A Performance Analysis of Nigerian Tax Objectives

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Abstract: This paper examines the extent to which objectives set by government (Nigerian) on tax revenue generation are being achieved. In doing this, however, it critically evaluates the comprehensive tax policy – right from reforms to final stage, tax incentives and how they have or have not made the actualization of the policy easier. Furthermore, the paper also evaluates the adequacy of the relevant tax laws as well as its loopholes in the system. In addition, the revenue generated over the years is looked through. Using data of 12 years’ period (2000 -2012), the revenue generated is compared in relation to budget, actual and Gross Domestic Product (GDP) of the country. It concludes with suggestions/strategies of improvements in the system towards increasing tax revenue generated.

Keywords: Tax revenue, nigeria tax objectives, gross domestic product, increasing tax revenue, tax laws

1. Overview of tax and taxation issues

A tax is a fee charged or levied by a government on a product, income, or activity. If it is levied directly on personal or corporate income, it is called a direct tax. If it is levied on the price of a good or service, then it is called an indirect tax (Worlu and Nkoro, 2012). Furthermore, the institute of Chartered accountants of Nigeria (2006) and Chartered institute of Taxation of Nigeria (2002) defined tax as “an enforced contribution of money to government pursuant to a defined authorized legislation” (Okafor, 2012). Conversely, every tax must be based on a valid state. Without a valid statute, no legitimate tax can be imposed. The main reason for taxation is to finance government expenditure and to redistribute wealth which translates to financing development of the country (Ola, 2001, Jhingan, 2004, Musgrave and Musgrave, 2004, Bhartia, 2009). Whether the taxes collected are enough to finance the development of the country will depend on the needs of the country and countries can seek alternative sources of revenue to finance sustainable development (Unegbu and Irefin, 2011). Tax revenue is the receipt from tax structures.

Revenues accruing to an economy, such as Nigeria can be divided into two main categories; oil revenue (includes revenue from royalties, Petroleum profit tax (PPT), gas tax) and non-oil revenue ( includes trade, loans, direct and indirect taxes paid by other sectors of the economy, aids, agriculture etc.). Sanni (2007) advocates the use of tax as an instrument of social engineering to stimulate general and/or sectoral economic growth. In this regard, taxation could have a positive or negative effect both on an individual and government. Concerning an individual, low income tax rate constitutes an incentive to work or to save while high income tax rate discourages an individual to work or to save. Regarding the government, high tax rates provides the most reliable, important and dominant source of government revenue for promoting the economic development of the nation. In view of this, tax rate is often a major consideration in the choice of organizational form of business (Okafor, 2008) and may also be associated with varying levels of foreign direct investment (Desai et. al., 2004).

However, tax revenue mobilization as a source of financing developmental activities in less developed economies has been a difficult issue primarily because of various forms of resistance, such as evasion and corrupt practices attending...
to it. These activities are considered as sabotaging the economy and are readily presented as reasons for slow or none development of the country. Government collects taxes in order to provide non-revenue services such as infrastructure, education, health, communications system etc., providing employment opportunities and essential public services (such as maintenance of law and order) irrespective of the prevailing ideology or the political system of a particular nation (Worlu and Nkoro, 2012).

The act of taxation brings profoundly beneficial effects in fostering better and more accountable government (Tax justice network (TJN), 2012). Musgrave and Musgrave (2004) also stated that the economic effects of tax include micro effects on the distribution of income and efficiency of resource use as well as macro effect on the level of capacity output, employment, prices, and growth. However, the use of tax as an instrument of fiscal policy to achieve economic growth in most less developed countries cannot be reliable because of dwindling level of revenue generation: changing or fine-tuning tax rates are used to influence or achieve macroeconomic stability. Some examples of governments that have influenced their economic development through revenue from tax are Canada, the United States, Netherland, United Kingdom. They derive substantial revenue from Company Income Tax, Value Added Tax, Import Duties and have used the same to create prosperity (Oluba 2008).

