schools also increased from 116,383 pupils to 172,318 and to 969,475 pupils respectively.[27] This shows that both the number of primary schools and enrolments increased at an increasing rate especially between 1975/76 and 1980/81. Education at the higher levels has also been increasing. Table XI is on the Scholarship Awards to students from the state to study in insitutions of higher learning both within and outside the country between 1979/80 and 1981/82.

TABLE XI KADUNA STATE SCHOLARSHIP AWARDS TO NIGERIAN AND OVERSEAS INSTITUTION 1979/80 - 1981/82

LOCAL GOVERNMENT AREA	1980 NIGERIAN INSITUTIONS	1980 OVERSEAS INSTITUTIONS	1981 NIGERIAN INSTITUTIONS	1981 OVERSEAS INSTITUTIONS	1982 NIGERIAN INSTITUTIONS	1982 OVERSEAS INSTITUTIONS
BIRNIN GWARI	11	3	15	4	25	6
DUTSIN?MA	96	6	61	15	153	26
FUNTUA	100	11	59	14	280	25
IKARA	101	5	54	5	112	20
JEMA'A	483	12	416	35	655	29
KACHIA	424	12	345	38	671	29
KADUNA	21	3	67	7	178	17
KANKIA	85	9	38	11	147	23
MALUMFASHI	132	5	67	16	206	23
MANI	56	4	2	6	111	13
SAMINAKA	109	4	26	8	170	12
ZARIA	450	10	233	30	776	27
KATSINA	350	13	236	24	121	28
DAURA	109	6	58	7	194	13
TOTAL	2,498	103	1,617	220	1,872	290

Source: Kaduna State Statistical Year Book, 1983, P. 186

Scholarship award for studies within the country rose from 2,498 in 1979/80 to 4,872 in 1981/82. At the sametime, the awards for studies abroad rose from 103 in 1979/80 to 290 in 1981/82. The cost of these awards to the government was ₦6,863,966.21 in 1979/80 rising to ₦10,635,462.23 in 1981/82. The total cost for the three years was ₦24,462,876.23.

At this point, we will take a look at some data that will enable us to make a little comparison of Kaduna State with Kano and Lagos States on revenue generation and the provision of some basic social services. This is to ensure that the analysis of what obtains in Kaduna State is not done in complete isolation of other states in the federation.

TABLE XII. INTERNAL REVENUE AS PERCENTAGE OF TOTAL STATE REVENUE FOR KANO AND LAGOS STATES, 1971/72 - 1974/75

	KANO STATE			LAGOS STATE		
YEAR	TOTAL REVENUE ₦m	INTERNAL REVENUE ₦m	INTERNAL REVENUE AS PERCENTAGE OF TOTAL STATE REVENUE	TOTAL REVENUE ₦m	INTERNAL REVENUE ₦m	INTERNAL REVENUE AS PERCENTAGE OF TOTAL REVENUE
1	2	3	4	5	6	7
1971/72	33.20	3.6	10.8	45.28	20.19	44.6
1972/73	33.50	3.7	11.1	47.62	25.86	54.6
1973/74	33.30	4.6	13.8	55.60	27.31	49.1
1974/75	43,00	3.3	7.7	62.90	29.20	46.

Source: Rabiu, S.A. Personal Income Tax in Nigeria, Procedure and problems, Ikeja - Nigeria, 1981 P. 61

As can be seen, the information provided on Table XII on Kano and Lagos States' revenue is limited in the sense that the fiqures are only for four years (1971/72 - 1973/74). Also the fiqures for internal revenues of the two states do not show us what proportion of these is accounted for by tax revenue.

However, if we compare information on this Table with that on Table VII, we shall find out that the total revenues of both Kano and Lagos States for these years (with the exception of 1974/75) each exceeded that of Kaduna state. Also, Lagos State' total internal revenue for all the years (₦102.56m) exceeded that of Kaduna State (which totalled ₦47.31m) whereas that of Kaduna state surpassed that of Kano state (with a total of ₦15.20m). This gave Lagos State a higher average proportion (48.67 per cent) of internal revenue to state total revenue to Kaduna State (27.62 per cent) and Kano state (10.85 per cent). What this comparative data shows us is that Kaduna State during these years was able to generate more revenue internally than Kano State although Lagos state did better than Kaduna State too. And we can see very clearly from these data that the degree of dependence. of Kaduna State on grants from the Federal Government was more than that of Lagos State but less than that of Kano State.

And in terms of the provision of social facilities like education services, Lagos State by 1979/80 had a total of 598 primary schools with an enrolment of 434,543 pupils and about 87 post primary schools (consisting of secondary, Technical, Commercial Schools and Teachers Training Colleges) with an enrolment of 96,221 students.[27] Kaduna State for the same year had about 2,885 primary schools with an enrolment of 764,651 pupils and about 74 post primary institutions with a total of 61,773 students.[28] And Kano state in the same year, had about 3,040 primary schools with an enrolment of 854,639 pupils and about 57 post primary schools with a total enrolment of 11,680 students."[29] Kano state had the least of educational facilities at this time.

On the provision of health facilities, by 1979, Kano had about 16 hospital, 21 maternity centres and 209 dispensaries."[30] While Lagos state had 8 hospitals, 48 maternity centres and 65 dispensaries.[31] And if we look at Table X, by 1978, Kaduna state had 22 hospitals and 230 dispensaries.

The distribution of these facilities in Kano and Lagos states, like in Kaduna state, were also uneven.

On the basis of these facts, we can say that although Kaduna state performance in revenue generation and provision of social services is poor and inadequate, it is still better than what obtains in Kano state. All the same, it is believed that the state has more potentials than her level of performance and this provides a justification to investigate further especially into the performance of her revenue generation, which if improved, will enable the provision of more social services.

Therefore, in the next section, we shall consider the result of some regression analysis done with a view to really identifying which of the state (Kaduna) revenue sub-heads (grants from Federal Government, State tax revenue and state revenue from other sources besides tax) is significant to the state total revenue. This is necessary because as stated earlier, mere observation of raw data does not give us the correct picture of the relationship that exists between variables. But when a regression analysis is undertaken, then both the nature and pattern of the relationship between the variables becomes clearer.

REGRESSION ANALYSIS

Statistics as an operational tool, enables social scientists to quantify variables, construct models and more or less establish the magnitude and direction of the relationships that exists between the variables. The logical direct and indirect dependence and inter-dependence that exist between the variables can also be established. In this context, a social scientist uses statistical analysis to scrutinise raw data for useful understanding of emperically observed economic phenomena. This research will follow the same course of action. This is because the objective of the study is to establish the influencing variables on the state total revenue. In achieving this, it is hoped that explanations regarding the relationship between the rates of growth of the total state revenue with its explainatory variables will become manifest.

THE MODEL

The model for the analysis, as has been indicated in Chapter One, is a simple linear regression model. In all, there are five estimatable equations, four of which are derived from the first one, and five variables. The behavioral relationship of the first equation as well as those derived from it are as follows:

$$R_t = f\,(RG_t,\ RS_t,\ T_t,\ R_{t-1}) \quad \text{————} \quad (1)$$

$$R_t = f\,(RG_t) \quad \text{————} \quad (2)$$

$$R_t = f\ (RS_t) \qquad \text{------------} \ (3)$$

$$R_t = f\ (T_t) \qquad \text{------------} \ (4)$$

$$R_t = f\ (RG_t,\ RS_t,\ T_t) \qquad \text{------------} \ (5)$$

These relationships formed the basis of the sets of regressions. R_t is a notation for total state revenue at any given time, t, RG_t stands for state revenue receivable from the Federal Government at time t, RS_t is state internal revenue generated from other sources besides tax for period 't'. T_t is state tax revenue for the same period. R_{t-1} is an autoregressive variable of itself.

Equation one therefore is;

$$R_t = f\ (RG_t,\ RS_t,\ T_t,\ R_{t-1})$$

$$= b_0 + b_1 RG_t + b_2 RS_t + b_3 T_t + b_4 R_{t-1};\ b_0 < 0;\ b_1, b_2, b_3, b_4 > 0$$

$$= -4129.56 + 0.89RG_t + 1.10RS_t + 3.13T_t + 0.10R_{t-1}$$

$$(-0.75\ )\ (17.80)\ (6.47)\ (4.47)\ (1.43)$$

$R^2 = 0.99$, $F_{000} = 414.55$, D-W 2.56

Letters "b_0", "b_1" "b_2" "b_3" and "b_4" stand for estimated parameters. The set of figures in parenthesis immediately below the regression co-efficients are the "t" ratios when the null hypothesis says that the estimated co-efficients are zero. R^2 is the co-efficient of determination, "f" the F-statistics and D-W, Durbin-Watson statistics. The "t", "F" and D-W statistics will be taken at 5 per cent level of significance. Unless otherwise stated, these arrangements hold throughout the rest of the study.

As can be seen from the regression results for the state total revenue above, the "t" and the "F" statistics show that the variables - RG_t, RS_t and T_t are significant in explaining the level of state total revenue. Their positive signs conform with the a priori expectation because they all add or contribute to the state total revenue. The negative sign of the constant term was expected on a priori basis too. This is because without these three sources (RG_t, RS_t and T_t) of revenue for the state, the government will have to borrow to meet her expenditure needs. However, although the constant term suggests that borrowing will be substantial, the 't' statistics shows that it is not that significant as a source of revenue. The R^2 too implies that 99 per cent of the variation in the state total revenue is explained by the equation. The Durbin Watson statistics indicates the absence of positive autocorrelation.

