

THE IMPLICATIONS OF TAXATION ON REVENUE GENERATION IN NIGERIA*

Abstract

The importance of taxes to the provision of sustainable revenue in any country can never be over-emphasized. This is more so for Nigeria because of her desperate need for a steady source of revenue in view of the debilitating deterioration in oil prices for the last several years. In view of the foregoing, it is pertinent to appraise the implications of taxation for revenue generation in Nigeria, identify the problems militating against the effectiveness of the Nigerian tax system and outline the remedies thereto. It is firmly believed that a careful appreciation and implementation of the measures herein outlined will significantly reposition the Nigerian tax system and accentuate the amount of revenue generated from same.

Keywords: Tax, Taxation, Tax System, Revenue, Tax Agencies, Tax payers.

1. Introduction

Taxes are the dues citizens pay for the privileges of membership in an organized society.¹ In fact, they are what we give up to have a civilized society² as they pay for public services which benefit all and sundry³ and also serve to resuscitate deteriorating economies.⁴ It is also established that taxation is a fundamental social obligation in the modern era⁵ as well as a very important utility for national development and growth.⁶ Even the Holy Bible urges us to pay taxes as a social obligation⁷. Originally, they were a form of contribution levied from people to defray the major expenses of the State such as defense and maintenance of the rule of law.⁸ Taxes are undoubtedly one of the major sources of revenue of every government in Nigeria.⁹ It is also agreed by tax law scholars that one of the major functions of taxations is to generate revenue for government expenditure, with some scholars even saying it is the fundamental function.¹⁰

Taxes are obligatory even though it has been argued that nobody, no matter how rich, wants to pay tax^{11,12}. The Constitution establishes the obligation for every eligible citizen to pay tax by stipulating that every citizen of Nigeria has a duty to truthfully declare his income to the relevant agencies and to pay his tax promptly.¹³ The payment of tax is therefore compulsory¹⁴ and failure to pay tax by an eligible person is an offence which attracts penalties.¹⁵

* By **D.C. NWUZOR**, Lecturer, Faculty of Law, Ebonyi State University, Abakaliki, Nigeria. Email: dyke_chidon@yahoo.com, Phone Number: +2347037286296; and

* **Chinedu A. ONAH, LL.M.**, Lecturer, Department of Commercial and Property Law, Faculty of Law, Nnamdi Azikiwe University, P.M.B. 5025, Awka, Anambra State, Nigeria. Email: ac.onah@unizik.edu.ng, Phone Number: +2348064794333.

¹ Statement attributed to Franklin Delano Roosevelt, former President of the United States of America, quoted in C Morgan, *What Tax Can Do* (Chicago: Summerset House, 1990), p. 10.

² *Compania General de Tabacos de Filipinas v Collector of Internal Revenue* 275 US 87,100 (1927), per Oliver Wendell Holmes, Jr.

³ DQ Posin, *Federal Income Taxation* (St. Paul: West Publishing Co, 1983), p 1.

⁴ I Kwaghkehe et al, 'The Protection of the Rights of the Taxpayer: A Legal Conundrum in Nigeria', *International Journal of Law*, Volume 6, Issue 4, 2020, 42.

⁵ KJ Morgan & M Prasad, 'The Origins of Tax Systems: a French-American Comparison', *American Journal of Sociology*, Vol. 114, No. 5, March, 2009, 1350. See also, I Kwaghkehe and C Hia, 'Taxation and Good Governance and Service Delivery in Nigeria: A Legal Perspective', *Journal of Law, Policy and Globalization*, Vol 99, 2020, 1.

⁶ MT Abdulrazaq, *Cases and Materials on Nigerian Taxation* (Lucknow: Eastern Book Company, 2016), p. 9. See also, MN Umenweke and WA Chukwuma, 'An Analytical Review of the Extant Tax Laws on Resolution of Business Tax Dispute in Nigeria', *International Journal of Law and Clinical Legal Education* 1 (2020) 1.

⁷ Romans 13 v 6.

⁸ DM Walker, *The Oxford Companion to Law* (Oxford: Clarendon Press, 1980), p. 1208.