A significant share of the tax revenue increase in Africa stems from natural resource taxes. This included income from production sharing, royalties and corporate income tax on oil and mining companies (Pfister, 2009). Nigeria is a developing country whose major export is mainly crude oil. Nigeria endowed with other natural resources such as natural gas, tin, iron ore, coal, limestone, lead, zinc and arable land (Economy Watch, 2011). As a sovereign nation, Nigeria has mass land that covers about 923, 768 sq km and has a population of about 149,229,090. According to Tran (2008), emerging economies are nations that have large territories and populations and they are undertaking extraordinary development projects that call for new infrastructure such as power-generating plants and telecommunications systems.

The United Nations (2005) asserts that achieving the Millennium Development Goals (MDGs), low-income countries (LICs) are required to increase their domestic revenues by around 4 percent of GDP. To meet MDGs, OECD countries have been urged to raise their level of aid to LICs to about 0.7 percent of their Gross National Income – but this is as nothing when compared to potential tax revenues. The infrastructural developments demand a lot of resources and funding. In many rich countries, tax constitutes 30-40 percent of GDP (Golit, 2008 and TJN, 2012). Nigeria with a budget of N4.97 trillion for the year 2011, representing 12% increase of 2010 annual budget (Unegbu and Irefin, 2011) shows that tax revenue is one of the ways of funding infrastructural developments. The tax base in Nigeria since had been on increase in order to mobilize the resources needed to execute infrastructural projects. According to Kaldor (1963), those who believe that insufficient growth and investment is mainly a consequence of lacking resources are chiefly concerned with increasing the resources available for investment through additional taxation. The availability and mobilization of revenue is the fundamental factor on which an economic development is sustained and managed. As noted by TJN (2012), tax is the most important, beneficial and sustainable source of financing for development. Tax revenue in Africa, for example, is worth ten times the value of foreign aid. The long-term goal of poor countries must be to replace foreign aid dependency with tax self-reliance.

However, in Nigeria, the contribution of tax revenue has not been encouraging, thus expectations of government are being cut short. Corruption, evasion, avoidance and tax haven indicators are strongly associated with low revenue (Attila, Chambas, and Combes, 2008) and indeed, corruption functions like a tax itself. According to Adegbie and Fakile (2011), the more citizens lack knowledge or education about taxation in the country, the greater the desire and opportunities for tax evasion, avoidance and non-compliance with relevant tax laws. In this respect, the country become more adversely affected due to absence of tax conscience by individuals and companies and the failure of tax administration to recognize the importance of communication and dialogue between the government and the citizens in taxation related matters. In the face of resource deficiency in financing long term development, Nigeria has heavily resorted to foreign capital such as loans and aid as the primary means to achieve rapid economic growth. Thereby, this has accumulated huge external debt in relation to gross domestic product and serious debt servicing problems in terms of foreign exchange flow and as such, majority of the populace live in abject poverty. Government has expressed concern over these and has vowed to expand the tax revenue in order to meet its mandate. Kiabel and Nwokah (2009) argue that the increasing cost of running government coupled with the dwindling revenue has left all tiers of government in Nigeria with formulating strategies to improve the revenue base. Ndekwu (1991) noted that more-than-ever before, there is a great demand for the optimization of revenue from various tax sources in Nigeria now. This
probably influenced the decision of the Federal Government of Nigeria (FGN), which in 1991 set up a study group on the Review of the Nigerian Tax System and Administration. This review is what subsequently led to the development of the Comprehensive Tax Policy (we shall see later in this work).

An accurate estimation of the optimal level of expenditure requires knowledge of the productivity of the tax system and it will assist in identifying a sustainable revenue profile for the country. As noted by IMF (cited in TJN, 2012): “Developing countries must be able to raise the revenues required to finance the services demanded by their citizens and the infrastructure (physical and social) that will enable them to move out of poverty. Taxation will play the key role in this revenue mobilization”.

