TAX LAWS: SYNERGY FOR INFRASTRUCTURAL DEVELOPMENT IN EMERGING ECONOMIES*

Abstract

This article while touching on the fundamentals of taxation and its administration seeks to address the indifference of the taxable population in emerging economies towards paying taxes, the causes of their detachment towards tax regimes and what a sound national tax policy should be able to address. There is the need for a reorientation of the populace in matters concerning payment of tax, the gains of taxation and what the government of the day must do to earn the trust of the governed. In a nutshell, this article seeks to depict the importance of implementing Nigeria's National Tax Policy as the blueprint to plugging the inherent loopholes in the tax laws and tax administrations problems in emerging economies like Nigeria and discourse mode of bridging the information gap between all stakeholders with a view to ensuring the development of a tax culture among the citizens. Thus, evolving a new era in our tax laws and tax administration by ensuring the crucial paradigm shift needed to engineer a sustainable development in emerging economies.

Keywords: Taxation, Tax Laws, Infrastructural Development, Emerging Economies

1. Introduction

The question why do we have taxes comes to mind even in economies blessed by nature with so many mineral resources. The answer though is not farfetched as taxation is one of the practical means of raising revenue for the Government in order to finance government spending for the social welfare and economic good of the citizenry. Tax no doubt is a monetary charge imposed by the Government on persons, entities, or property residing within its domain with a view to raising revenue; it is also the inherent power of the Government to legislate on and impose tax on the citizens, corporate entities and the likes[1]. Most broadly, the term embraces all governmental impositions on the person, property, privileges, occupations, and enjoyment of the people; and it includes duties, imports, and excises.'[2]

Taxes are therefore, a sub-component of Government revenue, but they are not the only revenue item, which is internally generated by Government. Other sources of internal revenue include fees, rates, levies, fines, tolls, penalties and charges. Taxes are however a major contributor to Government revenue and ideally should be a major source of revenue. For the Government to achieve this purpose of raising the desired revenue to serve the State in carrying out her responsibilities towards her people, the setting up of an efficient and fair tax system is of utmost importance. The question therefore remains as to what constitutes an efficient and fair tax system particularly for developing countries/economies that desire to upgrade the infrastructural facility of such economy?

'The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.'[3] The Nigerian Tax System over time has undergone considerable and essential changes geared towards improving the Tax Laws of the country with a view to ensuring better tax regime and administration. Also, while discarding provisions which can be termed archaic in order to simplify the provisions that are deemed contemporary and realistic. The issue of tax in an emerging economy like Nigeria is very crucial to the government, the more reason why it is important to the government that every business deal with any of its ministries/agencies cannot be concluded without evidence of tax receipts/clearance attesting to the fact that all taxes due to the government during the relevant years of assessment have been settled in full.

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[1] *Eti-Osa Local Government vs. Mr. R. Jegede & Anor (2007) 5 CLRN pg. 67 lines 10-12*

[2] *Bryan A. Garner, Black's Law Dictinary (7th Edition) West Publishing Co. 1999, page 1469*

[3] *(Colbert, 1665) Jean-Baptiste Colbert was the controller general of finance (from 1665) and secretary of state for the navy (from 1668) under King Louis XIV of France.*

2. The Nigerian Tax Policy

A tax policy is a documentary exposé providing a road map regarding rules of operation on how to manage the tax system proving the foundation for legislation and amendment of extant tax laws and tax administration. Emerging economies desirous of improving their revenue base must reexamine their extant tax laws and think of viable ways to improve the status quo. In doing this, such economies must evolve Tax Policies aimed at producing positive results that will be instrumental to the growth and advancement of the economies concerned. A sound tax policy must examine extant tax laws and regulations with a view to providing better tax policies capable of meeting her needs economic needs at home and abroad. Accordingly, the National Tax Policy[4] 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 Nigeria. It is focused on providing parameters and method of achieving a workable tax regime devoid of intricacies and bottlenecks which will provide the foundation building blocks for sound tax legislations and administration. The Nigerian Tax Policy is premised on the need to overhaul the existing obsolete tax legislations and overcome the perennial problems of multiple taxations, over taxing, information gap on both sides of the divide and the leakages inherent in the present tax system. Achieving this will eliminate uncertainty in tax administration, improve workforce and accountability and bring about professionalism in tax administration, thus ensuring increase in revenue generation plus more balanced tax governance. A nation with a tax policy is a nation that has shown the will power to promote fiscal responsibility and accountability as it concerns internally generated revenue. An articulate tax policy is that which enshrines a workable and acceptable platform which is acceptable to all stakeholders no matter what part of the divide they may be coming from. The major objectives of the Nigerian Tax System as represented by the National Tax Policy is the expectation that the tax system is expected to contribute to the well-being of all Nigerians and taxes, which are collected by Government should directly impact on the lives of the citizens through the proper and judicious utilisation of the revenues collected by government.

