

TAXATION AND SUSTAINABLE DEVELOPMENT IN NIGERIA, 2010 – 2019

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Abstract

The study analyses “Taxation and Sustainable Development in Nigeria, 2010 – 2019” in post-COVID-19 era. It sets out to discover how the current fiscal federalism impacted on taxation for sustainable national development in Nigeria between 2010 and 2019. It also aims to investigate how taxation was applied as a measure for the provision of infrastructure to incentivize compliance towards sustainable national development for the period of the study. Theoretical rationale for analysis of the study is Ability Theory postulated by Arthur Cecil Pigou (1943). The thesis of the theory is that taxation depends on ‘who should pay’ as well as ‘who should benefit’, and could be used to explain taxation in Nigeria. Observation method of data collection was applied relying on secondary sources while qualitative analysis with tables was adopted for the study. Indicators reveal that inverted fiscal federalism and discouraging tax system undermined revenue generation for sustainable national development for the period of the study. Moreover, government failed to adequately deploy revenue as measure for provision of infrastructure towards sustainable development in Nigeria and as a reward to incentivize compliance, which in turn encouraged tax evasion and avoidance as well as loss of investments. The study recommends devolution of power especially on the area of tax administration to the federating units in line with ideal fiscal federalism so as to adequately expand tax net

and enforce tax laws. It further advocates expanded tax administration structure to capture all eligible taxpayers into the net as well as adequate and transparent use of revenue in the provision of infrastructure to incentivize compliance and enhance economic and social activities for a sustainable national development in post-COVID-19 Nigeria.

Keywords: Federalism, Taxation, Revenue, Social Amenities, Sustainable Development

Introduction

Several options have been adopted by governments in Nigeria as tools for revenue generation for national development. These range from taxation, to significant reliance on crude oil, loan, and foreign direct investments which help to create revenue base for national development. In recent times however, practice have shown that most sources of revenue for national development are not sustainable due to undermining variables leading to their failure rates. A quintessence is fall in crude oil price in the international market leading to low revenue since 2016 and the resultant economic recession and the attendant consequences. The situation has further been aggravated by COVID-19 pandemic currently been witnessed globally with unbearable impacts and ‘ENDSARS’ protest triggered by angry youths against police brutality from Thursday, October 8, 2020 demanding for Police reform, bad governance reform, infrastructural development, youth employment, among others. Consequently, there is the need for fine-tuning of the most reliable revenue tool for sustainable national development, namely taxation.

Tax has always been practiced in Nigeria since its introduction in Nigeria by the colonial government. Unfortunately, tax structure and administration remain contentious due to inadequate fiscal federalism practice which disconnects the component units of Nigeria from directly obtaining tax revenue in line with ideal fiscal federalism and the resort to revenue allocation from the centre to perform their statutory responsibilities. Consequently, the federating units in Nigeria continue to agitate against the federal government on the basis of marginalization and inadequate infrastructural provision. This is further aggravated by inadequate tax administration which fails to provide comprehensive platform for automated tax system, especially for tax database as well as the fundamental challenge of understaffing to drive the process (Aguolu, 2004).

Although tax revenue actually grows in Nigeria until recent impact of slide in oil price, it is grossly inadequate compared to tax to Gross Domestic Product proportion. Similarly, revenue utilization for the provision of infrastructure falls short of expectation and leads to shortfall of infrastructural development, which is linked to lower economic development and national development. This has created disconnect and gap in taxation as a tool for national development as reflected in the modern taxation process which involves a tax system that incorporates tax policy, tax law and tax administration. However, the salient aspect of tax revenue utilization seems to be ignored or underplayed in taxation issues in Nigeria on the premise that it is not the concern of tax administrators but that of government. Similarly, sustainable national development equally envisages a socially sustainable system such as the entrenchment of

distribution equity, adequate provision of social services including health and education. All of these ideals of sustainable development can be made possible via an effective tax system. This manifests in forms such that revenue derived from tax of certain sectors of the economy can be injected into other sectors of the economy to boost such other sectors and bring it to such level that it can also generate income to the government. Unfortunately, inadequate tax revenue has significantly impacted on sustainable national development in Nigeria such that the quest for independence in 1960 and return to democratic rule in 1999 has not yielded the desired benefits to citizens. The table below indicates the tax to Gross Domestic Product (GDP) of Nigeria.

Table 1: Tax to Gross Domestic Product (GDP) in Nigeria 2010 – 2019.

S/No	Year	GDP (₦)	Tax Revenue (₦)	Percentage to GDP
1	2010	54.619	3.987	7.3
2	2011	63.100	6.057	9.6
3	2012	72.346	6.800	9.4
4	2013	82.596	6.855	8.3
5	2014	92.256	7.011	7.6
6	2015	37.590	2.293	6.1
7	2016	104.275	5.527	5.3
8	2017	135.284	7.711	5.7
9	2018	145.144	9.579	6.6
10	2019	161.316	9.840	6.1
Total		948.526	65.66	6.9 (average)

Author's compilation:

1. (2020). Gross Domestic Product, 2019.
2. OECD (2020). Revenue Statistics in Africa 2019 – Nigeria.
3. Trading Economics (2020).