As a means of meeting expenditure requirements, many developing countries undertook tax reforms in the 1980s. However, most of these reforms focused on tax structure rather than tax administration geared towards generating more revenue from existing tax sources (Osoro, 1991). According to Okafor (2012), it has also been observed over the years that income tax revenue has generally been grossly understated due to improper tax administration arising from under assessment and inefficient machinery for collection. In Nigeria, revenue derived from income taxes has been grossly understated due to improper tax administration, assessment and collection (Ola, 2001; Oluba, 2008S Adegbie and Fakile, 2011). People and companies are known to routinely evade and avoid taxes due to corrupt practices and the existence of various loopholes in the tax laws. According to Naiyelu (1996), the success or failure of any tax system depends on the extent to which it is properly managed; the extent to which the tax law is properly interpreted and implemented (Okafor, 2012). In addition, tax objectives set by government are usually not adequately met. So, government objectives have always been to maximize its revenue generation capacity through taxation. However, this lofty objective is usually not achieved due to several factors. Secondly, some influences usually hinder the actualization of this objective.

The main objective of this paper is to examine the extent to which tax objectives are achieved and as well as look at the tax incentives as contained in the Comprehensive Tax Policy and how it has helped in making the actualization of the policy, especially in this dispensation in Nigerian economy. The paper will also evaluate the adequacy of the relevant tax laws, identify loopholes in the tax system and make recommendations for improving the overall administration and yield of the tax system. In doing so, the work is divided into four sections. Section one gives a general overview on tax and taxation. Section two looks at the highlights of the new Comprehensive Tax Policy passed into Law by the National Assembly in 2009 in Nigeria. It further highlights some of the loopholes in the tax system as it affects objective actualization. Section concludes by looking at some data of tax revenue generated over the years in relation to the budget. Section three looks at some of the tax incentives as a catalyst for economic development. Section four concludes with some suggestions on how to encourage more tax revenue generation.

2. Highlights of comprehensive tax policy

It will be of interest to note that prior to 2009 that culminated in the production of comprehensive tax policy, several reforms had been taken place and continued until the government and stakeholders came to a consensus regarding what should include in the policy. The steps taken are x-rayed here:

Pre 2002 Tax Reform Efforts

- The Federal Government had taken far-reaching steps aimed at reforming the nation’s tax system before the pre 2002 reform efforts. Among these are; The 1978 Task Force on Tax Administration headed by Alhaji Shehu Musa. The major thrusts of the report of the task force are:
  - Introduction of the Withholding Tax (WHT) regime;
  - Imposition of 10 percent special levy on bank’s excess profits;
  - Imposition of 21/22 percent turnover tax on building and construction companies.
- The 1992 Study Group on Nigerian Tax System and Administration headed by Professor Emmanuel Edozien recommended:
  - The establishment of FIRS as the operational arm of FBIR;
  - Setting up of Revenue Services at the other tiers of government (State and Local Governments).
- The 1992 Study Group on Indirect Taxation headed by Dr. Sylvester Ugoh recommended a policy shift from direct taxation to indirect/consumption (VAT evolved).
History of the current tax reform process

In this section, we will overview the report of the Study Group (2003) and the Working Group (2004) on the Nigerian tax system: The current reform process commenced on August 6, 2002, after series of proposals forwarded by University of Port Harcourt to the Federal Ministry of Finance. A Study Group was eventually inaugurated to examine the tax system and make appropriate recommendations to the government on ways to entrench a better Tax Policy and improve tax administration in the country.

It is instructive to note that the Study Group on the Review of the Nigerian Tax system that was inaugurated on August 6, 2002 with the 11-point Terms of Reference. In all intents and purposes, it was set up to take a critical look at the existing tax laws, the inherent lapses and proffer ways and means of enhancing the tax system through feasible recommendations.

