International Scholars Journals

African Journal of Political Science ISSN 3461-2165 Vol. 11 (8), pp. 001-010, August, 2017. Available online at www.internationalscholarsjournals.org © International Scholars Journals

Review

A review of private sector tax revenue generation at local government level: Evidence from Nigeria

S. O. Uremadu[1]* and J. C. Ndulue[2]

[1]Department of Banking and Finance, College of Business and Social Sciences, Covenant University, Canaanland, P. M. B. 1023, Ota, Ogun State, Nigeria.
[2]Department of Accounting,University of Abuja, FCT, Abuja, Nigeria.

Accepted 18 May, 2017

This paper reviews the work of Ndulue (2005) to ascertain the significance of private sector revenue generation at the local government level using data from FCT, Abuja. Mobilization of tax income from self-employed people has always posed a serious challenge to Local Government authorities in Nigeria. Millions of naira have been lost due to prevalence of tax evasion and avoidance among the self-employed people. As a result, taxation can be used as a major instrument of revenue mobilization and or as a key to sustainable economic development in Nigeria since it hinders realization of fiscal policy objectives of government. This study is aimed at finding the root causes of tax evasion and avoidance among the self-employed people in FCT, Abuja, with a view to exploring ways of encouraging them to comply with tax matters in a bid to boost local government revenue sources that will provide adequate funds for development efforts of government. This study utilized data collated by Ndulue (2005) from FCT, Abuja to carry out both fundamental analysis and simple percentages evaluation of issues in the tax revenue mobilization among the self-employed and tax administration skills of the local authorities. Questionnaires were administered to both the self-employed and staff of Federal Board of Inland Revenues Tax Office, Abuja to source out data on the issues of research. Findings from the field survey profoundly revealed that there exists: (1) significance tax avoidance and evasion by the self-employed in FCT, which has adversely affected the quantum of revenue mobilization from income tax; (2) several factors are responsible for this dismal tax situation such as: high personal income tax rate; complexity of the assessment and collection procedures; lack of adequate tax incentives; lack of taxpayer education and high costs of compliance; among others. All these go to reveal that the Nigerian tax system faces serious challenges of ineffectiveness and inefficiency. To revive the system, a three pronged approach is, here and now, recommended: (i) the tax laws, tax policies and tax administration should be holistically reviewed; (ii) the penalties to be meted out to tax offenders should be made severe to deter tax evasion and avoidance; (iii) the tax policies should be well focused geared towards reducing the personal income tax rates and providing adequate tax incentives and taxpayer education. Finally, effective and efficient tax policy will eliminate high compliance costs, make self-employed people tax compliant and increase total revenue generated from tax sources thereby making taxation a veritable tool in the hand of government to sustainable economic growth and development in the emerging Nigerian economy.

Key words: Tax policy, tax income, revenue, self-employed, Nigerian economy.

INTRODUCTION

Local governments are established as an avenue by which people can participate in decision making at the grass-roots level. They form the third tier of government under Nigerian federalism based on the Local Government Reform Act 1976. The expectation is that as the third tier of government, they would act as a catalyst for as well as aid rapid and sustainable development at the grass roots level (Mamman, 2006). The conceptual literature argues for a strong role of local governments in

*Corresponding author. E-mail: sebauremadu@yahoo.com Tel: +234 – 8037876614.

local development, thereby improving public services and quality of life at the local level. It would therefore be instructive to learn about the role of such governments in developing countries like Nigeria (Shah and Shah, 2006). Hence, in a federal system like Nigeria, local governments are close to the people and as such they could effectively improve socio-economic and political well being of people within their jurisdictions (Mamman, 2006). Therefore apart from providing and maintaining basic infrastructure, local governments can compliment the economic activities of other levels of government. The activities of states and federal government can have a direct positive impact at the grassroots level, when they are carried out in conjunction with the local governments. The proper management and high sense of responsibility expected of local governments are requisites for them to facilitate creation of an environment to foster full realization of the innate spiritual, mental, emotional and physical potentials resident in the citizenry (Mamman, 2006). This becomes the underlying factor or rather the basis for assigning of specific development roles, by the constitution, to the local governments in Nigeria. However, this is not suggestive of the fact that before 1976, local governments have been contributing to economic growth and development. For instance, Ekpo and Ndebbio (1998) state that: between 1955 and 1965, local governments were responsible for an average of 12% of total public expenditures collected in Nigeria.

