

## **Tax Fund Management, Accountability and Utilisation by Government and Its Implication on Nigeria's Social Development**

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**Abstract:** *The debate on tax fund management and its utilisation as a tool for social development has been a recurrent issue among the scholars. Over the years, the debate on mismanagement of tax revenue and outright disregard for social development in the sub-Sahara African states by political elite in power has dominated the national discourse in Nigeria. Against this background, the study investigated the impact of tax collection and tax utilisation on social infrastructural development in Nigerian society using Lagos State as a case study. The method of analysis is based on qualitative technique. The investigations suggest that countries with high tax collection, management and utilisation have a relatively high index of social infrastructural development.*

**Key Words:** *Tax fund management, accountability, utilisation, social infrastructure and development.*

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### **I. Introduction**

The phenomenon of tax collection cuts across virtually every developed and developing nations irrespective of continent. The assumption is that every state desires infrastructural development and economic growth. This vision could only be achieved through tax revenue generated from individuals, firms and investors in the society. Most modern states utilised tax to fund different functions of state, including law enforcement, national defence, public infrastructure and the operation of governmental institutions (European Union, 2016). Again, most tax collecting states use it to redistribute income, to influence consumption and production patterns, and to fund public services which are necessary or beneficial to society (e.g. education, healthcare). However, as essential as taxes are to government, they constitute a burden for taxpayers who see it as exploitation by government and avenue for government to avert its social responsibilities. This perception on the part of tax payers sometimes resulted to tax resistance and reduction in the total amount of tax generated. The variation in tax collected and tax due, results to revenue loss for the state budget which in turn adversely jeopardises fiscal policy, public spending, fair sharing of burden as well as the economy in totality. The Government of Nigeria, like any other Governments in the sub-Saharan States and the global environment has legislative power and obligation to impose any form of tax at any rate on every citizen. The challenge with contemporary political office holders is the preponderance culture of corruption which is prevalent in every society. In fact most African countries still suffer from poor governance and corruption in spite substantial efforts over the last decades to build functioning, democratic institutions. The polarisation of corruption in most developing countries has made citizens to constantly demand for governmental accountability of revenue generated. The Government has access to huge amount of money as public funds for its use and management. It is the responsibility of those in power to spent the money with probity since they are expected to defend their spending before the parliament or legislative council as well as the electorates. It has to respond to question from electorates and parliament on how it has discharged this functional duty towards the society. The only means by which this can be discovered by the Parliament is when the performance of the government is in tandem with the constitutional demand. For instance, the constitution requires from most governments to get approval from legislatures through budget presentation to ensure accountability. During legislative budgetary debates, members may call the government to account by raising issues and questions relating to public policies, programmes and financial management. The accountability process begins before each financial year. The government is required under the constitution of the Federal Republic of Nigeria to present to members of the legislative council its proposed Budget at the beginning of the year to enable the legislatures to have a proper understanding of how policies and programmes will be implemented.

## **II. Conceptual Clarifications**

In the OECD classification, the term “taxes” is confined to compulsory, unrequited payments to general government. Taxes are unrequited in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments (Organisation for Economic Cooperation and Development, 1996). According to Thomas Cooley (1924), taxes are defined as “enforced proportional contributions from persons and property, levied by the State by virtue of its Sovereignty, for the support of government and for all public needs”. A tax is a compulsory levy made by public authorities for which nothing is received directly in return (James and Nobes, 1997). In other words, a tax may be defined as a "pecuniary burden laid upon individuals or property owners to support the government, a payment exacted by legislative authority. A tax "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority". Taxes consist of direct tax or indirect tax, and may be paid in money or as its labour equivalent (often but not always unpaid labour) (Statistical year book, 2011). The typology of tax involves: Direct taxes such as income tax, wealth tax, corporate tax, fringe benefit tax, and dividend decision tax; and Indirect taxes such as sales/CST/VAT, excise, customs duty service, entertainment tax. Tax fund can be considered as the money generated or realised from tax paid by individuals in the state which the government fall back on in the course of executing projects and programmes for the development of the state. The role of any government is to satisfy the quest of the citizens through the various projects on periodical basis as this would serve as dividends of democracy of good governance and invariably determine their re-election and subsequent supports for the party in power. The challenge that tax payers have is not the payment of tax but the challenge of managing tax by the various agencies established by the government to handle its custody and proper utilization. Politicians usually give electorate vague promise of reducing federal bloat during their campaign, probably to secure support from citizens so that they could secure huge votes, yet their pet interests, lack of cohesive leadership, or lack of financial management skills usually enable the excesses. The term management is very crucial to the tax issue. According to American Management Association, Management is guiding human and physical resources into dynamic organisational units which attain their objectives to the satisfaction of those served and with a high degree of morale and sense of attainment on the part of those rendering service. In the same vein, American Society of Mechanical Engineers defined Management as the art and science of organising and directing human efforts applied to control the forces and utilise the materials of nature for the benefit of man. Tax management represents an intrinsic element of economic turnover, an area of interest both to the institutional and to the real spheres of national economy. It needs to be said openly that a specific kind of tax engineering flourishes now, in the days of all-pervasive globalisation, when tax burdens impact the overall productivity of production factors, but very often relate to only non-tangible and legal values (Konrad & Lukasz, 2014). Tax management involves maintenance of records in prescribed format, getting audited records, filing returns and pay taxes, consistent feature of business enterprises and proper tax planning, use of Central Board of Direct Taxes (CBDT) by employers and adoption of Tax Deduction and Collection Account NO. (TDCAN) by employers (<http://www.scrib.Com>). The only prerequisite to tax management is planning (i.e. minimizing the tax liability). For democracies to function effectively well, citizens need to hold leaders accountable, yet in many sub-Saharan African nations, the desire on the parts of tax payer to request for the utilization of funds collected is at low ebb. Public accountability is fundamental to effective democracy because it enables leaders to account for the use and management of public funds and resources accountable to them. Public sector accountability and transparency emerged as crucial concepts in the effort to reduce opportunities for corruption and strengthen internal and external monitoring mechanisms (Carothers & Brechenmacher, 2014). Accountability is usually defined as a social relationship in which an actor feels an obligation to explain and to justify his conduct before the electorates, political party and parliament (Romzek & Dubnick 1998:6; Pollit 2003:89). The actor, or accountor, can be either an individual or an agency. Gray, Owen, & Maunders (1987:2) provide the definition that accountability is 'the onus, requirement or responsibility to provide an account (by no means necessarily a financial account) or reckoning of the actions for which one is held responsible.' The first and foremost function of public accountability therefore is democratic control. Secondly, public accountability functions to enhance the integrity of public governance. The third function of public accountability is to improve performance. Public accountability is meant to foster institutional learning (Bovens, 2004). Since Utilization has a relationship with putting something into use, tax utilization then connotes the way by which tax collected is invested in developmental projects. The effective utilization of tax determines the level of development in a State. Development is not purely an economic phenomenon but rather a multi-dimensional process involving reorganization and reorientation of entire economic and social system. Development is the process of improving the quality of all human lives with three equally important aspects. These are: 1./ Raising peoples' living levels, i.e. incomes and consumption, levels of food, medical services, and education through relevant growth processes. 2./ Creating conditions conducive to the growth of peoples' self-esteem through the establishment of social, political and economic systems and institutions which promote human dignity and respect. 3./ Increasing peoples' freedom to choose by enlarging the range of their choice variables, e.g. varieties of goods and services