Average tax to GDP ratio in Africa is generally low at 17.2% for the period 2010 – 2019. Nigeria's average tax to GDP for the period is 6.9%; which is among the least in Africa and indicates that tax revenue in the nation is grossly inadequate to contribute to sustainable national development. Consequently, the study sets out to discover the following relevant questions: "how did the current fiscal federalism impact on taxation in contributing towards sustainable

national development in Nigeria between 2010 and 2019? How was taxation applied as a measure for the provision of infrastructure to incentivize compliance towards post-COVID-19 sustainable national development?"

CONCEPTUAL CLARIFICATION OF TERMS

Tax has variously been conceived according to perspectives of scholars. However, tax is generally defined as compulsory contribution imposed on persons by the government in line with law for the purpose of taking care of public expenditures. Tax has also been described as "financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state to fund various public expenditures"

(<https://en.wikipedia.org/wiki/Tax>).

According to Coiley (in Ekanem, 2017) tax is the enforced proportional contribution from persons and property levied by the state by virtue of its sovereignty for the support of the Government and public needs. Government as the machinery for regulating the state imposes tax on persons to enable it achieve general good.

Taxation denotes the process of tax collection. It could be defined as the process of imposing, collecting and remitting tax revenue for the purpose of running public expenditure (Aguolu, 2004). It could also be explained from the business viewpoint as "a means by which governments finance their expenditure by imposing charges on citizens and corporate entities" (www.businessdictionary.com/definition/taxation.html). Taxation involves a process which is segmented into the tax system comprising tax policy, tax law and tax administration. Each of these segments should be streamlined and harnessed for the

purpose of utilizing them as tools for national development. Deficiency in any of the part ultimately affects tax revenue which in turn impacts on national development. Taxation is administered by designated government agency, usually the Federal Inland Revenue Service (FIRS) and State Internal Revenue Service (SIRS) for the central and federating unit governments, respectively. Afubero and Okoye (2014) define tax administration as the whole organizational setup for the management of the tax system in line with tax legislation. The department of government is responsible for the management of the tax processes involving assessment, collection and reporting/accounting.

Moreover, the non-compliance phrase "tax evasion" describes an act in contravention of the law whereby a person who derives taxable income either pays no tax or pays less tax than he would otherwise be bound to pay. Tax evasion includes the failure to make a return of taxable income or the failure to disclose in a return the true amount of income derived. This must however be distinguished from tax avoidance which denote those various devices which have been adopted with the aim of saving tax and thus sheltering the taxpayers' income from greater liability which would have been otherwise incurred. Tax evasion is antithetical to the value of tax as a catalyst for sustainable national development. It therefore means that if tax must be gainfully engaged towards sustainable national development the war against tax evasion must be won at all tiers of the government of the federation (Ekanem, 2017).

Development as a concept is described variously. However, attempts have been made by erudite scholars to conceptualize development. Gboyega (in Ekanem, 2017) defines development as an idea that embodies

all attempts to improve the conditions of human existence in all ramifications. It implies improvement in material well-being of all citizens irrespective of social, economic, or political status. Development cuts across improvement in economic sphere to healthcare, education, housing and other essential services all with a view to improving the individual and collective quality of life. There are various aspects of national development of which economic development is the major aspect. The sub-structure (economy) as the Marxian scholars argue, forms the basis of the superstructure that determines the functioning of political, religious, educational and social life of any individual/national life (Mbah, 2008, p.138). Thus, economic development has been described as “the sustained and concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area” (https://en.wikipedia.org/wiki/Economic_development). Moreover, economic development involves quantitative and qualitative changes in the economy which promote good live measured in terms of set standards. Some of the changes include improved amenities which promote good standard of living such as good roads, comfortable housing, electricity supply, potable water, environmental protection mechanisms, and availability of decent works for labour mobility, among others.

National development refers to the ability of a nation to improve the lives of its citizens. This is measured in terms of Gross Domestic Product (GDP) and general standard of living of citizens of a society, vis-à-vis economic development and/or social aspects such as literacy rates, healthcare, and so on (www.ask.com/government politics/ national-development-7dbd75858a839b17).

Therefore, national development is the sum of improvement in all aspects of national life including, economic, health, social, political, educational, technological, and cultural spheres from a particular level to a higher level. Hence, the crux of taxation and national development rests on adopting modern tax system and practices for the purpose of generating adequate revenue for the provision of infrastructures and opportunities, which improve the economy and standard of living of the citizens of the nation leading to national development.

BENEFITS OF TAXATION

Taxation provides multiple utilities to the state and persons in it. As an instrument of fiscal policy, taxation performs four economic roles for the development of a nation:

1. Instrument for Revenue Generation to Cover Expenditure:

Taxation provides revenue for effective functioning of government and provision of essential public services in a state. It is used to raise revenue for the government to cover its own expenditure and to provide services and infrastructural facilities such as schools, hospitals, roads and social security payments made to individuals with respect to unemployment, sickness, among others.

2. Instrument for Socio-economic Stabilization and Regulation:

Taxation is used as an instrument for inflationary control of cost of goods and services produced locally or imported through tax waiver and tax holiday. It is also used to regulate unwanted goods and services through increased taxation. Similarly, public and private accountability is

encouraged in businesses as a result of the need for proper record keeping and tax compliance. As such it helps in stabilization and regulation of businesses in the economy.

3. Instrument for Economic Growth:

Taxation helps in growing local businesses and attracting foreign direct investment for economic growth. Tax incentives in form of tax waiver and tax holiday assists in growing local businesses and attracting foreign direct investments which help to make significant contributions for national development. Business so created assist in form of employment opportunities, skills development, revenue base for government, goods and services provision, patronage of local raw materials, among others.

