TAX REVENUE: A SUSTAINABLE MEANS OF FINANCING GOVERNMENT SPENDING IN POST COVID-19 NIGERIA

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ABSTRACT

The persistent fall in revenue which is occasioned by oil market developments, and the attendant increase in fiscal deficit and growing sovereign debt has made tax revenue mobilization an urgent and critical imperative in post COVID-19 Nigeria. The federal government can seldom print as much currency as it pleases and expect that the naira will retain its value, inflation is most likely, and can ruin even the most stable economy. Borrowing requires paying interest at the market rate, and could lead to accumulation of cost of debt servicing that could impinge on development. In like manner, reliance on proceeds from crude oil exports as it were, is suicidal and volatile. This paper focuses on how tax revenue can be improved comprehensively so that fiscal system can deliver on public goods in a sustainable manner. Utilizing secondary data and anchoring analysis on Resource Curse Theory, the paper highlighted the danger of slavish dependence on oil based resources and recommends that the government of Nigeria should broaden its tax revenue base, and cut down the incidences of multiple taxation as the way forward.
Keywords: Covid-19, government spending, sustainable financing, tax revenue

INTRODUCTION

Government spending in today's Nigeria get substantial public interest due to dwindling crude oil revenue and perceptions of abuses, fraud, and waste. This has also propelled efforts to reform government revenue generation and spending structures and procedures in ways that has involved actions by concerned authorities and citizens, particularly in the wake and aftermath of the COVID-19 pandemic. Although, it has been decades of rising national and state fiscal deficit, and growing sovereign debt, following considerable attention and dependence on revenue generation from petroleum resources. However, this unpalatable situation arguably got even worse with the outbreak of the COVID-19.

The COVID-19 pandemic caused significant negative impact on public finances, which inevitably calls for a rethink of existing tax and spending policies in the country. Efforts by the government to contain and mitigate the spread of COVID-19 raised spending and lowered tax revenues. This gave rise to budget deficits and government debt, which as a percentage of the nation's Gross Domestic Product (GDP) has climaxed over the past several decades (Central Bank of Nigeria [CBN], 2021).

A major outcome of the last GDP rebasing exercise which took place in 2015 was the abysmal low ratio of tax revenue to GDP, which is defined as the monetary value of all goods and services produced in the nation in a given year. Prior to the rebasing exercise, Nigeria's tax revenue to GDP ratio was about 22 per cent. Post GDP rebasing exercise indicated that the ratio fell to 12 per cent with non-oil tax revenue accounting for about 4.5 per cent, and was reported to be one of the lowest in Africa (Zenith Economic Quarterly, 2015; CBN, 2015). These outcomes reveal the existing gap and huge potential in tax revenue generation in the face of continuous dwindling revenue from crude oil exports.

Indeed, the need to shore up government revenue has become compelling as some states of the federation are already in dire financial conditions, needing financial support and guarantee from the federal government. This is further compounded by the Nigerian National Petroleum Company's (NNPC) failure and increasing inability to remit generated revenue to the federal government. Gross federally collected revenue accruing to the Federal Accounts Allocation Committee (FAAC) has been on a downward spiral for close to a decade (CBN, 2019; CBN, 2021).

While it may seem trite to continue blaming the low tax revenue to GDP ratio on slavish dependence on oil revenue – which accounts for over 70 per cent of Nigeria's revenue, there is a compelling and indeed urgent need to set apart the nation's economy from over reliance on oil revenue described as the single, yet highly and most volatile income stream to finance public expenditure in Nigeria. It has been stated elsewhere, that no nation which depends on a monolithic economy can guarantee sustainable growth and development.

Advocacy and calls for the diversification of the nation's economy from over reliance on crude oil sales receipts, to non-oil revenue sources has been made. It is on record that successive administrations through the instrumentality of national development plans have made concerted efforts to achieve this national objective but with no appreciable success. The resultant effect can be felt to a large extent in all sectors of the nation's economy. With government increasing outlay for public expenditure to provide basic infrastructure and social services, the need to mobilize additional revenue in the immediate term to enable government finance public expenditure has become a national expediency. This situation is further exacerbated by the COVID-19 pandemic which has induced more concerns and fiscal sustainability has now become a cause for investigation.