It should be noted that the number of local governments areas had risen steadily from 301 in 1976 to 774 as attained in the first schedule, part I of the constitution of the federal republic of Nigeria, 1999 (Mamman, 2006). This is quite a number, yet the clammour for creation of additional local government areas has not abated ever-since thereby stressing the perception of people on the importance of this tier of government to their economic growth and development. The issues of revenue sharing (allocation) and its management therefore, have become issues of concern to the generality of Nigerians right from time regional governments were granted internal autonomy by the Richard’s constitution of 1948. A number of fiscal commissions were subsequently established with the sole aim of arriving at an acceptable formula for the revenue allocation that satisfies majority of the arms of government: “federal, state and local”. Besides, several Decrees and/or Acts were promulgated to modify various revenue sharing formulae (Abubakar et al., 1997; Mamman, 2006). This study will review and assess revenue generation and its management in the local government system in Nigeria using the six local government area councils in the Federal Capital Territory of Nigeria, Abuja as the case study. Specifically, this paper will concentrate on re-examining the private sector and generation of tax income among these local governments in the Federal Capital of Nigeria (FCT), Abuja. Henceforth, FCT in this paper will represent the six (6) area councils of the FCT, Abuja. Public sector financial management is concerned with the acquisition and allocation of funds by government units (Mamman, 2006; Uremadu, 2000). In an attempt to secure the necessary funds for development efforts, governments globally (Nigeria inclusive) do levy different kinds of taxes on individual citizens as well as corporate bodies. Governments can as well borrow funds from different available sources in order to meet its responsibilities of general administration of the country and provisions of public utilities and social services (Ola and Offiong, 1999).

No matter the nature of the type of government a country practices, it is clear that government clearly identifies its sources of revenue and how to allocate mobilized funds to various expenditure centres and projects that will positively impact on the lives of its people (Shah and Shah, 2006; Ola and Offiong, 1999). Sources of government revenue contain elements of compulsion and voluntary. However, the major sources of revenue open to a local government include: 1) tax income; 2) administrative revenues (for example fees, licenses, fines, tax on profits of certain activities of the private sectors); 3) public debts or loans, and 4) Commercial revenues (or income from investments in municipal bonds and receipts from government business enterprises). As a matter of fact, taxes are part of the measures through which governments cause the public to pay for its services (Ola and Offiong, 1999). Taxes are compulsory payments levied by government on individuals and corporate bodies in the form of personal income tax, corporate income tax, excise duties, import duties, value added tax (VAT), and so forth. Direct taxes are compulsory in the sense that they are deducted at source, from the income of employees. In this case, tax evasion becomes impossible. Now, it has become a problem that every year billions of naira are lost due to tax evasion and avoidance by the self-employed people in Nigeria. Both the federal and state governments have previously applied various measures to checkmate this challenge, but all to no avail.

The question then being posed is why is tax evasion and avoidance rampant among the self-employed persons in Nigeria? This can be looked at or ascertained from the annual tax revenue generated or mobilized, over the years, from the self-employed people in the Federal Capital Territory of Nigeria, Abuja. Statistics have revealed that the amount of tax revenue generated over the years from the self- employed people (otherwise called the private sector) has been below expectations (Ndulue, 2005). The prevalence of tax evasion and avoidance especially among the self-employed people has forced some state governments to engage the services of tax contractors in a bid to generate the much needed income. This hardly yielded any appreciable fruits because of the nefarious activities of these contractors which are detrimental to the economy. This study will therefore aim at ascertaining the key causes of tax evasion and avoidance among the private sector persons otherwise labeled in this study as “the self-employed people” with a view to exploring ways of encouraging them to be tax compliant in order to boost government revenue at local government level. The expected impact may entail reviewing the tax laws, tax policies and tax administration in Nigeria. No doubt, if the self-employed people are made to pay tax, the tax income will significantly increase and this will invariably enable the three tiers of government (federal, state and local) to prosecute various economic, social and development programs targeted at improving the living standard of the Nigerian people.

This study will concentrate on review of literature and theoretical framework on which the work is premised. This will then be followed by research methodology which discusses the various methods employed in the operational execution of research, then discussion on research results and findings of the study. Summary of findings, proffers solutions to issues raised in the process of research concludes this paper.

LITERATURE REVIEW AND THEORETICAL/ CONCEPTUAL ISSUES

Here we shall discuss theoretical literature as well as explain conceptual framework underpinning tax and its administration by tiers of governments. We shall equally do a treatise of empirical evidence surrounding the work in hand.

Taxes and charges withdrawn from the private sector

Taxes and charges are withdrawn from the private sector without leaving the government with a liability to the payee. Borrowing involves a withdrawal made in return for the government promise to repay at a future and to pay interest in the interim for example government bonds, treasury bills, etc. Notably taxes are compulsory imposts whereas charges and borrowing involve voluntary transactions (Uremadu, 2000). Conceptually, a tax can be defined or seen as a non-penal-yet compulsory transfer of resources from the private to the public sector. This must be levied on the basis of predetermined criteria and without reference to specific benefits received. As a matter of fact, the need to increase government level of spending, to a great extent, determines her level of taxation. For example, the developmental plans used in most developing countries brought about an increase in government spending. It brought about the era of big government. When the budget for the development plans calls for more spending, the government can either increase taxes or increase debt financing in order to bridge the gap and when government goes into debt the only way it could pay back the debt includes: (i) print more money (that is, taxation through inflation; (ii) increase the nominal tax rate and or (iii) keep tax rate intact and hope for more tax revenues as a result of growth generated consequent upon debt financing (Uremadu, 2002). This scenario plays out mostly at the federal government level.