The Nigerian Tax Policy is also anchored on sustainable development and healthy competition as the underlying philosophies in the development of Nigeria's tax system. This is so when the administration of tax laws are simplified and well spelt out in order to resolve issues of multiple taxation on the tax payer. A tax policy should be able to spell out who and/or which tier of government is responsible for collecting what, how it is collected, who controls what is collected, how is what is collected shared, who is responsible for spending what is collected and who is ultimately responsible and accountable to the tax payers for the revenue collected and its expenditure. This in essence will engender that the principles of fiscal federalism is adhered to. In an economy where fiscal federalism is practiced sincerely, administration of tax laws will be a hitch-free exercise because the foregoing if strictly adhered to will also bring about transparency and belief to tax administration in any given economy.

It is instructive to note that going by the dictates of the National Tax Policy when strictly adhered to, more wealth and employment will be created when revenues generated from taxation are applied to diversifying the source of income for such emerging economies from mono economies to multi-economies and thus help in income redistribution with the economy. This can be achieved by providing Special Arrangements to Attract Investments such as creating Tax Free Zones and offering Tax Incentives to specific sectors of the economy. In the long run, this will create sustainable development within the economy.

3. Tax Policy Challenges Facing Developing Economies

Developing economies as a whole need to evolve more viable tax policies in order to up their games and develop at a faster pace. Developing countries attempting to become fully integrated in the world economy will probably need a higher tax level if they are to pursue a responsible government closer to that of developed economies, which, on average, generate far more tax revenue than the developed economies. To overcome these challenges plaguing emerging economies, the tax administrators responsible for administering tax regimes will have to get their policy priorities right and have the

[4] *Published in the National Gazette on 21 September 2012.*

political will to implement the necessary reforms. Also, tax administrations must be strengthened to accompany the needed policy changes by relevant laws backed by a government that can bite.

In many cases, corrupt practices abound within the taxing authorities; these practices either go unnoticed or are carried out with the tacit approval of the members within a given unit of the tax authority. Where such practices are evident and members of the tax authority turn blind eye to such practices; they have in effect contributed to the decay in the system. This in turn encourage the perpetrators and emboldened them the more to carry on with their nefarious acts and recruit like-minded individuals as tax administrators into their group. Thus, the revenue meant for the government is now revenue for a few corrupt individuals and as time goes on, they will perfect their strategies. Accordingly, corruption is a serious challenge in improving tax administration among other issues such as low salaries for tax officials, political protection of prominent tax evaders, poor monitoring of junior officials, high tax rates, and poor information available to the tax officials including but not limited to low level of orientation on the part of tax payers-all these generally beset the smooth and efficient running of the tax systems in developing economies.

In buttressing the above statement, *Margaret McKerchar and Chris Evans*[5] believe that: '… in developed economies, policy makers and revenue authorities in developing economies face quite different challenges and constraints that require careful consideration in designing appropriate and effective tax systems. In particular, the tax system in a developing economy must foster sustainable economic growth, ensuring that the necessary revenue collections are made to provide for political stability, investment in infrastructure and improved standards of living. Typically developing economies have both limited administrative resources and expertise. Tax administration is generally weak, with widespread evasion, corruption and coercion. Further, taxpayers tend to have low levels of literacy, low tax morale and negative attitudes towards government. The cash economy, and its inherent opportunities for engagement in fraud and tax evasion, often plays a major role in developing economies.'

Tax challenges can be overcome in developing economies through the formulation of sound tax policies which will checkmate tax evasion and avoidance and abuse by those who ordinarily are capable and within the range of paying tax. Formulation of sound tax policies, vibrant tax laws including but not limited to adequate technical training of tax administrators will go a long way to tackle the challenges of inadequate tax administrations and set the path way to a vibrant tax regime. To this end, a more concerted effort towards attaining proficiency in tax administration is most necessary and urgent to defeat vices such as illiteracy of tax laws, ignorance of tax procedure, tax evasion and avoidance, insincerity/corruption on the part of government and mistrust by the governed among other societal factors that hinder the successful administration of tax in Nigeria and other developing economies.