(Todaro & Smith, 2012). Todaro's definition of development is predicated on 'raising peoples' living level'. This indicator of development as portend by Todaro has a fundamental relationship with the provision of social infrastructure by the government of a nation, which is perhaps one of the reasons for levying them with different taxes by the ruling elite. Social infrastructure in this context simply implies the provision of necessary social amenities to tax payers to make life more livable and enjoyable. Social infrastructure' describes the features of social organisation, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions (Putnam (1993). It is imperative to say that good social infrastructure provide benefits to individuals as people tend to be more 'hired, housed, healthy and happy' if they have access to social infrastructure. Thus there is a correlation between social infrastructure and social development. The major goal of social development is a total progressive improvement in the living conditions and quality of life experienced by people in the society. The implication of accessibility to social infrastructure on the society is that it tends to increase social cohesion, strengthen the economy of the States, and promote individuals' desire for the attainment of goals.

### **III. Principles of Taxation**

In a situation where government in any society finds it extremely difficult to generate revenue to finance social infrastructure, raising fund from tax becomes unavoidable as a way of sustaining the economic and social demand of the citizens in the society. However, to be able to secure funds required, the government is expected to follow certain principles in the course of establishing tax policy. These principles encompass neutrality, efficiency, certainty and simplicity, effectiveness and equity, as well as flexibility.

### **IV. Neutrality**

Neutrality is very significant in the sense that it promotes efficiency and optimal allocation of the means of production. This can only occur when taxation is made neutral and equitable to all forms of business activities. In other words, has the tax system interfere with the investment and spending decisions of businesses and workers? When tax policies technically and systematically favour certain economic activity at the expense of others, the effect can be devastating on the economy as this act will lead to the misallocation of resources. Again, the goal of any tax policy is to raise revenue without distorting the decisions that individuals and firms would otherwise make for purely economic reasons. Thus, the issues of tax neutrality centres on five areas: (i) Using the tax code to encourage desired behaviour; (ii) Discouraging undesired activity; and (iii) Overall tax reform must reflect lower rates (Jason, 2008; OECD, 2014).

### **V. Efficiency**

Another principle mentioned in literature is "Efficiency". A tax is efficient if it distorts market processes as little as possible since economic agents attempt to limit, avoid and evade tax liability as much as possible (Nhekairo, 2014, p. 3). In other words, the tax system should not jeopardize the proper allocation of resources and its administration cost should be cheap. The government must avert a situation whereby the tax authority finds it difficult to administer it because of the taxes cost. Adam Smith divided efficiency into two parts: economic efficiency and administrative efficiency. Cost to governments include administration costs, the cost of looking for delinquent taxpayers through audits, and the costs of considering quarrels with taxpayers over the way in which the tax laws operate. (Lymer and Oats, 2009). An economic efficient tax system is one that does not distort the economic and commercial decisions made by individuals.

### **VI. Certainty**

Certainty, along with simplicity and stability, is a major fundamental cornerstone of a good tax system: but why is it so essential? How can policymakers enhance certainty? Are there situations when an uncertain outcome might be invertible, or even justified? Without certainty, neither governments nor taxpayers will be able to accurately budget or plan for their future spending or actions. Nevertheless, every system incorporates uncertainty to some extent, whether unavoidably or intentionally, and it may even be encouraged by governments in different nations. (Piper, 2014). The tax system being established should consider the fact that the sum of tax paid is not arbitrarily fixed by the income tax authorities. If the sum of tax payable by him is subject to much discretion and arbitrariness of the tax assessment authority, this will weaken his incentive to work and invest more. To avoid this development, taxpayer must have sufficient knowledge or be certain of what he wants to pay.

