Tax Administration and the Crisis of Public Infrastructure Provision: Towards a Public Interest-Oriented Tax Policy Regime in Nigeria

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Abstract
As a compulsory payment exacted from the people for government use, tax proceeds are expected to manifest basic social values for the citizens as well as representative as possible. The Nigerian context depicts infinitesimal applicability of tax revenue to the provision of social services in Nigeria. This performance crisis manifests in the absence of basic infrastructure, the tendency to evade tax payment and the impoverishment of the Nigerian people. The paper therefore, addresses fundamentally the implication of non-applicability of tax revenue to manifest social welfare concerns of citizens to show why tax evasion is common in Nigeria. It assumes frankly that fiscal administrators have deliberately lost track of the primary mission of taxation owing largely to personal interest, evidenced in corrupt practices. Obviously, we need therefore, to realign taxation to its primary objective. The starting point, the paper suggests, is the evolution of tax policy regime that is humanistic and grossly oriented towards providing social infrastructure for public benefit in Nigeria.

Keywords: Tax policy, public interest, public infrastructure

Introduction
In the history of modern political systems the world over, provision of essential social services has never been the sole sponsorship of government. As government harnesses the resources of state, (both human and material) it does so with the primary aim of providing social services and amenities for the enhancement of the citizens’ welfare. Such services and utilities are provided through government expenditure. Expenditure however, depends on the level of income available to government. Governments in Africa and especially in Nigeria often complain of limited income hence they advocate the provision of adequate social services through the joint effort of the government and the citizens. What is therefore, common is the emphasis on the payment of taxes by the citizens to ensure uninterrupted provision of social amenities among others.

The Nigerian tax system comprises of at least 39 taxes, levies and fees, including 8 Federal, 11 State and 20 Local Government taxes and levies as specified in the Taxes and Levies (Approved List for Collection) Decree No. 21, of 1998 (www.isbr.org). The issue of taxation therefore, is common knowledge to Nigerians from the colonial period. People are sometimes cajoled and in other times harassed to pay taxes of all sorts to governments for such reasons as the provision of pipe borne water, electricity, good roads, hospitals, better educations and other basic social needs of the people. They are not far from it. This is because ideally, funds provided through taxation have been used by states and their functional equivalents through history to carry out many activities which include among others expenditures on public order, economic infrastructure such as roads, enforcement of contracts, etc, public works and social engineering. In modern states, most governments rely also on tax revenue to fund social welfare and public services such as education, healthcare unemployment benefits, neighbourhood security and public transportation, etc.

The aim of this study is to show why tax evasion is common in Nigeria. The critical questions are; to what extent does government use tax revenue to fund social amenities in Nigeria? In practical terms, could it be averred that the enormity of taxes exacted is commensurate with social services provided in Nigeria? Is adequate security provided for the businesses of those who pay tax dutifully and painstakingly? They paper attempts to provide answers to these questions. It is the assumption of the paper that tax is criminal in Nigeria. This assumption leans on the conviction that tax revenue does not correspondingly reflect on the social utility and infrastructure facility in Nigeria. It is held that fiscal administration in Nigeria shows limited concern on applying taxes collected to providing adequate social amenities. Therefore, it is projected unequivocally that the level of social services in Nigeria does not justify government collection of taxes.

Literature Review

Conceptual Issues
Government resources and expenditure are mobilized and financed respectively from two main sources namely tax and non-tax varieties. Tax, according to Agiobenebo, Onuchuku, and Ajie (2000, p.507) is a “compulsory levy imposed by governments on the adult and institutional residents of a country”. The definition aligns sharply with Anyanwu (1997) view that taxation is a compulsory payment of money from private individuals,
eleven goods and services and hence paid for only indirectly. In this case, the taxes are passed on to another. Harvey (1981) puts it as a form of tax where the revenue authority collects it from the seller, who, as far as possible, passes the burden on to the consumer by including the duty in the final selling price of the good. Such indirect taxes may be specific, i.e. a fixed sum levied irrespective of the value of the good, or ad valore. They are imposed by the government on individuals and business organizations and paid by them to the government.