Finally, governments (local councils, states and federal) worldwide embark on taxation to achieve their main objectives or goals of: (i) raising of revenue to finance government expenditures and; (ii) influencing of activities in the economy (otherwise known as fiscal policy). In particular, local governments generate money through taxation and other sources in a bid to finance local government projects and programmes (called expenditures) and or influence developmental activities in the domestic economy.

Theoretical literature

Taxation or tax is most often used as a major instrument for revenue generation. Nonetheless, Naiyeju (1987) is of the opinion that the revenue role of taxation is still very relevant. The revenue function or objective of taxation is still vital in the sense that without mobilization of funds via savings or through taxation, government may find it difficult to execute most of its developmental programmes that can lead to economic growth and or wealth creation. It is clear that government expenditures via infrastructural establishment, road construction, energy and power generations, health facility, to mention just a few, lead to creation of an atmosphere conducive for capital formation (CF) and or gross domestic investment (GDI) which invariably will raise economic growth and development and eradicate poverty (Uremadu, 2008; Ogamba 2003; Dienning, 1981). Thus, taxation can be used as a principal tool for generating revenue for the government which it uses to prosecute various expenditure programs targeted at raising the living standard of its people. Government needs money to build schools and hospitals, to maintain law and order, to construct and maintain roads, and so forth. Through tax activities of government the required revenue or developmental funds could be raised, as a matter of fact. However, Akujobi (1988) has a contrary view. He states that this function of taxation, of late, can be questioned in that government has the power to create more money through deficit financing, however, mainly at federal government level, the monetary authorities can do this on behalf of the apex government. This arbitrary creation of money is deficit budgeting, according to Uremadu (2000).

The states and local authorities should not exercise such powers as such authorities have not been bestowed upon them in most modern states. Ndulue (2005) disagrees with the view that this function of taxation is not relevant as government can create money. If government resorts to printing money any time it needs funds, it will definitely spark off inflationary pressures on the financial system and this development may not be good for the economy. In a bid to control inflation, government should not always resort to printing money at will just for the sake of money creation, rather the required funds can be generated through taxation and or borrowing from the capital market and/or money markets through issues of municipal bonds (Uremadu, 2008; Okafor 1983). Operational process of taxation could as well be used to reduce excess liquidity in the economy (Uremadu, 2008). Other than using taxation as an instrument for revenue generation, tax can also be used to accomplish various economic and social objectives, as Rabiu (1981), rightly argues. According to him, government can use taxation as a weapon to accomplish some definite economic and objective goals such as influencing consumer demand, providing incentives for production of gross domestic investment (GDI) or capital formation in certain sectors of the economy, investment and savings. Buhari (1993) classifies objectives of taxation into four broad headings: revenue generation, income distribution, regulation and stabilization of the economy.

Hanson (1988), states the reasons for imposition of taxes as follows: payment for the cost of general administration, defence and social services, curtailing the consumption of harmful commodities, redistribution of labour and reduction in inequality of income. Harvey (1982) summarizes the purpose of taxation to include: payment for goods and services produced by the country, achieving equitable distribution of wealth and income, compensating social costs and benefits and regulation of the economy of the country. Economy should be regulated in order to develop strategic industries, to protect infant industries to move factors to reduce unemployment, to allocate resources and to encourage the growth of the national income (Ndulue, 2005). In fact, various economic and social objectives could be accomplished through tax as pointed out by these authors (Ndulue, 2005; Uremadu, 2000). According to them, tax can be used to stimulate economic growth, to encourage the consumption of certain goods, to redistribute wealth and income, to control inflation, depression and deflation, to protect new industries, to maintain a favourable balance of payment and to encourage rural-urban population drift. These objectives are geared towards economic growth and development and they are aimed at improving the welfare and living standard of the citizenry.

It should be well noted that a good tax system operates under a number of principles (Uremadu, 2000) or what Adam Smith in Ndulue (2005) called the cannons of taxation. According to him, a good tax system must be based on principles as thus explained.

Equity

Treatment of similarly situated tax payers or that people should pay tax according to their abilities to pay (Uremadu, 2000; Harvey, 1982; Musgrave and Musgrave, 1987).