Consequently, an attempt is made in this paper to examine the reality in the concern expressed and attempt analysis of ideas that can foster inclusive growth that is fiscally and environmentally sustainable over the medium to long-term. The paper is divided into seven sections. The first section is the introduction. The second section critically reviewed literature on tax revenue. The theoretical framework of analysis is in section three while section four articulates the underlying philosophy of tax revenue option. Section five presents an overview of different types of taxes and levies collected by the three tiers of governments in Nigeria. Section six examines the challenges of tax revenue option in the country while section seven concludes the paper and makes relevant recommendations.

LITERATURE REVIEW

Theoretical Framework

Resource curse theory (Auty, 2004; Ross, 2001) is adopted as the theoretical framework for this paper. Resource curse theory promote the idea of tax revenue against slavish dependence on natural resources. A major assumption of the theory is that most developed economies of the world are tax-based economies, while resource based economies are either developing or undeveloped economies, and grappling with crisis associated with resource exploitation (Ross, 2001).

The proponents of resource curse theory observe that since the 1960s, resource-poor countries are more economically viable and with greater performance rating than resource rich countries. They argued that oil dependence leads to a skewing of political forces and concentrates revenues from resources to geographic enclaves, power into the hands of few elites and reduce incentive to develop governance mechanisms that enable tax revenue. This deprive the society the opportunity to leverage tax revenue as a sustainable means of financing public expenditure.

It is pertinent to note that there is hardly a single member of the OPEC that is in the league of developed countries. Abubakar (2004) postulated that "oil-dependent-rich states often lack basic ethics,

transparency, and accountability, and are also characterized with poor people". It has become axiomatic that countries rich in natural resources, especially oil and gas, grew slower than those without (Ross, 2001) and that major oil producers such as Algeria, Angola, Iran, Saudi-Arabia and Venezuela have experienced fundamental decline in per capita income in recent decades" (Otaha, 2012).

Nigeria with a total dependence on oil revenue as against tax revenue is doomed because resource wealth often floods governments with more revenue than they can effectively manage, thereby providing incentive for abuses, wastages, and corruption (Dietz & Eric, 2005). Proceeds of oil in terms of revenues in countries like Nigeria tend to be collected by governments in ways that are often difficult for citizens to track but easy for corrupt government officials to divert; hence, some revenue generated end up in the pocket of few disgruntled elements (Ross, 1999). Mehlum and Ragner (2002) observe that governments that slavishly depend on natural resources i.e. oil and gas revenue become less democratic and hence less accountable and transparent than countries that rely on more sustainable income sources such as tax revenue.

There are exceptional examples of countries that broke the oil curse; and there are others that avoided it totally (Otaha, 2012). The United States, the United Kingdom, Norway and Canada, consist classic examples of nations that were already democratic with effective application of the rule of law before the discovery of oil in commercial quantities. Others include Mexico, Dubai, and Indonesia; with the Indonesian economy tripled over the last 20 years. Since mid-1990s, it has been utilizing its oil receipts to build world-class infrastructure in education, health, agriculture, and social services. Back to back; year on year, the country is growing at 16% per annum, and oil, once its primary source of income, is now around 6% of the GDP. Three decades ago, Indonesia and Nigeria had comparable per capita incomes. Today, Indonesia is doing far better than Nigeria, economically. Nigeria per capita income today has declined at a worrisome level because of crippling corruption sustained and motivated by slavish dependence on oil revenue that is not sustainable at the long-run.