⁹ CS Ola, *Income Tax Law in Nigeria* (Revised Edition, Ibadan: Heinemann Educational Books (Nigeria) Plc, 1999), p. 8; A Ipaye, *Nigeria Tax Law & Administration: A Critical Review* (London: ASCO Prime Publishers, 2014), p. 1; M Dura, 'An Analysis of the Personal Income Tax (Amendment) Act, 2011', (2012) *Journal of Commercial & Property Law*, 234; C Odoh, 'The Effectiveness and Desirability of Value Added Tax', (2010) *Nigeria Taxation Journal*, 6.

¹⁰ See for instance, AL Suleman, 'Taxation Regime in Nigeria: Critical Analysis of Basic Principles', in JAA Agbonika (ed), *Topical Issues on Nigeria Tax Laws and Related Areas* (Ibadan: Ababa Press Ltd, 2015), p 48. See also O Olaniyi 'Mismatch Between Tax Yield and Revenue Requirement for Financing Social Overhead Capital in Nigeria: Imperatives for an Alternative Revenue Framework', in JAA Agbonika, *ibid*, p. 400.

¹¹ Y Osinbanjo, 'Property Taxation as Catalyst for Development – Land Use Charge Law of Lagos State', (2003) Vol. 22, *JPPL*, 1.

¹² G Etomi, *An Introduction to Commercial Law in Nigeria* (Lagos: MIJ Professional Publishers Limited, 2014), p. 296.

¹³ The Constitution of the Federal Republic of Nigeria (1999) As Amended, s. 24(f).

¹⁴ JO Alabede et al, 'Determinants of Tax Compliance Behaviour: a Proposed Model for Nigeria', *International Research Journal of Finance and Economics*, Issue 78(2011) 123.

¹⁵ See for instance, Companies Income Tax Act, Cap. C21, Laws of the Federation of Nigeria (2010), s. 92(1) Personal Income Tax Act, Cap. P8, Laws of the Federation of Nigeria (2010), s. 94(1).

Having established that the basic function of taxation is the generation of revenue¹⁶, it inexorably follows that the effectiveness or otherwise of the tax system necessarily determines the amount of revenue to be generated therefrom. Put differently, whereas a well-run tax system inexorably leads to an increased level of revenue generated, a badly-run or inefficient tax system will inevitably lead to a diminution in the amount realized from tax.

2. What are the Implications of Taxation on Revenue Generation in Nigeria?

As stated earlier, whereas a well-run tax system inevitably leads to an accentuation in the amount of revenue realized, a poorly-run or inefficient tax system leads to a diminution in the amount of revenue generated. According to Abdulrazaq, in Lagos State alone, billions of Naira are lost yearly as a result of tax evasion.¹⁷ Therefore, in a simple arithmetic calculation, if other states lose similar amounts yearly, that means trillions of Naira otherwise due to Nigeria, are lost yearly.¹⁸ The above view, while unfortunate, is quite correct. Famakinwa also holds the view that tax evasion and avoidance result in loss of revenue to the state.¹⁹ Another important point to note in this respect is the consequential issue that arises from tax evasion. If tax evasion becomes too pervasive, honest taxpayers (and prospective taxpayers), who would otherwise pay tax, may lose faith and join tax evaders to abscond from paying tax²⁰. The consequential loss of revenue as a result of previously honest taxpayers losing faith and declining to pay tax, when added to the loss from regular tax evaders, makes for a horrifying result as huge revenues are lost. A further angle to this is that the government then sets out to over-tax the compliant taxpayers who may lose faith and close their businesses or whose businesses may become incapable of carrying the huge burden of tax ascribed to it and therefore have to close. This inevitably leads to further reduction in the number of people who will pay tax and the amount of revenue generated from tax. This view is endorsed by Rabiú who observed that revenue losses owing to tax evasion are huge as there seems to be a massive gap between the actual revenue derived from tax and the potential revenue desirable or possible.²¹ Furthermore, the slowness of tax systems (including that of Nigeria) to embrace change in the administration of tax, for instance, taxation of electronic commerce (e-commerce) leads to loss in tax revenue.²² On the other hand, a Government with an effective tax policy will be able to generate the revenue it needs. This view is buttressed by Wokocha who espoused that 'A Government with an efficacious tax policy will have the revenue with which to meet its obligations and engender tremendous development in its territory, while an ineffectual tax administering government will certainly be a lame duck, unable to meet its obligations and unable to leave footprints of developmental stride on the sand (sic) of time.'²³ The broad implication of taxation on revenue generation in Nigeria can be summarized as follows: an effective tax system will lead to a higher tax yield whereas an ineffective tax system will inexorably result in a low revenue generation from tax.