Certainty

It stipulates that the time of payment, the manner of payment and the amount to be paid should be clear to the taxpayer as well as to the taxing authorities (Harvey, 1982; Uremadu, 2000). There exist two aspects of certainty in this perspective, that is: (i) certainty in amount to pay and (ii), certainty in collection Uremadu, 2006). In both counts most Nigerian governments at (federal, state and local) fail.

Convenience

This relates to mode of payment and the timing. This principle stipulates that the time and manner of payments should be convenience to the taxpayer. As a matter of fact, a tax system should be simple, easily assessed, and understood and be collected at minimal costs (Uremadu, 2000). PAYE tax system is one which is deducted at source, guarantees most of these requirements (Harvey, 1982).

Economy

According to Harvey (1982), the total costs of collection should be small when compared with the tax yield or amount realized from tax. Economical in this respect is seen in terms of costs or cost implications of the tax system adopted by the taxing body, authority or government in question. Hence, the compliance costs to the tax payers and the administrative costs to the government negatively affect national output of taxes collected (Uremadu, 2000).

Simplicity

This is usually a good tax system should be very simple and not be complex. It should be simple and well understood by both the tax payers and tax administrators alike. It should as well be easily administered. Ndulue (2005) is of the view that:

"Nigerian tax system does not satisfy this requirement. The Nigerian tax system is very complex. It is not simple and easily understood by both the tax payers and tax administrators. The "tax" laws are complex and are not easily understood by tax payers. The tax administration is also complex despite the introduction of the self-assessment scheme and the new payment system".

Table 1. Regular payment of tax (as and when due).

Option	Responses	Percentage responses (%)
Yes	80	41
No	89	46
Not at all	22	11
Did not answer	4	2
Total	195	100

Source: Field survey as adapted from Ndulue (2005).

Productivity and sufficiency

This stipulates that a tax tool has to be able to produce large amount of revenue. For example, U.S. income tax and Nigeria's value added tax (VAT) are two different tax systems which have yielded huge revenue to government in recent times (Uremadu, 2000).

Effect on the economy

This considers redistributive measures or functions of tax in executing a fiscal policy. A good tax system should be capable of being used to achieve economic objectives. The economic objectives can be to control inflation, to encourage savings and investment, to curtail consumption of goods, etc. The essence of economic objectives is to improve the standard of living of the people and this is being anchored through sustained economic growth and development (Ndulue, 2005). In summary, a good tax system should meet the requirements of equity, efficiency; facilitate the use of fiscal policy for stabilization, allocation and promotion of economic growth (Uremadu, 2000). The Nigerian tax system is expected to possess all these features in order to operate effectively and efficiently (Ndulue, 2005).

This discussion is relevant to the topic. However the topic seeks to discuss tax revenue generation at local government level and not national level. As such this literature review is hanging in that, it does not go down to discussion of taxation at local level, yet a lot has been written. This paper needs to fulfill the objective of what taxation at local government also entertains and the rationale thereto!

RESEARCH METHODOLOGY

We adopted and adapted Ndulue (2005) method of analysis which included use of questionnaires and simple percentages to analyze data obtained through questionnaire administration and personal interviews; and use of confidence interval to estimate proportion of population of study. Fundamental analysis method was used to execute theoretical framework analysis of the relevant issues of research from the angle of literature review. We made use of data collated by Ndulue (2005) from the Federal Capital Territory (FCT) Area Councils of Nigeria, Abuja to carry out our general analysis, in the study. Justification for use of data is hinged on the fact that FCT is microcosm of Nigeria or a mini Nigeria. It then reveals behaviours of the Nigerian people to tax compliance and (or administration at local government level).

Research execution

In all, there were two sets of questionnaires; the first set was distributed to the self-employed people in the FCT, Abuja, while the second set was distributed to the employees of the federal inland revenue services (FIRS), Abuja Area Tax Offices (Ndulue, 2005). Five hundred questionnaires were distributed to the self-employed people in the FCT, Abuja. The number of responses received was one hundred and ninety-five (195). The number of questionnaires distributed to the employees of the Federal Inland Revenue Services (FIRS), Abuja Area Tax Office was thirty (30). The number of responses received was twenty two (22). The methods of analysis employed as earlier stated were simple percentages and the confidence interval method and fundamental analysis of the basic issues of research.

ANALYSES OF RESULTS AND DISCUSSION ON FINDINGS

Regular payment of tax (as and when due)

The private sector or the self- employed in FCT, Abuja were asked: whether they pay their tax regularly or not? The responses to this question are displayed in Table 1.