Government Revenue Sources

There are three basic means for financing governments spending: *printing of currency notes, borrowing and taxes* (Rosenbloom & Kravchuk, 2002). Printing of currency notes is a means by which governments fund spending. Many economies short down in 2020 due to the pandemic and its devastating effect (Andrews et al., 2021; OECD, 2021). A major strategy adopted by many countries was the printing of currency notes to keep their economies from eventual collapse (OECD, 2021). According to the Nigerian Governance Forum (2023), the Central Bank of Nigeria has printed N19 trillion "Ways and Means" for federal government spending, contrary to the CBN and Fiscal Responsibility Acts and in violation of the law. Of course, this strategy was only but a desperate measure that led to the soaring inflation in many economies.

Printing of currency notes is also adjudged as not economically sustainable in the medium to long term, given its devastating consequences on nations' economic fundamentals. For instance, the federal government can seldom print as much currency as it pleases and expect that the Naira will retain its monetary value, inflation is most likely, and can ruin even the most stable economy.

Borrowing is the second means of financing government spending. To borrow money require that the market rate of interest be paid on the funds. This invariably lead to accumulated cost of debt servicing that impinge on overall future development. Reliance on proceeds from crude oil exports as it were, is suicidal. Crude oil market is volatile, which often than not leaves much to be desired. With the persistent fall in revenue, jacked up by recent oil market developments, rising fiscal deficit, and growing sovereign debt, tax revenue mobilization has become more urgent and critical than ever in post COVID-19 (OECD, 2021).

Taxation is the third and most favoured source of finance for government spending. Although all three have limitations, tax revenue has been adjudged the least distasteful and most sustainable means of financing government spending. Tax revenue is income generated through taxes or compulsory levy imposed by government against income, profits, property, wealth and consumption of individuals and corporate organizations for its common use and serve a number of purposes (Rosenbloom & Kravchuk, 2002) that are necessary and beneficial to society (Coleman, 1996).

When used properly, taxes it help to redistribute income among the populace and reduce the gap between the 'haves' and 'have-nots' in the society (Carling, 2006). For instance, progressive tax – where higher individual income earners pay more of their income in taxes compared to those individuals at lower levels, could be effectively generated and the revenue used to reduce inequality in the society. Similarly, property tax following same strategy can have tremendous impact on revenue generation when effectively utilized as a means to financing public goods (Odusola, 2006).

Although Taxes are primarily imposed to generate income for government spending, it has been found useful as an effective tool to influence human behavior and discourage the consumption of certain commodities deemed harmful to health (demerit goods such as alcohol and tobacco). By imposing higher taxes or excise duty on these items, their consumption is discouraged to a large extent (CBN, 2017). Also, experts have established the fact that taxes are effective fiscal policy tools to control inflation in the economy, especially when inflation is caused "by too much money chasing few goods." This is achieved by simply deciding to reduce disposable income, by raising taxes. This will in turn curb aggregate demand in the economy and rein in inflation rate (Jimoh, 2003).

Government use the strategy of raising and lowering taxes to stabilize business cycle and the economy, and to correct unfavourable balance of payment situation by increasing tariffs – a form of tax. In the same vein, increasing tariff on import, imported commodities become more expensive, leading to a decline in the demand for imported commodities and paving way for the protection of domestic/infant industries (Ekpung & Wilfred, 2014). The justification for this is that by increasing tariffs on imports and charging lower taxes on domestic/infant industries, it helps to protect domestic and infant industries and may boost demand for goods and services produced by domestic industries as well as effectively stimulate economic growth and not serve as disincentive to productivity even in a situation of economic recession (Simson et al., 2011).

There is no gain saying the fact that the COVID-19 pandemic has had a negative impact on the health of both people and economies, with developing countries hit the most. For developing countries with limited fiscal space and heavy debt burdens, balancing the need to provide income support or safety nets for the poor and vulnerable and to collect revenue to finance spending has been extremely challenging. Many organizations, institutions and development partners have argued in favour of tax revenue (CBN, 2021; FIRS, 2022; OECD, 2021).

