Tax Administration and Revenue Generation of Lagos State Government, Nigeria

John A. Enahoro[1]* OLABISI Jayeola[1.2]
1. Department of Accounting, Babcock University, Ogun State, Nigeria.
2. Department of Financial Studies, Redeemer's University, Ogun State, Nigeria.
*E-mail of the corresponding author: jayeolaolabisi@yahoo.com

Abstract

The study examines the overall effectiveness of tax administration in relation to assessment, collection and remittance of tax in Lagos State, Nigeria. A survey questionnaire of the machinery of tax administration was carried out where 130 questionnaires were administered to analyse the opinion of civil servants directly connected with tax administration in the five Local government areas of Lagos State (Somulu, Mushin, Ikeja, Kosofe and Surulere). Hypothesis tested for the relationship which exists between tax administration, tax regulation and revenue generation. The Kendall measure was adopted and finding is that the tax administration in Lagos state is not totally efficient. Hence, tax administration affects the revenue generated by the government; also, there is a significant relationship between tax administration, tax policies and tax laws. The study therefore recommends that Lagos State Government could put in place a tax system that can enhance better administration of tax systems and tax collections should be left in the hands of private organisations.

Keywords: Taxation, Administration, Revenue and Tax laws

1. Introduction

Ariwodola (2001) described tax as a compulsory levy imposed by the government authority through its agents on its subjects or his property to achieve some goals. Arnold and Mclntyre, (2002) define tax as a compulsory levy on income, consumption and production of goods and services as provided by the relevant legislation. Tax is a charge imposed by government authority upon property, individuals, or transactions to raise money for public purposes. This definition is however imperfect. The study of the teachings of Christianity, Islamic and other prominent religions in the world shows that tax is a religious duty based on social and civil responsibilities (Agbetunde 2004). They all support and encourage tax imposition either to redistribute wealth or to finance government project. The Nigerian tax administration is in line with the British model of tax administration since 1960 and has been operating this up to 1990 when the self-assessment scheme came into play which seems similar to the American model of tax administration system (Adesola 2004). The British model of tax administration assumes tax payers are incompetent as to tax process and tax authorities do not rely on information supplied by tax payers. Returns of the tax payer are carefully verified through the application of the American model in reference to the rigid British model. The American model despite the advantages that can be derived from its application has not found a good place in Nigeria because all the phenomenon that made it a success in America such as voluntary compliance system, competence of tax payer, efficient data processing system which aids detection of fraud are still not present the Nigeria context. Consequently disadvantage has adversely impacted on local government tax system since they are part of the ruling process in the state. Such impact has generally been based on problems associated with collection, assessment and returns procedures in the local government area. There is doubt on how efficient the tax authority and other bodies participating in the collection of tax and make returns to the local and state government. In an economy like Nigeria where great reliance is placed on one source of revenue by the state government, the understanding and appreciation of the significance of tax as a source of revenue is of paramount importance. This is not only to enable one the opportunity to examine potential revenue generated in the state but to enable the decision makers and government to appreciate the need for administration changes within the context of tax system.
 In this study, effort was made to assess Lagos State tax administration system and how it could serve as a veritable tool for revenue generation of the state. The result of the study shows that tax administration affects the revenue generated by the government and that there is a significant relationship between tax administration, tax policies and tax laws.

1.1 The Issue

In most countries, tax system is seen as an embodiment of contention and controversy whether in its policy formulation, legislation or administration (Bariyama & Gladson 2009). There is huge scale of corrupt practices prevalent in Nigeria. Under the administration of tax in Nigeria, Ayua (1996) pointed out that the major problem lies in the procedures, machinery and approaches adopted in collection, assessment and corrupt practices of tax

officials in implementing the tax system. Ayua (1996) opines that the tax system is grossly inadequate as it is characterized with tax evasion, avoidance and record falsifications which account for the consistent low tax yields. The problems associated with an enquiry into the tax administration in Nigeria are pretty numerous but little or no studies have been done to comprehensively examine the system in a manner that attempts to relate the tax administration to tax laws and policies in Nigeria. This dearth of economic literature on comprehensive analysis of tax administration, policies and law in our economy apparently leaves a gap between what the people perceive to be reliable tax revenue administration and what it is in reality.

With this as the background together with the fact that tax administration is one of the most important but least studied aspects of fiscal reform in developing economies, there appears considerable scope for the study. This study therefore, seeks to study how tax administration in Nigeria could affect the overall effectiveness of Lagos State revenue generation in relation to assessment, collection and remittance of tax.