3. Factors Beleaguering the Nigerian Tax System

There are certain factors militating against the efficiency of the Nigerian tax system. It is important to outline them because it is by recognizing them and advancing solutions to them that the Nigerian tax system can be improved (leading in turn, to a higher tax yield). One important factor is that of the twin evils of tax evasion and avoidance²⁴. With regards to tax evasion, the current position is that it is quite high and this has seriously decimated revenue generation from tax in Nigeria. It has been opined that 'tax evasion is a problem inhabiting (sic) revenue generation of developing countries over a long period of time.'²⁵ Unless restrained, these would continue to asphyxiate the progress of taxation in Nigeria with the unfortunate but debilitating consequence of perennial diminution in the amount of revenue generated from tax in Nigeria.

A second factor is the poor and inefficient structure of the tax system in Nigeria. This has seriously derided the quest for healthy revenue generation from the tax system. It has been argued that: 'The political, economic and social development of any country depends on the amount of revenue generated for the provision of infrastructure in that given country. However, one means of generating the amount of revenue for providing the needed

¹⁶ O Olaniyi, *ibid*, p. 407.

¹⁷ MT Abdulrazaq, *Principles and Practice of Nigeria Tax Planning & Management* (Ibadan: Stirling-Holden Publishers Ltd, 2013), p. 117.

¹⁸ *Ibid*.

¹⁹ VBA Famakinwa, 'The Socio Economic and Legal Foundations of Tax Evasion and Tax Avoidance', in MA Ajomo (ed), *Tax Law and Tax Administration in Nigeria* (NIALS, 1991), p. 339.

²⁰ MW Spicer, 'New Approaches to the Problem of Tax Evasion', (1975) *BTR*, 152.

²¹ SA Rabiú, 'Tax Evasion and Offences: Problems and Possibilities', Being the text of a paper presented at the National Conference on State Taxation under the auspices of the Institute of Administration, ABU, 28 - 30 November 1984), pp. 1- 2. See also AO Philips, 'Nigeria's Companies Income Tax', (1968) 1(3) *The Nigerian Journal of Economic and Social Studies*, 338.

²² DA Ariyoosu, *Taxation of Electronic Commerce in Nigeria* (Ibadan: Stirling-Holden Publishers Ltd, 2014), p. 101.

²³ RA Wokocha, 'The Use of Revenue Consultants by Local Governments: A Legal Perspective', (2000/2001) 3 & 4 *UULJ*, 9.

²⁴ For a comprehensive review of which, see EOC Obidimma and DC Nwuzor, 'An Appraisal of the Problems of Tax Evasion and Avoidance in Nigeria', *International Review of Law and Jurisprudence*, 4(1) 5-10.

²⁵ M Mansor & Z Guruma, 'Factors Influencing Tax Evasion in Gombe State Nigeria', (2016) 13 *EPSBS*, 1.

infrastructure is through a well- structured tax system.²⁶ A well-structured tax system is one where tax administration is efficient and effective. Tax officials are properly trained, tax administration is cost effective and transparent and this results in progress in revenue generation from tax. Issues such as inadequate enforcement machineries, inadequate manpower of tax officials, lack of equipment and leniency or connivance of tax officials with people in the informal sector with regards to enforcement of tax policies²⁷ continue to harangue the system with devastating financial consequences. There is also the issue of administration of revenue collection. Regrettably, the position is that it is chronically inefficient and hindered by corruption, inefficiency of tax personnel and inadequate utilization of technology. This has resulted in grave diminution in revenue generation from tax. Accordingly, it has been remarked that: ‘The major goal of any local government’s revenue collection operation is to collect what is owed. Improving the collection of taxes and other revenues, increasing the amount of cash available for investment by seeding collections to a local government’s bank account, and assuring accountability are related objectives. These goals and objectives, generally achieved through improvements in the efficiency of the collection process, are commonly sought after by local governments.’²⁸