The need to focus on domestic resource mobilization is particularly acute in developing countries where tax revenues were already low as a share of GDP prior to the COVID-19 crisis (Adalet et al., 2017; Akgun, Bartolini & Cournède, 2017; Akgun, Cournède & Fournier, 2017). Many developing countries especially those in Africa need to raise more tax revenues to finance sustainable goals. Improving tax revenue to align with sustainable goals financing strategies is an increasing priority for many of these countries; essentially to ensure the provision of vital public goods and social protection to its citizens. The Addis Action Agenda emphasize tax revenue as the only sustainable source of finance for majority of public goods, hence, is essential to the realization of the SDGs. This is reflected in many developing countries' medium- and long-term strategies for financing the SDGs (Lustig, 2017; OECD, 2018; O'Reilly, 2018).

Aside the challenges of tax avoidance and tax evasion, developing countries like Nigeria often have large informal sectors that narrow the tax base and put tax revenues under pressure (CBN, 2021). While informality may be regarded as a multidimensional challenge, tax policy together with social protection and labour market policy can have both direct and indirect effects on its reduction. Studies have shown that high levels of informality have the tendency to create a vicious circle of high tax rates paid by formal sector workers and businesses, creating incentives for them to operate partially or fully in the informal sector, and invariably increase the need for governments to raise statutory tax rates further, which may serve as a disincentive (Sarin & Summers, 2019).

Developing countries face the challenge of narrow tax bases and high tax rates, which reduces tax revenue available to finance public goods provision. A handful of opportunities targeted at improving the design of simple and presumptive taxes that can induce informal businesses (including those not captured on the tax base within the internet space) and workers to enter the formal sector and formal businesses to continue growing in the regular economy (Rubolino & Waldenström, 2017).

Investment tax incentives can induce reduction in tax revenues and limit efforts targeted at mobilizing domestic resources and marshaling progress towards other meaningful goals like SDGs. Forgone revenue resulting from tax incentives is of particular concern when the incentives do not attract additional investment, but result in windfall gains to investors for projects that would have taken place in the absence of the incentives. Reforms to improve tax incentive design and limit the use of wasteful and redundant tax incentives are therefore crucial (Thomas & O'Reilly, 2016).

Significant scope exists to strengthen the functioning and design of Value Added Tax (VAT) systems in developing countries like Nigeria. In particular, reform to increase the efficiency and revenue-raising capacity of VAT systems could be considered by reducing a significant number of VAT exemptions and reduced VAT rates that exist in these economies. Other emerging challenges with significant capacity to impact tax revenue in these economies revolve around strong e-commerce growth. The aforesaid challenges notwithstanding, the main VAT challenges in tax revenue generation relate to the strong growth in online sales of services and digital products to private consumers (this include but not limited to movie streaming, "apps", ride-hailing, music and gaming) and to the explosion in the growth in online trading in low-value imported items, usually by foreign businesses, on which VAT is not adequately covered under existing tax laws and administration (Milanez, 2017; OECD (2018).

At 7.5 per cent, Nigeria's VAT, is reported to be one of the lowest in the world. Among its African peers, Nigeria has the least VAT rate (Ghana – 17.5 per cent, South Africa – 14 per cent, Egypt – 10 per cent, Algeria – 17 per cent, Angola – 10 per cent, and Morocco – 20 per cent) (Zenith Economic Quarterly, 2015; CBN, 2019). There are a number of arguments against increase in VAT. Such arguments include: decrease in capacity utilization of the productive sector of the nation's economy, rising inflationary rate with its consequences - increasing unemployment rate especially among the youthful working population - and possible pressure and resistance from organized labour unions, among others. While some of the arguments against increase in VAT rate may be germane, the exigency of fiscal crisis demands an urgent broadening of the nation's tax base to ensure fiscal sustainability (CBN, 2019).

A common feature of many developing economies is their narrow tax bases which results from a wide range of special tax provisions. These provisions are often not properly designed and targeted, and are usually beneficial to households and firms that need the support the least. A key strategy therefore in improving the tax system for sustainable financing of public goods, is broadening the tax base and improving the design of tax expenditures. This would require some compelling steps to be taken. First is to develop an annual tax expenditure report that lists all tax expenditures and calculates their tax revenue foregone and, possibly, their distributional implications. Second is to insist on a periodic publication of

tax expenditure; this will increase transparency and lead to better-informed tax policy decision in the long-run (Brys, 2011; Slemrod & Gillitzer, 2014).

