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REENGINEERING TAXATION AS A SOURCE OF ECONOMIC STABILIZATION IN NIGERIA

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ABSTRACT

Tax has impacted significantly on economy globally. In addition to the revenue generation function it performs for the government; it has also proved to be a useful tool of fiscal policy in achieving the country's macro-economic objectives. In Nigeria, revenue generation from taxes has contributed substantially to the income of the government although the role of tax in promoting economic growth has not been adequately felt. Past documentations have revealed that revenue from taxes in developed nations have high impact on its economic growth which is clearly seen by the social amenities provided by such nations. Thus, the main objective of this study is to explore how reengineering of taxation can serve as a source of economic stabilization in Nigeria.

INTRODUCTION

Tax is a compulsory levy imposed by the government on the citizens, non-diplomatic resident and property owners within the country irrespective of the exact amount of services rendered to the tax payer in return. According to Hanson, (1975), a tax may be defined as a compulsory contribution to the public authorities levied by them on goods, services, income and wealth. In other words, it is a compulsory payment of money from private individual, institutions or groups to the government.

Taxation is as old as civilization itself. It dates back to ancient time; it is the main stay of the economic, social and political development of any society. The primary purpose of imposing tax is to raise revenue for the persecution of different government programmes, such programmes include: building of roads, hospitals, schools, electricity etc.

Taxation is part of fiscal policy which is increasing accepted as one of the potent tools available to government for achieving some desirable economic goods and objectives. One of the main objectives is to accelerate economic growth. For this purpose, the tax system is designed so as to raise the rate of saving and investment. This is very important objective of developing a vibrant economic system in Nigeria.

To stabilize economic activities, tax offers government a reality instrument which could be used to control economic activities by increasing or decreasing tax rate. Taxation is the only effective weapon by which private consumption and inflation can be curbed and these resources are transferred to the state so as to stabilize the economy. Taxes can be used as a mean of steering the economy in a desired way.

Since developing countries including Nigeria have a mixed economy, care has to be taken so that capital formation and investment in the private sectors is not discouraged. The primary objective of the policy is therefore to promote investment both in the private and public sector.

From the point of view of ensuring economic stability, it pertinent to note that tax system must be progressive in relation to changes in the national income. Through taxation, inequalities in income and wealth can be reduced. In realization of this situation, this study is carried out to evaluate taxation as a source of government revenue and economic stabilization in Nigeria.

The objectives of taxation are still not clear to some tax payers. One of the problems is that some people feel that government should accept all the responsibilities alone. Therefore, they ignore their responsibility of paying their taxes. Moreso, some of the feel that the money collected from taxes was not used effectively; therefore, they should not be paying taxes. However, they failed to understand that Nigeria operates fiscal federation system. this refers to the system in one country of more than one level of government, each with different pattern of operation, the federal, state and local government.

Moreso, various tax payers refuse to pay their taxes because of numerous reasons including poor management of tax revenues in Nigeria. however, the occurrences of economic imbalance, lack of proper macro-economic management coupled with massive level of corruption and fraud, have resulted in loss of revenue and thereby resulting in economic instability. All these constitute problems which necessitates the essence of this study.

Meaning of Taxation and its Nature

According to Ajaji, (1981), tax is a compulsory payment imposed and received by government from persons, firms etc for public purpose. According to Agu (1981), tax is a compulsory payment made by each eligible citizen towards the expenditure of the state. A tax is levied by the government without regard to the specific benefits that individual tax payer may receive.

On the other hand, Hanson (1975) defines tax as a compulsory contribution to the public authorities levied by them on goods, services income and wealth, in order words, it is a compulsory payment of money from private individuals, institutions or groups to the government.

Tax is the amount levied on economic activities of the citizens (both producers and consumers) by the government, and the revenue so obtained are used to finance government expenditures. Etim-Ekikor and Nyah, (2010), look at tax as a compulsory payment from private individuals, institutions or groups to the government. In other words, it is amount levied on economic activities of the citizens (both producers and consumers) by the government and the revenue so obtained are used to finance government expenditures. Tax is a levy on all income-earning workers. Where the working class is high the tax yield is very high.

The Role of Taxation in the Nation's Economy

According to Dewett, (1987), taxation plays the following roles in the nation economy:

(1) **Reduction in Inequalities in Income and Wealth:** One of the main objectives of taxation is to reduce inequalities of income and wealth; if not remove inequalities of income and wealth, progressive taxes must be levied on affluent sector of the society.

(2) **Accelerating Economic Growth:** For this purpose, the rate of saving investment should be encouraged.

(3) **To Curb Inflation:** Certain taxes are imposed to stabilize prices with reasonable level of firm's employment levied and economic growth, for example higher taxation unaccompanied by increased government expenditure will decrease consumer's purchasing power and hence check inflation.

(4) **To Raise Revenue:** Taxation enables government raise its revenue to finance such services like: general administration, maintenance of law and order, provision of social amenities like electricity, water, construction of roads etc.

(5) **To Prevent Dumping:** Certain tariffs are also imposed to serve as anti-dumping device since these is the tendency for certain industrialized nations to dump their relatively cheap commodities in the developing economy.