4. Instrument for Income Redistribution:

Taxation helps in redistribution of income by obtaining more money from high income earners and little from low-income earners for general goods. Social services provided by tax revenue benefits all persons in the society equally irrespective of what each person contributes. Moreover, tax revenue provides opportunity for unemployed and less privileged persons through social security measures to support their livelihood even when they did not pay personal income tax.

According to Adeyemi (2012) taxation helps in providing fiscal platform that encourages foreign direct investment (FDI) and also fosters bilateral, regional and international trade relations among states. The tax policies

of a nation determine whether foreign direct investment would be attracted or not. If investors are brought into a state, it means that the investors will bring their stable and free capital, their technology, efficiency and contribution to nation's capital accumulation and job/wealth creation. Similarly, taxation fosters a fair relationship between advanced and developing states so as to ensure that the latter get a fair allocation of tax base and tax room in emerging trade relations. Consequently, the advanced states would not take undue advantage of the development needs in developing states as a reason not to work out the international tax regime and mechanism against the developing states. Chigbu, Akujuobi and Appah (2012) notes the following attractions of Foreign Direct Investment as a result of good tax system:

1. Foreign direct investment represents a veritable source of foreign exchange and technological transfer, especially to a developing economy like Nigeria.
2. It can be analysed in terms of inflow of new equity capital (change in foreign share capital), re-invested earning (unremitted profit), trade and supplier's credit, net inflow of borrowing and other obligations from the parent company or its affiliates.
3. FDI has emerged as the most important source of external resource flows to developing states over the years and has become a significant part of capital formation in these states, though their share in the global distribution of FDI continue to remain small or even declining.
4. The rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects.

Among these are productivity gains, technology transfers, and the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to markets.

OBJECTIVE OF THE STUDY

The broad objective of this study is to discover if taxation has adequately been utilized for sustainable national development. Specifically, the study sets out to:

1. Analyse how the current fiscal federalism impacted on taxation for sustainable national development in Nigeria between 2010 and 2019.
2. Investigate how taxation was applied as a measure for the provision of infrastructure to incentivize compliance towards sustainable national development for the period of the study.

HYPOTHESES

The hypotheses advanced for investigation in the study are:

1. The current fiscal federalism undermined taxation in contributing towards sustainable national development by inhibiting tax administration of the federating units for the period of the study.
2. Taxation was not duly applied for infrastructural development to incentivize compliance towards sustainable national development for the period of the study.

PROBLEMATIQUE: IMPEDIMENTS TO OPTIMAL TAX REVENUE IN NIGERIA

The frequent clamour for restructuring the economy by various segments of the society is given by inverted fiscal federalism in Nigeria which impede ideal fiscal federalism. This has not only hampered adequate tax revenue generation and proper utilization of revenue for infrastructural development by both the central and federating unit governments, but also impacted negatively on socio-economic and political development of the nation (Fowler, 2020). This forms the fundamental crux of the study and shall be analyzed in detail subsequently. The informal sector, which is within the sphere of the federating units, significantly remain outside the tax net due to complications in the taxation of informal sector. The situation is further complicated by illegal collections by unauthorized persons as well as unharmonized variants of revenue collections by authorized persons based on prebendalism, leading to interpretation of such payments as multiple taxation, even when no element of tax is involved in what was paid. Similarly, socio-political, ethno-religious and economic affiliations impede adequate tax revenue generation by the federal government due to exemptions, waivers and tax holidays granted to persons inappropriately.

In addition, compliance with tax laws by businesses are hampered by poor revenue utilization for infrastructural development due largely to corruption. The non-compliance of the informal sector borders on the argument that revenue is not adequately utilized to provide basic infrastructure which many businesses end up providing by themselves. Corruption presents a herculean challenge in the employability of tax revenue as a catalyst for sustainable national development. This is because lack or inadequate infrastructure undermines economic growth and business development

in the society which leaves Nigeria at the bottom position for doing business globally even among its peers between 2016 – 2019 (Bello-Schünemann and Porter, 2020). It is to be noted that this unaccountability for the proceeds of tax is one of the notable causes of tax evasion in Nigeria.

Moreover, tax administrations in Nigeria are still undergoing automation of processes and as such has not been adequately integrated with other relevant agencies. For instance, many states in Nigeria have jettisoned the Joint Tax Board (JTB) Taxpayer Identification Number (TIN) preferring to create their own taxpayer identification number differently which impedes information sharing with others. The situation has created a condition where it would appear as though the cost of administration of tax in Nigeria exceeds or at best is directly proportional to the tax revenue derived at the states. Similarly, by subjecting the people to the frequent visits and odious examination of the tax gatherers, it may expose them to much unnecessary trouble, vexation and oppression. This is made worse by the proliferation of tax administration bodies in all the tiers of government. The consequence is that hidden economy is shielded from taxation while others face overbearing pressure of different tax authorities. The hidden economy represents all economic activities that are not within the view of the government in terms of registration as business concerns or for tax purposes.