The general objective of the study is to analyse and assess the tax system in Nigeria with emphasis on tax administration in Lagos State which includes collections, assessment, filling returns and tax proceeds of Lagos State. The specific objectives are; to

- evaluate the effectiveness of the assessment, collection and remittance of tax system in Lagos State;

- assess the future prospect of Lagos State tax administration, in the light of better administration for revenue generation; and

- proffering suitable solutions to the problems facing the tax administration system in Lagos State.

2. Overview of Tax System in Nigeria

Odusola (2006) is of the opinion that Nigeria is governed by a federal system, hence its fiscal operations also adhere to the same principle which has serious implications on how the tax system is managed in the country. In Nigeria, the government's fiscal power is based on a three-tiered tax structure i.e. the Federal, State and Local Governments, each of which has different tax jurisdictions. In 2002, about 40 different taxes and levies are shared by all three levels of government. Odusola (2006) stated that Nigeria's tax system is characterized by unnecessary complexity, distortion and largely inequitable tax laws that have limited application in the informal sector that dominates the economy. Abubakar (2008) further opined that the Nigerian tax system has undergone significant changes in recent times. The tax system is the process of taxation involving sets of rules, regulations and procedures with the organs of administration interacting with one another to generate fund for government (Agbetunde 2010). The Nigerian system is of tripartite activities which include the tax laws, tax policies and tax administration (Adesola 2004). Under current Nigerian law, taxation is enforced by the three tiers of Government, i.e. Federal, State, and Local Government with each having its sphere clearly spelt out in the Taxes and Levies (approved list for Collection) Decree, 1998 (Abubakar, 2008). In as much as the Nigerian Tax system is structured as a tool for revenue generation, Naiyeju (2010) and Odusola (2006) asserted that the system is seen as being lopsided, and dominated by oil revenue. The most veritable tax handles are under the control of the federal government while the lower tiers are responsible for the less buoyant sources, which imply that the federal government tax corporate bodies while state and local governments' tax individuals. The federal government on average accounts for 90 per cent of the overall tax revenue annually but, only accounts for about 70 per cent of total government expenditure. In 1995, the breakdown of total tax and levy collection of the three tiers was 96.4 per cent for the federal government, 3.2 per cent for the state and 0.4 per cent for the local government (Phillips 1997). Ahmad (2005) pointed out that the objectives of tax system are multi-dimensional in nature which includes revenue generation, resources allocation, a fiscal tool for stimulating economic growth and development and Social functions, like redressing the rural-urban population drift, and making everybody to be a responsible. Taxes, and tax systems, are fundamental components of any attempts to build nations, and this is particularly the case in developing or transitional nations. As Brautigam (2008) has noted, taxes underwrite the capacity of local government to carry out their goal, they form one of the central arenas for the conduct of local government-state relations, and they shape the balance between accumulation and redistribution that gives local government their social character. Tax builds capacity such as provision of security, meeting basic needs or fostering economic development. It also builds legitimacy and consent such as creation of consensual,

accountable and representative government. Edemode (2009) opines that the unfriendliness in our current tax system ranges from inadequate information to taxpayers and the general public, sporadic, ad-hoc communication and linkages between taxpayers and tax administrators, multiple taxation, aggressive and unorthodox methods of tax collection, insufficient and inappropriate deployment of tax revenue to critical needs of the public and system leakages. In order to evolve a good tax system, therefore, the people have a right to access all information relevant to taxes. Tax authorities should also note what tax payers need to know not only about tax but how governance interface with their economic and social living. This information should be provided regularly, at the appropriate time and through appropriate communication channels.   A tax administration that encourages voluntary compliance resolutely and legally enforces compliance, treats the tax payer as partner, rewards pro-tax behaviour and operates in an environment of accountability is a preferred tax system (Edemode 2009). However, there are emerging evidence in the urgency signs and evidence in the urgency to make tax payment easy, people friendly and efficient exercise in Nigeria. These signs and evidence are coming from the Nigeria Federal Inland Revenue Service (FIRS) which is the key government agency with the responsibility for assessment, collection and deposit of taxes to the nation treasury. The need to interface with the public is sustained through interactions by the FIRS with the mass media and practitioners, meeting with various stakeholders, other organisations, professional bodies, market women's associations' students at secondary and tertiary levels and the sponsorship of programmes and activities of groups including the physical challenged individuals.