### **VII. Simplicity**

Simplicity is an important element of a well structured and reformed tax. When a tax system is extremely difficult to understand by tax payers, then, it poses snags for the government. For instance, it makes it extremely hard for governments to monitor and enforce the collections of tax. A tax system that is associated

with challenges makes it possible for clever accountants to manipulate the rules guiding tax payment. When tax rules are simple to understand, it enables taxpayers to fulfil their obligations effectively.

### **VIII. Effectiveness**

Another principle mentioned in literature is “Efficiency”. A tax is efficient if it distorts market processes as little as possible since economic agents attempt to limit, avoid and evade tax liability as much as possible (Nhekairo, 2014; Musonda, 2016). An efficient tax system is one that minimizes the loss of economic welfare and growth due to tax-induced distortions in the incentives that guide private decisions on investment, production, technology, consumption, saving, work effort, financing, and even the legality of activities. Efficiency is especially important for poor countries that can least afford economic losses due to avoidable resource misallocation. To minimize efficiency losses, most tax reform programs in developing countries aim to apply a moderate tax rate to a broad tax base (Bolnick, 2004).

### **IX. Equity**

Tax equity simply implies that the tax system should be fair to every member of the society. In other words the tax system should not be favourable to certain groups of the society while being harsh on others. However, the challenge with the concept of fairness is that the term is relative. What is fair to a particular tax payer may not be considered as fair to others. It is important to say that the term equity should rather be determined by the benefits secured by citizens from certain services or facilities provided by the government. There are horizontal and vertical equity. Under horizontal equity, the higher the income, the lower the tax paid. On the other hand, vertical equity implies that people with higher income should pay tax higher than low income earners. Again, the question of what the higher income earners who pay huge taxes enjoy becomes very difficult to measure and determine since the lower income earners with low taxes mix with all the other groups in the society. Even, where it is done successfully it possesses class stratification and the danger of class conflict among the affected groups in the state.

#### **Flexibility**

In order to generate evolving economic, social, and technological advancement, it is generally believed that government should create an opportunity for tax policy to reflect adequate flexibility to enable it to accommodate changes. One particular area of focus is the tax principles and frameworks for the digital age. A well designed tax system should favour flexibility and stability. Flexibility in this sense implies that the entire tax system should be flexible enough to allow the tax increase or decrease, depending on the need of the government or the economic situation, without such change degenerating into crisis among the tax payers.

#### **Theoretical Framework**

There are so many theories associated with the imposition of tax on people in a state by the government. These theories involve the following:

#### **Benefit Theory:**

Since the government is expected to fulfil its social role to the entire members of the society, it becomes essential that funds have to be generated by the government to execute some projects that will benefit individuals. These social infrastructures are capital intensive in nature, such that the government may find it extremely difficult to bear. Hence, the need for individuals to compliment government’s efforts by performing their tax obligation since those public services are rendered to them and have to be paid for. The taxes which an agent pays should reflect the benefit that he receives from the mix of goods and services supplied by the public (Neil, 2000). One of the criticisms levelled against this theory is that it could lead to injustice in the society where the poor have to pay more tax than the rich because they benefit more from those social facilities than rich.

#### **Optimal Theory**

The tenet upon which the theory of optimal taxation rests is that tax system in every society should be based on maximum social welfare function. In this direction, optimal theorists assume that social planners are utilitarian since they render public services that are expected to give the entire people in the society greatest happiness. According to Jerry Bentham, the postulator of utilitarian theorist, every activity of the government should provide the greatest happiness for citizens in the state. However, one of the criticisms raised against Optimal theory is that it limits the social welfare function to solely average utility. In other words it assumes that everyone in the society has similar preferences in consumption and public goods. This homogeneity assumption is erroneous (Ramsey, 1927; Stiglitz, 1987; Mirrlees, 1971; Passell, 1990; Tuomala, 1990; Salanie, 2003; and Kaplow, 2008).

### **The Ability-to-Pay Theory of Taxation**

The ability-to-pay theory is predicated on how taxes should be based upon the amount of income people earn in the state so that the government will not be overcharging them. For example, those who earn more money are expected to pay a higher rate of taxes than the low income earners. Taxes must be paid in cash. Hence, those forms of real income which never materialize in cash do not determine one's ability to pay income tax, no matter how much they may contribute to the recipient's scale of living. One of the challenges of this theory is that it ignores the amount of those services that taxpayers actually use.

### **Cost of Service Theory**

Cost of service theory is associated with the benefits individual taxpayers receive from the government of a state. The theory focuses on the semi-commercial relationship between the state and the public to a larger extent. The assumption of the theory is that people are not having the opportunity of having direct benefits from the state except through the provision of services. This kind gesture has to be paid in form of reimbursement to the state for the cost incurred in the provision of public services by the government. The advantage of this theory is that it leads to a balanced budget since the funds generated from taxes are the refund of cost incurred. The weakness of this theory is that it is not possible to have a conceptual clarity of the measurement of cost so that the tax collected is equivalent to the services rendered.