From Table 1, results show that 46% of the respondents admitted that they did not pay their tax regularly while 11% admitted that they did not pay tax at all. When this figure is added to 46% a total of 57% (84 people) of the respondents means that 84 out of 195 people in our sample evade and avoid tax. This is very significant. We can then conclude that majority of the self-employed people in the FCT, Abuja do always evade and avoid tax. On the contrary, 41% (80) of the respondents revealed that they paid tax regularly (as and when due) while only 2% (4) of the respondents did not answer the question. It is then established that less than half of the sample or the self-employed people of the FCT, did not care to pay their tax as and when due. Then it means that the tax system is either not adequate or the enforcement machinery has some challenges. However, that is by the way for the time being. The study will then estimate the population proportion of all the self

Table 2. Prevalence of tax evasion and avoidance.

Option	Response from FIRS, Abuja area office	Percentage response (%)
Yes	22	100
No	0	0
Total	22	100

Source: Field survey adapted from Ndulue (2005).

employed people in FCT (as representative sample) who evade and avoid tax in the following study.

Evaluation of the population proportion of all the self-employed people who evade and avoid tax in FCT, using confidence interval technique

We will now estimate the confidence interval of the population proportion of the self- employed people who evade and avoid tax in the FCT using the sample data collated by Ndulue (2005). The C. I. is thus estimated as follows:

i) The confidence coefficient 1 = 0.90

ii) Critical values that correspond to the coefficient are Z/2 = + 1.645.

The sample size (n) = 195.

Therefore sample proportion (E) = $\frac{111}{159}$ = 0.57

Then, the population proportion (p) is unknown and it is to be estimated using sample proportion (p).

Therefore, the estimated standard error of the proportion is:

$$S_P = \sqrt{\frac{\bar{p}.\,(1-\bar{p})}{n}}$$

$$= 0.57\sqrt{\frac{(1 - 0.57)}{195}}$$

$$= \sqrt{\frac{0.57 - (0.43)}{195}}$$

= 0.035.

Substituting in the formula, we have:

$\overline{P}[Z\,\alpha/2S_{p} < p > p \mp Z\alpha/2\,S\bar{p}$

iii) Then, the 90% confidence interval is:

0.57 - 1.645 (0.035) <P<0.57 + 1.645 (0.035)

iv) Simplified as follows: 0.51<p<0.63.

Hence, this affirms the conclusion of our study that the self-employed people evade and avoid tax since there exists 90% confidence interval for the population proportion of all the self-employed people in the FCT, Abuja who evade and avoid tax represented as 0.51<p<0.63. Besides, the employees of the FIRS, Abuja Area Tax Office agreed that there exists prevalence of tax evasion and avoidance among the self-employed people of FCT, Abuja. Their responses are portrayed in Table 2.

As observed from Table 2, response rate was a total of 100% on the affirmative from all the respondents of FIRS that there exists prevalence of tax evasion and avoidance among the self-employed people in the FCT, Abuja.

Regularity or frequency of tax payment

How often do you pay your tax? This question was posed to those respondents (46%) who indicated that they do not pay tax regularly as and when due to indicate how often they pat tax? Their responses are relayed in Table 3.

From Table 3, it is glaring that only 33% (29 people) of the respondents paid their tax every two years and 8% of them (7 people), only paid tax every three years. Another 33% (29 people) paid tax any time they want to get something from government, and 26% (24 people) did not answer the question. The entire picture of the results of this analysis is not satisfactory. It reveals the degree of tax evasion and avoidance among the self-employed people in FCT. It is never good for an emerging market like Nigeria. Ndulue (2005) enumerated reasons respondents gave why they evade and avoid tax as: i) high personal income tax rates; ii) high compliance costs; iii) complexity of tax assessment and collection procedures; iv) lack of adequate tax incentives; v) inadequate tax-payer education; and the way government spends tax revenue; vi) economic recession which adversely affects business organizations; vii) penalties for tax evasion are not severe and ix) lack of proper law enforcement machinery

Table 3. How often do you pay your tax?

Responses of the self-employed people in FCT, Abuja	Number of people	Percentage responses (%)
Every two years	29	33
Every three years	7	8
Anytime you want to get something from government	29	33
Did not answer the question	24	26
Total	89	100

Source: Field survey adapted from Ndulue (2005).

Table 4. Tax revenue from the self employed people, FCT, Abuja (1996 to 1999).

Year	Tax revenue from self-employed people (₦)
1996	582,921.34
1997	648, 537. 41
1998	1,512,335.87
1999	1,367,930.62
Total	4,111,725.24

Source: FIRS, Abuja area tax office (Ndulue, 2005).

to prosecute evaders and so on.

Trend analysis of tax revenue generated from the self-employed people, FCT, Abuja, 1996 to 1999

The tax revenue generated from the self employed people in the FCT, Abuja, from 1996 to 1999 is displayed in Table 4.