A comparative analysis showed that Terms of Reference of the 2002 Study Group was broader in scope than the 1991 Study Groups in that while the latter’s exercise covered the review of direct taxes under the jurisdiction of Federal and State Revenue Services and the 2002 exercise was more comprehensive as it covered the entire gamut of taxes at federal, state and local government levels. The Study Group had its main report in 20 chapters of 17 volumes. In all, about 39 taxes, levies and fees, including 8 Federal, 11 State and 20 local government taxes and levies were captured in the taxes and levies (approved list of collection). Decree No. 21 of 1998 were thoroughly appraised by the Group consequent upon which study recommendations were made to the Federal Government. We provide here some of its recommendations:

- Nigeria to have a 24-clause national tax policy;
- Compilation of registers of individuals and corporate tax payers and also issuance of smart tax identity cards for all tax payers;
- Raising of the threshold of personal income tax up to N 200, 000, consolidation of personal income tax free allowances to a single bulk of 40% of assessable income and the highest income rate should be 20%;
- Limitation of special tax incentives such as tax holidays and import duty reliefs to only industries located in rural areas, fully export oriented industries, solid minerals production companies and oil and gas operations;
- To make profit before being exposed to companies’ income tax in any assessment year;
- Reduction of companies’ income tax rate to 20% from the current 30% rate;
- Companies with less than N$50,000,000 pay its companies income tax to state where it operates;
- Speedy constitutional amendments to confirm the legality of Value Added Tax (VAT) which should be shared among states after 3% had been deducted as part of its administration cost nationwide;
- Local government charge tenement rate and capitation rates and other clear-cut user charges for services directly beneficial to the citizens only.

After a thorough appraisal of the technical issues involved in the implementation of its far-reaching recommendations, the Group also suggested a tax environment where taxpayer is registered as the “King” and tax system with a “human face” as a strategic option of achieving the broad policy of its sundry recommendations. The Study Group submitted its report in July 2003.

A private sector driven-group was constituted on 12 January 2004 and was fundamentally based on the issues covered by the Study Group’s report of 2003. The Working Group was mandated its Terms of Reference to “critically evaluate the recommendations of the Study Group and propose prioritized set of strategies whose implementation would give effects to the reform of the Nigerian tax system which were grouped into;

a) Short Term: Within 6 months of submission of the WG’s Report;
b) Medium Term: Within 2 years of submission of the WG’s Report;
c) Long Term: within 5 years of submission of the WG’s Report.

Both Groups addressed macro and micro issues in tax policy and administration. Among the macro issues discussed were the drafting of a National Tax Policy, Taxation and Federalism, Tax Incentives and Tax Administration generally. In summary, the National Tax policy objective is reducing direct tax and increasing indirect tax.
3. Reactions to the new policy

According to Emmanuel Mathew (2010), the national tax policy seeks to provide a set of guidelines, rules and modus operandi that would regulate Nigeria’s tax system and provide a basis for tax legislation and tax administration in the country. Since the approval by the Federal Executive Council, not much has been heard about the policy which is designed to be the template on how the tax system should be run and administered at all levels of government in the country. According to some concerned stakeholders whose opinions were sought, the Federal Government has done so well by attempting to standardize and use taxation as a viable tool to improve the country’s revenue generation both in the short and long term.

According to them, initiating and instituting change is far beyond putting strategies, plans and measures in place without following up with necessary actions. In fact, the approval was just the beginning of the journey, because a lot still needed to be done to make the efforts put so far meaningful and impactful. Now, it is time to make sure that the projected objectives, guiding philosophies and intended results for the policy are achieved within the shortest possible time frame. It is a well known fact that Nigeria is always successful when it comes to planning on paper but not such could not be said in the area of execution. Most of the points on the tax policy have been applauded by stakeholders and experts, yet the task is not yet half done until the contents are implemented and enshrined within the tax system. At this point, all the concerned stakeholders should be coming to term with their responsibilities and duties as it’s expected by the policy. This may, however, not be forthcoming until they are made to know what is expected from them. He concludes by saying that if tax policies are inconsistent or weak, it is certain that the entire tax system would be dysfunctional. This is why most nations have tried to align their tax systems as much as possible with the fundamental policies and principles of equity, certainty, convenience and administrative efficiency since 1776 when these were propounded by the famous economist Adam Smith. At this juncture, it is instructive to say that the Federal Government, the legislature and other concerned federal ministries and agencies owe the country a duty to standardize the tax policy by ensuring that the national tax policy is truly entrenched to lead and shape the tax system. (Matthew Emmanuel, 2010)

Failures in the tax system

In his ageless book “The Wealth of Nations”, Adam Smith propounded the four basic indices of a good tax system, namely universality, certainty, convenience and economy. If weighed on the scale of these efficiency indicators, the Nigerian tax system would be found to be poles away from the efficiency reference point. The system is marred by failures in tax compliance, failures in tax enforcement and failures in tax administration.