From the definitions, examined above, the factor of compulsion is established as an instrument of taxation. In other words, it is as Agiobenebo, Onuchuku and Ajie (2000, p.507) observed obligatory to which sanctions are attached for defaults and evasion. It is vehemently obligatory, because it is the most important institutional instrument for government acquisition of resources for financing the discharge of its responsibilities. In other words, taxes in modern times is a pecuniary burden laid upon individuals or property to support the government. In this case, it is not a voluntary payment neither is it a donation, but an enforced payment authorized by law. Failure to comply with tax regulations attracts heavy sanctions.

Taxes come in different names, they include, toll, tribute, impost, custom, excise, etc and are commonly classified into direct and indirect taxes. The distinction between this two depends on who pays the tax. Direct tax involves taxes collected from those persons clearly imposed. In this case the person on whom this tax is levied pays it directly. Usually, each individual’s tax liability is assessed separately. Example include income tax paid by the person who earns the income, corporation tax which involves all profits whether distributed or not, capital gains tax levied on any capital gain when an asset is disposed of. Others include Stamp duty payable on financial contract, motor vehicle duties, petroleum revenue tax, and development land tax. Local rates, levied by local government councils also constitute direct tax. The merit of Direct tax lies in its progressive approach and style of assessment which is based on individual circumstances. On the other hand, indirect taxes are taxes levied on goods and services and hence paid for only indirectly. In this case, the taxes are passed on to another. Harvey (1981) puts it as a form of tax where the revenue authority collects it from the seller, who, as far as possible, passes the burden on to the consumer by including the duty in the final selling price of the good. Such indirect taxes may be specific, i.e. a fixed sum levied irrespective of the value of the good, or ad valore. They are imposed by the government on individuals and business organizations and paid by them to the government.

A good tax regime is predicated on sound fiscal principles. Brown and Jackson (1978) hold the view that taxes are supposed to be fair. Their concept of fairness is couched in equity which they split into vertical and horizontal. Horizontal equity means that people with equivalent circumstances should be treated fairly, while vertical equity is concerned with fairness between people with differing circumstance. The circumstances here as noted by them include income (a flow) and wealth (a stock). In this case, horizontal equity refers to the fairness between persons with the same income and wealth, while vertical equity is taken generally to mean that those with large amounts of income and/or wealth should pay more tax than those with less income and or wealth. This factor explains the equity principle of taxation which holds that those with similar tax condition should be levied the same.

Other principles include the simplicity of taxation which suggests that everything about the tax should be simple enough to allow the affected persons to understand them. A good tax system does not encourage ambiguity. Also taxes should be designed to minimize if not exclude harmful distortions caused by the tax itself. This is what is often referred to as tax neutrality suggesting, as captured by Agiobenebo, Onuchuku, and Ajie (2000) the absence of biases or distortions in the allocation of resources arising from the use of taxes. They argued further that a tax should be designed in such a way as not to alter the market decisions of either utility maximizing consumer and/or profit motivated producers. Again, there is the economy of taxation which averts that the cost of collecting taxes by both government and the taxpayer should be as low as possible. In essence a good tax system must be efficient. The amount of money and energy put in collecting taxes should be less than the amount of taxes collected i.e. input should be less than output. The tax system must also conform to certainty. Ajibola (2005) opines that the tax payer should know when his tax is due for payment and how much he is supposed to pay. This principle is largely applicable in developed societies of the world. It eludes Nigeria conspicuously except for workers who know that at the end of the month, their salaries are taxed. The high level of illiteracy among most taxpayers and the tendency of corruption among tax collectors do not make this principle largely applicable. At anytime some criminal tax collectors are broke, they close up on illiterate taxable adults intimidating them with all sorts of fake new taxes. Resistance usually attracts harassments and illegal detentions.