The result of equation 2 is;

$$R_t = f\ (RG_t)$$
$$= b_0 + b_1 RG_t;\ b_0, b_1 > 0$$
$$= 23217.73 = 1.16RG_t$$
$$(1.89) \qquad (14.50)$$

$R^2 = 0.94$, $F_{000} = 209.08$, D-W = 1.29.

The regression result too is significant looking at 't' statistics, R^2 and "f" statistics. It shows that RG_t is a major source of revenue for the state. This corresponds with the data presented in Table VII which shows RG to be the highest of the three sources of revenue to the state. The test for autocorrelation is inconclusive here. This result however shows that even if RG_t is zero, the state will still be able to generate some revenue internally as indicated by the intercept. Their positive signs were expected on a periori basis.

Equation three below relates state total revenue to state internally generated revenue from other sources besides tax. The result is;

$$R_t = f\ (RS_t)$$
$$= b_0 + b_1 RS_t \quad ; b_0, b1 > 0$$
$$= 118961.72 = 1.72\ RS_t$$
$$(2.44) \qquad (1.09)$$
$$R^2 = 0.08,\ F_{290} = 1.19,\ D\text{-}W = 0.403$$

This result shows that RS_t is not a significant explanatory variable of the state total revenue. This is clear from the values of the 't' and "f" statistics. The R^2 also shows that only 8 per cent of the variation in the state total revenue is explained in the equation. The result also shows that if there is no revenue that accrues to the state from this source, there will still be a substantial amount of revenue as indicated by the constant term, There is the presence of positive autocorrelation.

Equation 4 relates the state total revenue to state tax revenue.

$$R_t = f\ (T_t)$$
$$= b_0 + b_1\ T_t \ ;\ b_0,\ b_1 > 0$$
$$= 42778.50 + 8.88T_t$$
$$(1.77) \qquad (6.48)$$
$$R^2 = 0.76,\ F_{000} = 41.61,\ D\text{-}W = 0.66$$

This result shows that tax revenue is another significant source of revenue for the state. The 't' and 'f' statistics substantiate this. The R^2 also show that 76 per cent of the variation in the equation is explained by changes in tax revenue. The result also shows that if tax revenue were to drop to zero at anytime, some amount of revenue will still accrue to the state. This will come from the Federal Government and state internally generated revenue from other sources besides tax. The Durbin Watson statistics indicates the presence of positive autocorrelation.

It is worth noting that from the regression results presented in equations (2), (3), and (4), only equations (2) and (4) proved to be significant. That is to say that only RG_t and T_t are significant sources of revenue for the state government. The implication of this is that if for any reason, the state government cannot receive any revenue again from the Federal Government, then the state will have only tax to rely on as the major source of revenue for meeting its expenditure needs. This study therefore reveals the very delicate position on which the state finds itself revenue-wise since oil revenue which has been the main input into the distributable pool account from which the state government receives a share from the Federal Government has declined so much and is very unreliable now. It is therefore very important that the state government should pay more attention to the growth of tax revenue. It is the only major source of revenue that is within the influence of the state government and which the state can rely on for the financing of development projects through the self-sustained efforts of the people of the state. This is imperative because the future of the World oil maket is not bright at the moment and state internally generated revenue from other sources besides tax have not proved to be a significant sources of revenue that the government can rely on.

Equation 5 relates the state total revenue to state revenue receivable from the Federal Government, State revenue from other sources and from tax. The result is;

$$R_t = f\,(RG_t,\ RS_t,\ T_t)$$
$$= b_0 + b_1RG_t + b_2RS_t + b_3T_t;\ b_0 < 0;\ b_1, b_2, b_3 > 0$$
$$= -\ 3648.23 + 0.88RG_t = 1.03RS_t = 2.69T_t$$
$$(0.67) \qquad (22.0) \qquad (7.35) \qquad (6.56)$$
$$R^2 = 0.99,\ F_{000} = 573.71,\ D\text{-}W\ 2.87$$

In this regression, the result is significant with 99 per cent of the variation in the equation explained by the three independent variables. The 't' and 'f' statistics indicate the significance of the result while the Durbin Watson statistics takes us to the region of indeterminacy. The negative sign of the constant term and the positive signs of the explainatory variables was expected on a priori basis.

From the data presented in Tables VI and VII together with the regression results, it is very clear that tax is an important infact, the most important source of internal revenue for the state. This justifiies why the government should pay proper attention to tax collection.

After seeing the performance of the state tax system, a critque at this stage is necessary.

A CRITIQUE OF THE TAX SYSTEM IN THE STATE

The adequacy or otherwise of the tax system in the state presented in this chapter is hereby further assessed by using the characteristics and objectives of a good tax system as mentioned earlier.

The tax system has exhibited the potentials of yielding much revenue for the government if properly harnessed as seen in the fact that tax revenue increased by more than eleven times between 1970/71 and 1984.

However, the tax system is lacking in most of the characteristics of a good tax system which can make it perform better. For instance, it is lacking in certainty. By the very fact that the assessment of a tax is done solely by the officers and sent to the taxpayer only when they finish, the taxpayer, especially the self-employed, is not in a position to know how much he is going to pay as tax or when he will pay since he has to wait for the assessment notice. These assessment notices very often reach the taxpayer (especially the self-employed) long after he has earned and probably spent the income being assessed and thus automatically becoming a defualter.

The tax system also lacks the canon of flexibility especially in terms of revising the tax coverage. The fact that so many rich self-employed people have been evading or avoiding tax is no secret to the tax officials or the public. Also, it is no secret that there are rich individuals with thriving businesses especially in the rural and semi-urban areas who in most cases pay only the community or poll tax. There is also a growing army of middle and large scale commerical farmers in the villages and outskirts of major cities in the state that the tax system has never brought under its net.

The tax system again is lacking in the canon of diversity. This is shown in two respects; the fact that the state has depended mostly on P.A.Y.E. as the only major contributor to tax revenue breeds a lot of uncertainty for the treasury especially now that employment opportunities are few and even those that are already employed are loosing their jobs. Also, the lack of this canon of diversity has given rise to wide inequalities between the self-employed who are not adequately taxed and the employees who are taxed to the full and sometimes, even overtaxed. This shows the tax system to be lacking in the canon of equality which requires that each individual should contribute to the support of the state in proportion to the revenue they enjoy under the protection of the state. The very rich self-employed people like landlord's and commercial business tycoons pay taxes that are quite below their ability. There is a high degree of tax avoidance in the state. It is very common to find a middle class employee paying more tax than a businessman who earns twenty times more than him at any given time. Inequality of tax burden as between individuals of the society results from differences between legal progression and effective progression. On paper, direct taxation is reasonably progressive as revealed by the Income Tax Rates on Table 1. But in reality, except in the case of employees, it is 'regressive' due to problems such as paucity of data and accounts, large scale evasion and avoidance facilitated by fruadulent practices between some tax officials and tax payers (especially the self-employed), and the failure of the tax administrative machinery and government to rise to the challenge.

The points mentioned above make it very clear the fact that this tax system lacks the characteristic of productivity.

Using Table XIII to show the tax ratio of the state, which is here defined as the total tax revenue of the state expressed as a percentage of the total state revenue at a point in time as a measure of productivity drives home the point clearly. The Calculation shows that the tax ratio was 15.10 per cent in 1970/71, 4.78 per cent in 1975/76, 9.02 per cent in 1982 and 14,62 per cent in 1984 giving an overall average of 9.63 per cent. This certainly is low even by the standard of developing countries.

TABLE XIII.

KADUNA STATE TAX RATIO 1970/71 - 1984

(1) YEAR	(2) STATE TAX REVENUE ₦'000	(3) STATE TOTAL REVENUE ₦'000	(4) (2) AS A PERCENTAGE OF (3)
1970-71	3,450.00	22,842.00	15.10
1971-72	3,493.00	26,086.00	13.39
1972-73	4,369.00	26,808.00	16.29
1973-74	4,225.00	26,862.00	15.72
1974-75	5,721.00	66,935.00	8.54
1975-76	5,558.00	116,207.00	4.78
1976-77	3,093.00	108,433.00	2.85
1977-78	6,398.00	173,314.30	3.69
1978-79	9,286.00	157,720.30	5.88
1979-80	14,369.02	183,294.00	7.83
1980	13,987.52	208,207.06	6.71
1981	26,025.00	398,315.39	6.53
1982	28,500.01	315,635.42	9.02
1983	34,758.00	255,275.32	13.61
1984	40,000.00	242,725.50	16.47

Sources:
1. Kaduna State Government Estimates
2. Kaduna State Statistical Year Book, 1983, P. 143
3. CBN, Annual Report and Statement of Accounts 31 December, 1985, P. 87.

The fact that the tax system is lacking in the characteristics mentioned above has made it incapble of meeting its set objectives. The Tax system despite its revenue yeilding potentials has not been able to ensure economic growth by failing to provide the necessary funds needed for a rate of capital formation that is consistent with the level of development of the state. In fact, on tax performance, a competent source in the Board of Internal Revenue believes that less than one-third of what is due in tax in the state is collected. This has led to the abandonment of so many projects by the government in the past which are vital to the socio-economic development of the state. Presently, the government has drastically reduced the number of such projects it is financing almost to the point of abondoning everything to "community self - help projects". Failing in ensuring economic growth, the tax system has also failed in removing poverty and inequalities. If anything at all, it has impoverished the poor since they are the ones that can neither evade nor avoid tax and the government uses the 'little' tax revenue collected from this set of people in providing amenities that cater for the interests of the rich more than the poor.