Poor Compliance

Every form of tax represents a burden (cost) which the rational tax payer would like to minimize or completely avoid. Compliance to any tax could either be self imposed (voluntary) or enforced. Voluntary compliance is the preferred option because it is more cost effective and yield higher tax revenue. The level of voluntary compliance is directly related to the assessment of the taxpaying population as to whether or not the relevant tax is fair and equitable. Tax is adjudged to be fair by tax payer, if it could be justified by the level of services provided by the beneficiary i.e., by the government. Similarly, it is deemed to be equitable if the entire population qualified to pay the tax is effectively brought into the tax net. The level and quality of infrastructural and social/welfare services provided by governments in Nigeria do not elicit voluntary tax compliance. As regards the issue of equity, the Nigerian tax system is considered to be inequitable, if not discriminatory because a very high percentage of the identified population for each type of tax tariff or levy is not captured by the relevant tax assessment and collection machinery. Based on the above considerations, a huge population of tax payers in Nigeria comprising individual and corporate entities has no qualms in strategizing to minimize the tax liability either within the existing tax laws or in contravention of such laws. The two prominent strategies for tax liability minimization is tax avoidance and tax evasion.

Tax Avoidance

Tax avoidance refers to the strategy of exploiting loopholes in both tax laws and tax administration to reduce legitimate tax liability (Downes and Goodman, 1995). Tax avoidance does not involve criminality in the legal interpretation of this term. One major loophole often exploited in Nigeria is the broad interpretation of capital allowance and other tax deductible non-operating expenses. For instance, a company could invest in qualifying capital assets that it could ordinarily not require for effective operations just to earn a tax deductible advantage. According to Sani (2005), the tax
avoider seeks to comply with his tax obligation only to the extent of what is minimally feasible within the law. Nigeria corporate tax payers, especially the large ones, both foreign owned and indigenous, seem to be engaged in a continuing smart game of trying to out-wit the tax authorities to maximize tax allowable deductions and minimize overall tax liability.

**Tax Evasion**

Tax evasion is an illegal act of intentionally reducing accrual taxes or skipping the payment of such taxes by under reporting income, overstating expenditures, deductions or exemptions (Downes and Goodman, 1995). Tax evasion is a serious problem in Nigeria which arises from many sources including outright ignorance of extent tax laws, lack of faith in the ability of government to utilize tax revenue well and high tax rates which make evasion very attractive and economical.

**Failure in tax enforcement and administration**

Failures in tax law enforcement and administration are inter-related. Each of them originates from the ineffectiveness and/or lack of transparency of government agencies responsible for the management of each type of tax. A failure in tax law enforcement arises when there is improper tax assessment. In theory, the problem could result from over assessment or under assessment. The more common case in practice is deliberate actions under assessment of tax triggered by fraudulent collaboration between tax enforcement officer(s) and the tax payer. It is fraudulent because the tax assessor is most often compromised to “co-operate” with the tax payer to reduce tax liability.

To improve tax enforcement, Nigerian tax payers (both individual and corporate entities) are now compelled to produce three years’ tax clearance certificates to access various types of public services. The strategy has, to some extent, improved tax collection but has obviously not eliminated tax dodging because the range of services covered by the “show your tax clearance certificate” requirement is limited. Moreover, taxes extracted under such conditions of duress are notorious for under assessment.