Similarly, Afuberoh and Okoye (2014) suggests that the main challenges border on tax officials' capacity constraints and largeness of the informal sector as well as inadequate tax district by federating units. Their study recommends that special training programmes be regularly organized for tax

officials involved with the informal sector. The segmentation of tax districts is also advocated to enhance efficiency in the administration of informal sector taxation and promote sustainable development of the Nigerian economy. Although this approach has aided some states like River, Lagos, among others in enhancing their tax revenue, it has however been inadequate to help them contribute adequately to national development while the rest of the states in Nigeria fall short of expectations. This is because revenue collection from the informal sector is complex, costly and yield little by little increase in revenue which the political class are not ready to make sacrifices to pursue since the reward may not materialize in their regime. As a matter of fact, the informal sector has the large chunk of tax revenue opportunity, given that it constitutes 65% of business setting in Nigeria and falls within the control of federating units (NBS, 2020). Among the challenges faced by tax administrators include:

1. **Problems of Assessment:** This borders on applying laid down standards in the computation of adequate tax payable by a person given the available or near existent information. The condition is hampered by shadow economy, portfolio businesses, lack or inadequate business records for determination of total income from all sources, and poor tax compliance culture.
2. **Inadequate Personnel:** Tax administration service at both the federal and component unit levels are understaffed in quality and quantity given the task ahead of them. Moreover, staff training and motivation especially at the state-level is grossly inadequate leading to

low morale and tendency to indulge in extra-legal practices which unfortunately is attributed to tax collectors.

3. **Political Interference in Tax Administration:** The issue of personalization of public institutions in developing society like Nigeria did not exempt tax revenue agencies. This is because different juicy aspects of tax revenue heads are given out on patronage to consultants outside of the revenue agency while leaving the remnants in informal sector to the revenue staff to administer with inadequate funding. Furthermore, tax administrators are sometimes prevented by political office-holders from enforcing tax compliance on persons related to the latter due to impunity in the political system.

Statutes for the Tax Administration Structure and Fiscal Federalism in Nigeria

The Constitution of the Federal Republic of Nigeria 1999, Second Schedule, Part I has 68 items in the Exclusive List that the federal government is empowered to administer while Part II covers Concurrent List with 52 items that both the federal and federating unit governments have powers to enforce. Residual List has the left-over powers that are neither contained in the Exclusive List nor the Concurrent List and is reserved for the federating units of Nigeria. These clearly reveal a concentration of enormous powers at the centre leaving the federating units with little powers that compel them to go cap-in-hand begging the federal government for fund – hence, the idea of revenue sharing. In an ideal federation, fiscal federalism allows the federating units to control all resources in their area including revenue and make

specified percentage contribution to the central government for common welfare. The reverse is rather the case in Nigeria; thus, the federating units remain weak in funding for themselves and in contributing adequately to sustainable national development.

The generation of revenue by the federal government rests squarely on revenue administration agencies especially the Federal Inland Revenue Service (FIRS) while the federating units generate revenue through various States Internal Revenue Service (SIRS) as empowered by the FIRS (Establishment) Act 2007. The Nigeria Customs Service (NCS), Nigeria Immigration Service (NIS) and the Nigerian National Petroleum Corporation (NNPC) are also significant organisations that generate revenue for the federal government. The federal revenue agency (FIRS) has its headquarters at Federal Capital Territory (FCT) Abuja and coordinates its offices spread across the 36 states of Nigeria. Similarly, each federating unit has its own Internal Revenue Service (IRS) headquarters at the various capitals with offices spread across different locations in the state. Given the above legal and structural fiscal arrangement in Nigeria, the contributions of the federating units to the nation remains minimal and inadequate due to the faulty and lopsided fiscal structure that fundamentally favours the central government over the federating units. The table below indicates the contribution of the federating units to the national tax revenue.

Table 2: Proportion of Federating Units Tax Revenue to National Tax Revenue in Nigeria 2010 – 2019.

S/No	Year	National Tax Revenue (₦t)	Federating Units Tax Revenue (₦b)	Percentage to National Tax Revenue
1	2010	3.987	521.230	0.13
2	2011	6.057	562.835	0.09
3	2012	6.800	624.659	0.10
4	2013	6.855	662.130	0.09

5	2014	7.011	707.519	0.10
6	2015	2.293	682.847	0.30
7	2016	5.527	820.682	0.15
8	2017	7.711	936.645	0.12
9	2018	9.579	984.252	0.10
10	2019	9.840	957.331	0.10
Total		65.662t	7.460t	1.28

Author's compilation:

1. JTB (2020) States IGR Report.
2. NBS (2020). Gross Domestic Product, 2019.
3. OECD (2020). Revenue Statistics in Africa 2019 – Nigeria.

The table above indicates a grossly inadequate contribution of the federating units to the national tax revenue to sustainable national development. It is obvious that most states in Nigeria, with the exception of Lagos state with average tax component revenue at ₦95b (Ninety-five billion naira) per annum for the period of study, cannot afford to take care of its basic recurrent expenditure without relying on the central government due to low tax revenue. A number of questions agitate the mind in view of the above data, among which are: Why do federating units in Nigeria contribute inadequately to national development? Has the federal government of Nigeria been able to adequately collect tax revenue to sustain national development in view of its share in the legislative lists? The above data clearly answers the questions that the federating units are unable to generate adequate tax for national development due to emasculation by the federal government and that the federal government has been unable to generate adequate tax revenue for sustainable national development, hence the persistent agitations and clamours for restructuring the economy. This forms the basis for the next relevant question for the study. How could taxation be restructured at both the national and subnational levels to enable it contribute adequately to sustainable national development in the post COVID-19 Nigeria?