### **Expectancy Theory**

According to Adam (1776) every tax proposal must be practicable or applicable when the government puts in place implementable tax policy. This theory which is embedded in the cannon of economy explains the economy, effectiveness and efficiency of tax collection instrument. Taxation is seen to provide a powerful set of policy tools to the authorities and such tools should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, and unemployment and so on. (Chigbu, Eze & Ebimobewe, 2011; Ibadin & Oladipupo, 2015).

## **X. History of Taxation**

The earliest known tax records, dated back to six thousand years B.C., are in the form of clay tablets discovered in Iraq, precisely, in the ancient city-state of Lagash. During this period, taxes were paid at a minimum level, except when there was war, or conflict or hardship. The Greeks, Egyptians and Romans were able to introduce tax policies to enable them to finance their various governments during this period. The Greeks imposed different taxes on property and goods. Taxation in Roman Empire was quite different from the ancient Greek taxation. The Roman taxation policies imposed heavy taxes on the citizens. The excessive tax burdens on productive Roman citizens during the 4<sup>th</sup> and 5<sup>th</sup> centuries were resulted to the nation's eventual economic collapse. The decision to enforce taxation was not limited to European and Mediterranean civilizations, ancient Chinese societies also imposed taxes on their citizens. The Chinese introduced a form of property tax around 600 B.C. that demanded 10 percent of cultivated land to be dedicated to the central government to enable certain public services and good to be provided. All produce harvested from the dedicated portion of land paid as tax (<http://www.worldtaxation.com>; Craciunescu & Savoie, 2002, AMANJ website)The imposition of taxes in Africa was dated back to the colonial periods when the fiscal policies of the British and French colonial administration were predicated on forced labour of Africans. During this period, Africans underwent varying tax burdens with the enforcement of forced labour laws. It is pertinent and regrettable to say that the forced labour schemes were enforced in coercive manner such as use of slavery, communal labour services on plantations, and debt bondage. These inhuman labour laws were instituted by colonial administrators in regions controlled by Britain and France. The forced labour condition was justified by the colonial master as part of their civilizing mission in Africa. The argument of the colonialists was that the forced recruitment of native labor was a fundamental means by which they could overcome their revenue dilemma in largely rural and non-monetized African economies. In addition, the colonial administrators believed that for the Africans to secure infrastructural development networks, as well as the expansion of mining and cash-crop enclaves, they needed free African workers (Ash, 2006; Fall, 1993 & 2002; Okiah, (2102); Akurang-Parry, 2000; Nayenga, 1981; Wolmar, 2010; and Mosley, 1983). Tax payment did not emerge with the British in Nigeria because the earliest trace of direct taxation started from the Northern part of Nigeria. Then, taxes were paid on agricultural products and livestock. However, with the emergency of the British in 1904, income tax was introduced by Lord Lugard, the then British Administrator in Nigeria. This was enforced with the institution of Native Revenue Ordinance in 1917, but later amended in 1918. The ordinance was first applied to the people of Abeokuta and Benin City, and later extended to the Eastern part of Nigerian. In the North, only direct personal taxation was introduced under the Fulani Emirs, prior to the arrival of the British. However, in 1914, after the amalgamation of the Northern and Southern part of Nigeria, the Native ordinance suffered a setback in the Eastern and Middle Belt because there was not a central authority like in the North, until 1927, when it was adopted in the Eastern part of the

country. Following the 1943 income tax reforms, the non-Africans and companies were expected to remit tax to the British colonial government in Nigeria (Jumare, 1998; NOUN Handbook).