(6) **To Protect Infant Industries:** Protect tariffs are also imposed to prevent the demise of infant local industries as a result of foreign competition. Import duties are specially designed for this.

(7) **To Maintain Balance of the Nation's Foreign Account:** Certain taxes may be imposed to reduce imports and encourage exports such that balance of payment deficits are avoided and a balance maintain therein.

Problems of Taxation

According to Essien, (2003), the constraints to effective tax administration are as follows:

(1) Lack of independence of the state tax authorities.

(2) Complete neglect of tax consultants.

(3) Tax evasion and avoidance.

(4) Improper use of tax consultants.

(5) Inadequate funding.

(6) Used of extra-legal means to collect tax by the tax consultants.

(7) Lack of qualified and experienced tax officials at the state and local government level.

Most taxes on production and expenditure are initially levied on the producers or the manufacturers, we say that the burden or impact of the tax is on the producer or the manufacturers.

However, the manufacturers are trying to selling his product to recover the payment of the tax by including it in his price in doing that he shifts the tax to the final consumer who bears the incidence of tax.

Impacts of Taxation on Economic Development

According to Essien, (2013), stated that supposed the economy is in equilibrium at a level where employment, level, output and income level are very low, fiscal policy in the form of reduced taxes may help to stimulate the economy towards the path of growth. A reduction in taxes may have effect on two components of aggregate demand. a general reduction in personal income takes for instance, it will lead to decease in aggregate demand for goods and services.

The second way through which a reduction in taxes can stimulate economic activities is through it effect on aggregate investment. This is because the tax reduction service as an incentive to businessmen, who in turn will increase investment activities, since profit level will rise. An increase in investment will lead to an increase in aggregate demand, and this will increase through the multiple effect, the level of income output and employment.

Just as fiscal measure in the form of reduction in taxes can have an expansionary effect on the economy also can increase in the general level of taxes lead to a concretionary effect on the economy with income, employment and output. Falling from their previous equilibrium levels government are therefore very cautious about applying this fiscal measures.

Reengineering Taxation as a Source of Economic Stabilization

The term revenue has been defined by various authors in different ways. Adam (2006) defined revenue as the fund required by the government to finance its activities. These funds are generated from different sources such as taxes, borrowing, fine, fees etc. It is also defined as the total amount of income that accrues to an organization (public or private) within a specified period of time (Hamid, 2008). States revenue comprises of receipt from taxation as well as those which are not the proceeds of taxation, but of either the realization from the sale of government properties or other interests and returns from loans and investment earning. Bhatia (2001) contends that revenue receipt includes “routine” and “earned” income. For these reasons, according to him, revenue do not include borrowing and recovery of loans from other parties, but it includes tax receipts, donations, grants, fees and fines and so on.

Similarly, Pearce (1986) defined government revenue as all the money received other than from issue of and debt, liquidation of investments. Government revenue includes tax collections, charges and miscellaneous revenues, utility and insurance trust revenue for all funds and agencies of a government. Public revenue according to Stephen and Osagie (2016) is concerned with various ways in which the government raises revenue.

From the above definitions, it can be said that revenue is the total amount of income accruing to a state from various sources within a specified period of time. State government, like the other two tiers of government, has sources and uses of revenue. Osisami (2014) states that there are basically two types of revenue that accrues to state governments. These are internally generally generated revenue and revenue allocated from the Federation Account.

Internally generated revenue are those revenues that are derived within the state from various sources such as taxes (pay as you earn, direct assessment, capital gain taxes, etc), and motor vehicle license, among others. While the statutory allocation from Federation Account, Value Added Tax constitute the external source.

Most states of the federation get the bulk of their revenue in form of statutory allocation from the federation account to finance their expenditure programmes (Hamid, 2008). State governments as the second tier of government in Nigeria derive its revenue from various sources. However, it should be noted that sources of revenue are by no means uniform among the states. States derive their revenue depending on the resources available to them; (Anyafo, 2016; and Adam, 2016). The share of federation account to states constitutes 57.97% in 2002 of the total revenue plus grant and this rose to 65.82% in 2006; while the internally generated revenue declined from 13.38% in 2002 to 8.11% in 2006 (CBN,2006). The average percentages of internally generated revenue in relation to the federal allocation were between 5-9 percent for most non-oil producing states in the recent past.

CONCLUSION

It is certain that taxes are means of steering the economy in a desired way. Also, tax is a compulsory payment imposed and received by government from persons, firms etc for economic reasons. The primary purpose of imposing taxes is to collect revenue for the various government developmental programmes, such programmes include: construction of roads, building of hospitals, schools etc.

Government could achieve its set tax objectives if more attention is paid to the human resources management of the internal revenue to encourage productivity.

The revenue staff who are saddled with the responsibility of making funds available for government through taxation should be adequately motivated and rewarded to make them more productive while minimizing the level of corruption among them.

RECOMMENDATIONS

Tax should be made a compulsory responsibility to all taxable individuals.

There should be movement from the traditional method of taxation to voluntary compliance method of tax payment.

Government should provide a conducive environment to allow tax officials perform their duties optimally. This could be done by providing modern tax tools and equipment, adequate motivation of tax officials etc.

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