The amount of tax collected depends largely on the tax base and / or the tax rate. Tax base refers to the object upon which a tax is levied. Put differently, it is the legal description of an object with reference to which tax applies. For instance, the base of an excise duty is the production or packaging and/or processing of a commodity while that of an income tax is the income of the taxpayer so defined in terms of certain laid down rules for this purpose (Anyanwu, 1997 and Ajibola, 2005). A tax base must be quantifiable to ease the
determination of the amount of tax to be paid by an individual. The tax rate refers to the amount of tax levied on a unit of the base. It is often expressed in percentages. Anyanwu (1997) expresses it in the following formula:

\[ B \times R = t \text{ and } R = \frac{T}{B} \]

Where
- \( R \) represents the rate
- \( B \) represents the base
- \( T \) represents the amount

The rate structure can be progressive, proportional or regressive. It is progressive when the tax rate increases with increase in the tax base. It is proportional when the tax rate remains constant as the tax base increases. In other words, it refers to a scenario where the ratio of tax rate to income remains constant when moving up the income scale. Regressive tax occurs when tax rate decreases as the base increases.

**Empirics**

The Nigerian legal system allows the exaction of taxes from its citizens by the three tiers of government (Federal, state and local) within clearly specified sphere of fiscal authority. What is however common is the centralized form of revenue collection recognized by the same law with the federal government collecting the major revenue points on the behalf of the lower level governments. Revenues such as petroleum tax, company income tax, customs and excise duties, royalties, profit tax, crude oil sales and value added tax (VAT) are collected by the federal government for both the state and local governments.

The rising relevance of tax revenue to financing public expenditure underscores its importance in the economic policies of advanced capitalist countries. Sanni (2007) aligns with this notion by describing tax as an instrument of social engineering necessary for the stimulation of general and special economic growth. Tax occupies significant position in public expenditure financing. Governments occasionally carry out tax reviews to strengthen its revenue base to fund public programmes. Fossati (1994) has argued that increase in income tax rate have occurred due to the urgent need for dynamic public expenditure.

Different schools of thought exist on the utility of tax to national development. Very intriguing is the modern school which argues that when marginal tax rate is high there will be a corresponding greater economic development. Siegmond (2003) opines that when taxes are increased and the proceed invested in education and infrastructure, there will be likely increase in economic growth. John and Pamela (2003) studying expenditure categories and tax rates discovered that long term economic growth is inextricably tied to the country’s tax policy.

Worlu and Emeka (2012) had also studied the effect of tax revenue on economic development of Nigeria from a macroeconomic perspective and discovered that tax revenue stimulates economic growth through infrastructural development. This result suggests that the more government invest tax revenue on infrastructural development the likelihood of greater economic growth.

The global recognition of tax revenue as a precursor to economic development via infrastructure occupies the central thinking of major international regimes. The IMF (1994) for instance has advised after a study of developing countries’ revenue profile that “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. . . .”

“Revenue from taxation is a veritable and major source of fiscal strength for governments all over the world. In advanced economies, tax revenues form a critical component of inflows for governments to pursue sustainable economic planning, growth and development. Nigeria’s tax/GDP ratio post GDP-rebasing stood at 8 per cent in 2013 compared with what obtains in developed economies which is an average of about 40 per cent, except for the United States of America which is about 27 per cent” (Businessnews, 2015).

Tax rate and development has been seen differently by the opposing school of thought. The central thinking of this school is that tax increment does not correspondingly lead to greater economic development. The more government spends the likelihood of higher taxes needed to finance it and this likely culminates in lower economic growth in low income societies Dragos (2013) study of Governmental Expense, Tax Revenue and Total Tax Rate Effects on GDP in Global Economic Crisis: An Econometric Cross Sectional Approach found out that tax revenue did not relate with GDP growth rate within the period under study. In the same vein, the study by Bonu and pedro (2009) on the impact of income tax rates on the economic development of Botswana discovered that low income tax rate boosted the economic growth of Botswana.

The behaviour of collectible taxes to developments has also been examined by scholars. Owolabi and Okwu (2011) examined the contribution of Value Added Tax to Development of Lagos State Economy. The results indicated that revenue from VAT was positively contributory to the development of the economic sector but with greater significance in the agricultural sector. Its impact on infrastructural development was not statistically significant. Again, in studying the impact of value added tax (VAT) on economic and human
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Developments of emerging Nations from 2001 to 2009, Unegbu and Irefin (2011) discovered that within the period under study VAT allocations had a significant impact on expenditure pattern of the states studied.