As seen from Table 4, the total amount of tax generated from the self-employed people in FCT, Abuja from 1996 to 1999 exhibited a gently rising trend up to 1998 but it is an insignificant trend and then nose-dived in 1999. The amount associated with each year over, the period covered are: ₦582, 921.34, for ₦648, 537.41; ₦1,512, 335.87 and ₦1,367, 930.62 for 1996, 1997, 1998 and 1999, respectively. Total amount of tax revenue generated totaled ₦4, 111, 725.24. This is so small an amount when compared with the number of the self-employed people in the federal territory. The results go to show the adverse impact of tax evasion and avoidance by the self-employed on the FCT, Abuja. Ndulue (2005) study reveals that the quantum of tax revenue expected to be generated each year from the self-employed people should be over ₦1 billion p.a. This revelation shows that huge sums of money are lost by government as a result of the activities of tax evaders and avoidance among the people of Nigeria.

Comparison of tax revenue mobilized from self-employed people, the employees and withholding tax in FCT, Abuja (1996 to 1999)

Tables 4 and 5 demonstrate a comparative outlook of tax revenue generated from the self-employed people; the employees and withholding tax in the FCT, Abuja from 1996 to 1999.

From Table 5 it can be vividly seen that the tax revenue generated from the self- employed people in FCT, Abuja yearly is very small when compared with the tax revenue mobilized from the employees and or from withholding tax revenue. Besides, the total amount of tax revenue ₦4, 111, 725.24 generated from the self-employed people for the four year period (1996 to 1999) is still very small compared with either ₦650,669,502.37 collected from the PAYE people or ₦1,655,775,908.70 generated from withholding tax during the period (Ndulue, 2005). From the foregoing comparative evaluation of the issues of research, over the years, we can deduce that enough tax revenue has not been mobilized from the private sector people of FCT, Abuja. It goes to confirm what a negative impact tax evasion and avoidance could have on the revenue mobilization ability of the local governments in Nigeria generally since our sample data in this scientific survey of FCT tax revenue is a representativeness of the entire 774 local governments in Nigeria (Ola and Offiong, 1999). It is still possible that adequate tax revenue could be generated from the private sector people if only they are made to be aware of the purpose of tax and are made tax compliant by the enabling laws and institutions of government through effective tax administration.

SUMMARY OF FINDINGS/ RECOMMENDATIONS

Now, we state that recommendations are subsequently or simultaneously made along with stated specific findings of research:

1. The most outstanding findings from the study, that is

Table 5. A comparative analysis of tax revenue collected from self-employed people, the employees and withholding tax, FCT, Abuja, 1996 to 1999.

Year	Tax revenue from self-employed people (₦ ,000)	Tax revenue from employees (PAYE) (₦ ,000)	Tax revenue from withholding tax (₦ ,000)
1996	582,921.34	87,2000,215.98	163,722,229.00
1997	648,537.41	140,150,270.00	346,539,342.40
1998	1,512,335.87	182,982,135.90	520,417,544.30
1999	1,367,930.62	240,336,871.49	625,096,793.00
Total	4,111,725.24	650,669,502.37	1,655,775,908.70

Source: FIRS, Abuja tax office (Ndulue, 2005).

very astonishing too, is that majority of the self-employed people interviewed personally or through the use of questionnaires agreed that they evade and avoid tax. This refers to those that do not pay their taxes and those who evade tax. This is a startling discovery, more so, when those interviewed were forthrightly in their responses and they answered specific questions put to them correctly, to the best of their ability. According to Ndulue (2005), they were candid in their answers because most of them believed that the research is for academic purposes. Aweni (1999) deplores this situation; and he lamented that it is unfortunate that so many Nigerians evade and avoid personal income tax for unjustifiable reasons, most especially, in the Northern and Western part of Nigeria, and he attributed this to the failure of tax administration and/or inadequate enforcement machinery (Akujobi, 1988; Naieju, 1997; Uremadu, 2000; Abubakar and Adamu, 1997; Mamman, 2006). We therefore recommend that the self-employed people should be encouraged not to evade and avoid tax payment unnecessarily through proper tax education, effective enforcement and other incentives to motivate them pay their taxes, rather than being discouraged from paying tax to local government to enable it provide relevant services to the citizenry. Presently, government uses religious leaders to persuade the citizenry on the need to pay tax(es) (Nigeria for advert to the public on need to pay taxes, 2008, 2009).

2. Another finding of this research is that the tax officers also agreed that the tax evasion and avoidance by the self-employed people adversely affect the revenue base of the Federal Government of Nigeria (Ndulue, 2005). This could equally be seen from the amount of tax revenue mobilized from the self -employed by the FIRS, Abuja Tax office (Table 5). As a matter of fact, the total amount of tax generated from the self-employed for the five years running is so small and insignificant a figure that it almost made no sense at all comparing it with the amount generated from either the employees (PAYE system) or from the withholding tax category, for the same period reviewed. If the self-employed or the unorganized private sector people are made to pay their tax, the tax revenue generated in the local councils FCT, Abuja and by extension, to 774 local governments of the federation, will definitely and significantly rise or improve, most significantly. We, additionally, recommend that all efforts be put on deck to effectively and efficiently administer tax at local council levels using the best approaches to revenue mobilization that is applicable worldwide.