There are a number of serious policy issues that may results from the growth of the underground economy in Nigeria; tax evasion caused by higher tax rates will siphon off revenue, forcing even higher tax rates in the areas where evasion in tax policy must depend on the type of enforcement that accompanies it. The opportunity to participate in the underground economy represents a 'subsidy' to certain types of economic activity where evasion is easier. These are often relatively low productivity areas of the economy. The underground economy makes official statistics on economic growth less reliable which may in most cases lead to incorrect economic policy decision(s). The underground economy is just one of many concerns that affect the tax system. Whenever there are taxes, there will be tax evasion, and its consequences, alters the way in which taxes impact on economic efficiency and income distribution. Therefore, the underground economy needs to be taken into account in predicting the impacts of tax changes.

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To this end, it is also essential to state that what is experienced within the framework of the emerging economies is far from satisfactory, there is need to put in place an acceptable tax reform policies *stricto sensu* where there is no National Tax Policy within such emerging economy. Such tax reform policies should aim at improving the existing trade-offs between revenue generation equity, efficiency, and tax administration and compliance. This provides for the existence of a robust tax system and entrenched practices that should be able to provide a zero-tolerance mechanism with respect to corrupt practices and corrupt officials within the tax authority. Also, strategies and policies geared towards addressing the difficulties embedded in the political economy of the country, and that which addresses the economic literacy, political and leadership skill deficits in particular, are essential in fundamentally tackling the causes of corrupt tax practices. This task is particularly challenging in the economics in transition where radical changes in the relations between the state, taxpayers and tax officials are contemplated when structuring a formidable tax policy that can stand the test of time in any market economy.

It follows therefore that some of the challenges facing policy administrators with regard to tax administrators and administration centers on inadequate training and proper understanding of the tax laws and implementation by tax administrators. There is also the issue of lack of enlightenment programme on the importance of paying taxes, inadequate provision of the necessary equipment and infrastructure needed to make the work of the administrators conducive and easier. In addition, the dearth of sound tax laws and consistent review of the existing tax systems with a view to catching up with the ever changing trend in the economics of market environment; corruption and lack of zeal and the technical knowhow to perform tax functions on the part of the administrators mostly in understanding and interpreting the laws governing taxation in the area of operation at any given time all needs to be addressed immediately and radically too. In addition to the foregoing there is need to show willingness to prosecute both defaulters and corrupt officials who sabotage revenue generation including a zero-intervention attitude by government to stay the prosecution of their cronies. More so, this will stall the nonchalant attitude of the citizens and enterprises from whom taxes and levies are due from in paying taxes or even disclosing their rightful earnings.

Also, ineffective utilization of collected taxes, poor remuneration of tax officials, improper record keeping, non-enforcement of tax policies and inadequate facilities to monitor tax payment and to assess taxable resources are some of the major administrative factors retarding effective and efficient taxation. Suffice it to say therefore, that before a country considers how best to administer its tax system, it must possess a clear picture of the scope of its tax system. The quantity and quality of resources required by tax administrators are to a large extent determined by the type of tax system which is introduced within the economy where these officials operate. A nation’s tax goals are not achieved by designing a tax policy/system which is fair. Any fair system which is not administered as planned becomes inequitable. Thus, a good tax system is capable of financing the necessary level of public spending in the most efficient and equitable way possible. It should also raise enough revenue to finance essential expenditures without recourse to excessive public sector borrowing; raise the revenue in ways that are equitable that minimized its disincentive effects on economic activities and do so in ways that do not deviate substantially from international norms.

The first of these challenges is non-availability of tax statistics. The second is the inability to prioritize tax effort. The third is poor tax administration. The fourth is the multiplicity of taxes. The fifth is the structural problems in the economy that affects the maximization of VAT. Finally, the challenge of underground economy or the hidden economy is usually taken to mean any undeclared economic activity. The major issue is how the Inland Revenue authorities would tackle hidden/underground economy covering these groups:

(a) Business that should be registered to pay tax, VAT, but are not;
(b) People who work in the hidden economy such as in the rural areas with difficult terrain and pay no tax at all on their earnings.
(c) People who pay tax on some earnings but fail to declare other additional sources of income