### **The Role of the State in Nation Building**

It is maintained that the state is an organization of human community life, which originates by reason of a social instinct implanted in men by nature (Stoic Doctrine); or else is brought about by an irresistible impulse to end the "war of all against all," and to coerce the savage, who opposes organized effort, to a peaceable community life in place of the antisocial struggle in which all budding shoots of advancement are destroyed (Epicurean Doctrine) (Oppenheimer, 2010). Apparently, man in state of nature according to Thomas Hobbes in his famous book titled *Leviathan* is 'solitary, poor, nasty, brutish, and short' in his disposition towards his contemporaries. Perhaps to enable the state to experience orderliness and peace, men agreed to surrender their violent acts for social contract because they sought for '*Pactum Unionis*' (protection of lives and property) and '*Pactum Subjectionis*' (adherence to authority). In the social contract the government had agreed to reward the people for giving up themselves to the state, a sovereign body, to administer them, by carrying out certain roles that will enable the entire people to be compliant to the laws in the society. The relationship between the state and the citizens is therefore symbiotic. This view is in line with Jeremy Bentham's *philosophy of morality* which argues actions are predicated upon their consequences. Bentham's philosophy is fundamentally based on the utilitarian principles which focused on the influence of overall happiness created for everyone by the state on citizens' consequential action. According to John Locke, the purpose of government and law is to uphold and protect the natural rights of men. Except otherwise, the laws given remain valid and binding. Where the state ignores its role to the society, the rulers as conceived by Karl Marx would be seen as oppressive. Again, where the proletariat are subjected to servitude by the bourgeoisie, the government is considered as a tyrant. When this occurs men begin to fight for their rights in the state. However, in order to maintain the status quo, the state might be compelled to apply Machiavellian rule of force to avoid total breakdown of laws guiding the society. It is essential to say that the fact that a state is considered as having welfare programmes does not eliminate the existence of crises in such environment. The role of the state therefore is to see itself as a 'living organism' created to carry out welfare activities. In most welfare states, three functions are distinctive in the course of performing the role of nation building: (1) They redistribute income in various ways from better-off members of society to those faced with material or other deprivation or subject to higher social risks. Welfare states comprise institutions and mechanisms designed to protect against these risks by delivering poverty relief, providing social housing, redistributing income and reducing social exclusion (2) They enable citizens to insure themselves against social hardship and to spread their income more securely over their lifetime, with pensions being the main element. The welfare state provides insurance against unexpected and unacceptable changes in individuals' living standards, through mechanisms such as unemployment and disability benefits. (3) They perform social investment function that enables the state to invest in the nation's human and social capital (Barr, 2012; Hemerijek, 2012). Every state in this contemporary age is therefore expected to embark on nation-building by making provisions for certain projects and programmes that will make their environment liveable and enable men to achieve their socio-economic and political desires. The term nation-building can be considered as a normative concept that implies or conveys different interpretations to different people. However, it can be viewed as designing programs that will enhance the development of governmental infrastructure for the civil society as a means of reviving the economies, political instability and social decadence of the society for the purpose of promoting stability. State-building means the establishment, re-establishment, and strengthening of a public structure in a given territory capable of delivering public goods (Fukuyama, 2004; Bogdandy & Wolfrum, 2005). The welfare state was discussed in terms of its size, as manifested by the extent of its fiscal reach. Scholars assessing the welfare state typically relied on aggregate measures of welfare spending, such as the percentage of GDP devoted to public welfare programs, as an indicator of welfare program generosity (e.g. Castles, 1982; Hicks and Swank 1992). In short, welfare effort had long been largely equated with spending levels. Modern welfare states include Germany, France, the Netherlands (Shoto, 2009) as well as the Nordic countries, such as Iceland, Sweden, Norway, Denmark, and Finland (Paul, 1999) which employ a system known as the Nordic model. Esping-Andersen classified the most developed welfare state systems into three categories; Social Democratic, Conservative, and Liberal (Esping-Andersen, 1990). The Asian Tiger welfare states such as China, Philippine, Indonesia, Thailand, South Korea and Taiwan have gone further to introduce sound health scheme, pension, social-security system, universal basic insurance scheme, educational system, good road network and constructed modern housing facilities for citizens in their various environment. Interestingly to say that some OPEC countries such as Saudi Arabia, Brunei, Kuwait, Qatar, and the United Arab Emirates have become welfare states exclusively for their own citizens. United Kingdom United States, Canada, Latin America, Germany are also welfare states among others. There is a *nectere* between welfare programmes, economic development and tax collection in those welfare states mentioned above. In other words, those programs and projects are realisable when there is proper funding. First, we need to consider the tax being

generated by the state as revenue. Scholars have been able to distinguish between contribution-based (the Bismarckian, German model) and tax-based (the Beveridge, English model) funding of welfare state programmes, but in reality these two models have converged, as most social-insurance schemes are funded by a mixture of employer/employee contributions, tax and subsidies from general state revenues (Gale, 2008). United Kingdom tax revenues come from a variety of sources. The main sources of tax revenue include: (a) Income tax (main tax rate is 20%), (b) National Insurance, (c) VAT (20% most goods and services), (d) Corporation tax (main rate 21%), (e) Council Tax (local government), (f) Business rates, (g) Excise duties (alcohol, cigarettes), (h) Other taxes include (stamp duty, carbon tax, airport tax, inheritance tax, capital gains). The United Kingdom was ranked 18<sup>th</sup> out of 34 OECD countries in terms of the tax to GDP ratio in 2013 (the latest year for which tax. The United Kingdom had a tax to GDP ratio of 32.9% compared with the OECD average of 34.4% as at 2015 (OECD, 2015). Perhaps, with this great amount, the British Government has been able to finance certain developmental project and cater for social needs of the people. The total tax revenue as a percentage of gross domestic products (GDP) in few selected countries as released by Heritage Foundation in September 2015 are: Mali (15.3%), Portugal (37%), Sweden (45.8%), South Africa (26.9%), France (44.6%), Peru (18%), and Nigeria (6.1%). According to Ibrahim Gambari (2008), the Under-Secretary-General and Special Adviser to the United Nations Secretary-General, Nigeria faces five main nation-building challenges: (1) the challenge from our history; (2) the challenge of socio-economic inequalities; (3) the challenges of an appropriate constitutional settlement; (4) the challenge of building institutions for democracy and development; and (5) the challenge of leadership. In our quest for nation-building, we have recorded some successes, such as keeping the country together in the face of many challenges.