3. Also, the study established that tax evasion and avoidance by the self-employed people otherwise known as the unorganized private sector could be attributed to a number of factors. These are serious factors, which act jointly and severally to make these private persons evade and avoid (Ndulue, 2005). He specifically (and not in their order of importance) outlined them to include: (i) high rates of personal income tax; (ii) high costs of compliance; (iii) inadequate tax incentives; (iv) inadequate taxpayer education; (v) non severity of tax penalties; (vi)ambiguous tax laws; (vii) cumbersome tax assessment and collection procedures; (viii) ignorance and illiteracy, (ix) non-identification of the tax payers; (x) ineffective tax policies and corruption among tax administrators. These are factors which, jointly and severally, responsible for massive tax evasion and avoidance by the grassroots people of Nigeria who are mostly self-employed (these include market women and men and traders of all categories that spread all through our urban cities and local council areas who hardly pay their tax but they would want government to provide social and economic amenities), what a travesty of faith? It then means that the joint tax board (JTB) and the federal board of internal revenue service (FIRS) have a lot in their hands to do in a bid to reverse some of these teething challenges to effective and efficient personal income tax mobilization in Nigeria. Watoseninyi (1996) sums it all when he declares that “our tax management is not effective. Actually, our tax system does not meet some of the principles of a good tax system which have been pointed out, over the years by previous studies; the principles are simplicity, convenience and certainty”. We cannot say the less of what he had said!

4. The study found the self-employed people indicating that reducing the personal income tax rates, simplifying the tax assessment and collection procedures and provision of adequate tax incentives will encourage them to pay their taxes voluntarily, as and when due.

Table 6. Proposed personal income tax rates. current (old) personal income tax rate (1999).

Taxable income (₦ ,000,000)	Proposed tax rate (%)	Taxable income(₦ ,000)	Current (old) tax rate (%)
First 20,000	2.5	First 20,000	5.0
Next 20,000	5.0	Next 20,000	10.0
Next 40,000	7.5	Next 40,000	15.0
Next 40,000	10.0	Next 40,000	20.0
Over 120,000	12.5	Over 120,000	25.0

Source: Nigerian income tax laws modified from Ndulue (2005).

Furthermore, other things they stated that will make them pay tax are: proper enlightenment, introduction of installment payment of tax and making tax evasion a criminal offence (Ndulue, 2005). The study also discovered that some people were complaining that they are not benefiting from the tax they pay to government. This development calls to question the government expenditure pattern. We thus recommend that various tiers of government (including the local government) should review their expenditures on amenities that will touch on the lives of the people. Such amenities include pipe-borne water, electricity, roads, hospitals, good governance and so forth.

5. The study discovered that most self-employed people did not keep proper accounting records. Most of them do not even prepare the annual financial statements of their businesses; needless to engage the services of external auditors to audit their accounts or records. All these challenges go a long way to make assessment and collection procedures difficult and cumbersome. We therefore recommend that private sector individuals and their business should be enlightened on the need for them to keep records of their various income and expenditures as this practice will enable them imbibe principles of personal financial management and apply principle of effective corperate financial management as the case may be (Uremadu, 2000).

6. Finally, the study found something discouraging from the point of view of human capital development at the local government. It was discovered that the employees of the FIRS, Abuja Area Tax Office, have not been properly motivated and remunerated.

We recommend that government should seriously look into the human capital development aspect of its workforce in a bid to make them good tax administrators. On this, the workers themselves suggest various ways of improving their condition of services and /or remuneration as follows: (i) engage in regular training which involves the establishment of Tax Academy to train officers and tax administrators; (ii) provision of operational tools; (iii) regular promotion and reward for excellence; (iv) special salary scale; (v) provision of enabling environment and laws; (vi) provision of adequate monetary incentives in respect of allowances such as housing allowance, transport allowance, etc; (vii) free medical facilities, and (viii) establishment of insurance scheme against hazards and so on. These are various ways of motivating the tax officers and administrators towards enhancing their performance rating and or achieving a high level of efficiency (Ndulue, 2005).