To avoid corruption and other challenges bedeviling tax administration in emerging economies, it is necessary to formulate incentive structures such that the tax payer understands the workings of the tax system and tax mechanism with the expectation that everything is done in accordance with the law by all involved. It is trite law that the tax payer's only legitimate expectation is *prima facie* that he will be taxed according to statute, not concession or a wrong view of the law[6] irrespective of who the tax payer might be. The foregoing is premised on the maxim that the subject is not to be taxed unless the words of the statute unambiguously impose the tax on him. Tax laws are strictly construed, a tax payer has a right to stand upon literal construction of the words used in the taxing statute whatever might be the consequences.[7] Where the tax payer's legitimate expectation is met the issue of corruption to a large extent will have been resolved without much ado. In the administration of taxes in developing economies it is commonplace for tax evaders to bribe officials rather than pay taxes; this corrupt attitude has eroded tax consciousness on the part of Nigerians. Although some progress has been made by the recent tax administration laws and officials especially will availability of a National Tax Policy since 2012, there is still room for improvement. In Nigeria for instance, tax administration of various duties and levies face other challenges outside those earlier on noted, such other challenges include but are not limited to:
(i) Tax evasion and avoidance;
(ii) Inadequate funding for the revenue services
(iii) Limited or lack of independence of revenue services;
(iv) Lack of the VAT tribunal, as recommended under VAT Act Decree No. 102 of 1993
(v) Proposals by some State Governments (e.g. Lagos) to re-introduce sales tax;
(vi) Practical problems related to the implementation of VAT's dual elements (input and output).
Experts consider this to be a major challenge.[8]

Other major challenges relate to the sub-optimal administration and include: high levels of bribery and corruption in the tax administration; a shortage of qualified and experienced staff, and a lack of staff training programs; inadequate funding for the revenue authorities and poor tax collection mechanisms; a lack of taxpayer education, including awareness of their rights and obligations and of the performance of the revenue authorities; and poor systems and processes for recording, filing and monitoring taxpayers, and for internal control of revenue collections.

4. Applying Tax Laws *vis-a-vis* Administration of Tax Laws in Emerging Economies

Tax law is statute based[9]; the onus is on the State to show that a taxing statute clearly imposes a charge on the person sought to be taxed[10]. Also, in the same vein, duty is chargeable on any particular subject-matter only if that subject-matter falls within the words of the statute[11]. The law is that if the person sought to be taxed comes within the letter of the law he must be taxed, however great the hardship may appear to the judicial mind to be. On the other hand, if the Government seeking to recover the tax cannot bring the subject within the letter of the law, the subject is free, however apparently within the letter of the law the case might otherwise appear to be. In other words, if there be admissible, in any statute, what is called equitable construction, certainly such a construction is not admissible in a taxing statute, where you can simply adhere to the words of the statute.[12] Also, tax systems and policies must be supported by instrument of the law i.e. statutes before tax administrators set out to impose and collect such taxes, since the basis of taxation is the statute. It has long been settled that no tax can be imposed on the subject without words in an Act of Parliament clearly showing an intention to lay a burden on

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[6] *Per Bingham, L.J. in Regina v. Inland Revenue Commission, Ex-Parte M.F.K. Underwriting Agents Ltd. (1990) 1 WLR pg 1545 at 1569, Paras A-B; N.I.W.A. vs. SPDC (2005) 8 CLRN pg 130 at 158 lines 21-24.*
[7] *Per Lord Simonds in Russell v. Scott (1948) 2 All E.R. 1; Pryce v. Monmouth Shire Canal and Railway Companies (1879) 4 A.C. 197.*
[8] Research Journal of Finance and Accounting www.iiste.org ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol 3, No 5, 2012
[9] *Whiteman and Wheatcroft on Income Tax (1976) Sweet & Maxwell; 2nd Ed. Pg. 27.*
[10] *Ayrshire vs. Employers Mutual Insurance Association Ltd. v. I.R.C. (1946) 27 T.C. 331 at 344*
[11] *Reed Intn'l Ltd. v. Commissioners of Inland Revenue (1974) 1 All E.R. 385 at p. 390.*
[12] *Partington v. Att-Gen. (1869) L.R. 4 H.L. 100 at p. 122 (estate duty); cited with approval in I.R.C. v. Westminster (1936) A.C. 1at p. 24.*

the subject. Where that intention is sufficiently shown it is vain to speculate on what would be the fairest and most equitable way of levying that tax.[13]'