Next is the issue of tax remittance. Unfortunately, tax remittance is low owing to corruption and malpractice on the part of tax officials. This sad situation has been observed by scholars who harped that ‘Low tax compliance and remittance limit the capacity of government to raise revenue for developmental purposes because the higher the revenue, the more likely government will put in place developmental plans for the enhancement of the living standard of the people.’²⁹ There is no doubt that low tax compliance and remittance, as observed above, inhibit the flow of revenue derivable from tax. There is a relationship between tax administration, tax regulation and revenue generation.³⁰ Where tax administration and regulation are effective, high revenue generation from tax is guaranteed and *vice versa*. The situation today is that the tax statutes are generally in need of amendment and this dissertation has undertaken substantial work in this regard.

In examining the pit falls encountered in tax administration, the following problems were observed:

- i) Inadequacy of publicity on the need to pay taxes;
- ii) Insufficiency of staff;
- iii) Inadequate training of staff;
- iv) Poor working conditions;
- v) Inadequate remuneration and incentive for tax officials; and
- vi) Corrupt tendencies of tax officials.³¹

As to the quest to optimize Internally Generated Revenue (IGR) in Nigeria, LEAP³² in conjunction with Ukaid³³ made a study of the above and found that one of the ways to increase IGR is by building support for taxation by undertaking massive awareness campaigns to preach the value of paying tax.³⁴ It is obvious that in order to improve the revenue yield derived from tax, tax collection must be seriously improved. In this wise, Aladesawe has advanced several measures to accentuate revenue collection in Nigeria. According to him, reducing leakages, widening the tax base, utilization of Tax Identification Number as well as shifting concentration from direct to indirect taxes are among the measures which can improve tax collection in Nigeria³⁵. It is submitted that the above measures will contribute immensely in this regard. It is common knowledge that a lot of the revenue of Nigeria emanates from the petroleum sector³⁶. In view of the foregoing, it is imperative to identify and resolve any

²⁶ GN Ogbonna & A Ebimobewei, ‘Impact of Tax Reforms and Economic Growth of Nigeria: A Time Series Analysis’, (2012) 4(1) *Current Research Journal of Social Sciences*, 62 – 68, 62.

²⁷ NK Maina, ‘The Effect of Tax Administration on Government, Revenue Generation: A Case Study of Borno State’, Being the text of a paper presented at the Academic Conference of African Scholars Publications & Research International on Indiscipline Approaches held at Usman Dan Fodio University Sokoto on 10th September 2015, pp. 1 - 19.

²⁸ IJ Allan, *Revenue Collection Administration: A Guide for Smaller Governments* (Chicago: Government Finance Officers Association, 1993), p. 1.

²⁹ CO Olaoye & AT Ekundayo, ‘Effects of Tax Audit on Tax Compliance and Remittance of Tax Revenue in Ekiti State’, (2019) 8(1) *Open Journal of Accounting*, 1 - 17.

³⁰ RA Ezejiofor *et al*, ‘Tax as a Fiscal Policy and Manufacturing Company’s Performance as an Engine for Economic Growth in Nigeria’, (2015) 3(3) *European Journal of Business, Economics and Accountancy*, 3.

³¹ Z Gurama & M Mansor, ‘Tax Administration Problems and Prospect: A Case of Gombe State’, *International Journal of Arts and Commerce*, Vol. 4, No. 4, April 2015, 194.

³² Leadership, effectiveness, accountability, professionalism is an international non-governmental organization dedicated to creating new leaders for transformation. For more on it, see <<https://www.leapafrika.org/who-we-are/>>, Last accessed on 2nd March 2020.

³³ An agency of the UK government.

³⁴ ‘Optimizing Internally Generated Revenue in Nigeria’, Being a Publication made under the auspices of LEAP, Ukaid and PERL, 29th June 2017, p. 7.