It is therefore very clear from the forgoing that the taxsystem is not adequately meeting its primary objectives of raising revenue to finance governments overall economic and social objectives - such as influencing consumer demand or achieving equitable distribution of income and wealth between persons. It has failed now and unless something is done, it will continue to be a failure.

It is therefore necessary to identify the causes of the failure and find what steps could be taken to rectify the situation and thereby, increase the level of tax performance in the state. This is what the next two chapters are concerned with.

CHAPTER 4

CAUSES OF POOR TAX PERFORMANCE

The poor performance of the tax system in the state as indicated by its poor yield and failure to meet set objectives in the last chapter cannot be explained or justified on the grounds that there is lack of taxable capacity in the state. Rather, there are some basic structural defficiencies that are responsible for this.

This chapter is devoted to Identifying and discussing these problems. They will be discussed under some major sub-topics like: Conceptual and procedural problems, Recruitment and Staffing problems, Societal problems etc. These will be further subdivided.

CONCEPTUAL AND PROCEDURAL PROBLEMS:

Tax Legislation. The nature and contents of tax legilations have contributed to the weakness of tax administration in this country. Tax Laws are drawn without taking into full acount the Socio-economic factors that dominate the life of the people, their psychology and the structural or other important economic and social changes that might occur. Sophisticated Tax Laws were just transplanted from some developed countries with little modifications here and there which failed to meet the peculiar need of our economy. Our Tax Laws have too much of idealism which is not helpful to us from the point of view of effective tax administration.

The attitude of those responsible for drawing our tax laws is a course for concern. They seem to believe that what is needed is a series of anti-avoidance provisions instead of trying to identify and define the initial scope of the tax in very clear and intellegible terms. And since our tax laws have failed to define in simple, clear, intellegible and comprehensive terms the scope of our tax, one noticeable feature of our tax system till date, is the narrowness of its base. The tax system in the state has concentrated on Personal Income Tax to the near neglect of indirect taxation and other forms of taxation thus lacking in the revenue elasticity required for mopping the increase in money incomes and other forms of wealth that started accruing to individuals and other business establishments, during the oil boom era to finance the socio-economic programs of the state government.

Another weakness is that Tax Laws are drawn without full legal backing. The laws are rarely explicit on penalties for tax avoidance or evasion. Besides, tax officials have not been invested with sufficient powers to discharge their duties. For example, The Kaduna State Entertainment Tax Edict, 1972, demands that 20 percent of all proceeds from social entertainments like dance, cinema shows etc should be paid to the government. Organisers of such shows should inform the tax office and buy the tickets to be sold at such activities from the tax office.

If such organisers fail to come to the tax office, some tax officers known as the Ticket Inspectors are empowered to go to the venue of the event and demand for the tax. However, the Ticket Inspectors have often found themselves being resisted and even if they call in the police to help enforce the Law, it does not help. Also, under normal circumstances many people especially the self-employed will do everything to evade tax payment and tax officers cannot do anything. Infact where tax officers have attempted to enforce the Law, some of them were subjected to serious intimadation and often beatings that leave them incurring medical expenses from their own pockets and the law does not provide for any action against such tax defaulters. The effect of this is that tax officials try to avoid a situation where they will be assaulted and this inevitably result in loss of tax revenue to the state government.

RECRUITMENT AND STAFFING PROBLEMS

Recruitment of the staff that work in the Revnue Board is done solely by the State Civil Service Commission. The Civil Service Commission does not conduct thorough interviews of such applicants with a view to finding out if they posses the necessary qualifications and are conversant with issues on taxation or if they have the kind of temparament required for the job.

The government must pay greater attention to tax administration if the goals of tax policies are to be achieved.

The raising of correct assessment and prompt collection of tax arising therefrom, depend among other things on the adequacy (both in number and competence) and efficiency of the staff of the Revenue Board. There is acute shortage of qualified and trained manpower in the state revenue offices causing collection efforts to be retarded and giving rise to huge arrears. Because of shortage of staff, return of Income forms, assessment notices, demand notes and other forms of correspondences emanating from the tax offices are unduly delayed before being despatched. This results in apathy if not utter resentment on the part of the taxpayers in submitting their completed personal Income Tax Returns forms or paying their taxes. Staff shortage also makes it difficult to reach taxpayers many of whom live and carry out their businesses in the rural areas.

Also the Board suffers from the inavailability and usefulness of training facilities and Instructors with the result that training arrangments especially for the intermediate and newly employed staff is totally lacking. There used to be a training school under the state Ministry of Finance with instructors in areas such as taxation. This school served to give refresher courses to new employees and for further on-the-job training for old staff. But this school was closed down some years ago. At the momement, there is a similar school in Ilorin - Kwara State meant for all the eleven Northern States providing training for only the senior staff from these states. That means that Kaduna State can only afford to send in two or three senior staff to undergo such training at a time but the bulk of intermediate and junior staff who actually do the work are left without any training and since tax job is a specialized type of job, they invariably commit many errors which result in loss of substantial revenue by the government.

PROBLEMS OF COMMUNICATION AND WORKING MATERIALS

Poor communication is one factor that hinders effective collection of taxes. In many of the offices, there are no telephones, intercom etc and where they are found, some do not function. The importance of this for effective tax administration in urban areas like Kaduna, Zaria, Katsina etc where mobility could be a problem due to traffic congestion cannot be over-emphasized.

Poor and unrealistic postal services have also contributed to poor rate of tax collection. Collection and return of Income forms, assessment notices, demand notes and letters sent by or to taxpayers take weeks or months before reaching their destinations. In some cases, they do not even reach their destinations. If the postal services were efficient, taxpayers who are too busy to go and follow-up the processes in the tax office could simply receive, fill, and return their Income forms, get their assessment notices and settle their tax by post. This is important because some, especially the self-employed, will find it difficult to spend hours in the tax office or to keep leaving their businesses unattended to going there for days just because they want to pay tax.

Furthermore, there is a gross shortage of working vehicles for the Board. None of the sections of the Board even at the headquarters in Kaduna has a vehicle to itself. Infact, at the time of collecting information for this research, there were only three vehicles at the headquarters and not even all of them were in good order. Some of the Divisional Tax offices have cars but they are hardly always in good working condition. For example, the revenue office in Zaria has only one vehicle which very often has to be taken for repairs and can hardly be relied upon to make a journey to Kaduna and back not to talk of making attempts to go into some areas around Zaria that do not have good roads. In a situation like that, how can sections like the Investigation and Audit and Collection and Accounting be expected to perform well? Mobility is necessary for improving the efficiency of the tax officers in terms of helping them in locating tax payers and for assessment and collection purposes. In the absence of that, many taxpayers especially the self-employed will happily continue their care-free attitude because they know they can hardly be reached before the end of the financial year, and even if they are, they can argue that their failure to pay tax is because they were never assessed and eventually, they may end up paying less than what they are supposed to pay.

Also, inadequate provision of stationery and other materials occasionally results in collections being delayed or neglected even when some taxpayers are willing to pay. Many of the tax offices and even the headquarters often run short of return forms, Income and entertainment tax receipts. And at times, it is not that these materials are really lacking but tax officials deliberately hide them in their drawers or under carpets just to cause artificial scarcity and thereby have an opportunity of collecting bribes from taxpayers who genuinely want to settle their tax. It is very common, if one goes to any of the tax offices, to see the tax officers themselves going to beg for return forms on behalf of their friends or relations and coming out with these forms from the very same offices where the taxpayer had probably been told earlier that such materials are finished.

ACCOMMODATION PROBLEM

Almost all the divisional tax offices and even the headquarters are very congested and there is even no room for further expansion of any kind. As a result, it is not uncommon to find assessment or case files piled up carelessly on the floor. This untidy arrangement results in bad filing system which slows down the pace at which forms are processed, assessment notices and demand notes sent out and taxes collected. There are times when due to this improper keeping of records, assessment notices are wrongly addressed resulting either in late or non-delivery and leading to the imposition of unjustified penalties on taxpayers. The embarassing aspect of this disorderly arrangements is the fact that there are cases where demand notes and even threats of court action are sent on assessments that have already been settled. Still on accommodation, staff offices are very inadequate, poorly furnished and overcrowded. This does not allow the staff to concentrate on their work even when they want to because one may divert the attention of another on an unofficial matter or through discussions with both official and unofficial visitors. This problem of insufficient and unsuitable offices dampens the morale of the tax officers.

LACK OF COOPERATION FROM OTHER GOVERNMENT DEPARTMENTS AND AGENCIES

There is inadequate cooperation from the various government departments and agencies. Requests for information about tax payers by the tax offices are sometimes treated casually or even turned down. For example, government departments, agencies and employers of labour that rent quarters for their staff are directed by the tax office to act as agents and deduct 15 per cent of the rent they are supposed to pay the landlord and send it as a with-holding tax to the revenue office which will help the tax office in assessing the total tax liability of such a landlord and in tracing him if need be for tax collection. But many government departments and agencies do not. Some claim ignorance of the law and some of those who make attempts to comply may send only a list of such landlords when the financial year is almost finished and by which time, they must have paid the landlord in full. This makes recovery very difficult because by the time the tax office gets this information and sends for the landlord for a chat in order to assess his tax liability, many do not show up because they have spent the rent paid them. And if the tax offices use their best-of-judgement to assess the landlord, it hardly yields any result. Some landlords even collude with government officials not to disclose this information to the tax office.