Theoretical Framework

Several theories have been postulated to explain the concept of taxation. They largely employ the concept of utility to explain the necessity of tax. One of such theories is the sacrifice theory of taxation which is divided for clear understanding as follows:

- Equal absolute sacrifice
- Equal proportional sacrifice
- Equal marginal sacrifice or least aggregate sacrifice

The equal absolute sacrifice holds that every taxable adult should be committed to paying taxes. In other words, there should be no selective collection of taxes. Some should not be exempted while others pay. The argument beliefs that everybody should contribute to national revenue, and as they do this, they enjoy some level of utility for paying taxes. In essence, citizens are to pay for the same amount of utility through taxes. The equal proportional sacrifice asserts that tax payment should be on the basis of the proportion of satisfaction from the pre-tax income in each case (Ajibola, 2005:156). The equal marginal sacrifice or the least aggregate sacrifice theory avers that the collective sacrifice a community makes by paying tax should be the least possible. What this suggests is that taxation should be limited as much as possible to high-income earners while exempting the very low income ones. By this, the aggregate sacrifice of such a tax-paying community would be less.

The sacrifice theory extols the need for citizens to sacrifice a portion of his income to national revenue building as they draw utility for such levy. The state on the other hand is to exercise some leniency in drawing up its taxable population so that the economically weak would not suffer deprivation as a result of taxation. The theory further assumes that utility is measurable as such takes into consideration inter-personal comparison of tax-payer’s utilities before drawing tax rate. The proponents include Shapiro (1968), Piston (1970) and Froyen (1971).

Another theory is the optimal taxation theory. This theory advocates the structuring of taxes to give the least deadweight loss, or to give the best outcomes in terms of social welfare. The central thesis of this theory is designing tax to increase social welfare of the citizenry.

The theory explains that taxation is meant to produce high satisfaction. Taxes with limited benefits both to government and the tax payers carry excess burden. Excess burden of taxation which is also known as distortionary cost or deadweight loss of taxation, is the economic loss society suffers as the result of a tax, over and above the revenue it collects. Distortions occur when people change their behaviour in order to reduce the amount of tax they pay or do not pay at all. This behaviour occurs when tax payers discover that they gain nothing in terms of social services from the taxes they pay. The economic benefit foregone by paying taxes, without a corresponding provision of social amenities, amount to deadweight loss. Such taxes do not give the best outcome in terms of social welfare. The proponents of this theory include Ramsey (1967), Mirrelee (1968), Hicks (1973) and Marshall (1975).

SOCIO-POLITICAL THEORY: Social and political objectives should underlie the rationale for exacting taxes from the citizens. Taxes are therefore not designed to serve the interest of individuals (in these case government functionaries) but should be directed at servicing public needs

BENEFIT RECEIVED THEORY: This is an exchange relationship theory. The theory holds that as citizens pay tax, government should correspondingly provide the needed social and public services. In other words there is a social contract between the state and the citizens. Where the state fails to keep its own side of the bargain, the propensity to avoid tax payment becomes very high. This paper is anchored within the logic of this theory.
Table 1: The structure of basic amenities in Nigeria

<table>
<thead>
<tr>
<th>Infrastructure type</th>
<th>Distribution</th>
<th>Location</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road</td>
<td>East-West road</td>
<td>South south</td>
<td>Deplorable</td>
</tr>
<tr>
<td></td>
<td>Abuja-Lokoja</td>
<td>North-central</td>
<td>Deplorable</td>
</tr>
<tr>
<td></td>
<td>Lagos-Ibadan</td>
<td>South-West</td>
<td>Deplorable</td>
</tr>
<tr>
<td></td>
<td>Calabar-Aba</td>
<td>South-South/East</td>
<td>Deplorable</td>
</tr>
<tr>
<td></td>
<td>Portharcourt-Enugu</td>
<td>South-South/East</td>
<td>Deplorable</td>
</tr>
<tr>
<td>Electricity</td>
<td>2,500mgwt Average</td>
<td>Across Nigeria</td>
<td>Grossly inadequate</td>
</tr>
<tr>
<td>Water</td>
<td>Less than 10 litres a day per individual</td>
<td>Across Nigeria</td>
<td>Grossly inadequate</td>
</tr>
<tr>
<td>Education</td>
<td>School facilities</td>
<td>Public schools across Nigeria</td>
<td>Poor, inadequate and substandard</td>
</tr>
<tr>
<td>Health</td>
<td>Hospital facilities</td>
<td>Public hospitals across Nigeria</td>
<td>Inadequate bed spaces, major equipments and pharmaceutical facilities</td>
</tr>
</tbody>
</table>