³⁵ See generally, AU Aladesawe, ‘Diversification of Nigerian’s Economy through Tax Revenue’, in JAA Agbonika *ibid*, pp 83-89.

³⁶ E Ope-Ojo and E Udoh, ‘A Legal Review of the Royalty Taxation Regime in the Nigerian Upstream Petroleum Industry’ in JAA Agbonika *ibid*, p. 214.

perceived factors militating against optimal receipt of the revenue obtainable from this sector. In this wise, Agbonika has identified oil bunkering, oil spills, oil vandalization and oil terrorism as some of the challenges being faced in the petroleum sector³⁷. Furthermore, the informal sector is not properly captured *vis-a-vis* tax and most of tax revenue is collected from few taxpayers, thereby making them pursue 'aggressive tax planning to minimize their tax liability.'³⁸

On the interplay between tax administration and revenue generation, it was opined that: 'The level of revenue generated in the state has been in a declining form due to poor administration and collection of taxes and lack of proper return of accounts. These are the negative effects that affect government revenue generation which are targeted to meet her basic functions like provision of basic amenities for her citizens in the state.'³⁹ Analyzing the effect of Tax Identification Number (TIN) on revenue generation it was observed that it helps hasten the processing of taxpayers' details as well as improving enforcement and awareness of tax, and increasing revenue generation.⁴⁰ In view of the foregoing, it is an obvious fact that taxation has a huge effect on the revenue generation of Nigeria. It is therefore also correct that a proper and effective tax administration will lead to a significant increase in revenue-generation for the country. The measures to adopt in order to improve the tax system in Nigeria (and therefore, the revenue emanating from same) are discussed below.

4. Conclusion and Recommendations

In this article, the implications of taxation for revenue generation in Nigeria have been considered as well as the factors impeding the progress of the Nigerian tax system and pertinent recommendations have been advanced. Although these are by no means exhaustive, if the above measures are faithfully and scrupulously implemented, it is fervently believed that there will be a turnaround of the Nigerian tax system and a significant appreciation of the revenue generated from tax in Nigeria, to be utilized for the betterment of all and sundry. Having highlighted the implications of taxation on revenue generation in Nigeria as well as the factors militating against same, it bears mentioning that the perceived problems are fortunately not insurmountable. Accordingly, the following measures are suggested as panaceas to extirpate the afore-mentioned issues and thereby, accentuate the revenue obtainable from tax in Nigeria. The first issue relates to awareness. More needs to be done by the tax agencies across board to create awareness relating to taxation. A large number of the populace are still ignorant about tax. They need to know, in succinct but simple phraseology, what tax is, the different types of taxes and who they are payable to, how and when to file tax returns, what the tax is used for, consequences of failure to pay tax; etc. This should be done utilizing a combination of approaches including old media (television, radio, newspapers and magazines), new media (whatsapp, twitter, Instagram, linkedin and facebook), billboards, sharing hand bills and using *ad hoc* staff (like the Independent National Electoral Commission does during elections) to disseminate information relating to tax in an aggressive and sustained manner. This will go a very long way to resolving the issues against tax in Nigeria. Another issue relates to the need to faithfully implement or begin to implement the Nigerian National Tax Policy⁴¹. Although the aforesaid document is virtually unknown to the majority of Nigerians, it is a beautiful, comprehensive and extensive articulation of paradigms which ought to pilot the tax system in Nigeria. Therefore, it is essential that the tax agencies should scrupulously adhere to same and thereby, realize much sooner, the objectives of the Nigerian tax system. It goes without saying that this would bring incalculable progress to the Nigerian tax system.

There is also the issue of insufficient capturing of the Nigerian informal sector. As of today, the Nigerian tax system focuses on VAT, companies and petroleum profits taxation and personal income taxation in respect of people with formal employment (such as individuals working with the government or established companies). While this is of course a good place to start, a large percentage of the informal sector is left uncaptured by the tax net. This includes majority of SMEs, farmers, traders, professionals and expatriates with no affiliation to the government. The tax lost in consequence of this deleterious situation is astounding. Consequently, the tax agencies must adopt measures to redress this. This should include a more stringent utilization of TIN (Tax Identification Number) and better collaboration with banks, the Nigeria Immigration Service and other bodies with

³⁷ JAA Agbonika, 'Revenue from Oil and Gas Operations in Nigeria: a Revisit of the Good, the Bad and the Ugly' in JAA Agbonika, *ibid*, pp 274-284.