2.1 Challenges of Tax Administration in Lagos State

Odusola (2002) is of the opinion that the tax administration in Lagos State is similar to what obtains in other parts of the country. The tax administration problems encountered in Lagos State are also evident in other States of the Federation. The incessant review of revenue capacity of all revenue units is a major challenge which has impacted negatively on efficient collection of tax. Naiyeju (2005) pointed out that most of the tax authorities in Lagos State Local Government lack the desired institutional capacity to administer tax system effectively. The bulk of tax today is paid by only the employees and less privileged individuals in the state. Politicians, the rich, the professionals and the privileged individuals are not equitably taxed. Fashola (2009) noted that the corruption risk erodes the tax yield and confidence in the tax system and also at the Local Governments level, there is dearth of capable hands to administer the relevant tax provisions efficiently. According to Ekpo and Ndebbio (1998) other problem of tax administration centres on inadequate personnel in terms of quantity and quality. The shortage of qualified tax personnel is partly responsible for the poor enforcement. At the local government level, tax collectors include messengers and some daily-rated employees are supervised by the tax clerks who are not knowledgeable in tax practices. The category of staff is generally not adequately equipped to carry out the tax operations. It is observed that due to their low level of education, tax officials are not conversant with the tax laws and regulations. The sharp and dishonest practices by some tax officials, especially at the local government level, pose a serious threat to tax administration in Nigeria. All these and other related practices are probably capable of having a demoralizing effect on the taxpayers who may evade tax. The problem of tax evasion and default may not only stem from the lack of voluntary compliance by tax payers 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 raiding of tax defaulters by the local government tax clerks and employees has become a nest of corruption for some tax officials. A tax defaulter who does not want to appear in court negotiates and buys his freedom from arrest on payment of an agreed fee which goes entirely into the pocket of the corrupt clerk. This generalization must not be misconstrued because there are honest clerks, but the percentage of the dishonest ones is higher when compared with the honest ones. The Ayoola Commission also provides sufficient evidence to show that tax clerks live above their incomes and their ostensible livings have been found to be totally unrelated to their salaries and status (Naiyeju 2005).

3. Population, Sample size and Procedures

The sample for the study consisted of 5 Local Government Areas purposively selected out of 20 Local Government Areas in Lagos state, Nigeria being homogeneous and has no selection bias. Out of the total number of 125 questionnaires properly filled and retrieved, 85 were used to capture the opinion of Local Government

Areas in Lagos state (i.e 17 questionnaires administered in each local government areas) and the remaining 40 administered to officials in the Lagos State Local Government Revenue Committee which is responsible for the collection, assessment of all taxes, rates and fines in Lagos State local Government Areas. The respondents consisted of all officials who have a direct relationship with the administration of tax in Local government Areas. They include treasurer, auditor, tax collector, cashier, clerks.

3.1. Instrument for Data Collection

A total of one hundred and thirty questionnaires were administered out of which one hundred and twenty-five were properly filled and returned. One hundred and twenty-five questionnaires were administered on 85 respondents from the 5 local government areas and 40 to officials in the local government revenue committee). The data were analyzed using simple percentages and kendall's measure of concordance at 0.05 level of significance. This was used to ascertain whether or not there is correlation between the variables of interest.

3.3. Data Analysis and Interpretation

Table 2: Distribution of Respondents

Work categories	No of respondents	%of response
Tax collectors	40	32.7%
Tax inspectors	38	30.4%
Head of departments	47	37.6%
Total	125	100%

Source: Questionnaire administered 2011.

Table 2: Responses on key issues relating to the relationship between the tax administration tax law, tax regulations and the revenue generated by the government

S/N	Variables	Tax collectors				Tax inspectors				Head of departments			
		Y	U	N	TOT	Y	U	N	TOT	Y	U	N	TOT
1	The tax admin System in Lagos state is not efficient and effective	28	2	10	40	23	5	10	38	37	2	8	47
2	The administration of tax system in Lagos has adversely affected the revenue generated	32	2	8	40	25	4	9	38	42	-	5	47
3	The relevant tax authority in the state has not shown proper conducts in the assessment of tax	30	-	10	40	29	4	5	38	43	-	4	47
4	The procedure of tax assessment, collection and remittance is a whole lot of paper work	32	3	5	40	31	2	5	38	41	3	3	47
5	There is a better future for tax administration system in Lagos	34	2	4	40	34	3	1	38	47	-	-	47
	TOTAL	156	9	37	200	142	18	30	43	210	5	22	235

Source: Field work, 2011.