Another example is the award of contracts. The law requires that anybody awarding contract worth N500.00 and above should deduct 3 per cent of the total value of the contract and send it as a with-holding tax to the revenue office. And the contractor is expected to go to the revenue office to have his actual tax liability assessed at the end of the contract. But the problem is that many people who award contracts do not comply with this regulation. For example, a school authority that awards a contract for the supply of books or science equipments worth N2,000.00 or for the construction of incinerators worth N5,000.00 may feel that the contract sum is so small that the 3 per cent which will amount to only N60.00 or N150.00 respectively, is negligible and so does not have to be deducted. It may also fail to do this probably because the officer in-charge of the award of the contract and the contractor have some kind of personal relationship or arranged that the contractor will give the officer a certain percentage of the total contract sum as a "kick back" as it is often called. This is one of the several ways the government is denied of tax revenue of substantial amounts.

Also, there is problem in the area of assessing and collecting capital gains tax. There is lack of satisfactory exchange of information between the commissioner of stamp duties and the Ministry of Lands, Survey and Country Planning. The result is that a lot of people get away unassessed on the gains accruing to them on the disposal of their assets which again causes loss of revenue by the government.

INADEQUACY AND IMPROPER USE OF DATA

Generally in Nigeria, data is not available where and when it is required and in the form it is required. Therefore, it is not peculiar to the state tax system. The state tax authority has been incapable of gathering and maintaining an up-to-date and comprehensive data of taxable adults or other relevant data that could be used for effective tax administration. Infact this seemed to be a deliberate act by the Ministry of Finance because before it was merged with the Ministry of Economic Planning to form the present Ministry of Finance, Economic Planning and Development, the Ministry of Economic Planning approached it offering staff of the statistics unit of the Ministry of Economic Planning to assist the Ministry of Finance in gathering data. Two letters written by the Ministry of Economic Planning to this effect were shown to the research student by an official of that Ministry. But the Ministry of Finance did not reply to any of those letters not to talk of accepting the offer. Even now that the two Ministries have been merged, it is doubtful that they have availed themselves to that service. One thing that is certain is that the Revnue Board has no statistics unit of its own. Also even where the data is available, these are hardly put into proper use. For example, information received from application for Tax Clearance Certificate. Section 33(3) of the Decree No.4, 1985 states:

> "A tax clearance certificate shall disclose in respect of the last three years of assessments
>
> (a) Chargeable income;
>
> (b) Tax payable;
>
> (c) Tax paid;
>
> (d) Tax outstanding or alternatively, a statement to the effect that no tax is due;

But what one finds is that instead of the ~~Rev ue~~ Revenue Board using this as a base for collecting information on the applicant taxpayer, it is treated on an ad hoc basis.

ADMINISTRATIVE SHORTCOMINGS OF THE REVENUE BOARD

Cases abound where tax assessment notices do not leave the revenue office for weeks or even months on the pretext that there are no postal stamps or that the franking machine is faulty or simply because the officer has not 'finished' working on them. Such notices definitely get to the taxpayers late and so, such taxes cannot be settled promptly since the taxpayer may take sometime objecting to pay-up either because he feels he is being overtaxed or even because he has already spent the income being assessed. Such objections could take more than a year to resolve if at all they do get resolved.

Also the Income Tax Management Act, 1961, Section 28A provides:

> "Without prejudice to the foregoing section every person engaged in banking including any person chargeable with the administration of the Savings Bank Act shall prepare a return at the end of each month specifying the names and addresses of new customers of the Bank and shall not later than the seventh day of the following month deliver the return to a tax authority of the area where the bank operates, or where such customer is a company, to the Federal Board of Inland Revenue"

Section 28B also provides that:

> "Any person engaged in Banking in Nigeria, who contravenes section 28A of this Act, shall be guilty of an offence and liable on conviction to a fine of N5,000 in the case of a body cooperate and, in any other case, to a fine of N500 in respect of each offence".

It is understood by the research student that this has never been in the state because the Revenue Board has never attempted to. The Board does not need to be told that many tax payers do not disclose all their sources of income or total income in the Income Tax Return Form and since many of them keep bank accounts, this is one of the best ways of tracing tax evasion and avoidance. If the Revenue Board takes this seriously, it is sure to get the cooperation of the Banks and this will help in tracing many tax defaulters thereby collecting substantial amounts of tax that hither-to have been neglected.

Also, Appendix A is the Sales Tax Decrree No.7, 1986 of the Federal Government which imposes, and gives guidelines on the operation of sales tax in the Federation. The tax is to be collected by each state.

Section one of the Decree imposes the tax while section two specifies the taxable goods, services and rates by making reference to colums 'A' and 'B' respectively of schedule one of the Decree.

Section 8(1) provides for the collection of the tax by any Manufacturer, Importer or Supplier of any taxable goods or services from his customer within 30 days. Section 9(1) and

9(2) stipulate that the agent should remit the tax to the relevant state tax authority not later than the 30th day of the month following that in which the tax is due and submit a return in the forms prescribed in the Second Schedule of the Decree.

Section 10 gives powers of inspection to anybody authorised by the state tax authority of the books, documents or records relating to taxable goods or services of any manufacturer, importer or supplier.

Section 11 states offences that can be committed under this Decree and section 12 gives the penalties which are considered appropriate.

But the problem is that the state tax authority relies solely on the information supplied to it by the manufacturers, Importers or Suppliers knowing fully well that most of such information can hardly be correct and reliable. The Revenue Board with the backing of the state government should vigorously pursue and enforce sections 10 to 12. So far, there is no known case of any violator of this Decree that has been penalised in this state. This is not because there are none, but because the Revenue Board is not enforcing the Decree energetically and by so doing, loosing a lot of tax revenue.

THE PROBLEMS OF EMPLOYERS

The P.A.Y.E. system of tax collection at source despite all its advantages, is beset with some problems mainly due to the incompetence of some of the employers and at times, their uncooperative attitude to the tax officers.

Employers are directed by law to act as agents and thereby deduct and remit to the tax office the taxes of their employees not later than the 10th day of the following month. The tax office prepares and sends tax deduction cards in respect of each employee to the employer. The problem is that some employers do not know how to operate the system because of the various complications involved. To worsen the situation, many of them do not even bother to read the P.A.Y.E. handbook; neither do they seek the assistance of the tax officers when in difficulties. Misapplication of code numbers by the employer can lead to loss of substantial tax revenue and when this is detected by the revenue staff and the employer is asked to pay the shortfall as required by Law, he will not. What the employer will do is to give a 'tip' to the officer that goes to demand for the payment.

Also, there are times when the employers refuse to cooperate with the tax officers. The law requires and empowers the officers to go on routine checks called 'spot-checks' to business establishments to ensure that the tax deduction cards are correctly filled and the P.A.Y.E. operated accurately. But very often when they go, some employers refuse to grant them audience thereby frustrating their work.

There is also the problem of employers failing to remit tax deducted from their employees promptly to the tax office sometimes without any genuine reasons. Some of them (employers) especially government Institutions and Parastatals that depend on government suventions may not receive such subventions early enough. These institutions therefore, survive on overdrafts to pay the salaries of their workers and run the establishment. In doing this, they simply ask their bankers to pay the salaries of their workers net of tax. This means that for as long as they do not receive subvention, their workers to not actually pay tax until when such subventions come. Presently (July 1987), there are some government sponsored institutions in the state that have not fully settled the 1985 tax of their employees, not to talk of 1986 or 1987. One of such institutions is in Zaria.

But the most notorious of these problem caused by some employers is their complete refusal to remit the tax they have collected to the tax office. It happens but provisions for penalties of such offences are hardly enforced. Appendix B is an example of a letter from the tax authority to such defaulting employers. Going through the letter, one sees the last paragraph of the letter issuing vague threats of some "unpleasant" action against the employers. Just as it is vague and silent on the kind of action to be taken, when and how it will be taken, so it is ineffective in enforcement.

All these have considerable negative effects on tax revenue for the state.

GOVERNMENT USE OF TAX REVENUE

The benefits to be derived from tax collected is another important factor that could make or mar a tax system. Many taxpayers, especially the man in the rural area (both rich and poor), tend to avoid, or even evade tax because they feel that the tax they pay is not used in their own interest as most essential services are totally absent in the rural areas. The following observation made in the editorial of Concord Newspaper says it all:

> "The problem of taxpayers in this country lies not so much with taxation as with the fact that they are denied services for which they are taxed. Taxpayers have had to make extra arrangements to provide themselves with water, electricity, roads, refuse disposals and even security. The taxpayers bear the burden of taxation but do not get enough of essential services from the government. To turn Nigerians into concencious taxpayers the governments should make efforts to provide them with the necessary essential services"[32]

Let us examine this in the context of Kaduna State by referring to Tables IX and X which give us information on the provision of essential utilities like water supply and Medical Centres and Table V which is on the amounts of Direct Assessment Tax by Local Governments in the state.

If we look at Table IX we will see that Kachia, Saminaka, Mani, Ikara and Kankia Local Government Areas did not have any Water Supply up to 1982. Birnin Gwari had its Water Supply increased marginally between 1977 and 1982.

Turning to Table X on provision of Medical Services, we find out that Mani and Ikara Local Government Areas again had no General Hospital at all by 1978 while Kankia, Saminaka and

Birnin Gwari had just one General Hospital each.