METHODOLOGY

This study of taxation and national development adopts ex-post-facto design. Data was collected through content analysis relying on secondary sources of data. The study was analyzed using qualitative analysis while customized graph and tables with simple percentages were adopted for vivid illustration. The analysis of the study gears toward connecting the missing link between taxation and sustainable national development which is the restructuring of the current fiscal federalism to ideal one. As well as creation of conducive environment for business activities through adequate utilization of tax revenue in the provision of social amenities for improved standard of living of the citizens and business growth as basis for improved tax revenue.

THEORETICAL POSTULATION

Attempts have been made for explaining the basis of taxation using the Benefit Theory developed by Erik Lindahl. It presupposes that tax levels are automatically determined because taxpayers pay proportionately for the government benefits they receive. Thus, this approach failed to provide the primary ingredient for tax, which is the provision for general good so that the poor will benefit from the resources contributed by the rich (https://en.wikipedia.org/wiki/Theory_of_taxation).

In view of this, the Ability theory presented by Arthur Cecil Pigou (1943) is adopted for analysis of this study. This theory considers two principles: 'who will benefit' and 'who can pay.' This is because taxes paid are considered as sacrifice by taxpayers to which no benefit is directly attached for its payment. The above also serve as the tool for identifying the missing link in Nigeria where taxation is treated as process of revenue

generation in terms of who can pay, but not in terms of who can benefit, as a way of providing those amenities that improve standard of living, especially for the poor in both urban and rural areas as well as attract investments.

FEDERALISM, TAXATION AND SUSTAINABLE NATIONAL DEVELOPMENT IN NIGERIA

The funding of government expenditure through revenue from primary production in agriculture and subsequent discovery of crude oil in Oloibiri in 1956 misdirected the primacy of taxation as a catalyst for sustainable national development in Nigeria; such that taxation is treated as secondary source of revenue by government. In addition, the series of military regimes exacerbated the situation by distorting the regional structure in 1966 which allowed significant devolution of power and enthroned the inverted fiscal federalism that subsists till date (Afubero and Okoye, 2014). ‘Inverted’ here implies that rather than the federating units contributing to the centre as in the case of ideal federalism, the centre disburses to the federating units in Nigeria. The policy was put in place to curtail the financial strength of the regions as a measure for checkmating the excesses of the secessionist groups. It was also believed that the oil revenue is adequate in sustaining national development as demonstrated in the Festival of Arts and Culture (FESTAC) in 1977. Unfortunately, the legislature and people of Nigeria have been unable to amend or revert to ideal fiscal federalism; from the inverted fiscal federalism which allows the undue dominance of the federal government over the federating units because of vested interests.

A number of reasons have previously been adduced for the inability of government to generate adequate tax revenue in Nigeria. Similar to it are the complementary causes of business failure which would have otherwise aided in improving tax revenue in Nigeria. Some of the causes of business failure in Nigeria include unstable policy, inadequate skills, inadequate funding, difficulty in ease of doing business, weak infrastructure and ultimately inadequate tax incentives. In a study by Oluwabunmi (2020) it was gathered that Nigeria has 61% start-ups failure rate between 2010 and 2019 and among top ten of such nations in Africa. The World Bank data indicates the inflow of foreign direct investment into Nigeria which end up moving off due to inadequate fiscal federalism and discouraging tax system.

Table 3: Net Inflows and Net Outflows of Foreign Direct Investment in Nigeria, 2010 – 2019

S/N	Year	Inflow (US\$b)	Inflow (₦)	GDP (₦)	Outflow (% of GDP)	Outflow (₦)
1	2010	6.026	2.187	54.619	25.1	13.700
2	2011	8.841	3.676	63.100	19.9	12.557
3	2012	7.070	3.248	72.346	33.3	24.091
4	2013	5.563	2.865	82.596	23.8	19.658
5	2014	4.694	2.669	92.256	28.4	26.201
6	2015	3.064	1.515	37.590	29	10.901
7	2016	4.449	1.801	104.275	32.3	33.681
8	2017	3.503	1.316	135.284	34.2	46.267
9	2018	1.997	0.795	145.144	34.7	50.365
10	2019	3.299	1.478	161.316	33.4	53.880
Total		102.740	21.550	948.526	29.4 (average)	342.115

Author’s compilation:

1. World Bank (2020). Foreign Direct Investment, Net Inflows and Outflows – Nigeria, 2010 – 2019
2. NBS (2020). Gross Domestic Product, 2019.

The table above indicates a total inflow of foreign direct investment amounting to ₦21.550t (Twenty-one trillion, five hundred and fifty billion naira) between 2010 and 2019 and a corresponding outflow of foreign direct investment to the tune of ₦342.115t (Three hundred and forty-two trillion, one hundred and fifteen billion naira) for the same period. This reveals a continuous decrease in the inflows of foreign direct investment into Nigeria and a corresponding increase in outflows of foreign direct investment from Nigeria occasioned by inadequate fiscal federalism and discouraging tax system. The challenge is not only about loss of employment opportunities, but also loss of tax revenue that would have accrued from the investments for sustainable national development.

