TAXATION AND ECONOMIC GROWTH IN NIGERIA

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Abstract

The argument is that both taxes and inflation are burdens on Gross Domestic Product (GDP); they are constraints to GDP. However taxes should be able to withstand the effects of inflation for economic growth. In Nigeria, over the years, the federal government has been raising a large sum of money by taxing the individuals, companies and commodities but the taxpayers arc complaining of the effects of the tax burdens on their economic activities and the manner the revenue from the taxes is injected into the economy. It is against this background, that this paper examines the correlation between (he tax burdens on the Gross Domestic Product (GDP) and economic growth in Nigeria between 1980 and 2001, and compares the results with the inflationary trend of the same period to ascertain if taxes have been able to withstand the effect of inflation. The co-efficient of tax elasticity shows an adverse effect. The paper therefore suggests that feasibility studies on the effects of taxes on the economy are necessary before such taxes are introduced and the revenue from taxes should always be honestly applied on infrastructure for economic growth.

Introduction

Before the advent of British colonial government in Nigeria, there were tax systems in various parts of Nigeria. For example, some types of tributes were paid to the kings (Obas) in Benin, (Akaka) in Egba, (Alafin) in Oyo, and (Emir) in Kano (Orewa, 1976).

.Following the Berlin Conference of 1884-5, the British government took up the administration of Nigeria in 1914, Lord Lugard amalgamated the Northern and Southern Protectorates.

For effective administration the colonial masters introduced the indirect rule system of government through Director-General and the main tax laws were as follows: The First Ordinance of Tax, 1917; Companies Income Tax Ordinance, 1939 and Petroleum Profits Ordinance, 1959 (effective from 1[sl] January 1958 (Co)eman, 1886; Anao, 1988).

Since independence, 43 years ago, Nigeria has reformed and changed its tax system many time in order to generate revenue and improve fiscal incentives for economic growth. With the reforms the Nigerian government is raising large sums of money while the taxpayers are complaining of tax burdens on their income and productive resources that inevitably lead to inflation, depreciation of Naira, low capacity utilization, balance of payment deficits and escalating internal, and external debts therefore making economic growth elusive.

The main purpose of this paper therefore is to examine the correlation between tax burdens and economic growth in Nigeria; in particular the paper will use available data to calculate taxes, as percentages of Gross Domestic Product (GDP) at current factor cost in order to determine the co-efficient of tax elasticity of inflation, which will enable us to know if taxes have been able to withstand the effects of inflation during the period 1980 to 2001. Also to be discussed are the reasons for the adverse effects of Nigeria's tax system. Some suggestions for improving the system will be put forward. 'the paper is divided into five sections. Section one is this introduction, section two deals with the operational definition of the working terms, section three looks at the reasons for the adverse effect of Nigeria's tax system, section four discusses the way forward and section five concludes the paper.

Operational Definition of Terms

Definition of Tax, Systems of Taxes, Taxes burden, Inflation and GDP in Nigeria

Taxation is a general concept for devices used by governments to extract money or other valuable things from people or organizations by the use of law (Encyclopedia of Social Science, 1968).

Tax can be defined as a compulsory payment from the private sector (individual, household, and business firms) to the public sector without involving the public sector in any liability to the payee. It is a levy on income and expenditure based on predetermined criteria without reference to specific benefits received (Aigbokhaevbolo and Ofanson, 2001).

Anderton (1984); Aigbokhaevbolo and Ofanson (2001) on one hand gave a good summary of benefits, expected from taxation to include: raising revenue to finance expenditure, combating inflation, helping in the redistribution of income. It is also used to prevent dumping, control production and consumption pattern, protect infant industries and correct trade cycle. On the other hand, they gave a summary of the allocative effects of taxation to include reduction in the value of investment and consumption multiplier. In particular, income taxes raise the cost of earning money and therefore may reduce worker's willingness to work. Income and profit taxes are also likely to discourage entrepreneurial activity and import taxes encourage smuggling and disallow fair competition.