Putting this observations together, one finds that it is the same Local Governments that never had Water Supply at all by 1982 that again never had a Gneral Hospital by 1978 or had only one except Kachia Local Government Area that had two.

Referring now to Table V, we find that it is these same Local Government Areas which were neglected, that didn't pay any tax in 1972/73 financial year and who paid the least tax in 1975-76.

This analysis suggests either that the failure of the government to provide these essential socio-economic amenities makes taxpayers very unwilling to pay their taxes or that the lack of these amenities and possibly the lack of good roads that lead to most rural areas in these Local Government Areas makes it difficult for the tax officers to reach these places in order to carry out tax assessment and collection. It seems however, that it is a combination of both factor.

SOCIETAL PROBLEMS

The attitude of taxpayers in Nigeria contributes to the failure of the tax system. The tax authorities in the state are usually faced with the problem of identifying and locating tax payers. Some taxpayers do not have any fixed postal or residential address with which they could be traced. Some change their addresses or business locations without informing the tax offices. All these make it difficult or even impossible for tax officials to locate them and carry out assessment and collection procedures.

Another problem is that the personal Income Tax Law puts on the taxpayers the responsibility of declaring their incomes and filing such with the tax authority for tax assessment. In reality, only a few people comply honestly with this regulation. The majority (mostly the self-employed)do not comply either deliberately or because they are not literate enough to understand and fill in the kind of information required of them. When the returns are made, they are very often inaccurate. People generally do not feel inclined to part with their wealth and so will do everything possible to ensure this.

ENFORCEMENT PROCEDURES

Enforcement procedures are essentially to combat tax evasion as tax avoidance is not criminal.

The power to appoint an agent under Section 29(1) of the Income Tax Management Act, 1961 has been invested on the state and this is an effective method of getting at stubborn taxpayers with business connections who do not want to declare their incomes. But this has not worked very well in the state as mentioned above. As a result, enforcement procedures are required.

The Act provides for legal proceedings against tax defaulters. There is perhaps no area of tax administration in the state that needs more attention than prosecution when tax evasion is found. When a violation is effectively prosecuted and penalties are assessed and imposed, public confidence in the tax system is strengthened and potential tax evaders are discouraged. But in the state, there has been no effective prosecution undertaken for many reasons. One of the reasons is political pressure. Those that belong to the social class in power in the state or have connections with this class evade taxes with impunity. Besides, a more serious problem is that the Revenue Board has no legal Section under it that can prosecute tax evaders neither do the tax officials in the state know the tax laws very well. They have not exhibited sufficient familiarity with rules of evidence and legal procedure to enable them prepare a case for litigations in the High Court where cases of tax default are supposed to be tried. Therefore the Board has always relied on the Ministry of Justice to provide it with such services and it has always proved difficult getting the Ministry of Justice do that. Of recent, a Secretary/Legal Adviser was appointed for the Board but his functions are not yet fully defined and there are no legal counsels employed to assist him, making it doubtful the fact that there will be any improvement in the presecution of tax defaulters. A third problem that makes the prosecution of tax defaulters both unpleasant and unproductive is that the court proceedings are frequently delayed sometimes by over a year or two. This lack of prompt disposal of tax cases undermines effective enforcement procedures.

Also, in the defunct North Central State, there was a law of Distraint of property where the propoerties of a tax defaulter by a High Court order could be confiscated and publicly auctioned. This law as effective when an expatriate tax expert - Mr. R. H. Grainger was in the services of the state. But since his departure from the country around 1977/78 due to ill-health, the law has not been enforced again. All these contribute to the weakness of enforcement procedures which is a limiting factor to tax performance in the state.

CHAPTER 5

RECOMMENDATIONS

The government relies on taxation both to provide the much needed revenue for its socio-economic programs and to also reduce inequalities in wealth and income distribution in the society among other things. It is therefore, necessary to constantly review the tax system. It is for this purpose that this research was undertaken for Kaduna State. In the course of the research, the tax system was found to have failed to achieve the set objectives and also, the factors responsible for this failure were established. This chapter therefore, recommends changes that are needed in order to improve the performance of the tax system and thereby achieve the set objectives.

TAX LEGISLATION

The Tax Law is said to be the encyclopaedia of the Income Tax Board where responsibilities, procedures and authority are spelt out for the guidance of tax officials as well as members of the public.

The present tax laws are written in very strong legal language which makes it difficult for some tax officials, not to talk of taxpayers, to understand them. Their legal Command should be precise and expressions clear because a tax system is not better than its actual implementation no matter how sophisticated and advanced the law itself may look.

The tax laws should therefore be reviewed in the light of our social customs, nature of business organisations and practices and level of economic development in the state, all of which provide the setting in which the tax laws operate. This should be with a view to bringing them in line with changing socio-economic fortunes in the state. It must be recognised that a complex and sophisticated tax scheme, while most effective and equitable in ideal conditions, will continue to be ineffective and inequitable in the actual setting of the state at present. When such amendments are made, tax officers' knowledge should be updated and the public educated.

RECRUITMENT OF STAFF AND CONDITIONS OF SERVICE

Non-recruitment of sufficient, competent and adequately remunerated personnel in the Revenue Board is one major problem that contributes to low collection of the taxes in the state. Since tax job is specialised and technical in nature, it is recommended that competent professionals like Accountants, Economists, Lawyers and even Quantity Surveyors be employed to man the top posts in the Board. This calibre of staff however, can only be acquired if government reflects the complexity and sensitivity of their tasks in their pay and conditions of service. Increase in the remuneration of tax officials does not have to be in terms of increase in their salaries since they are still under the Civil Service Structure. This can be achieved by a system of generous allowances. This will give them the necessary incentive and motivation to work harder and will reduce their collaboration with taxpayers which causes the government to loss a lot of revenue.

And on the recruitment of staff, especially intermmediate and senior staff, this should no longer be left entirely to the civil service commission. At the least, the Revenue Board should have a substantial role especially at the stage of interviewing the applicants. At this stage, prospective officers should be thoroughly screened and should be recommended for employment only after the screening has revealed educational, moral and temperamental fitness for the job.

Also after recruitment, efforts should be directed towards staff development. New employees should be properly briefed on their duties and how to discharge them in an induction course which should last at least two weeks. This should be followed by proper training from time to time designed at improving the knowledge and expertise of the staff in his day to day functions. And since the Training School under the Ministry of finance that used to give such training was closed down, and the cost of reopening and runing it may be too high, it is suggested that senior tax officers should be involved in giving both the induction courses to the new employees and on-the-job Training. This should be in [illegible] well - /co-ordinated seminars organised in such a way as to ensure continuity. If this is done, then both the intermmediate and junior staff of the Revenue Board who cannot benefit from the Training school at Ilorin directly, will be trained by the senior staff of the Board.

More importantly, the government should make it a policy to ensure a competent and suitable leadership for the Board. The Director of the Board who should be the overall head should at least be a Chartered Accountant with several years of post-qualification experience in a similar job. This is necessary because accounting knowledge and procedure are essential for proper performance of the tax system.

All these are important because the successful implmentation of these recommendations aimed at improving the state tax performance will depend on an efficient administration which also depends on the availability of the right calibre of staff and the provision of necessary incentives and motivation for the tax officials. Whatever additional costs this may entail will be more than compensated by the very high revenue yield to be realised.

REORGANISATION AND IMPROVEMENT OF THE TAX MACHINERY

The tax enforcement machinery in the state must be completely overhauled, reorganised and sufficiently equipped for its task. As a matter of urgency, a few lawyers should be employed specifically for the Board to work under the recently appointed secretary/legal Adviser of the Board. This legal team should then be charged with the responsibility of prosecuting tax defaulters.

Also, the statistics section of the former Ministry of economic planning (now merged with the Ministry of Finance) should be expanded a little more and charged with the responsibility of providing up-to-data date for example on the number of taxable persons and establishments categorised in such a convinient manner that will enable the graduation of tax rates for them. In this respect, the statistics section could work hand in hand with the Investigation and Audit Section. Also, this unit should be charged with the responsibility of gathering information from other Sections of the Board such as the Direct Assessment, P.A.Y.E. and Collection and Accounting to be put in such a presentable manner as to enable somebody to have a good idea of the tax structure and its performance at a glance. This will enable the Revenue Board to know where to strengthen collection efforts or any corrections that might be needed. Simply put, a data bank is necessary for efficient tax administration.

Also, the Investigation and Audit Section should be well staffed and provided with sufficient materials and vehicles to act as a real intelligence unit. An intelligence system is needed for the Revenue Board with access to business and banking institutions which can bring to light information of tax evasion, fraud or other problems frustrating the activities of the Board in the state. Effective enforcement of the tax laws in the state will depend far more on a system of intelligence that provides tip-offs on suspicious transactions. To stimulate initiative on the part of its employees in tax enforcement, Brazil for example, allocates 50 per cent of any penalty collected from any tax delinguency to the officer who initiated investigation leading to the discovery of the delinquency. This policy should be adopted by the state. A lower percentage of 35 · f any tax penalty on tax defaulters can be given to the tax offier who initiated the investigation. This will be very successful and will reduce tax evasion drastically.