National Tax Policy as Instrument for Improved Taxation for National Development

No single tax structure can possibly meet the requirements of every state. The best system for any nation should be determined by taking into account its economic structure, capacity to administer taxes, public service needs, and so on (Bird and Zolt, 2003). The Nigerian National Tax Policy was introduced in 2010 as a comprehensive guide that directs taxation in the nation in consideration of the socio-economic needs of the citizens. It specifies the following objectives as noted by Okauru (2012, p.321):

- a. Stimulating the growth of the Nigerian economy by using tax revenues to develop basic infrastructure such as power, roads, transportation and other such infrastructure which will stimulate economic growth.
- b. Direct stimulation of certain sectors of the economy which are identified to be important for

the creation of employment opportunities for Nigerians.

c. Regulating and strengthening financial and economic structures and for correcting market imbalances and economic distortions.

d. Income redistribution such that tax earned from high income earners is used for the provision of infrastructure for the lowest income earners.

e. Stimulate domestic and foreign investment.”

As laudable as the primary objectives of the National Tax Policy appears, there is a lacuna in the recognition of the document as representative of sub-national or state interests. This is because there were little or no inputs from states with regards to the formulation of the National Tax Policy of Nigeria in line with the dominance of the centre over the federating units. Similarly, the provision of the needed infrastructure which promote standard of living and which impact on economic activities as stated in the objective is grossly unacceptable. This led to the perception and interpretation of the National Tax Policy in the context of a federal tax document. For instance, Agwuegbo (2009) indicates that many business persons know that the cost of doing business is high in Nigeria. This is as a result of inadequate infrastructural development and unfriendly business environment which makes many businesses to close-down few years after commencement or to relocate from Nigeria to a more business friendly environment. However, failure to provide or adequately provide the needed infrastructures is detrimental to economic activities, improved standard of living and hence national development (Li, 2007; Weller and Rao, 2011).

Furthermore, the National Tax Policy aims to create a peaceful competition among the federating units for taxation while the Joint Tax Board which administers it aims at establishing harmony of practice between the

Federal Inland Revenue Service (FIRS) and State Internal Revenue Services (SIRS). This calls to mind the question of fiscal federalism which has not been adopted in practice in Nigeria. The result is that the National Tax Policy seems vague and interpreted according to the interests of the competing Services. This is visible in enormous concentration of power in the position of the Chairman of the Federal Inland Revenue Service whereby the Chairman also heads the Technical Committee of the FIRS, Board of FIRS and the Joint Tax Board. The result is that the regulatory/harmonizing institution (JTB) is subsumed as a department of the FIRS, instead of the former to be in control of the latter.

What is needed here is the objective introduction of fiscal federalism which involves the allocation of due powers of taxation, budgeting, spending and regulatory functions to the component units of a federation (Okauru, 2012:1). The alternative way out of this challenge is the overhaul of the existing tax administrative structure to an integrated partnership in form of 'National Inland Revenue Service' of which stake should be held by all component units in fiscal federalism arrangement. The complement is restructuring and empowerment of Joint Tax Board for effective regulatory function in which case, the Chairman of the Board will be neutral. This will ensure a robust tax administration in Nigeria as well as cushion part of the fiscal federalism question with positive tax revenue promise.

Nigerian Tax Law as Tool for Improved Taxation for National Development

The Constitution of the Federal Republic of Nigeria (1999) section 24(f) provides that it shall be the duty of every citizen to declare

his income honestly to appropriate and lawful agencies and pay his tax promptly. The general provision was classified in details in the various tax laws in Nigeria. Some of these include:

- a. Petroleum Profit Tax Act, Cap P13 LFN 2004
- b. Companies Income Tax Act, Cap C21 LFN 2004.
- c. Personal Income Tax Act, Cap P8 LFN 2004 as amended P20 2011.
- d. Value Added Tax Act, Cap V1 LFN 2004
- e. Capital Gains Tax Act, Cap C1 LFN 2004
- f. Stamp Duty Act (SDA)
- g. Education Tax Act, Cap E4 LFN 2004
- h. Taxes and Levies Act, Cap T7 LFN 2004

These laws as argued by Ochei (2010:24–29) requires simplification. This is to enable the taxpayers and administrators have easy and common understanding of the requirements of the law. It will also help in tax education which is the right of the taxpayer. The modern practice as in United Kingdom is to create a unit within the Service charged with simplification of tax laws and tax education. It is in tune with encouraging (voluntary) compliance, reduction of cost of collection as well as building harmony among all stakeholders, leading to improved tax revenue and the pursuit of national development.

Moreover, there is the need to constantly revise the tax laws to keep it in tune with economic realities and the drive for national development. This is particularly so with respect to Double Taxation Agreements which will help to attract foreign investment in the face of daunting challenges of

infrastructure and competing global economy. Reasonable diplomacy should be employed in attracting foreign investors at least to help create employment opportunities, which in the medium to long term will provide avenue for improved revenue generation.

Similarly, government should explore tax options on the idle properties which are supposed to provide rental accommodation to the teeming populace, but remained abandoned or under-utilized. This will compel wealthy individuals to erect buildings for rental purposes so as to impact positively on the lives of the working class, rather than edifices which few wealthy individuals will occupy and which they rarely do (Ochei, 2008:104–105).

Tax Administration as the Engine for Improved Taxation for National Development

A good tax system hinges on administration which provides suitable environment for voluntary compliance. In fact, voluntary compliance shows acceptability (legitimacy) of a government or otherwise, especially as practiced in United Kingdom (Ochei, 2008:1). Tax administration remains the major challenge of taxation in Nigeria, especially at the state level. The current fall-back to the federal government by states for bailout due to dwindling federal allocation indicates poor tax revenue yield in the states. This is based on many factors ranging from human factor inadequacies, manual processes of tax administration, inadequate material resources/reward system and refusal of most states to grant autonomy to their tax administration units.