### **Tax Utilization in sub-Saharan Africa**

One of the main factors responsible for economic challenges in sub-Saharan African countries is the inability of the various governments to utilize the tax collected for social development. Although, poor tax policy formulation and utilization, low per capita incomes, declining investments and existence of non-mechanised agricultural system are responsible for low tax revenue being generated by African governments, the inherent challenges posed by improper utilization of tax fund has been a major reason discouraging citizens from performing their social obligations towards their states. In Africa, natural resources such as income from production sharing, royalties, and corporate income tax on oil and mining companies yield the significant portion of tax revenue (Pfister, 2009). Since the revenue generated from those sources mentioned are not adequate to cope with the spate of development, the need for tax collection, management and effective utilization becomes imperative on the part of the various government to boost the social infrastructural development that will pave way for economic growth. Worlu and Emeka (2012) examined the impact of Tax Revenue on the economic growth of Nigeria between 1980 and 2007 using its effect on infrastructural development. They reported that tax revenue has direct and indirect relationships with the infrastructural development and the gross domestic product respectively (GDP). Promotion of social infrastructure is necessary to enable Africa to flow with the global development trend. Taxation plays a key role in helping African countries to reach their Millennium Development Goals (MDGs). African governments aim to use taxation to: i/ Finance their social and physical infrastructure needs; ii/ Provide a stable and predictable fiscal environment to promote economic growth and investment; iii/ Promote good governance and accountability by strengthening the relationship between government and citizens; and iv/ Ensure that the costs and benefits of development are fairly shared (Pfister, 2009). The qualitative study of sub-Saharan African countries like Ghana, Kenya, Nigeria, South Africa, Egypt and Liberia shows that there is significant evidence of relationship between tax collection, tax fund management, tax utilization and social development in those countries. Most recently, the government of Ghana earmarked part of the funds from the communications tax to support the Youth Employment Scheme (Prichard, 2009). Kenyan government has been able to commit the revenue tax on improving the health sector in the country. Through tax revenue, the government subsidises all services provided in public health facilities and also meets the costs of waivers and exemptions for specific groups of the population (Chuma & Okunga, 2011). According to World Bank report of 2015, Kenya's ability to boost its infrastructural projects through the pooling of resources has made her to be among the sub-Saharan Africa's fastest growing economies. In South Africa, the cost of infrastructure is ultimately borne by either tax payers, users or donors (Calitz & Fourie, 2007). However, the main income of financing infrastructural projects in South Africa comes from taxes. Tax formed a greater part of the income of other African countries. The challenges with tax fund management and tax utilization evolved from the endemic corruption associated with leadership in Africa (the political leaders and tax administrators). Again the reports from the sub-Saharan African states depicted that the funds earmarked from tax collected for specific purposes have not been effectively managed. Perhaps, continuing lack of transparency, limited civil society monitoring capacity and lingering doubts related to the fact that the new taxes were collected prior to the programs for which they were earmarked but not utilized (Prichard, 2009). Tax systems in developing countries perform poorly due to weak capacity, corruption and the lack of any reciprocal

link between tax and public and social expenditures (IMF et al., 2011). Developing countries are currently not fulfilling their tax potential; for example, sub-Saharan African countries still mobilise less than 17% of their GDP in tax revenues, below the minimum level of 20% considered necessary by the UN to achieve the Millennium Development Goals (MDGs) (IMF et al., 2011; UNDP, 2010). Instances of improper management and utilization of tax revenues abound in most African countries as citizens regularly accused the African leaders of diverting the funds into personal accounts. This corrupt practice is usually carried out through over-bloated project cost. Low taxpayer morale, corruption and poor governance are often deeply entrenched. High levels of corruption are strongly associated with low tax revenue (indeed corruption functions like a tax itself, and is likely to be a particularly regressive and inefficient form of taxation), as are other indicators of poor governance, such as the weak rule of law and political instability (OECD, 2014).

### **Tax System in Nigeria: Issues and Challenges**

The tax system is the process of taxation involving sets of rules, regulations and procedures with the organs of administration interacting with one another to generate fund for government (Agbetunde, 2010). From the figure above, it shows that Nigeria is not performing well in tax collection (Naiyeju, 1996; Nzotta, 2007; Ola, 1988). Against this background, series of tax laws have been reviewed by the federal, state and local governments to enable proper enforcement of tax payments on citizens. The categories of tax collected are capital gain tax, petroleum tax, value added tax (VAT), educational tax, personal tax, companies income tax, and custom and Excise Duties. The implication of low tax revenue generation on Nigeria's socio-economic development has been very retrogressive. For instance, it has limited the Federal Government from fulfilling its mandate towards the citizens due to its failure to carry out its social responsibilities. According to Soyode and Kajola (2006), the problems of tax administration in Nigeria are as follows: (i) Tax evasion based on individuals and companies refraining from registering with the relevant tax authority, false declaration of statement or information to tax officials, and intentional disregard for payment of tax. (ii) Tax Avoidance which occurs when taxpayers incorporate sole proprietor or partnership into a limited liability company, the ability to claim allowances and reliefs that are available in tax laws in order to reduce the amount of income or profit to be charged to tax, minimizing the incidence of high taxation by the acquisition of a business concern which has sustained heavy loss so as to set off the loss against future profits, minimizing tax liability by investing in capital asset (for instance through the new form of corporate financing by equipment leasing), and thus sheltering some of the tax payers income from taxation through capital allowance claims, and also by sheltering part of the company's taxable income from income tax by capitalizing profit through the issue of bonus shares to the existing members at the (deductible) expenses to the company. According to Naiyeju (2010), who highlighted some challenges of tax collection and administration in Nigeria at a symposium organised by the Chartered Institute of Taxation of Nigeria (CITN) to mark Nigeria's 50<sup>th</sup> Anniversary celebration, administrative challenge has been one of the reasons for inability by tax officials to collect required tax amounts. He posited that most of the tax authorities did not possess the institutional capacity in terms of staffing, skills, funding, information technology and infrastructural facilities to administer tax effectively and efficiently. Other points identified by Naiyeju are: poor taxation drive by tiers of government, challenge of multiple taxes, challenge of human capacity building and training, challenge of bad governance and wide scope of corruption in the system. Corruption, evasion, and avoidance are indicators that are responsible for low revenue generated from tax (Attila, Chambas, and Combes, 2008). According to Adegbe and Fakile (2011), the more citizens lack knowledge or education about taxation in the country, the greater the desire and opportunities for tax evasion, avoidance and non-compliance with relevant tax laws. Oduola (2006) stated that Nigeria's tax system is characterized by unnecessary complexity, distortion and largely inequitable tax laws that have limited application in the informal sector that dominates the economy. One of the best ways of encouraging voluntary compliance by people is that the government should begin to reinvigorate Nigeria's fiscal policy measures. If this is done, it will expand the tax revenue since voluntary compliance will ensure that the largest percentage of the taxable population is effectively brought into the tax net. Again, this measure will reduce the degree of tax officials compromising to tax evader's attempt to manipulate them. These measures will be more effective when the government improves on its image. The essence of this is to enable tax payers to have trust in the ruling elite whose image has been coloured with corruption, fraud and insincerity by taxpayers. Another means of enhancing productive tax collection and payment is that the federal government should decentralise tax administration. The decentralisation system will also promote more frequent on-site inspections and investigations by tax officers in the various areas of coverage by Integrated Tax Offices (ITO). More importantly, the government should engage the services of tax consultants and external auditors to serve as checks and balances to government officials.