Also, the tax laws should give full legal backing to officers on duty to discharge their duties as required. The tax officers on duty like the police and customs men, should have powers to arrest, detain and consequently prosecute tax defaulters. A tax officer on duty should have powers to enter and demand tax receipts from anybody either in his house, office or on the highway as may be appropriate especially if the person is suspected of fraudulent activities calculated at evading or avoiding tax. To make this effective and check possibilities of abuses of the practice, it will necessitate the wearing of official uniforms by the tax officers. This will help immensely because the average Nigerian fears and respects the uniformed man including the firemen and sanitary inspectors. Simply put, tax officers on such duties should be in uniform with name tags and their respective ranks. And to further protect the officers from being attacked by angry taxpayers, they should be provided with official vehicles and should be sent out in groups of at least three officers.

To ensure that each section of the Board is doing what it should do, there is need for some kind of in-built checks within the system. To this end, I recommend that an Evaluation unit made up of senior officers knowledgeable in the working of every section of the Board be established. It is to be a monitoring unit charged with the responsibility of ensuring that every section performs its functions accurately and on schedule. Failure by any section to discharge its responsibility accordingly should attract a querry from the Evaluation Unit which should be copied to the Director of the Board. The defualting section should be given a time limit to measure up to expectation. When the section concerned has satisfied this, it should communicate it to the Evaluation unit which if found satisfactory should inturn communicate it to the Director of the Board. This will mean that all Sectional Heads are responsible and answerable to the Head of the Evaluation Unit who in turn should be answerable to the Director. The Director should hold monthly meetings with all the sectional heads during which the performances of their section will be thoroughly assessed with the assistance of the Evaluation Unit. Extreme care should be taken to avoid making these meetings mere routine times of refreshments for the "big shots". The promotions of all staff including the sectional heads should be tied down to the performances of their sections and those whose performances persistently fall below expectation should be demoted or even dismissed.

INTEGRITY, DISCIPLINE AND CONDUCT OF TAX OFFICERS

"Order is the first law in heaven" so the saying goes. In order to achieve an efficient tax system, it is essential that intergrity and discipline be maintained among tax officers. Why does a tax officer have to bend the law in favour of a friend or relation ? Tax laws are to be applied to the letter without fear or favour. There should be only one interpretation to any point of law and it should be applied strictly.

Also the problem of corruption should be checked. The officers in the Revenue Board very often encroach on the duties of other officers. Cases abound where officers who are not supposed to handle assessment of tax have gone ahead to do so for their friends or relations so that at the end, they may be able to collect bribes. Also some of the officers responsible for assessment sometimes, infact, very often assess most of the taxpayers below their tax liability based on a prior arrangement that the tax officer will get 'something' from the taxpayer. These types of corrupt practices are rampant and involving almost all the tax officers that even junior officers build houses and buy cars from this ill-gotten money at the expense of the state. Such malptratices once detected should be reported to the appropriate authorities and adequately and promptly dealt with. In fact tax officers that are found to be corrupt or of questionable character should be promptly punished or reprimanded as the case may be and in extreme cases, summarily dismissed without any benefits. This will serve as an effective deterent to other officers.

Another aspect is the public relations of the tax officers. Tax officers should promptly attend to taxpayers and treat them with due regard. This will encourage the taxpayers to go to the tax offices to settle their taxes.

AUTONOMY OF THE REVENUE BOARD

A very important need for the Revenue Board is autonomy. One of the reasons why the Board of Internal Revenue was established by a state Edict in 1985 in place of the revenue department that used to be there was to grant it autonomy which was thougt necessary for the efficient performance of the tax authority. But till date, it is still under the Ministry of Finance and Economic planning. This is adversely affecting the performance of the Board due to the bureaucratic red-tapsim of the civil service. Time element is a crucial factor in the collection of taxes. Infact, a Revenue Board is like a profit-making organisation and should be so managed. A naira denied the Revenue Board could mean ten naira denied the government. Autonomy will undoubtedly accelerate the pace and processes of decision-making leading to efficient and effective management of the tax system. The state government should look into this with urgency. The Board should be granted the autonomy it needs. It should be placed under the Governor's office and answerable directly to the Governor and to him alone.

ASSIGNING OF RESPONSIBILITIES TO STAFF

At the time newly employed staff of the Revenue Board are undergoing their induction course, efforts should be made by the Course Instructors to identify the interests and potentials of each staff so that square pegs are put in square holes.

This simply means that deployment of staff should be based on known and pparent interests and aptitude of the staff. This will promote job statisfaction, increase their confidence and boost the morale of the staff, and thereby increase their efficiency.

On administration within the Board, the performances of the day to day functions of the staff - be it information gathering, assessment or collection of tax, every effort should be made to spread the burden of these duties fairly among the staff in order to make the best use of all the staff.

COOPERATION FROM OTHER GOVERNMENT DEPARTMENTS AND AGENCIES

The Revenue Board should continue to seek the cooperation of other government departments for the purpose of gathering necessary information and collection of tax. Government departments should ensure that they deduct the 15 percent and 3 percent with-holding tax for all rents and contracts respectively and send such immediately to the tax offices. The Ministry of Land, Survey and Country Planning should also supply the Board with information on the disposal of capital assests by members of the public. Similary, the Ministry of Trade and Industry should furnish the Board with information on the number, types and location of businesses registered with the ministry. This list should be up-dated monthly to reflect newly registered businesses and those that have folded up. To ensure this, the Board should assign a particular staff to each of these departments who will go there on a specific day and if need be, days within the month to ensure that the information is received. Where a government depeartment or agency consistently fails to cooperate, the Governor's office should be informed so that the tax will be recovered from their subventions. This will be a kind of penalty an no department will want to continue in this situation.

ENSURING COMPLIANCE BY AGENTS

Since the state has adopted section 29(1) of the Income Tax Management Act, 1961, which is a provision for the appointment of agents, all appointed agents should know that they have to comply strictly with that law. To ensure this, the Board should frequently organise seminars aimed at educating agents or their represententatives on the operation of the system and updating their knowledge when there are any changes. Also, employers should be compelled by law to give tax officers the required audience when they go on the routine 'sport-check' and any employer that denies them that audience should be penalised, Infact, very stiff penalties should be imposed on agents who fail to collect and, or remit the tax of their employees or with-holding tax of landlords or contractors. The Investigation and Audit Section, which should now act as a real intelligence unit, will be helpful in this respect. The section should gather information independently with a view to bringing defaulting agents to book. By the time the agents realise that the Board no longer relies solely on the information it is given, they will become more serious.

TAX COMPLIANCE

As illustrated in Table V, IX and X there is a probable relationship between the services taxpayers enjoy from the government and the amount of tax they pay. Therefore as a first step towards ensuring voluntary compliance from the public, the government should provide a minimum of all basic social services to all societies in the state. The Government, with the help of the Directorate for Food, Roads and Rural Infrastructures should construct feeder roads to the rural areas and provide them with at least boreholes for the supply of water. The government should also provide the people with schools, medical centres etc and to promptly offer assistance to any school damaged by any natural disaster. These services and facilities should no longer be confined to only specific Local Government Headquarters but evenly distributed throughout the state.

The government should also embark on an intensive compaign aimed at educating the taxpayers on the need for them to pay tax as a civic responsibility. The people need to know what is expected of them in the form of tax contribution, how they can discharge that obligation, and the purposes for which their contributions will be utilised. This is necessary because quite often, the taxpayer is left in the dark until he runs into a tax clearance problem and then discovers that not only is he subject to a tax of which he is unaware, but that he is in arrears and must face heavy penalties. In other situations ignorance is the source of such fear of the whole tax payment procedure, consequently they think that evasion and non - payment seem the easiest way out. But if the the people are adequately educated and more so, if they can see some of the benefits of their tax payment, they will be motivated to comply with the tax payment requirements promptly.

Also the government should insist on the use of Tax Clearance Certificates as a necessary condition for enjoying some amenities of the state government or getting government patronage of any kind. Infact, the government should even insist that for any business advertisement on any government media such as the Radio, Television or Newspaper, the sponsors should produce their tax clearance certificates to prove that they have fully paid their taxes.

The state government should also empower the Revenue Board to adopt the 'Carrot' technique used in some countries where a discount or rebate is offered if early payment is made before a prescribed date. This could turn out to be an effective incentive for voluntary compliance.

The government through the Board again should encourage a system of advance payments of tax as estimated by the taxpayer himself based on the tax payed the previous year. This serves to reduce the burden of tax on him. The balance of the tax is payable when final assessment has been done, and it is to be paid within a month or at the most, two months of the issue of the notice of assessment. If the taxpayer complies, he too should enjoy some discount or rebate as an incentive.

PENALTIES AND PROSECUTIONS

"An adequate but equitable system of penalities that is used effectively is a necessary component of a good tax administration".[33] The state government should as a matter of urgency collect data of all tax defaulters for at least the preceeding four years and publicly expose them at the same time demanding that they pay up the tax arrears. The state should copy the example of the Plateau State government. On 9 April 1985, the Nigerian Standard carried the names of tax defaulters who had failed to pay their taxes, some of them for four years running. Among these defaulters was a Gubernatorial Candidate of the Second Republic. The list contained 87 names of tax defaulters owing the state about ₦697,570.45 as unpaid tax. This happened when Navy Capt. Samuel Atukum who knew no sacred cows was Governor of the State.

> "Selective use of the criminal method of enforcement can have a most powerful announcement effect. Selection of prosecution should be done amongst the high income business and professional class of the most persistent contumacious and recalcitrant defaulters, a goal sentence being strongly demanded. If the court decides accordingly, a substantial increase in voluntary compliance may be anticipated" 34

ENFORCEMENT PROCEDURE

The first need here is for tax inspectors to be able to identify tax defaulters and collect the necessary information that could be used in preparing a court case against them. The collection of information can be done by officers as they go on their routine 'spot checks', by Ticket Inspectors and by staff of the Investigation and Audit section.