Another aspect of failure in tax administration is delayed assessment and late collection of taxes. Under the tax laws, the initiative to start the tax assessment and collection process rests with the tax payer who is expected to file the relevant tax returns within a stipulated period after the relevant fiscal year. There is a high incidence of late filing of returns as well as falsification of accounting information of such returns. For instance, many companies are known to prepare two sets of annual accounts for each year; one for the company and the other for the tax assessment authority. In each of such cases, the accounts for “tax purposes” clearly underestimate the tax assessable income. Such malpractices are tax offences for which clearly detained penalties exist. Sec. 13 (3) of the Companies Income Tax (Amendment) Act 2007 has specifically increased (by tenfold) the fine for late filing of returns and by over five fold, the penalty for falsified accounting information on tax returns.

**Data on tax revenue generated over the years**

Prior to the 2002 reforms, tax generated revenue has been low. However, the reforms have helped to increase the revenue generated. Furthermore, after the reforms, tax revenue generated has increased considerably. In some cases, revenue generated seems to surpass the target set (see table below). According to Onuba (2012), the Federal Government made N4.62tn from tax collections in 2011 as the Federal Inland Revenue Service stated. The figure represents an increase of N990bn or 27.27 per cent over the N3.63tn revenue target set for the agency. It also represents an increase of N1.79tn or 71 percent over the N2.83tn which the agency generated in 2010. The total collection figure is the reconciled amount with the Central Bank of Nigeria. A breakdown of the N4.62tn indicates that N1.51tn was collected as taxes from non-oil sources, an increase of N200bn over the N1.31tn recorded in 2010. The performance, according to FIRS, is a demonstration of the success of the ongoing reforms in the organization. The reforms are targeted at repositioning the Nigerian tax system by making taxation the pivot for the nation’s sustainable development.

The breakdown of the non-oil tax revenue shows a collection of N663.02bn of Company Income Tax; N770m of Capital Gains Tax; N6.42bn of Stamp Duty; and N659.15bn of Value Added Tax. A further breakdown of VAT amount shows that N492.06bn was collected as non-import VAT, while the balance of N167.09bn was received as import VAT from the Nigeria Customs Service.

FIRS also said that Education Tax generated N130.74bn, while the National Information Technology Development Fund accounted for N8.67bn. In the same vein, Personal Income Tax contributed N43.47bn, while the Pre-Operational
Levy yielded N400m. Meanwhile, the Executive Chairman of FIRS, Mrs. Ifueko Omoigui-Okauru, has restated the organization’s determination to intensify its tax drive to expand the revenue base of the country this year. Omoigui-Okauru made the promise when she appeared before the Senate Committee on Finance to review the FIRS 2011 budget performance as well as the presentation of the 2012 proposal to members of the committee for consideration. She said there were challenges associated with the growth in the nation’s revenue base, adding that with more focus on capacity building, the plans for more revenue collection would be achieved. “Driving revenue requires professional skills more so that there is a rethink to increase tax revenue from stamp duties and CGT as part of the efforts to expand the revenue generation profile of the country,” she said. With this trend, it is hoped it will continue as she has laid the foundation and set the machineries in place to ensure that tax revenue generated remains to be attractive and represent the true reason why the government established the comprehensive policy.

Table 3-1 GDP and Federal Tax Revenue Generated over the Years (N’Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>PPT</th>
<th>CIT</th>
<th>CUS, &amp; Exc</th>
<th>VAT</th>
<th>Total</th>
<th>Target</th>
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<td>4727522</td>
<td>525100</td>
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<td>101500</td>
<td>58500</td>
<td>736200</td>
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<td>68700</td>
<td>170600</td>
<td>91800</td>
<td>970300</td>
<td>na</td>
</tr>
<tr>
<td>2002</td>
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<td>392200</td>
<td>89100</td>
<td>181400</td>
<td>108600</td>
<td>771300</td>
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<td>683500</td>
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<td>1183600</td>
<td>113000</td>
<td>217200</td>
<td>159500</td>
<td>1673300</td>
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<td>140300</td>
<td>232800</td>
<td>178100</td>
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<tr>
<td>2006</td>
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<td>244900</td>
<td>177700</td>
<td>221600</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>219760</td>
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<td>2010</td>
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<tr>
<td>2011*</td>
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<td>998561</td>
<td>2041127</td>
<td>2437</td>
<td>259000</td>
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<td>2012**</td>
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<td>534698</td>
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Source:
1 FIRS: Planning, Reporting and Statistics Department