In Nigeria, tax is levied in various forms. These fall into broad categories - direct and indirect. Direct taxes include levies on personal income, company (non-oil sector), toll, capital gain, property, petroleum profit and others whose burden and the incidence fall on the tax payer and cannot be shifted to someone else.

Indirect tax includes levies on import, export, excise (production), entertainment, value added tax (VAT) and others, which taxpayers may be able to shift forward or backward (capitalization) to the final consumer of the product or services.

From the above, it is clear that Nigeria has a broad tax base. From the relevant information and the Central Bank of Nigeria (CBN) data shown in Table 1; the tax burden on GDP between 1980 and 2001 has not be able to withstand the effects of inflation.

Table J: GDP, Taxes as Percentages of GDP and lunation Rate in Nigeria (1980-2001)

Year	GDP (N Million) at Current Factor Price	Federal Collected Tax (N Million)	Taxes as Percentages of GDP	Inflation Rate %
1980	49,632.3	11444.5	23.0	9.9
1981	50,456.7	11051.9	22.0	20.9
3982	51,570.4	8465.2	16.4	7.7
1983	56,709.7	7002.6	12.3	23.2
1984	63.006,4	7745.5	15.2	39.4
1985	71.368.1	10837.7	12.9	5.5
1986	72,128.3	9299.5	17.6	5.4
(987	106,883.2	188857.6	10.2	10.2
1988	142,678.4	14579.4	11.4	38.3
1989	222,457.7	25338.0	46.0	40.9
1990	257,873.0	118731.2	33.4	7.5
1991	320,247.4	107113.2	27.6	13.0
1992	544,330.6	180234.6	27.1	44.5
1993	691,606.8	187099.9	20.1	57.2
1994	911,091.3	182887.3	16.2	57.0
1995	1,960,689.1	31817.8	12.72	72.8
1996	2,740,458.5	348481.0	15.0	29.3
1997	2,834,998.7	424914.0	16.3	8.5
199S	2,721,510.7	442731.9	24.3	10.0
1999	3,250,670.0	788606.7	23.7	6.6
2000	3,374,195.4	7959860.0	28.8	6.9
2001	3,505,789.0	1010660,5	20.8	18.9

Sources: (i) Central Bank of Nigeria (CBN) (1999) *Statistical Bulletin, December* (ii) Central Bank of Nigeria (CBN) (2001) *Annual Report and Statement of Accounts,* December.

From Table I it can be observed (hat tax revenue increased from 11,444.5 million Naira in 1980 to 101,0660.5 million Naira in 2001, basing the taxes as percentages on the GDP to obtain the tax burden on the GDP the average annual change was 20.2%. The inflation rate increased from 9.9% in 1980 to 18.9% in 2001 with an average annual change of 24.3%. Thus the co-efficient of tax elasticity of inflation was 1.2, since the co-efficient is greater than 1, inflation is elastic therefore increase in taxes by 1 % will lead to an increase in inflation by 1.2%. This relationship between tax and inflation in Nigeria has attributed to severe distortions on the Nigerian economy, which destroy incentives for production and export, encourage smuggling, and expand the parallel foreign exchange market (Kusi, 1998; CBN, 2001).

Reasons for the Adverse Effects of Nigeria's Tax System

The reasons for the adverse effects of Nigeria's tax system can be summarized as follows: i. Tax policies are ad hoc, uncoordinated and haphazardly implemented. As Ajakaiye (2000) noted, a committee was set up to conduct a feasibility study on the implementation of VAT, but the committee's mandate did not extent to assessing the possible impact of tax. Since January 1994 when VAT began in Nigeria, the government may have been happy about the high and growing VAT revenues, but there are increasing complaints from the organized private sector about the effects of VAT on their operating costs and prices of their products. ii. Some organizations do not remit or delay in the remittance of tax deducted from their staff gross pay to tax authorities. So also are some organizations that collect VAT.