Key: Y – yes, U- uncertain, N –no and TOT – total

Table 3: ∑ 'Y' response

s/N	Tax collectors	Tax inspectors	Head of departments	RT	(RT)²
1	28	23	37	88	7,744
2	32	25	42	99	9,801
3	30	29	43	102	10,404
4	32	31	41	104	10,816
5	34	34	47	115	13,225
∑				508	51,990

N = Number of questions examined

Where RT = row total

RT² = Square of row total

The Sum of the Square of Row (SSR) = $\sum RT^2 - \dfrac{\sum (RT)^2}{N}$

$SSR = 51,990 - \dfrac{(508)^2}{5}$

$= 51,990 - 51613$

$= 377.2$

Computation of Kendall's W using the sum of the squares computed to obtain Kendall's W:

$W = \dfrac{3\,SSR}{K^2\,N\,(N^2-1)}$

Where K = number of observed constituencies which are fifteen items on the questionnaire

Therefore $\dfrac{3 \times 377.2}{(15)^2 \times 5\,(5^2-1)} = \dfrac{1,131.6}{27,000}$

Computed W $= 0.0419$

Using X^2 table to measure $X^2 = K\,(N-1)\,W$

$= 15\,(5-1)\,0.0419$

$= 2.51$

$DF = N-1 = 5-1 = 4$

Level of significance 0.05 and the table value of $X^2 = 9.49$

At 0.05 level of significance and 4 degree of freedom (df) the computed X^2 is 2.51. Since it is less than the critical X^2 (9.49)2. The conclusions are that the tax administration system in Lagos state has tremendously affected the quantum of revenue the state supposes to generate every year. In addition, the relevant tax authority in the state has not shown proper conducts in the assessment of tax. Nevertheless, the investigation showed that with the latest development in respect of tax administration in the state, there is a better future for tax administration in the state.

4. Findings

The study investigated the revenue generation of Lagos state through analysis of the tax administration system in the state. Based on the analysis carried out in the course of this study, the following findings were arrived at;

- tax administration i.e. the assessment, collection and remittance have a significant relationship with the revenue generated by local government in the state. The implication of this is the fact that when the system of tax administration is not efficient, the revenue generated in the state is affected;
- most tax payers avoid and evade tax as a result of the corrupt practices of tax officials which in turn affect revenue generated by the state;
- the relationship that exist between the tax administration and tax regulation is that of a direct relationship in that when government passes regulation and policies on tax, the administration of tax will also be equally affected which could either be in the positive or negative depending on the direction of policies and regulations made and tax officials attitude to this laws and policies;
- tax administration in Lagos state, from the analysis, is found to follow due process.
- the system of tax administration in Lagos involve a whole lot of paper work and for a better tax administration, private organisation should be allowed to take over the administration of tax; and
- the study shows that the Lagos State government tax system is not efficient in its totality but during recent years the Lagos state government has put in place better means of achieving the best tax administration through rigorous campaign on the need for better tax system and curbing the activities of corrupt tax officials by putting in place various devices to curb the excesses of these tax officials.

4.1. Conclusions

The effect of tax administration on the revenue generated by local government cannot be overemphasized and as such the current tax system should be checked and all loopholes should be checked and look into to bring about a better tax administration in Lagos state. Effective tax administration designed to enhance revenue generation requires both the commitment of government and time. It is not a process to be rushed into and as such, caution is needed particularly in respect of getting the right balance of policies and laws to guide tax administration. The key lesson this study has attempted to convey is that there is no single appropriate tax system for any developing

country that can be plucked off the shelf and implemented without taking into consideration tax policies, laws and administration. Each system of tax is unique in its administration and therefore every state must be conversant with the manner in which it is administered.

5. Recommendations

Based on the study, the following are recommended

i. A conscious effort should be made to enhance the effectiveness of revenue officers of the Local Government Revenue Committee. This should be done through conscious effort at training and retraining, provision of greater motivation for the personnel and provision of better working environment for an enhanced productivity;

ii. For a better tax administration, adequate machinery should be put in place and strengthened. The level of the deterrent punishment should also be made stricter and there should be continuous education for the citizens on the importance of tax payment and the problems attached to non- performance of their civil obligations;

iii. Local Government areas on their own part should make good use of the revenue generated to better the areas in which they operate. When government does her part, the citizens will not default in the payment of tax which at the end will affect the overall tax system;

iv. As part of the overall strategy to put in place for a better tax administration in Lagos state, some of the activities of the local Government Revenue Committee should be handed over to private companies. It is clear that private companies which performs outsourcing function undertake core tax administration activities which are necessary and functioning properly than those performed in-house by tax officials of the committee;

v. To further encourage effective tax administration, a simplified income tax assessment form and a tax table should be introduced to assist people in determining their own tax liability. Mini tax offices should be established in all the major markets to effect and simplify the collection of tax by tax collectors. More importantly, Local governments in Lagos state should partner with collecting Banks which will enable an individual tax payer to conveniently assess himself by reference to a table which shows various income brackets, the allowances and tax payable in respect of each; and

vi. In addition to liaising with collecting banks, the database for tax administration at the local government areas should be computerized to ensure that the system of information storage, processing and retrieval is efficient. Tax clearance certificate should also be presented where an individual wants to transact business with government agencies.

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