When defaulters have been found, they should be served with the reminder notices as required by law and if they fail to comply, the legal section should prosecute them. Prompt disposal of tax cases in court with appropriate penalties on conviction will serve to discourage potential tax evaders. And to facilitate the quick disposal of such cases in court, it is hereby suggested that a special division of legal and tax experts with a high Court Judge as chairman be created in the High Court to try cases of tax default.

Also the Board should avail itself of the provisions of the various tax laws and Federal Government Decrees to enforce collection of taxes. For example, the tax offices should now pursue vigorously seftion 28A and 28B of the Income Tax Management Act, 1961 that provides that Banks should submit to the tax authorities on a monthly basis, a comprehensive list of all their new customers and their addresses. The information customers supply to the bank is more accurate and therefore should be used. Also, the Board should enforce with all vigour section 12 of the Federal Government Decree No.7 of 1986 on sales tax. This section stipulates penalties for offences committed under the decree.

FULLER COVERAGE OF TAX BASE

The tax system in the state has been found to be lacking in many characteristics. The characteristics of productivity and Equity are however very important. At this stage of the economic development of the state, taxation is a vital arm of economic policy and therefore justifies primary attention to both its growth and equity aspects, So at this point, there is great need for measures that will ensure fuller coverage in assessment of tax base - be it income, sales, property values, gifts etc. The identification and assessment of all sources of tax and the collection of taxes arising therefrom will certainly increase the tax revenue at least three times. This will go a long way in providing a tax revenue that is consistent with the rate of growth of the state 'economy' which will be used in financing development projects. As the canon of productivity is improved on, it will also help to achieve equity. Unless taxpayers feel that the tax system is reasonably equitable there is not much that can be done to encourage taxpayers cooperation.

Before discussing some of the taxes that have high revenue yielding potentials but are either neglected completely or hardly being exploited, a consideration of some three aspects of equity is appropriate.

Firstly, a moderate degree of progress of income taxation such as in Table 1 is proper. Highly progressive direct tax rates should be avoided for both administrative and incentive purposes especially at our stage of development. Secondly, the tax administrative machinery should ensure that people receiving equal amounts of income irrespective of its sources are not only subjected to, but actually pay the tax they are supposed to pay after all the allowances provided for in the tax laws. Receipients of property income and the self-employed should at the least be as effectively and adequately taxed as the salary earner. And thirdly, income taxation should be supplemented by a system of commodity taxes which should impose heavier rates on luxury items. Commodity taxation, contrary to a widely held belief, need not be inequitable. On the contrary, if the proper rate structure is applied, they will prove a most effective way of improving tax equity in our system.

In line with these points, some of these taxes (sales, land and property) should either be introduced or pursued more virgorously in the state.

The Federal Government Decree No.7, 1986 has already imposed sales tax. This decree which is attached as Appendix A is comprehensive and will help the tax authority cover taxable commodities that it was not able to oover before.

What the state tax authority should do is to ensure full compliance by all concerned and where there is an offence committed under the decree, it should be punished strictly as provided in the decree. This tax promises a lot of revenue for the state if it is pursued vigorously right from the beginning.

Land and property tax. Appropriate emphasis should now be placed on land and property tax in the state. This is really paying-off in Lagos state and there is no reason why it cannot in Kaduna State with the growing urbanisation of the state. It is much easier to assess a person on the basis of the land or landed property he has than his person (income) because he cannot hide his land or landed property. The Land Registry should be compelled by a state edict to provide the Revenue Board with information for the purpose of assessing land and property owners since it will be more difficult for the Revenue Board to gather such information on its own. In the state, especially in Urban and Semi-Urban areas, large stretches of land, developed and undeveloped, belong to a few wealthy individuals and their families. Land and property tax which should be sufficiently high should be imposed on such property as a means of tapping sufficient revenue from such persons who pay little or no income tax. The tax burden of maintaining such large estates whether developed or underdeveloped will act as a deterent to the wealthy to tie up their capital on lands and buildings (safest way of disposing of surplus cash no matter how acquired). This will generate more revenue for the state and also encourage such land and property owners to invest their resources on productive ventures which will help generate employment opportunities, thus helping to achieve the much desired distributive income effect.

Similarly, a more promising way to capture small and medium scale traders in the tax net is by assessing their property - a net wealth tax since property in whatever form including equipments or stock-in-trade etc is more difficult to conceal than income. This however, calls for knowledgeable and well trained tax personnel.

CONCLUSION

From this study, we have seen that tax is not the most important source of revenue to the state, being surpassed by grants from the Federal Government. However, it is the next most important, and in fact, the most important source of internally generated revenue to the state and which the state government can influence through its fiscal policies.

At the moment, the revenue yield of tax is poor-less than a third of what is due as tax is collected in the state. The problems responsible for this poor performance have been adequately discussed along with the appropriate recommendations on how to overcome them. There is therefore need for urgent attention in view of the rising demand for socio-economic development projects to be financed by the state government in the face of intolerable inflationary pressures. The state government cannot afford to depend on grants from the Federal Government now because of the poor world market for oil. The government should therefore cease to watch with indifference at the activities of tax defaulters and fraudulent tax officials all of which are major causes of the poor performance of tax in the state. The government should face these problems squarely to ensure growth in the tax revenue.

And as more revenue is generated through tax, the government should also ensure a more even distribution of economic benefits to all the taxpayers to enable them enjoy the benefits of their tax payment. This will increase taxpayers voluntary compliance, reduce cost of tax collection and increase tax revenue. The tax system has shown good potentials of high revenue yield. These potentials must be adequately exploited for the economic development of the state.

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APPENDIX 3

SALES TAX DECREE 1986 - DECREE NO.7

Commencement	30th June, 1986

THE FEDERAL MILITARY GOVERNMENT hereby decrees as follows:-

Imposition, Administration, etc of Sales Tax

Imposition of sales tax

1. As from the commencement of this Decree there shall be charged and payable a tax to be known as sales tax which shall be administered in accordance with the following provisions of this Decree.

Taxable goods and services

2. The tax shall be chargeable and payable on the goods and services listed in column 'A' of schedule 1 to this Decree at the rates specified in column 'B' thereto where -
   (a) a manufacturer or importer supplies such goods to its accredited distributors or agents; or
   (b) A supplier supplies such services to consumers in the course of its business.

Establishment of the Sales Tax Committee

3. There shall be established a committee to be known as the sales tax committee (hereinafter in this Decree referred to as "the Committee") which shall be subject to the Control of the Minister in the performances of its functions under this Decree.

Composition of the Committee

4. The Committee shall comprise the following members, that is to say -

(a) The chairman of the Joint Tax Board as Chairman;

(b) all members of the Joint Tax Board;

(c) One representative of the productivity, prices and Incomes Board;

(d) one representative of the Board of Customs and Excise;

(e) one representative of the Ministry charged with responsibility for matters relating to commerce and

(f) the Legal Adviser to the Federal Board of Inland Revenue.

Functions of the Committee

5. 1 The Committee -

(a) shall conduct commodity by commodity survey on taxable goods for the purposes of getting the pattern of distribution of those goods in all the States of the Federation and recommend from time to time the rates of tax to be charged thereon;

(b) shall, from time to time, fix with the approval of the productivity, prices and Incomes Board, the price of taxable goods;

(c) may, from time to time, amend or vary the list of taxable goods and services set out in Schedule 1 to this Decree and the rates of tax specified thereon, and

(d) shall do such other things as are necessary and expedient to ensure the smooth administration of the tax.

(2) Any proposed amendment or variation to the list of taxable goods and services and the rates of tax thereon, set out in Schedule 1 to this Decree, shall not have effect until approved by the National Council of State, and when so approved, shall be published in the Gazette.

(3) The Committee shall hold regular meetings with representatives of manufacturers, importers and suppliers of taxable goods or services in order to arrive at the pattern of consumption and distribution of those goods and services and the mode of payment of revenue accuring from the tax.

Quorum and Procedure of the Committee

6. Subject to any direction that may be given by the Minister, the Committee shall fix its own quorum and otherwise regulate its procedure.

Administration of tax.

7.(1) The Internal Revenue Department of each State of the Federation shall administer the tax subject to any directions that may be given by the joint Tax Board.

(2) The Joint Tax Board shall be responsible -

(a) For co-ordinating the tax and ensuring its administrative tidiness within existing tax machinery; and

(b) for resolving any conflict that may arise in the disbursement of revenue from the tax.

COLLECTION AND PAYMENT OF TAX

Collection of tax.

8. (1) A manufacturer, importer or supplier shall, not later than 30 days after the supply of any taxable goods or services to its accredited distributor, agent, or consumer in the case of taxable services, collect from the distributor, agent or consumer, as the case may be, tax on those goods or services at the rate specified in Schedule 1 to this Decree.

(2) The reference price of any taxable goods shall, for the purposes of calculating the tax, be the price fixed from time to time by the Committee with the approval of the productivity, prices and Incomes Board.

Payment of tax

9. (1) Any tax collected under section 8 of this decree shall be paid to the appropriate state authority on or before the 30th day of the month next following that in which the tax is due.

(2) A manufacturer, importer or supplier shall; when making a payment under subsection (1) of this section, submit a return in the Forms prescribed in Schedule 2 to this Decree.