The other issues that come to mind are who should be taxed and who shouldn't be in the first place? Should the government in the rush to raise revenue to meet her social responsibility towards her citizens levy tax on every Tom, Dick and Harry? By this I mean should the vegetable seller and/or pepper seller who sells by the road side be asked to pay tax even when it is obvious that the totality of her wares is not up to #1, 000.00 (One Thousand Naira) only? If at all the pepper seller is to pay tax; what proportion of tax is due her. How can we rationalize the individual who pays a paltry sum of money as tax considering the number of businesses the value of which runs into millions of Naira? Can it be properly argued that the objectivity of taxation as an avenue to raise funds for the government will truly be met if all and sundry is subjected to taxation when in actual fact some live from hand to mouth to survive? Again, irrespective of whatever view one holds, where there is a clear-cut law with respect to taxable persons, refusal for anybody within that taxable bracket to pay his/her tax as due him/her can result to law suits against such persons by the tax authorities. Thus, a well-structured Tax Policy for any emerging economy must provide for adequate measures for dealing with tax defaulters according to law; once the tax authorities adhere to the letter of the tax laws applicable, defaulters will be deterred. The position of the law is that once the Courts pronounce the culprit culpable for non- payment of tax, the relevant tax authority can recover from such a person charged the full cost of instituting the action as a debt due to the Government of the federation or to the relevant authority concerned[14]. It is urged that in a taxing Act clear words are necessary in order to tax the subject. Too wide and fanciful a construction is often sought to be given to that maxim, which does not mean that words are to be unduly restricted against the Crown, or that there is to be any discrimination against the Crown in those Acts. It simply means that in a taxing Act one has to look merely at what is clearly said. There is no room for any intendment. There is no equity about a tax. There is no presumption as to tax. Nothing is to be read in, nothing is to be implied. One can only look fairly at the language used.[15]

The guiding principle as regards tax law is that a statute is designed to be workable and should be workable and should be construed so as to secure that object, unless crucial omission or clear direction makes that end unattainable[16]. However, when there is ambiguity in the statutory words, a court may adopt the construction which appears to be most likely to carry out the general intention of parliament,[17] but if there is no ambiguity then the court has no option but to give the words their clear meaning, however, unreasonable this may be. Thus Lord Reid, in *I.R.C. v. Hinchy*[18] held that what the court must look for is the intention of parliament; the court can only take the intention of Parliament from the words which they have used in the Act, and therefore the question is whether such words used are capable of a more limited construction. If not, then the court must apply them as they stand, however unreasonable or unjust the consequences, and however strongly the court may suspect that the words so used in the Act were not the real intention of Parliament. Tax administrators in carrying out their job functions should act in compliance with the prevalent Tax Policy in place to guide their operations. The burden is not only in levying taxes on the masses but how to utilize the said revenues that accrued from levying such taxes for the overall benefit of the State. It is not in doubt that taxation over the years for many nations of the world especially in advanced economies has served the purpose of raising the much-needed crucial funds for governments both from the people and other taxable entities. Such taxes collected yield the necessary revenue for the provision of infrastructure for the State and other sundry expenditures necessary for the running of the States. However, one thing that begs the question is how

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[13] *Per Lord Blackburn in Coltness Iron Co. vs. Bank. (1881) 6 App. Cases 315, 45 L.T; also see Per Lewis, J.S.C. in Authority vs. Reginal Tax Board (1970) N.C.L.R. 276 at 286-287*

[14] Section 77 (1) Decree No. 104 of 1993; see also the case of *Nig. Breweries Plc v. L.S.I.R.B. (2002) 5NWLR (Pt. 759) page 1 at pgs 13-14.*

[15] *Cape Brandy Syndicate v. I.R.C. (1921) 1 K.B. 64 at p.71 cited with approval in Canadian Eagle Oil Co., Ltd. v. R. (1946) A.C. 119at p. 140.*

[16] *Whitney v. I.R.C. (1926) A.C.37 at p. 52*

[17] *Astor v. Parry (1935) A.C. 398 at p. 417*

[18] *(1960) A.C. 748 at 766*

responsible is the government of the day and her hired hands in seeing to it that the revenues so derived are properly utilized for the common good of the citizenry?

Accordingly, to say that there is apathy in developing economies towards the payment of taxes by their citizens to government coffers is to say the least, hitting the nail squarely on the head. Most developing economies/third world countries are plagued with endemic corruption carried out by public officials entrusted to use and administer the revenues of the State for the good of the citizenry. However, and unfortunately so on a daily basis, the print and electronic media is awash with public officials and their cronies looting the public treasury with reckless abandon, the result, a dearth of public infrastructure meant to serve the populace. The resultant effect is lack of trust by the populace on those elected to serve them-it is difficult to build trust but very easy to destroy it. This mistrust by the populace on their leaders creates apathy for anything resembling contribution either through resources or otherwise towards the public life. The citizens pay taxes in most cases because they are either processing one thing or the other from the government or there is a requirement/condition precedent to be fulfilled by the citizen one of which is the presentation of evidence of tax receipts/documents. Until and unless the citizenry begin to witness responsibility on the part of her elected leaders in the area of accountability and infrastructure development vide the judicious use of public funds, the issue of the apathy towards payment of taxes by the citizens will continue for a long time to come.