Source: Field survey, 2016

The nature of infrastructure in the critical areas of road, electricity, water, education and health is brazenly poor. Nigerian citizens as well as investors on daily basis are confronted with the challenges of broken roads inhibiting free flow of traffic. Cargo carrying trucks and vehicles daily lose goods worth millions of naira due to accidents. Human lives, in the process are lost. Electricity supply records one of the worst among leading African countries. Megawatts generated between 1999 and 2015 on average are 2,500. This condition leaves businesses with the option of running their outfits with power generating sets which astronomically increases the cost of doing business in Nigeria. Beyond the high cost of doing business is the health implication of inhaling the fumes emitted from these generators. Every household runs a power generating set to keep them going since public power supply is never there even though they are criminally coerced into paying electricity bills they never consumed.

In Nigeria, over 90 percent of the people depend on private sources of water for daily consumption. Most of these sources are not clean and safe enough for consumption. Public water infrastructure in Nigeria is grossly limited. Education infrastructure in public schools is also limited. Pupils and students study under very poor conditions. This situation affects the level of comprehension of the student. Ndiyo, Essia and Udah (2013) who studied the state of educational infrastructure in the public primary schools in cross river state discovered that about 190,938 pupils do not study in standard class rooms. About 61,365 classrooms were needed to close the gap. They further discovered that 58 percent of the pupils were without school desk in classrooms “indicating unhealthy and unacceptable learning condition”. The condition replicates itself in both the secondary and public tertiary institutions.

Public health facilities are also in short supply in Nigeria. Government hospitals are without standard equipments that can address major health challenge. The citizens do not have confidence in the public health system and this accounts largely for why those who can afford it seek for medical treatment in European, American and some Asian countries.

Rationale for Tax Evasion in Nigeria: The Peoples’ Perspective

Studies have shown that tax evasion is a common phenomenon in developing countries. As a compulsory exaction by government, many citizens will try to avoid it while some may reluctantly pay. Paying taxes therefore is not a natural drive. Developing countries where tax evasion is common collect about 12 percent of their GDP in taxes while OECD member countries collect about 33 percent of their GDP in taxes (Cunningham & Morisset, 2015).
The question is: what factors account for tax evasion in Nigeria as a low income country? In an attempt to answer this question, the views of one thousand respondents representing companies, small private enterprises, individual utility consumers and government revenue officers from the Nigerian tax ecology were sought. Their views are presented on table 2 below.

Table 2: Responses on rationale for tax evasion in Nigeria

<table>
<thead>
<tr>
<th>Rationale</th>
<th>Frequency</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public personnel steal tax revenue</td>
<td>200</td>
<td>20 percent</td>
</tr>
<tr>
<td>Government does not provide infrastructure to show the tax revenue collected</td>
<td>600</td>
<td>60 percent</td>
</tr>
<tr>
<td>Tax is unreasonably high</td>
<td>120</td>
<td>12 percent</td>
</tr>
<tr>
<td>Multiple taxation</td>
<td>80</td>
<td>8 percent</td>
</tr>
<tr>
<td>Total</td>
<td>1000</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field survey, 2016

Respondents were asked to choose the rationale that most appeals to them. From the result, two hundred respondents representing 20 percent of the total respondents chose the option of public personnel stealing tax revenue as rational for tax evasion by taxable organizations and individuals. Six hundred representing 60 percent selected the option that the failure of government to provide public infrastructure to show the enormity of taxes collected justifies tax evasion by Nigerians and the associated taxable organizations. 120 respondents locate the problem within unreasonable high rate of taxation. 80 respondents attributed it to multiple taxation. Stealing tax revenue which reduces the capacity of government to provide social infrastructure is a common phenomenon in rogue states. Enahoro and Jayeola (2012) have argued that there exist sharp and dishonest practices by some tax officials, especially at the local government level which poses a serious threat to tax administration in Nigeria. They argue that lack of voluntary compliance may not account for tax evasion alone but “also from the fact that not all the taxes collected reach the public treasury. This is stealing by some tax officials as distinct from alleged bribes given to them”