It is pertinent to note that the high level of technological application at the Federal

Inland Revenue Service for tax administration differs sharply with that of the State Boards of Internal Revenue, where the majority still use manual processes in registration, assessment, collection and remittance to date. This creates loopholes for loss of revenues as well as inefficiency in tax administration. Amidst all these distortions, the desired national development eludes Nigeria with the implication that urgent steps need to be taken to address the ugly situation.

Steps required to put tax administration to the right track for improved tax revenue, especially at the state level include non-interference of state executives in tax administration, especially with regards to the appointment of Chairman/Chief Executive of the agencies as it affects section 88(2) of PITA 2011. Moreover, the use of tax consultants should be put to an end as it undermines the legal provisions of section 88(4) of PITA 2011 and put the consultants in competition with tax officers. It is also salient to grant 10% collection allowance to enable the tax agencies pay for collection and administrative expenses in line with section 88(1)b of PITA 2011. There is also the need for automation of processes of registration, assessment, collection and remittance, so as to tighten-up loopholes and improve revenue generation. These will be put to an end if State Internal Revenue Services are granted autonomy as it obtains in the FIRS (Kabiru, et al, 2015). It is also necessary to adequately recruit staff to face the mountainous task of revenue generation. This should be backed up by regular training to keep tax administrators in tune with the ever-changing trends for international best practices in taxation (Ochei, 2010, p.122–123). It is also necessary for government to tie tax revenue receipt/evidence to government services. This will be tracked online and compel persons responsible to live-up to their

expectations, since no one ordinarily likes to pay tax.

TAX REVENUE UTILIZATION AND TAXATION AS A TOOL FOR SUSTAINABLE NATIONAL DEVELOPMENT.

Since early 1990s, many industries have been leaving Nigeria to neighbouring nations such as Ghana and South Africa due to inadequate infrastructure and difficulty in doing business. Some of the industries posit that they pay multiple taxes whereas they also provide the basic infrastructure needed for businesses to thrive which are disincentives to do business. In fact, the 2015 Doing Business ranking placed Nigeria 170 out of 189 globally far behind South Africa and Ghana at 48 and 70 respectively (Onyia, 2016).

In view of the foregoing, the federal government developed the National Integrated Infrastructure Master Plan (NIIMP) 2014 with the aim of systematically providing basic infrastructure for socio-economic development of Nigeria for the next 30 years estimated to gulp \$3 trillion. This gives an average of ~~N~~\$25 trillion per annum at the exchange rate of ~~N~~\$250 per US dollar. The total budget per annum indicates that it is a far cry from the targeted fund for infrastructural development, thus making the master plan unrealistic. This bold dream was driven by the quest to adopt the trend exemplified by China in human capital and infrastructural development over 30 years with 8.5% of budget set aside for social-economic amenities per annum. This is a case of huge sum of budget estimate compared to our national budget. However, the reality on ground shows that Nigeria spends between 20% – 25% of GDP for infrastructural development compared to

70% obtainable in middle income nations. In fact, about 61% of energy needs in Nigeria is obtained from the use of generator which is very expensive, inadequate, and unreliable for economic activities (*Op cit*). This situation demands a realistic and pragmatic improvement in tax administration so as to meet the required objectives of government.

Moreover, in 2007, government made plans for industrial clusters so as to be able to provide the much-needed infrastructures, improve ease of doing business, provide adequate tax incentives as well as create conducive environment for value chain in the production line. However, the industrial clusters, continue to suffer due to various factors such as inadequate infrastructures, especially energy, security challenges, multiple taxation, among others. All these inadequacies go a long way to create disincentive to business ventures, thus discouraging economic activities and the improvement of tax revenue. Although tax payment is not directly linked to infrastructural development, however, inadequate provision of the needed social amenities will unquestionably lead to closure of businesses, which will also result to loss of tax revenue for government as well as higher unemployment situation in the nation. This requires that urgent attention must be given to utilization of tax revenue, looted funds recovered as well as private-sector funding in a public-private partnership for infrastructural development especially in areas where they are much needed for business activities. The table below elucidates on the impact of the inverted fiscal federalism inadequate infrastructural development and unfriendly tax system on sustainable development in Nigeria.

Table 4: Nigeria: Corruption Perception Index and Ease of Doing Business, 2010 – 2019

Year	Rank	Score	Ease of Doing Business
2010	132/150	24/100	133/180
2011	132/152	24/100	133/180
2012	132/155	25/100	138/180
2013	134/169	26/100	147/182
2014	133/176	25/100	170/184
2015	136/176	26/100	170/186
2016	136/176	28/100	169/187
2017	148/180	27/100	145/189
2018	144/180	27/100	146/190
2019	146/180	26/100	131/190

Author's compilation:

Transparency International (2020): Nigeria Corruption Perception Index, 2010 – 2019.
<https://www.transparency.org/country/NGA>.
World Bank (2020). Ease of Doing Business in Nigeria, 2008 – 2019.

The table above shows continued decline to worst level of corruption index and human rights abuse from 24 in 2011 to 26 in 2019 despite the marginal improvement in score. The nation consistently performed far below average ranking with weak score, thus degenerating to the worst categorization in the corruption perception index in the international community between 2011 and 2019. However, the ease of doing business improved as a result of the measure put in place in that regards. Despite the above feat, the general business environment in terms of security, infrastructure and taxation remain unfriendly for doing business in Nigeria given the high failure rate of start-ups. It is obvious that adequate progressive taxation provides policymakers the ability to counter fiscal challenges which helps in generating required tax revenue for infrastructural development which help to improve living standards of citizens as well as economic activities.