GDP = Gross Domestic product
PPT = Petroleum Profit Tax
CIT = Companies Income Tax
CUS & EXC = Customs and Excise & Stamp duty
VAT = Value Added Tax
* = Taxes computed are for 5 months (January - May 2011)
** = Tax figures are for 9 months period.

Tax incentives as- catalyst for tax compliance
In a paper presented to Swedish investors in 2009 by the Chairman of FIRS Mrs Ifueko Omoigui-Okauru, she highlighted the various tax incentives in Nigeria. She stated, “Tax incentives are special arrangements in the tax laws to attract, retain or increase investment in a particular sector, stimulate growth in specific areas, assist companies or individuals carrying on identified activities. The underlying basis is to ensure overall growth of the Nigerian economy and even development of all sectors. Current policy of Nigerian government is to ensure:

1) Incentives are sector based and not granted arbitrarily;
2) Benefit to the Nigerian economy exceeds the cost of taxes foregones;
3) Incentives are reviewed regularly to confirm if they are serving the expected purpose;

4) Foreign investors enjoying incentives are expected to voluntarily plough back into the Nigerian economy.

She continued that ‘Tax laws provide various incentives to companies carrying on business in Nigeria, and that incentives may be granted on industry basis or on tax type and may include:

1. Exemption from payment of taxes;

2. Reduction in rate of tax to be paid;

3. Grant of allowances and deductions from profits subject to tax etc.”

Furthermore, under the Industrial Development Act, pioneer status is granted to qualifying companies and/or products and services resulting in 3-5 year tax holidays. Qualifying industries include:

Mining;

Manufacture of cement, glass and glassware, lime from limestone, ceramic products, rubber, leather textile etc.;

Areas of industry that are of economic benefit to the country.

Pioneer status is granted to companies in certain industries where it is deemed that the industry is not carried out on a scale suitable to Nigeria’s economic requirements; it is in public interest to do so from payment of taxes and it attracts tax exemption for a three year period in the first instance and a maximum of five years in total. It also includes tax free dividends during pioneer period, carry forward of losses made and capital allowances (on assets) incurred during the pioneer period.

**Under the companies income tax act**

Loans granted to Nigerian companies may be exempted from tax where they meet prescribed criteria. Dividends received from Nigeria are exempted from tax other than withholding tax deducted at source:

Profits of shipping and airline companies subject to tax in Nigeria is restricted to activity carried out in Nigeria;

Dividends interest, rent or royalty earned by companies outside Nigeria and brought in through specified channels are exempt from tax;

Interest earned by a foreign company on its bank deposits in Nigeria are exempt from tax;

Nigerian companies with a minimum of 25% foreign equity and within their first four years of operation are exempt from payment of minimum tax;

Incentives for downstream gas utilization projects exists which also includes;

Exemption from taxes for specified period;

Tax free dividends etc.

**Incentives under the Personal Income Tax Act**

Non-Nigerian employees of foreign companies in Nigeria may be exempted from tax in Nigeria, where 1) they spend a cumulative period of less than 183 days in Nigeria during a 12 months period and 2) their income is subject to tax in their home country

Under the Capital Gains Tax Act:

Foreign companies carrying on business in Nigeria are exempted from capital gains tax on disposal of assets, except such proceeds are brought into Nigeria.

Incentives under the Petroleum Profits Tax Act:
Expenses incurred outside Nigeria, wholly, exclusively and necessarily incurred for the Nigerian operations are allowed as deductions against the profits of the Nigerian company (this may include parent company expenses incurred in respect of the Nigerian company). Interest on inter-company loans obtained under open market terms are allowed as deductions.