### **Tax Collection and Infrastructural Development: Lesson from Lagos State**

It is highly imperative to say that for any meaningful and sustainable development to occur in the social and economic sectors of any nation, the onus is on the government to intensify efforts in collecting tax to avoid undue evasion by citizens and foreigners living in the country. Taxation as a source of income is now used by some states in the Nigerian federation to transform their society. For instance, states such as Lagos, Edo, Rivers, Ogun, Osun among others are now channelling the tax revenue towards the developmental projects that will enable individuals in the society to harvest the dividends of democracy. It is ideal for every government to shoulder the responsibility of providing certain basic infrastructures for its citizens as a way of improving their standard of living. In other words, comfortable airports, railway, public libraries, drinkable pipe borne water, modern hospitals, roads, bridges, well equipped schools, public conveniences, uninterrupted electricity, are among the public facilities that should be provided. The provision of good public services are the obligations of government aside from the stabilization of the economy, maintenance of law, provision of security, and the redistribution of income, that it is known to perform, that will make the society better off to its counterparts. According to Lymer and Oats (2009), the inefficiency of the private market, the provision of public goods such as security of life and property which the public is not prepared to pay for directly, are left in the hands of the government rather than the private market. Development in any society is not unconnected with the amount of funds generated by the government as revenue. The needed revenue to execute such developmental projects can be generated from taxes, royalties, haulages, fines, and grants from the states, national and international governments. Perhaps, most countries in the global environment secure revenue from high world oil prices, a growing economy, increased federal transfers, and most significantly, increased Internally Generated Revenues (IGR) as funds to finance public projects and programmes (World Bank review, 2010). In order to prevent duplication of payment of tax in Nigeria by taxpayers, the various states in the federation have been limited by the Joint Tax Board (JTB) to the collection of the following taxes: (i) Personal Income Tax. (ii) Road Taxes (iii) Pools betting and lotteries (iv) Business premises registration (v) Development Levy. (vi) Naming of street registration in state capitals (vii) Right of occupancy on land owned by state (viii) Market taxes on state financed taxes.

READ SO FAR The Lagos State government generated total revenue of N101.69 billion in the first quarter of 2016, which is 4.5% greater than 2015 that recorded N97.28. The implication of this is that Lagos State had a surplus of N4.85 billion in the period under review as against an expected deficit of N29.92 billion. Lagos State's Internally Generated Revenue (IGR) rose to N76.06 billion in 2016 compared with N67.21 billion recorded in the first quarter of last year. The Lagos Internal Revenue Service (LIRS) contributed N67.25 billion to IGR in the first quarter 2016 as against N60.58 billion it contributed in a similar quarter of last year. This performance was N6.67bn more in absolute terms compared to corresponding period in 2015. The state's revenue grew despite the diminishing statutory allocation from the Federation Account in the period under review. Federal allocations comprising statutory transfers and value added tax stood at N25.64 billion in 2016, accounting for 25.21 percent of total revenue (Financial Nigeria, 2016). With the growth in revenue, Lagos state, has been rated as the 7th largest economy in Africa and as well as the economic capital of Nigeria. The state has a population of over 20 million people with a GDP of \$90 billion and generates the highest IGR among the 36 states of the federation (Financial Nigeria, 2016). Recently, Lagos city joined the megacity. In Lagos, most of the Nigeria's Corporations choose to have their Headquarters in Lagos City. The location of Lagos State is highly favourable capitalizing on the vast resources of Nigeria and West Africa. The major factor that attracts domestic and foreign investors as well as migration of people to Lagos state is associated with the growth in social facilities. For instance, Lagos State through different Governors from Chief Asiwaju Bola Tinubu, Raji Fashola to Ambode Akinwunmi has experienced greater development because they introduced and executed development programmes such as tourism promotion, industrial development, property valuation and revaluation for effective taxation and revenue collection, population and housing census operation, planning of urban and rural settlements and transportation, flood and erosion control, mineral development, including bitumen and petroleum and agricultural, and communication planning to support the megacity status (Adeoye, n.d.). On the assumption of Senator Bola Tinubu as Lagos State Governor in 1999, the state was experiencing bankruptcy and declining public infrastructure due to low internally generated revenue of N14.64 billion. However, with the introduction of the Ten-Point Agenda crafted out by Tinubu's government as a way of re-inventing and re-vitalizing the state, Lagos became a transformed city. During his 8 years in office, he embarked on a serious and aggressive modern programs and projects in education, health care, job creation, poverty alleviation, power and water supply, public transportation/traffic management, physical planning/environmental renewal, infrastructure renewal/ justice/law, and order, food security and public sector reforms which were the cardinal points in his agenda. Under Tinubu's administration, internally generated revenue grew to N60.31 billion in 2006. The major reason for the sudden but gradual increase in revenue was due to the desire of Lagos indigenes to pay tax since they could see the judicious utilization of tax remitted. The desire to change Lagos to a megacity which actually started with Governor Tinubu was pursued aggressively by Governor Fashola. The crucial part of the mega city was the rehabilitation projects carried out by his government. Under the