(3) A copy of every return submitted under subsection (2) of this section shall be forwarded to the productivity, prices and Incomes Board which shall act as a repository of information on the tax.

MISCELLANEOUS

Power of Inspection

10. The appropriate State authority may in writing authorite any person on its behalf -

(a) to require any manufacturer, importer or supplier -

(i) to produce any books, documents or records relating to taxable goods or services for purposes of inspection; and if the person so requires, to permit him to take copies of such books, documents or records;

(ii) to provide any information which in the opinion of the person would assist in the inspection; and

(iii) to give such other asistance as may be required for the inspection; and

(b) to enter the premises of any manufacturer, importer or supplier and remove any books, documents or records relating to taxable goods or services where it has reason to suspect that a contravention of this Decree is being made.

Offences. 11. (1) Subject to subsection (2) of this section, any manufacturer, importer or supplier who contravences or fails to comply with any provision of this Decree shall be guilty of an offence under this Decree.

(2) Subject to the provision of subsection (3) of this section -

(a) If any tax collected under section 8 of this Decree is not paid within the time specified in section 9 of this

Decree, the appropriate State authority shall serve on the manufacturer, importer or supplier, as the case may be, a demand note for the unpaid tax plus a sum which is equal to 5 percent of the tax; and

(b) If any sum demanded under paragraph (a) of this subsection is not paid within 2 months of such demand, the manufacturer, importer or supplier, as the case may be, shall be guilty of an offence under this Decree.

(3) The appropriate State authority may, if it thinks fit, remit in whole or in part any sum added to the unpaid tax under subsection (2) (a) of this section.

(4) Where an offence under this Decree is committed by a body corporate or firm or other association of individuals -

(a) every director, manager, secretary or other similar officer of the body corporate;

(b) every partner or officer of the firm;

(c) every person concerned in the management of the affairs of the association; or

(d) every person who was purporting to act in any such capacity as aforesaid,

Shall severally be guilty of that offence and liable to be proceeded against and punished for the offence in like manner as if he had himself committed the offence, unless he proves that the act or omission constituting the offence took place without his knowledge, consent or connivance.

(5) An offence under this Decree shall be triable in the High Court of a State.

Penalties 12. (1) Except as otherwise provided in this Decree a person who is quilty of an offence under this Decree shall on conviction be liable -

(a) for a first offence, to a fine of ₦2,000 or imprisonment for 6 months;

(b) for a second and subsequent offence, to a fine of ₦3,000 or imprisonment for one year or to both such fine and imprisonment.

(2) The institution of proceddings or imposition of any penalty under this Decree shall not relieve any manufacturer, importer or supplier, as the case may be, from liability to pay to the appropriate State authority any tax which is or may become due under this Decree.

Regulations. 13. The Minister may, with the approval of the National Council of Ministers, make regulations; generally for the purposes of this Decree and the due administration thereof

Interpretation 14. In this Decree, unless the context otherwise requires -

"appropriate State authority" means the Internal Revenue Department of the State where the distributor or agent of a manufacturer or of an importer of taxable goods or a supplier, in the case of taxable services, carries on business;

"Committee" means the Sales Tax Committee established under section 3 of this Decree;

1961 No. 21. "Joint Tax Board" means the Joint Tax Board established under the Income Tax Management Act 1961.

"Minister" means the Minister charged with responsibility for matters relating to finance;

"Productivity, Prices and Income Board" means the productivity, prices and Incomes Board established under the Productivity, prices and

1977 No. 30 Incomes Board Act 1977;

"Supplier" means the supplier of the taxable services listed in paragraph 1 of colum A of Schedule 1 to this Decree;

"Tax" means the sales tax impose under section 1 of this Decree;

"taxable goods" means the goods listed in Schedule 1 to this Decree;

" taxable services" means the services listed in Schedule 1 to this Decree.

Citation and Commencement. 15 This Decree may be cited as the Sales Tax Decree 1986 and shall come into force on 30th June 1986.

SCHEDULES

SCHEDULE 1 Section 2
TAXABLE GOODS AND SERVICES AND RATES OF TAX THEREON

A	B
1. Taxable Services	Rate of Sales Tax
Sales and services in registered Hotels, Motels, Catering Establishments, Restaurants and other Personal service establishment (excluding drinks)	5 per cent

2. Taxable Goods

1. Beer : : : : : : : : : : 36k per carton/crate
2. Wine liquor and Spirits : : : : 10 per cent
3. Soft Drinks (including mineral 24 per carton/crate water)
4. Cigarattes and Tobbaco : : : : 5 per cent
5. Jewels and Jewelleries : : : : 5 per cent
6. Perfumes and Cosmetics (Excluding toiletries) : : :
   : : : : : : : : : : : : 5 per cent
7. Electrical and Electronics Equipment
   (Video Recorders, Stereo sets, Casettes Cameras, Airconditioners, Fans, Deep Freezer) : 5 per cent
8. Carpets and Rugs (excluding Linoleum): 5 per cent
9. Bottled Natural Water (Excluding
   Mineral Water) : : : : : : : : 5 per cent

SCHEDULE 2 Section 9 (2)
FORMS
FORM A

(To be completed in respect of every distributor, agent or consumer)

SUPPLY OF TAXABLE GOODS OR SERVICES

Name of Manufacturer/Importer/Supplier ....

....

Name of *Distributor/Agent/Consumer ....

Address ....

Bill No ....

TAXABLE GOODS OR SERVICES SUPPLIED	AMOUNT
	₦ : K
....	
....	
....	____________
Total: : : : : : : :	____________
Add Sales Tax : : : : :	____________
Gross Amount Payable : : : :	____________

....
Supplied by

....
Signature of

(*Delete words not applicable) *Distributor/Agent/Consumer

FORM B

MONTHLY RETURN OF PAYMENT

OF SALES TAX

Name of *Manufacturer/Importer/Supplier ....
Address...
Ref. No. ....
Internal Revenue Department Code No ....
Type of *taxable goods/services supplied ....
Total value of *taxable goods/services supplied for the
month of ....

₦.......................

Sales Tax for the month of .... ₦
Amount remitted .... ₦
I certify that the amount stated above represents the true and correct value of * taxable goods/services supplied and sales tax collected by ....
....
for the month of ....19..............

Details of *taxable goods/services supplied for the period shown on the attached form C.

Signature ....
Name ....
Position ....
Date ....

(*Delete Words not applicable)

FORM C

TAXABLE GOODS/SERVICES FOR MONTH OF ....

Serial	Name of Distri butor/Agent/ Consumer	Value of taxable goods/ services supplied		Sales Tax		Remarks
		₦	K	₦	K	
	....					
	....					
	....					
	....					
	....					
	....					
	....					
	....					
	....					
	....					
	....					
	....					
Total	....					

Name and Address of *Manufacturer/Importer/Supplier ....

....

.... Date

.... Signature

(*Delete words not applicable)

FORM D[B]

RETURN OF MONTHLY SALES CHARGEABLE COMMODITY/SERVICE FOR THE MONTH OF ....19........

Name of Business ....

Address ....

....

I.R.D. Code No./File No..

ARTICLES SOLD /SERVICE		SUPPLIED		
CHARGEABLE COMMODITY/SERVICE	VALUE	TAX RATE	SALES TAX	
Hotels & Catering Service	₦	%	N	K
Soft Drinks				
Cigarettes, Tobbaco, Beer, Liquor and Spirit				
Electronics				
Peformance & Cosmeties				
Total Sales Tax Recovered and Remitted				

I certify that the amount stated above represents the true and correct statement of sales effected for the month of ....19.................

I enclose herewith cheque/Bank draft No......................... drawn on ;....................Bank for a sum of .... as per details furnished above.

Date: ....

....
(Signature of Taxapyer)

FORM D[A]

LIST OF DISTRIBUTORS/AGENTS FOR MONTH OF ....

Serial No.	Name and Address of Distributors/ Agents	Type of Taxable Goods Sold	Quantity of Taxable Goods Sold

Name and Address of *Manufacturer/Importer ....
....

....
Date Signature

(* Delete words not applicable)

MADE at Lagos this 14th day of March 1986.

MAJOR-GENERAL I.B. BABANGIDA,
President, Commander-in-Chief
of the Armed Forces,
Federal Republic of Nigeria

EXPLAINATORY NOTE

(This note does not form part of the above Decree but is intended to explain its purport)

The Decree imposes with effect from 30th June 1986 a sales tax to be charged and payable on certain goods and services at rate set out in Schedule 1 to the Decree. The Decree also prescribes the mode of collection and remission of the tax and creates offences for failure to comply with the provisions of the Decree.

APPENDIX B

Board of Internal Revenue,
P.M.B. 1036,
ZARIA.
17th November, 1986.

....
....
....

Dear Sir,

P.A.Y.E. TAX DEDUCTION AND REMITTANCE

Please note that as per our records, you are yet to remit tax deducted in respect of your staff through the P.A.Y.E. scheme as specified below:

Year	Month
....	....
....	....
....	....
....	....

However, if you have made any payment in respect of any or both of the above quoted period(s), you may forward your evidence of payment to this office for confirmation,

You are further remindd to complete and forward Annual Returns form for the year(s) ....

I hope you will expedite action accordingly, so as to stop this office from taking some steps that might be unpleasant to your organisation and staff.

Yours faithfully,

(A.G. ABUBAKAR)
For:Chief Inspector of Taxes i/c.,
Revenue Office, Zaria.