Incentives under the Value Added Tax Act:

Import of several items exempted from value added tax 1) Exported goods and services are also exempted from value added tax, 2) Import and export duty exemptions and reductions, 3) Import and export duty exemptions and reductions are available for several items and list of exempt items and rates is reviewed annually based on economic considerations and developments in the Nigeria economy.

Incentives under the Tax Free Zones and Export Processing Zones:

There are laws creating tax free zones and export zones, which exempt companies operating in those areas from tax obligations in Nigeria for operations carried out in the zones. Companies are required to register before enjoying the benefits and all activities must be performed exclusively within the zones -activities outside the zones will be subject to tax. Tax free status is continuous as long as activities are restricted to the zones –Government may, however, review the status of the zones based on economic considerations.

Nigeria’s Double Tax Treaty network offers significant incentives to investors:

There is considerable room for further expansion subject to development of a clear tax treaty strategy. Nigeria has existing treaties with the following countries: United Kingdom, Canada, Belgium, France, Romania, Netherlands, Pakistan, South Africa, and China. Treaties with South Korea, Spain, Sweden and Russia are waiting ratification of Nigerian authorities. She concluded the presentation by saying: “Greatest incentive for investors is a stable efficient, effective and well organized tax system. Nigerian government is committed to improving the tax system in line with global best practices. Nigerian government is always willing to provide incentives, which will be to the overall benefits of the Nigerian economy. In addition, FIRS/JTB are open to partnership with agencies and people in other jurisdictions. Formula: foreign investors plus incentives plus increased economic activities equals to guaranteed returns for investors and development of the Nigerian economy!”

4. Tax revenue enhancement strategies

As indicated earlier, the best option strategy to expanding tax revenue from any type of tax is to take proactive measures to maximize voluntary compliance. Voluntary compliance ensures that the largest percentage of the taxable population is effectively brought into the tax net. It also minimizes the propensity to compromise tax officials to achieve under assessment. The most potent weapon for government to achieve high tax revenue is therefore to implement fiscal policy measures which encourage voluntary tax compliance.

The first step forward for government in that direction is to expand the socio-welfare benefits accruable to Nigeria tax payers. In the final analysis, ability to provide such services constitutes the primary legitimacy of the power of government to levy taxes. Government has a primary obligation to provide basic social welfare services like basic education, access to basic health services, safe drinking water, sanitation and security for the citizen. The failure of any government to live up to that expectation erodes loyalty to the government and destroys the incentive to voluntarily pay taxes. In the current Nigerian situation, the state of decay in social-welfare services is compounded by failure of basic infrastructural support services like electricity and transportation. Given that situation, there is a systemic luck-warm attitude to meeting tax payment obligations (Okoafor, 2012).

We have seen that some positive steps have been taken to overhaul the tax administration machinery, especially with regard to taxes administered by the FIRS. The Federal Inland Revenue Services (Establishment) Act 2007 has not only granted autonomy for the service but has completely reorganized it for more effective administration of the tax system. The introduction of Integrated Tax Offices (ITOs) in place of the former Area Tax Offices (ATOs) has resulted in a significant decentralization of tax management operations. Unlike the ATOs which were based only in major urban centers and state capitals, the ITOs are intended to be located in all identified centers that have a significant cluster of businesses. The decentralization will obviously improve the tax assessment background information about companies under their mandate and hopefully result in fairer assessments and more timely in tax returns. The system will also
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promote more frequent on-site inspections and investigations by tax officers because of the reduced spatial coverage of each ITO.

The external auditors of funds play a vital role in ensuring the veracity of tax returns filed by and on behalf of their clients. More often, the external auditors in their capacity as tax consultants aid and abet the filing of accounting returns that are “creatively structured” to understate tax liability. There is a need for the tax authorities to cultivate the cooperation of the professional bodies connected with tax matters, namely external auditors and corporate tax consultants to minimize the current level of abuses in tax returns. In doing this, there is no doubt that the government will generate more revenue from taxation and the rate of compliance will also be high at least on the long run.

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