The stealing of tax revenue is clear in the lifestyle of revenue collectors of government. Greater percentage of them live above their income exemplified in the kind of lush houses they build and live in, the high
profile vehicles they own and the kind of schools attended by their children. The Ayoola commission did not mince words when it concluded that tax clerks live ostensible lifestyles not commensurate with their level of income. This is attributed to diverting tax revenue to their private pockets. It is crystal clear that corruption is a common phenomenon in Nigeria. In fact the British Prime Minister David Cameron described Nigeria as being “fantastically corrupt”. Therefore, diverting tax revenue to private coffers will not be strange. As argued by Prichard (2010) and which is correct about Nigeria, arbitrariness, corruption and regressive have made local taxes generally unpopular and ineffective. In a World Bank study on the ease of paying taxes, Nigeria was ranked 170 out of 189 economies studied (Paying Taxes, 2014).

**Taxation and Citizens Welfare in Nigeria**

This section summarizes the general notion about the Nigeria tax regime and its justifications. Our argument here is that the tax system does not take account of the real roles of taxation to provide social services to the populace. Let us begin by stating that social services spending has not changed the tattered nature of society, nor raised the standard of living of the lowest – income classes above what it would have reached if they had not been subjected to heavy state taxation. The impact of state taxes on the active distribution of wealth has been minimal, if not, negligible.

One of the main principles of taxation is to raise revenue. The general perception by most taxable Nigerian adults is that taxes contribute to the revenue base of the state and it is by this that services such as roads, schools, hospitals and other welfare needs are provided. It is rather shamefully disappointing that as the rate of taxation is rising in Nigeria, the level of social services provision has constantly dovetailed. The trend negates the purpose of taxation which suggests reciprocity. As government collects taxes from the people, there must be a corresponding pay back. The payback addresses largely an enhanced welfare of the citizenry. The situation is not so in Nigeria. Even as high taxes are placed on certain commodities to discourage their production and consumption, such re-pricing has not changed the trend. Tobacco is taxed to discourage its smoking; alcoholic drink such as beer is tax heavily to discourage people from drinking, yet this has not changed the negative social life among especially youths in Nigeria. Most Nigerian youths are very bibulous and the smoke with uninterrupted desire. The heavy taxes collected for reprising do not show correspondingly in the welfare of the people.

As a veritable factor in government revenue, taxes in Nigeria are imposed regularly and adjusted upward without regards to the incidence of taxation given the inelasticity of certain commodities and services. Some government actions explain this. In 2007, the Obasanjo administration signed into law the National Information Technology Development Agency Act of 2007 which introduced another tax known as Technology Tax. The Act imposes a one (1) percent tax on the gross profit of digital mobile operators and all telecommunication companies, pension managers, internet service providers, cyber companies and all financial institutions including insurance companies whose income is above N100 million (Sanni, 2007:14). This taxation introduces a quadruple taxation of cooperate income in Nigeria. It would be proper to lay bare this type of tax regime. First is the tax of 30% of the net profit of companies under the companies’ income Tax Act. The second is a tax of two percent of the assessable profits of Nigerian companies under the education Tax Act. The third layer is a levy/tax of two and a half percent of the gross profits allegedly being paid by telecommunications operators to the Nigerian Communication Commission (NCC). The fourth layer is the new technology tax of one percent of the gross profit of certain companies. It is very obvious from the above that Nigeria and Nigerians are faced with the burden of intra-national double taxation in addition to the unending problem of international double taxation.