Developing economies are plagued with infrastructural malfunction and decadence. It is not enough to have proper tax laws put in place, tax administrators should be well equipped with state-of-the-art equipment to carry out their task effectively so as to meet the goals set by the National Tax Policy. Also, training and retraining of tax administrators on a regular basis will enhance results and improve revenue generation. This in turn will enable tax administrators efficiently plug the loopholes associated with tax laws and in turn reduce the impact of tax evaders or avoiders in taking advantage of the lacuna inherent in such laws. It is submitted that it will be difficult and almost impossible to create an efficient tax administration without a well-educated and well-trained staff that will key into the demands of the National Tax Policy. Where the necessary working tools and equipment are put in place, the work of tax administrators will not only become efficient but much easier to implement the extant tax laws as it relates to their job. For there to be an efficient tax administration in any developing economy, such economies must possess reliable data base with back-up supports as well as keeping proper records. With all these in place, a better guarantee that more revenue will be generated hence, enhancing the planning by the government of the day through the availability of additional revenue to discharge her responsibilities to her citizens. It has been noted before now that inefficient tax administrative machinery may constitute an obstacle to the introduction of desirable substantive reforms within the tax systems in developing economies; this assertion is based on the fact that the reforms could not be administered by such inept tax machinery already in existence or that the reforms could throw the whole tax system into jeopardy as the already weakened administrative machinery may not cope with the new strain. Improvement in the tax administration of developing economies will enable the tax structure play its part in the economic development of such economies concerned, by eliminating undesirable administrative deficiencies which may frustrate the objectives underlying taxation laws.[19]

It is not enough for an emerging economy to gloat about having a National Tax Policy; Such Tax Policy should be all inclusive in that the people whom the policy affects in the long run should be aware of its existence and what role they are expected to play in seeing to it that the policy succeeds. The Tax Policy should envisage a success story for all involved both in the areas of achieving the tax objectives of the state and the derivable satisfaction of the taxpayer that his contribution to national development is properly utilized by those in charge. To this end, the Nigerian Tax Policy adopted in April 2012 makes bold the idea laying the guidelines, rules and mode of operation aimed at regulating tax administration in Nigeria. Thus, the Nigerian tax philosophy as represented in the National Tax Policy is anchored on the premise to wit:

(i). that tax is a pecuniary burden laid upon individuals or property to support government expenditure,

[19] I.A. Ayua, *The Nigerian Tax Law*, (Spectrum Law Publishing 1996 (reprinted 1999), page 270

(ii). to facilitate economic growth and development,
(iii). to address inequalities in income distribution,
(iv). to correct market failures and imperfections.

For tax administration to yield results; there is the need for the policy of the government not to only state the policies on paper but the policies and reform stated therein must be carried out. A good tax policy must seek avenues on how to increase the tax base by bringing in a large number of potential taxpayers, especially those in the informal sector, into the tax net, increase the level of voluntary tax compliance of the populace through a more equitable tax system by the introduction of realistic tax rates, efficient and effective tax administration system with clear definition of jurisdiction among the three tiers of government. Tax policies must also include empowerment of the respective bodies set up to administer tax collection and ensure the training and retraining of tax officials. Double taxation must be addressed and there is need to eliminate obsolete and non-realistic provisions and penalties in the existing tax legislation. An effective tax policy however must not shy away from punishing tax offenders. All in all, a tax policy must be seen to midwife tax laws which must be as tax friendly despite the objective of ensuring that such laws encourage development, investment and compliance from tax payers.

A state is run on tax revenues and emerging economies like Nigeria must get their acts together and start behaving like their counterparts in more advanced economies in that no serious government toys with tax revenues and parliamentary institutions in advanced democracies grew out of an overriding desire for popular control – through the direct representatives of the people – over tax income. It is therefore necessary for the government to immediately begin to tighten the laws on tax evasion and severely punish tax officials that collude with individuals and organizations to fleece the treasury. Greater efforts should be made by the government to spread the tax burden beyond the few captured by the Pay As You Earn system and ensure that all taxable adults are captured in the Personal Income Tax regime.