Underlying Philosophy of Tax Revenue Option

The importance of tax revenue to an economy and the ability of government to harness it and provide infrastructure and social services to the people cannot be overemphasized. Taxation is one of the most contentious issues in governance in both developed and developing nations. Taxes underwrite the capacity of a government to discharge its basic duties to the citizens. In fact, in developed climes, taxation is the basis for the conduct of government-society relations (Schick, 1998a, Modugu & Izedonmi, 2012).

Natural resources endowed countries like Nigeria generate revenue from proceeds of sale of natural resources. However, taxation remains the most sustainable revenue stream (World Bank, 2017; Rosenbloom & Kravchuk, 2002). Indeed, it can be argued that the extent to which an economy grow sustainably, depends on its ability to generate tax revenue to finance public expenditure and the efficiency of its tax system (UNCTAD, 2008; Ebimobowei et al., 2013). Taxation is globally recognized as the only source of sustainable revenue to finance government spending. The numerous benefits of tax revenue notwithstanding, many countries including Nigeria have not been able to effectively harness their tax potentials for a myriad of reasons, some of which are discussed at a later section in this paper.

Taxes and Levies Collected by the Three Tiers of Governments in Nigeria

There are a number of taxes that are collected at different levels in Nigeria. The constitution defined three jurisdictions of tax collection - Federal, State and local Governments - based on fiscal autonomy. But despite this definition, there are overlaps that often lead to incidences of multiple taxation. Taxes within the jurisdiction of the federal government include companies' income tax, withholding tax on companies; petroleum profit tax; value added tax (VAT); education tax; capital gain tax, among others (Zenith Economic Quarterly, 2015; FGN, 2015).

Those within the jurisdiction of state government include personal income tax; withholding tax imposed on individuals only; direct assessment; capital gain tax; pools betting, lotteries, gaming and casino taxes; road taxes; stamp duties; business premises registration and renewal levy; development levy; naming of street registration fee in state capitals; and rates in markets where states finances are involved (Zenith Economic Quarterly, 2015; FGN, 2015).

Local governments have power to Tax and levy shops and kiosks rates; tenement rates; on and off liquor license; slaughter slab fees; marriage, birth and death registration fees. Others are naming of street registration fee (excluding state capitals); right of occupancy fees (excluding state capitals); market/motor park fees (excluding market where state finance are involved); domestic animal license; bicycle, truck, canoe, wheel-barrow and cart fees; cattle tax; merriment and road closure fees; radio/television (other than radio/TV transmitter) public convenience, sewage and refuse disposal fees; customary, burial ground and religious places permits; and signboard/advertisement permits (Zenith Economic Quarterly, 2015; FGN, 2015).

Challenges of Tax Revenue Option in Nigeria

There are a number of known challenges militating against tax revenue collection in Nigeria. Multiple taxation is one of the most often cited challenges among taxpayers (Ifueko, 2012; Kessler & Norton, 2016); and is attributed to overlapping structures of the Nigerian's tax system. More so, inability of governments to capture and generate revenue from the informal economy also accounts for low tax revenue in the country. The informal sector in Nigeria is characterized by very high self-employment rates and consequently low levels of tax collection (Zenith Economic Quarterly, 2015).

Thus, encouraging businesses to register and be integrated into the formal economy remains a major challenge. Infant and small businesses usually have the tendency to remain in the informal sector in a bid to avoid paying taxes. More so, businesses lack the incentive and willingness to live up to their tax obligation when the government can hardly be trusted because of its failure to utilize previously collected funds to provide basic infrastructure that promote businesses. This is further compounded by incidences of high tax burden which naturally impinges on willingness to pay.