³⁸ DW te Velde, 'Typical tax findings and challenges in developing countries, in Taxation and Developing Countries: Training Notes,' Being the text of a Publication made under the auspices of Economic and Private Sector Professional Evidence and Applied Knowledge Services, September 2013, p. 9.

³⁹ AR Adeniyi, 'The Effect of Tax Administration on Revenue Generation in Enugu State (A Case Study of the State Board of Internal Revenue Enugu State)', Being a Research Work submitted to the Department of Accountancy, Caritas University in Partial fulfillment for the award of BSc in Accountancy August 2012, p. v. See also TA Soetan, 'Tax Administration and Tax Revenue Generation in Nigeria: Taxpayers Perspective', (2017) 2(10) *IJLEMR*, 38.

⁴⁰ GT Akinleye, FO Olaoye & AA Ogunmakin, 'Effect of Tax Identification Number on Revenue Generation in South West Nigeria', *Journal of Accounting and Taxation*, Vol. II (9) October-December 2019, 171.

⁴¹ For an examination of which, see DC Nwuzor, 'A Critical Examination of the Nigerian National Tax Policy', *International Review of Law and Jurisprudence*, 4(2) 158-163; and NU Richards, 'Overview of the National Tax Policy and its Implication for Tax Administration in Nigeria' *NAUJILJ* 10(2) 2019, 1.

comprehensive data of denizens and inhabitants of Nigeria to reach out to them and capture them in the tax net. For this purpose, it is suggested that corps members can be trained and used in an *ad hoc* capacity to supplement the efforts of tax officials.

Another suggestion has to do with the need for improvement in automation. Although there has been considerable progress in automation in Nigeria, the tax agencies still need to invest more to automate everything relating to tax in Nigeria including interface between taxpayers (or prospective taxpayers) and tax agencies, the different types of taxes, filing of tax returns, e-copies of all the tax statutes; etc. Closely linked to this is the need to improve the convenience of tax payment so that one can, in the comfort of one's home or office, file tax returns, pay tax and generate receipt for tax payment. These will play a huge role in elevating the Nigerian tax system. There is also the need to overhaul the tax statutes and to periodically review them in order to ensure that they reflect current realities and adhere to international best practices. Fortunately, in recent times, Nigeria has passed Finance Acts such as that of 2020⁴² as well as the one of 2021.⁴³ These are means through which the Government introduces much-needed innovations to underscore the fiscal or monetary policy of the country. It is therefore suggested that this trend be maintained. As part of this process, it is submitted that the tax systems of the most advanced countries (such as the UK, the USA, France, China, Japan and the Scandinavian countries) be made the subject of continual study and scrutiny to enable the Nigerian Government stay at breast with international best practices both in streamlining its tax statutes and tax policies in that regard as well as implementing them in tax administration in Nigeria.

Furthermore, there is the need for better accountability, auditing of tax revenues and regulation of tax remittances. When the tax agencies are scrupulous in rendering accounts including amounts realized per quarter as well as what they have been used for, reducing or even obliterating corruption in the tax system and ensuring prompt and accurate tax remittances, taxpayers and prospective taxpayers will be buoyed to be more faithful in meeting up with their tax responsibilities instead of routinely shirking same. Measures must be taken to ensure that the economy is diversified so that the reliance on the petroleum sector will be reduced. The concomitant effect of this is that the economy will be better cushioned in the event of deterioration in oil prices (as has been the case recently). Lastly, there is need for a shift in emphasis from direct taxes to indirect taxes because the latter are much more difficult to evade and easier to administer.

⁴² For an appreciation of which, see K Etim *et al*, 'Finance Bill 2019: Tax Implications for Nigerian Entities', *Alert 06 Grey Matter Tax Digest*, 1-8.

⁴³ For a critical study of which, see EOC Obidimma and DC Nwuzor, 'A Review of the Finance Act 2021', *IJOCLEP* 4(1) 5-10.