It is the duty of every responsible Government to ensure the implementation of an equitable and efficient tax system. To achieve this, there must exist the will power and direction to follow up on reforms such as the National Tax Policy already in existence, evaluate such reforms and make positive adjustments in order to achieve more in terms of revenue generation. The degree of tax compliance in a system depends on a combination of factors including how responsible, strong-willed and efficient the government is in carrying out her tax functions. If the tax authority is active, then you will have a strong tax system with increased revenue base from tax collections. It takes a strong, responsible and purposeful government to improve the tax system in any given entity.

5. Challenges in Revenue Generation in Emerging Economies

The attitude of the majority of the citizens of taxable disposition in developing economies towards the payment of tax is not encouraging to say the least. There is therefore the need for constant use of the mass media to educate and egg on the people on why they should pay their taxes. In countries like Nigeria particularly in Lagos State, it is becoming difficult for residents in the State to evade tax; the State administration has fashioned the system and is continuing the process of fine tuning the system in such a way that before certain services are rendered to any citizen, such a citizen must present evidence of payment of tax. To this end various agencies and organs of government are not left out in this tax drive. Even the Courts in Lagos State have lent credence to this approach to facilitate revenue generation for the government of Lagos State; for instance, in the administration of criminal justice before a person can stand as a surety for a defendant in criminal trials, such a surety must provide evidence that he/she the necessary tax receipts to evidence payment covering a period of three (3) years in most cases.

It is also not in doubt that developing economies face formidable challenges when they attempt to establish efficient and credible tax systems. Accordingly, most eligible adults of working age are unemployed and technically, they are exempted from payment of tax. The principle is quite simple; no income no tax. One is taxed based on his capacity to earn and not whether the individual is of age to contribute to the State Revenue State via tax payment. It is also not in doubt that a good number of the labour force in developing economies are basically employed in agriculture as peasant farmers or in small, informal enterprises i.e. buying and selling. These workers are seldom paid a regular, fixed wage. Their earnings are not that certain but fluctuate, and many are paid in cash; without proof of such payments recorded. Only a small percentage of the population of these developing economies are privileged to work in formal enterprises where their earnings are certain, predictable and could be accounted for; hence taxable. The basis for an income tax becomes very cumbersome to calculate by tax administrators in these climes where workers are seldom paid a regular, fixed wage or where such workers are paid 'off the books' as in an underground economy. Thus, income taxes which play a major role in raising revenue for these economies is in a diminished capacity for lack of proper documentation, and the possibility that the government will achieve high tax levels is virtually non-existent if proper measures are not put in place.

6. Effects and the Objectives of Taxation

The cardinal objectives of a tax system are to serve as sources of revenue generation to the government of the day to enable the government meet its obligations towards her people. Secondly, the tax regime serves as an avenue to ensuring social and equitable balance between the rich and the poor within the society wherein the rich pay more than the poor and thirdly, it is a means of providing the needed economic incentives or otherwise in certain sectors within an economy. The object of any taxing law is undoubtedly to raise revenue.[20] The fundamental objective of taxation is to raise revenue for the State. This is the primary reason for imposing tax on the citizenry of any State by their government. Where the government in power is responsible, the money realized from the various tax laws would reflect in the infrastructural development of the country in question including provision for the security of the nation and her citizens.

Additionally, the revenue realized through taxation if properly used and channeled through the relevant sectors of the economy in dire need of the revenue so generated, will benefit the economic activities in that State by increasing employment opportunities which in turn will add value to the welfare of the people. This is so because when there is a functional environment with steady power supply, special economic zones (i.e. Free Trade Zones, industrial complexes, export processing zones (EPZ)) and the likes; there is the chance that employment opportunities will abound in such economy thus enhancing the standard of living of the people. Interestingly, it will not be out of place for developing economies to proffer certain objectives in line with their tax policies to serve as their priority in levying taxes to enable economic growth and development within such economy. To this end certainty is assured rather than presumptions in tax dealings since the intentions must be spelt out accordingly. This will provide the government with stable resources needed for further investment within the State economy; all these are geared towards providing economic stabilization, ensuring fairness and distributive equity.

There is thus the need that there is in existence a symbiotic relationship between the tax policy makers/tax administrators on the one part and the tax payer on the other part. Each side must compliment the other to enable a frictionless existence on both sides of the divide. For instance, the policy administrators should ensure that the tax laws are seamless in terms of administration to enable for easy understanding and enforcement as well as remove any conflict or ambiguity the tax payer may have in paying taxes. All these will ensure that in the long run, the tax payer is tax compliant. It is trite that maladministration, embezzlement and other vices practiced by those in authority can equally lead to disregard for the tax laws and thus non-compliance to tax levies and duties imposed by the State.