Tax revenue is also affected by level of taxpayer's compliance and willingness to pay. It is a known fact that people generally are averse to paying taxes. This challenge is not peculiar to developing countries alone. The difference can be gleaned from the fact that institutions in developed countries like the United States of America and Europe are stronger, and most citizens see the need for taxes, if society is to function well while they are weak or non-existent in developing countries. Nigeria like most developing countries contend with low tax compliance (FIRS, 2022).

According to the Federal ministry of Finance, about 65 per cent of eligible tax payers do not file tax returns to relevant tax authorities, while about 75 per cent of registered businesses are not even captured in the tax system. It is also reported that even among the registered businesses, only a small proportion comply with the filing and payment of VAT and the remittance of withholding tax to the federal government (FIRS, 2022). Several tax reform initiatives aimed at improving tax compliance level in the country have not yielded the desired result (FEPAR, 2021). This is an obvious indication of a weak tax administration system.

Two other challenges bedeviling tax revenue as a sustainable means financing for government expenditure is the problem of tax avoidance and tax evasion (Alstadsæter et al., 2019). Aside from salaried employees in the formal economy whose taxes are deducted at source, most eligible and taxable Nigerians and businesses pay inadequate taxes or do not pay taxes at all. This act of tax avoidance naturally culminates in huge revenue loss to the government.

Similarly, the outright failure to pay or to deliberately underpay taxes leads to tax evasion. This is usually achieved through connivance between tax officials and business owners. It is an illegal act, achieved by willfully suppressing or falsifying facts relating to the actual tax liability. It is illegal, criminal and punishable under the law. These 'twin devils' have created a huge gulf between actual and potential tax revenue in Nigeria (FIRS, 2022).

Concluding Remarks for Improving Tax Revenue in Nigeria

Generating revenue through tax is a contentious economic issue in all climes. Over the years in Nigeria, taxation has not occupied a prime position in the economic and political discourse because of over reliance on proceeds from sales of crude oil. However, with current oil market development, oil theft in the Niger-Delta, poor remittance by the NNPC to the federation account, rising fiscal deficit, sovereign debt, and other challenges elicited by the Covid-19 pandemic, the reality of looking beyond oil revenue and the federation account has been brought to bear on the three tiers of government. Non-oil revenue mobilization and other sources of financing government spending have become critical economic concerns. As the challenges are multi-dimensional, reforms will need to be multi-faceted.

To start with, broadening the nation's tax revenue base is critical. A situation where an overwhelming majority of taxable individuals and businesses are not captured in the tax system and consequently do not pay taxes constitutes enormous tax revenue leakage and should be discouraged at all cost. There is therefore the need for concerted policy effort to encourage businesses in the informal sector to formalize and pay taxes.

To address the incidence of multiple taxation which is a disincentive for tax revenue generation, there is a compelling need for synergy between the tax authorities of the three tiers of government. Active and productive collaboration rather than competition, will enhance tax administration and improve tax revenue. There is also the need to harmonize and simplify taxes to encourage tax compliance. Consequently, tax legislation and legal framework for sanctioning tax defaulters need strengthening. A weak legal system only encourage non-compliance. The pervasive culture of impunity and flouting of tax laws must be discouraged at all cost.

Incessant and rampant granting of tax waivers and exemptions has denied the government of huge tax revenue. Subsisting waivers and exemptions should be reviewed in line with current economic realities, to enable government generate more tax revenue. Nigeria with its reliance on fossil fuels will need to urgently design strategic policies to navigate the energy transition and to intensify investments into sectors that will deliver sustainable economic growth and tax revenue. This includes eliminating wasteful fuel subsidies and increasing environmental-related taxes and carbon pricing through carbon taxes or emissions trading systems. These measures will need to be accompanied by policies to ensure energy affordability.

Similarly, efforts must be intensified by tax authorities to educate and sensitize the citizenry on the need to pay tax. However, it is important not to take for granted, tax payers' perception of the fairness of the tax system, the purpose and utilization of tax revenue as doing the contrary can significantly influence tax compliance attitude in the country.

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