Tax Revenue and Sustainable National Development

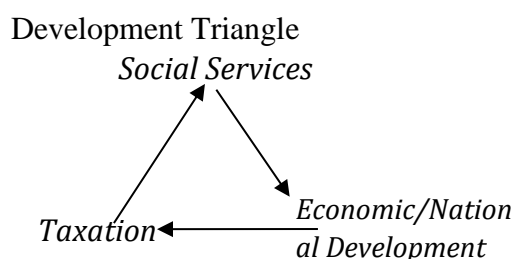
The National Tax Policy acknowledges in the objective that tax revenue is to be used for the development of infrastructures that improve standard of living, economic development and national development. In the same light, Nwakanma (2013) opines that taxation as an economic development tool provides financial base for providing and maintaining roads, electricity, telecommunications, and water that have direct impact on living conditions. Tax revenue is directly linked to national development because it is used for the provision of social amenities that improve standard of living which leads to national development. It is usually assumed that payment of tax is not attached to the provision of any good(s) or service(s). Nevertheless, Okauru (2012:338–343) suggests that failure to provide or sufficiently provide the expected services by the government have been the prevalent argument for tax evasion and continued failure to optimally improve tax revenue. Andy and Lynne (2006) upheld the above argument when they posit that taxation improve national economy through managing the economy for employment, inflation, trade, regulation of social-economic interactions, provision of social welfare and health system.

The context here is not only accountability of tax collection, but also of tax revenue utilization. Andy and Lynne (op cit, p.31) put the pattern as practiced by the United Kingdom tax administration agency, Her Majesty's Revenue and Custom which was merged together on 6th April, 2005. They advocate that budget plan should be aligned with revenue generation for each year indicating the ratio of tax collection in the expenditure profile. Similarly, actual tax

collection as well as total revenue generation should be published clearly each year as basis of assessing performance of government by the public. There should be no secret with public revenue generation and spending. This is to guarantee the benefit principle adopted as rationale of taxation in Nigeria.

The following figure illustrates a triangular pattern of taxation, social services and economic/national development.

Fig. 1 Tax – Economic/National



The figure above illustrates the customized triangle for using tax revenue to provide social services which improve standard of living as well as enhance economic and national development. The trend also continues so that the improved national development results to higher tax yield and is followed by better social services provision and an advanced economic/national development in an endless spiral. Bird and Zolt (2003) supports the thesis above arguing that improved social amenities create improved tax yield as obtainable in Sweden and France. They also indicate that states with rich natural resources have high revenue such as Venezuela and Azerbaijan than comparable states. If the revenue from tax is used judiciously for infrastructural development, the desired national development will be attained.

SUMMARY AND CONCLUSION

Taxation has been identified as the most reliable source of revenue for the provision of

infrastructure, improvement of economy and national development. It faces challenges which impact it from contributing efficiently to national development in Nigeria. Some of the findings of the study include:

1. The current fiscal federalism undermined taxation in contributing towards sustainable national development by statutorily inhibiting tax administration of the federating units for the period of the study. In this regard, inadequate fiscal federalism and tax structure, National Tax Policy formulation which fails to incorporate the positions of states of the federation and weak tax administration contributed to undermining taxation for national development between 2010 and 2019.
2. Taxation was not duly applied for infrastructural development to incentivize compliance towards sustainable national development for the period of the study. The study discovered a lacuna in tax accountability, especially in the aspect of utilization of tax revenue for infrastructural development. Although the government argues that payment of tax is not tied to its utilization, indications emerged that inadequate utilization of tax revenue for infrastructural development leads to tax evasion, poor voluntary compliance, and low tax yield.
3. Other findings of the study include that there is the issue of enormous concentration of powers on the position of the Chairman of the FIRS who also acts as the Chairman of Board of FIRS, Chairman of Technical Committee of the FIRS, and Chairman of Joint Tax Board. The result is that the JTB which is a regulatory body for harmony of tax

practice in Nigeria is subsumed as a unit under FIRS. Thus, national tax drive is not collaborative/co-operative, but isolated and competitive.

RECOMMENDATION

In view of the findings of the study, the following were recommended as panacea for improved taxation as tool for national development:

1. Introduction and practice of ideal fiscal federalism in Nigeria to allow sub-national units generate adequate revenue for infrastructural development.
2. Restructuring of tax administration to enable the federal and state agencies function as partners in taxation.
3. Restructuring and empowerment of the Joint Tax Board to enable it have a regulatory power over tax practice in Nigeria and keep it neutral from undue influence of the FIRS
4. Simplification of tax laws to encourage easy understanding of the laws by taxpayers and administrators.
5. Constant review of the tax laws in Nigeria to keep it in tune with changes in government policy and economic realities.
6. Automation of processes of taxation as well as adoption of other international best practices in taxation.
7. Granting of autonomy to the tax agencies in Nigeria in line with the demands of tax law, especially at the state level.

8. Regular training of tax administrators to keep them up-to-date with modern processes of tax administration.
9. Judicious use of tax revenue by the government for infrastructural development so as to improve standard of living, economic well-being and national development.

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