administration of Governor Ambode, the state was able to rake N287 billion IGR as at December 2016. Since the ascension of Ambode in 2015, Lagos Mega City Project has been gaining stronger support. The Lagos Safe City Project was introduced to install 10,000 solar-powered closed circuit cameras all over the metropolis. Lagos State has been considered as one of the growing megacities in the world because it possesses most of the indicators of megacity and urbanization. These include: population density (concentration of the human population in references to space), economy (real GDP growth rate), land (Sub-urbanization rate, land sealing rate), number and dimension of informal settlements), change of land use, quality/quantity of urban infrastructure, good governance, disaster reduction, expansion of public transit systems (subways and buses), good housing systems, educational systems (modern school buildings) and health schemes (Kotter & Friesecke, n.d).

### **Reasons why citizens are responding to Tax in Lagos**

There are so many factors that are responsible for the willingness on the part of Lagos resident to pay tax, among which are:

- Proper utilisation of tax fund: The tax revenue in Lagos keeps on rising following the willingness of the government to perform its social responsibility. The existence of modern public facilities has made it possible for people not to be hesitant in fulfilling their civic obligation of remitting taxes to the account of the state. The electorates are always yearning for infrastructural development as it gives them the opportunity of benefitting from the dividends of democracy.
- Transparency and accountability of government: The more the government manages the tax fund, the more the response of citizens to fulfil tax obligation. The reverse is the case where corruption is embedded in the system. Corruption is the most debilitating and fundamental challenge of the African society. The African leaders have imbibed the culture of corruption, an act which often makes them to divert tax fund into private account.
- Good governance: There is no doubt that good governance is significantly related to achieving developmental goals. Lagos state has been able to experience good governance since the departure of military rule. Tax payers are enthusiastic of remitting their taxes because the governors after Senator Tinubu have been able to transform the state into megacity based on initial 10 points agenda. All these governors were agents of change for they maintained probity and accountability, operational efficiency and good service delivery in the state.
- Sanction for tax evasion: Paying tax by individuals in any society may not be as easy as it is thought. The decision to pay tax may be borne out of the compulsion by the government. The instrument of sanction has really helped Lagos State government in securing high revenue from taxes. The Lagos State Inland Revenue, an agent saddled with the responsibility of collecting taxes, has on several occasions locked out staff of some organisations and even charged them to court for evading taxes.
- E-tax payment introduced by the state government: Prompt payment and reduction of tax evasion have usually been the fundamental objective of many governments. To achieve this, the mode of tax payment matters a lot. Lagos state government is making greater success in the collection of taxes not basically because of its response to societal demand of public infrastructure but its recent discovery of on-line tax system. This new innovation allows people to pay through the electronic means. This is a recent practice in the global community. This new technology reduces stress experienced by tax payers in the past.
- Economic growth in Lagos: Public perceptions that the state government has been able to utilise the tax fund reasonably by providing social facilities that will aid investment in businesses has been another major factor that led to individuals' willingness to pay taxes. The rate of social development in Lagos has made the percentage of foreign investors and indigenous companies migrating to rise progressively. Most citizens are satisfied with the economic and social benefits derived from the payment of tax. De Gramont (2015) reports a 2010 survey where 74 per cent of respondents said that they were very satisfied with the state government's use of tax revenues.

## **XI. Conclusion**

The intention of most countries in the sub-Saharan African countries is to flow with the spate of development in the global community. The challenge to this desire is not unconnected with the inability of securing resources that will stimulate development in the region. The absence of sufficient revenue has resulted to weak capacity building, inadequate infrastructural development, poverty, low technology, severe unemployment and underemployment, diminishing gross domestic product, retrogressive economy, corruption and criminality in the region. Again, development has been hampered in most African countries because of their agrarian nature and the declining value in their oil production and prices. However, the recent concentration on tax fund as an alternative for revenue generation has served as a relief for African leaders. The objective of a tax system is to promote fiscal responsibility and accountability among political office holders, facilitate economic growth and development, provide the government with stable resources for the provision of public goods and services, address the inequalities income distribution, provide economic stabilization, and correct market failures or imperfection. The ability of sub-Saharan African countries to benefit from the above cardinal functions of a good tax system is subject to their readiness to adopt contemporary means of tax collection. Besides, best management practices should be adopted by African leaders in the course of utilising tax fund towards the infrastructural development in their various countries. Lagos state government is a state to emulate by other African nations and state governments in Nigeria if speedy development is to be realised across the region. The various governments at different levels can experience progressive change when taxes are collected and accounted for at the appropriate time, and utilised judiciously towards the building of social infrastructure that will aid socio-economic growth in the state. These rare qualities are found in Lagos governors who have been able to make the issue of state building a major priority.

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