Double taxation on the income of companies is a monstrous disincentive to investment, production and economic growth. Apart from this, the effect also is negative on the welfare of the people as, in most cases, the incidence of such double taxation rests on them. In terms of telecommunication consumption, the Nigerian consumer is the highest taxed in the World, yet the enormity of taxes collected manifest little or nothing in the welfare of the citizens. Taxation, as Ricardo (sited in Brown and Jackson (1978) in his Principles of Political Economy and Taxation has noted is a portion of the produce of the land and labour of a country placed at the disposal of the government. Government by implication is meant to use the produce of the peoples’ land and labour to enhance their welfare. However, the enormity of taxes and charges collected by the Nigerian authorities do not equate the utility and services provided by the government. Taxation and charges without a corresponding utility leads to further hardship on the people and the tendency to evade taxes and user charges. For example, high Power Holding Company of Nigeria (PHCN, now privatized to several DISCOs eg. PHED) bills are paid by customers without a corresponding supply of power, yet these Distribution Companies (DISCOs) criminally and shamelessly drive people to pay bills for services they did not get. There is also this factor of high urban housing tax which has shot up the cost of rent without response from government to redress poor urban housing problems. Other worrisome charges include the gamut of ticket sales in markets and motor parks with no better services to show at and beyond these revenue locations. Incessant charges at motor parks
increases road transportation costs and encourages overloading which in most cases leads to road traffic accidents and loss of lives.

Given the failure of taxes to fan the embers of social welfare in Nigeria is it not risky to still hold the view that in a rogue state taxes are social instruments used by the state to address general welfare? A radical view of tax incidence may provide a lee way. In the radical view, the state in capitalist societies serves the critical function of preserving and stabilizing the property relations of the capitalist economy. As a tool of the capitalist class, the state is dominated by their interests. “Within the framework of the function of the state, marginal variations in the evolution of state policies will be affected by changes in relative class power and the changing dialectics of class conflict.”

The political economy of taxes principally hypothesizes that inequalities in income play a critical role in helping stabilize capitalist economies and the power of the capitalist class. In particular, inequalities help to induce workers to tolerate alienating work. As a result, capitalist will obviously try to ensure that income inequalities will not be disturbed as it becomes necessary to impose taxation. “In a more rigorous language, these amounts to the obvious hypothesis that the tax and transfer system will not fundamentally alter the ordinal ranking of individual workers in the market distribution of labour income, however, differentially it may tax those with different incomes. From the radical purview, it is obvious that a universal social welfare function is tautologically absurd, since different classes with fundamentally competing interest battle for influence over the state” (Gordon: 1977). Taxes therefore, are not to provide social services for the masses as the conservatives would tend to argue but to sustain income inequality for the capitalist class.

A departure from the analysis above explains why tax revenue cannot yield anything socially beneficial in large magnitude in Nigeria as such revenues are directed at serving the interest of the big wigs in government. Taxes in Nigeria are collected and largely transferred to selfish, irresponsible and unproductive public expenditure such as incessant government house routine frivolities as well as heartless national assembly welfare demands, while neglecting basic social demands of the society. The Nigerian leadership both past and present has shown high magnitude of ineptitude about public welfare. They seem to be submerged in corruption (corruption perception index 2015 ranks Nigeria 136 out of 168 and a score of 26 over 100. This suggests that Nigeria is still very corrupt (Transparency International) and therefore cannot manage tax revenue effectively for improved social services.

The relationship between infrastructural development and the propensity to pay tax and the reduction of evasion is explained in the model below:

Figure 1: Model of infrastructural development, propensity to pay taxes and evasion reduction

Apply tax to providing public infrastructure

Increase in government revenue

Growth and Development

Propensity to pay is high and evasion reduced
The model shows that when tax revenue is properly committed to providing public infrastructure, the propensity to pay tax will be high and the tendency to evade taxes will diminish. This leads to increase in government revenue base and the committed application of this revenue to public good will lead to growth and development.

If tax is not yielding dividend, should it be continued? Since it is obvious that government of Nigeria cannot do without tax revenue, what should be done to re-focus tax revenue on social amenities? The answers to these questions form the basis of the proceeding section.

The Prognosis for Action

Specifically, multiple and outrageous taxes in Nigeria impoverish the people because it reduces their disposable income and consumption level without a corresponding provision of enhanced social services. This is not supposed to be so in the real sense of taxation. One of the purposes of taxation is representation. It is often stated that there is no taxation without representation. This implies that the government taxes the citizen, and the citizens demand accountability from the government as the other part of the bargain. Taxes are to generate the greatest degree of accountability and better governance. This does not seem to apply in Nigeria. As a way of refocusing tax revenue on effective social welfare needs, we recommend as follows:

Fiscal administrators should change their attitude towards public funds most especially the one generated from taxes. Corruption and dishonesty have been a danger to effective tax administration in Nigeria. Other propelling factors to poor tax revenue management system are low pay scales, lack of adequate internal auditing, close supervision and disciplinary sanctions. Corrupt tendencies must give way to public considerations. But where this fails, the relevant institutional regimes for combating corruption such as Economic and Financial Crimes Commission (EFCC) must live up to its responsibilities of tracking corrupt fiscal administrators.