McKerchar and Evans[21] posit that the fundamental goal of any revenue authority is to collect taxes and duties payable according to the law. However, when it comes to the obligations imposed on them by law, taxpayers are not always compliant. A compliant taxpayer is one who fulfills every aspect of their tax obligations including but not limited to the following to wit: registering with the revenue authority as required; filing the required returns on time; accurately reporting tax liability (in the required returns) in accordance with the prevailing legislation, rulings, return instructions and court decisions; paying

[20] *Halliburton West Africa Ltd vs. FBIR (2006) CLRN pg 159 line 16.*
[21] *Op cit. n 5*

any outstanding taxes as they fall due; and maintaining all records as required. Whereas, a non-compliant taxpayer is one who fails to satisfy any one or more of these aspects and poses a risk to revenue collection. Taxation also serves the objective of redistributing income among the citizens of a country. This is so where the rich pay more taxes proportional to their earnings while the poor are expected to pay less based on their earning power. It follows therefore that the rich pay taxes as due to them; they are indirectly giving back to the society a fraction of their wealth because by paying more tax translates to sponsoring to a great extent the infrastructural development of the nation. This also can be seen where the revenue generated from taxation is used to advance the infrastructure in other zones within a nation.

7. Choosing the Right Tax System

Choosing the right tax laws and the modus of administering such tax systems are very crucial in the development and life of every nation particularly developing countries where market forces are increasingly important in allocating resources. Whatever tax system that is adopted should be straightforward and clear to enable tax administrators carry out their jobs hitch-free. This is so because the tax system is considered as one of the most powerful levers available to any government to stimulate and guide its economic and social development.[22] The Nigeria tax system is basically structured as a tool for revenue generation just like in other climes. The need to tax personal incomes throughout the country prompted the enactment of the Income Tax Management Act (ITMA) of 1961. In Nigeria, personal income tax (PIT) for salaried employment is based on a pay as you earn (PAYE) basis. There abound varieties of tax systems employed by emerging economies to woo investment into their countries with a view to enhancing development and raise the living standards of her citizens.

8. Conclusion

Effective tax reform designed to enhance tax law and tax administration in emerging economies requires adequate commitment by tax administrators and stakeholders alike. It is submitted that tax reforms should be left to individuals and groups skilled in such act to guide the government in realizing the objectives of the National Tax Policy. It should not be a project undertaken for the sake of it and assigned to placate inept administrators and political bed-fellows. If this is so, then our sermons on tax reforms are at best half-hearted approach. Indeed, for any tax reform to have an overwhelming success rate the proponents of such reforms/tax policies must put in place set goals and objectives which they expect the reforms to meet. Also, a mechanism to help achieve such aims and objectives should be put in place from the onset. The tax payers are an integral part of any tax reform and should be carried along since the said reforms affect them directly or indirectly. The government of the day should be able to win the taxpayers over by showing through her various administration policies and implementations that she is responsible and responsive to the needs of the people. A corrupt government will not get the maximum cooperation of tax payers no matter how wonderful the tax reforms may be-the people must be able to trust those in authority to have their best interest at heart. These reforms in tax policy and tax administration must be committed to improving administration and efficiency of revenue collections and ensuring that adequate consideration is given to funding of revenue authorities. The reforms should also ensure better pay for tax officials so as to remove or reduce the quest for corrupt practices to the minimum. A reorientation and massive education of all stakeholders through the print and electronic media is also advised. Furthermore, the training and retraining of personnel, provision of the needed infrastructure and the critical need to build capacity in terms of staff and create broad based data banks that can be relied on for easy reference when needed. When these structures are put in place rather than pay lip service to such reforms, only then should we expect voluntary participation by taxpayers. Governments in developing economies should make it a matter of policy to engage the services of professionals whose professional qualifications will be brought to bear in matters related or incidental to taxation thereto-among these experts should be Lawyers, Accountants, Auditors and Tax administrators to handle tax issues. These groups of professionals will not only add value to our tax system but will definitely add to the efficient allocation and usage of resources and effective usage of taxes. A tax system should allow for stimulation of the economy and encourage economic growth. This

[22] I.A. AYUA; The Nigerian Tax Law, (General Editor-Akinola Aguda) published by Spectrum Law Publishing 1996 (reprinted 1999), page 3.

will ensure a sustained economic growth that will raise the well-being of the populace. The tax system must encourage savings and investment. Taxes in a nut shell should not be a burden, but an avenue to stimulate economic growth and development at all times administered by taking into consideration the economic pulse of the tax payers.