CONCLUDING REMARKS

In concluding this paper, we state that to revive the Nigerian tax system, a tripartite approach is recommended and this is in relation to the three taxation processes of the tax policies, the tax laws and the tax administration. These taxation processes should be adequately reviewed in the times to enable them meet the exigencies of the moment. The tax laws should be written in plain language, well co-coordinated and précised. The study agrees completely with Ale (1997) that the tax policies must be consistent; that policies somersault scares away the investors (both local and foreign) since it is a proof of inconsistency generally. Some of these policies should be reviewed with the sole aim of making them consistent. For instance, our personal income tax rates should be drastically reduced in a bid to achieve the bjectives of the policy of low tax regime which is to encourage savings (mobilization) and investment by reducing the tax burden on the citizenry. To this end, the study is calling for the reduction of the highest marginal rate of all personal income tax from 25 to 12.5% as well as reduction of the rate of tax applicable to the lowest payer from 5 to 2.5% (Ndulue, 2005). In line with these reductions, we propose the following rates of personal income tax which has been simultaneously compared along side in a tabular format with the current old rates (Ndulue, 2005) thus:

As it has been observed from the Table 6, it is expected that these drastic reductions in the personal income tax rates will encourage voluntary tax compliance most especially, among the self-employed people of Nigeria, thereby it is expected to lead to significant increases in tax yield.

Kueweumi (1996) supports this line of thinking when he called for the reduction in the Nigerian personal income tax rates as it will be the greatest incentives that the

Federal Government of Nigeria can offer to its people. May it be so! These are our convictions in calling for the review of the Nigerian income Tax laws in the 21st century world economy and public sector governance.

REFERENCES

Abubakar H, Odama JS, Adamu H (1997). Evaluation of Revenue Power of Three. Tiers of Government in Nigeria. Zaria: ABUCONS Nigeria Ltd.,

Akujobi A (1988). "Personal Income Tax Pitfalls: A Need for Tax Reform in Nigeria". NASMET – J. Manage. Edu. Train., 3: 1.

Ale BE (1999). "Taxation as a Tool to Stimulate Inflow of Foreign Investment". Paper presented at the Annual Conference of Chartered Institute of Taxation of Nigeria, May 13, 1999, Sheraton Hotels and Towers, FCT, Abuja.

Buhari AL (1993). Public Finance. Ilorin: University of Ilorin Press Ltd, University of Ilorin.

Dunning JH (1981). "Explaining the International Direct Investment Position of Countries: Towards a Dynamic or Developmental Approach". Wiltwirt – Schaftlishes Arch., 117(1981): 30-64.

Ekpo ME, Ndebbio JE (1998). "Local Government Fiscal Operations in Nigeria". AERC Research Paper 73, African Economic Research Consortiums, Kenya, Nairobi (March 1998).

Hanson JL (1975). A Textbook of Economics, 6 (Ed). London:

Harvey J (1982). Elementary Economics, 5th (Ed.) London: MacDonald and Evans Ltd.,

Kuewunmi M (1996). "A Critique of Tax Incentives". Nigerian Tax News, 11: 1 (April 1996).

Mamman S (2006). "An Appraisal of Revenue Management in Katsina State Local Governments". Bayero Bus. Rev., 1(3): 38-46.

Naiyeju JK.(1997). "Critical Issues in Taxation and Tax Management in Nigeria", (April-June 1997). Niger. Tax News, 111: 2.

Ndulue JC (2005). "The Private Sector and Generation of Tax Revenue in the FCT, Abuja, (January 2005). Abuja J. Adm. Manage., 4(1): 186-205.

Ogamba EN (2003), "The Impact of Globalization on Foreign Capital flow in Nigeria "An Unpublished Ph.D These submitted to the Dept. of Banking and Finance, FBA, UNN, Enugu Campus, Enugu State.

Ola ROF, Offing OJ (1999). Public Finan. Manage. in Nigeria, Lagos, Amfitop Books Ltd.,

Rabiu BB (1981). Personal Income Tax in Nigeria: Procedures and Problems. Ikeja, Lagos: John West Publications Ltd.,

Shah A. Shah S (2006). The New Vision of Local Government Local Government and the Evolving Roles of Local Governments" in the Public Sector Governance and Accountability series edited by Anwar Shah (2006): Washington D.C. The World Bank

Uremadu SO (2000). Modern Public Finance: Theory and Practice. Benin: Mindex Publishing Company ltd.,

Uremadu SO (2008a). "The Impact of Foreign Private Investment (FPI) on Capital Formation in Nigeria, 1980-2004: An Empirical Analysis". Accepted for Publication in the Lagos J. Banking, Finan. Econ., Dept of Finance, University of Lagos,

Uremadu SO (2008b). "Determinant of Financial System Liquidity (1980-2005): Evidence from Nigeria". Accepted for Publication in MRL- J., 2(3) (April-June 2008), Lagos State University, Ojo, Lagos.

Uremadu SO (2008c). "Domestic Money Markets in Nigeria: Implications for Liquidity and Profitability" Accepted for publications in the Conference Proceeding e-book under US ISBN as a book chapter (double peer reviewed),

Watoseninyi AB (1996). "Tax Management in Nigeria: How Effective? (June –July 1996). Nat. Account. J., 6(5): 41-42.