There should also be a reduction in high profile life in government. The Nigerian government seems to be too reckless with public fund. Such recklessness is rationalized by the belief that government must maintain a high social image both within and outside. You cannot pretentiously clad yourself in borrowed robes when it is not well with your citizens. Frivolous government expenditures such as constant government house parties and receptions, unwarranted renovation of government quarters, which mostly result to waste etc, should be minimized. A onetime speaker of the Nigerian House of Representatives Mrs. Patricia Itteh, was under serious heat from her colleagues for purportedly renovating her official residence with the sum of N628Million. His successor, Dimeji Bankole was also arraigned before a high court by EFCC for corruptly awarding contract of over 12 billion naira for services that were under provided. These were not only ridiculous but criminal.

Again, men with proven track record of integrity should be sort for to man high tax revenue yielding points to curb incessant diversion of tax revenue into private coffers.

Again the tax system must understand the reality of the low-income citizens and show high level reasonability in administering the tax regime. As a measure of reducing tax burden on the citizens, the tax rate should be reduced drastically so that the disposable income and consumption level of the citizens especially workers can be enhanced. The Cross River State government among others should as a matter of urgency and reason reduce the present draconian tax rate on the income of its civil servants.

It is hoped that when these recommendations are carefully followed, tax revenue could be directed at enhancing the welfare of members of the society by providing basic infrastructure.

Conclusion

With the dismal decline in personal income of citizens which tremendously inhibits their propensity to pay taxes, Nigeria needs a revolution in physical, economic and social infrastructure which is a serious determinant in wealth creation. Ploughing back tax revenue in this direction could significantly address the situation and as well minimise tax evasion.

There are key priority sectors that need urgent government intervention in infrastructural development. These are energy, power and transportation, education and health. These are critical sectors that create multiplier effects in other segments of the economy. A focus on these areas will improve the income generating ability of citizens and the willingness to pay tax given the benefit derived from tax services. Given the consistent geometrical fall in international crude oil prices, taxation is a viable option available to the federal government of Nigeria. How they administer it will determine to a large extent the commitment of tax payers towards payment of taxes.
This study concludes that fiscal administrators have not applied tax revenue effectively in the area of social services which discourages the desire to pay taxes and eventual decline in public revenue thereby contributing to government’s inability to develop public infrastructure. This snag may largely emanate from poor attitude of officials to public fund. As a result, the tax system seems useless to the teaming public who watch their hard earned income withered down by frivolous taxation with nothing to show. This has often led to resistance to pay taxes and the tendency to evade payment. It has largely made the tax system unsuccessful. For any tax to be administered successfully as noted by Anyanwu (1997) it must be appropriate to the economic, governmental and cultural institutions of the jurisdiction in which the tax is imposed. When taxes do not generate corresponding services, there will always be a majority who are reluctant and defiant about paying them. When this prevails, the revenue of government is reduced and threatened. People often advocate the use of the law to effect tax discipline both on the payer and the collector. This may not necessary be adequate for as Kaldor (1970) opines, the efficacy of the tax system is not just a matter of appropriate laws but is dependent on the efficiency and integrity of tax administration.

From the forgoing, it is explicit that tax administration in Nigeria has no palpable reciprocity in terms of social amenities. It is also obvious that government collects taxes from the people and mismanages them; a reason for discouraging citizens from paying taxes. Given the colossal drop in oil revenue, paying taxes is inevitable as death if government must comply with its public service administration. The propensity to pay however depends on the show of responsibility by the government. It is the submission of the paper that all the vices/dirge would not end if fiscal administrators do not have a change of attitude towards tax revenue in order to apply tax revenue at least to some measure of impactful social services.

References


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