iii. The Nigerian factors of bribery and corruption as well as lack of knowledge and skills of the tax collectors have some negative effects on tax management.

iv. Despite the provision of the constitution in respect of tax jurisdiction and administration, it seems from all indications that the federal, state and local governments do not follow the constitution. The three tiers of government make and administer conflicting tax laws. v. Most states and local government councils have imbibed bad habits of using fraudulent contractors to collect taxes on their behalf despite the regulations prohibiting the act.

vi. Over the years, semi-illiterate but successful traders or politicians are appointed as board members to oversee the work they do not have the knowledge and skill and this has negative effects on tax administration.

vii. At most tax collecting centres there are cases of indiscriminate collection of taxes and levies, (he lax collectors extort money forcefully from the taxpayers in the name of tax with either fake or no receipts issued. In most cases people are subjected to double taxation. Sometimes armed policemen are used to close or seal business premises for those who could not comply. For example, local government and state governments sometimes block the roads to collect tolls.

Tax Management and Administration in Nigeria: The Way Forward

At the moment the manner of tax management and administration in Nigeria can never lead Nigeria to economic growth. However, hope is not lost provided the following are vigorously pursued:

i. Tax laws in Nigeria are too numerous and complex. They must be streamlined for proper clarity, simplicity and codification. For this reason, the various tax authorities: Federal Board of Inland Revenue (FB1R), Internal Board of Revenue (IBR) and Joint Tax Board (JTB) should meet urgently to address this issue.

ii. Tax management and administration require strategic management. Strategic management involves effective combination of the well known managerial functions: planning, organizing, leading and controlling of the organization's resources to achieve the desired result. Thus tax management and administration require feasibility studies and monitoring in order to satisfy both the government and the taxpayers as well as withstand the effects of inflation, iii. Accountability, Transparency and Probity are indispensable, to achieve these objectives. Therefore, our leaders must live by example, expenditures and receipts must conform to statutory authorizations and properly channeled to more preferred sector; systematic information must be provided in an orderly manner and according to clearly laid down rules, principles and procedures; and the right books of accounts must be properly and honestly prepared. The tax payers must be educated on the need and basis for taxation.

iv. Amendment to Tax Laws: Considering the low productivity in all sectors of the economy certain provisions of the tax laws need amendments. They include the following:

a. Companies Income Tax Act: Tax-free interest on foreign loans should be reviewed to discourage companies from foreign loans;
b. Complete abolition of tax on interest earned on savings account. Reduction of withholding tax to 5 percent;

c. Official emolument of Head of State and Governor of States should be subjected to tax like any other public servant;
d. Contributions to education, health and housing funds should be made compulsory for all workers, the organizations should be made to contribute 50 percent of such contribution on behalf of the workers;
e. Qualifying human resources expenditure should be introduced in respect of Capital Allowance;
f. Higher duties should be imposed on goods that are adequately provided locally;
g. The importation of health, education, transport and housing materials should be duty free;
h. There should not be anything like export duties;
i. More reliefs are necessary for low income earners;
j. The current VAT of 5 percent should be reduced to 2 percent;
k. Education tax should be increased to 5 percent for the oil-companies and remain 2 percent for non-oil companies. v. Adequate enforcement of penalties for tax evaders. Organizations that fail or delay in the remittance of taxes collected to the tax authorities should be duly penalized.

vi. Training and retraining are imperative. The tax board directors, management and staff as well as the public need (raining and retraining in order for them to know what is expected.

Conclusion

The correlation between taxes and economic development was examined in this study. From the available relevant literature and data used in this study it can be inferred that in Nigeria, there are ad hoc, uncoordinated and haphazard implementation of tax policies. The results have been high inflation, which has created severe distortion on the Nigerian economy.

The paper is therefore of the opinion that the government should always carry out feasibility studies on the effect of tax on the economy before the introduction, and for real economic growth government must encourage private investment, while the government should honestly concentrate on infrastructural investment with the revenue from (axes.

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