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REENGINEERING TAXATION AS A SOURCE OF ECONOMIC STABILIZATION IN NIGERIA

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ABSTRACT

Taxation has had a significant impact on the global economy. 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 substantially contributed to the income of the government, although the role of taxes in promoting economic growth has not been adequately felt. Past documentation has revealed that revenue from taxes in developed nations has a 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 taxation can serve as a source of economic stabilisation in Nigeria.

INTRODUCTION

Tax is a mandatory levy imposed by the government on citizens, non-diplomatic residents, and property owners within the country, regardless of the exact amount of services rendered in return to the tax payer.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 individuals, institutions, or groups to the government.

Taxation is as old as civilization itself. It dates back to ancient times and is the mainstay of the economic, social, and political development of any society. The primary purpose of imposing a tax is to raise revenue for the execution of different government programmes, such as the building of roads, hospitals, schools, electricity, etc.

Taxation is part of fiscal policy, which is increasingly 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 a very important objective of developing a vibrant economic system in Nigeria.

Taxes provide the government with a reality instrument that can be used to control economic activity by increasing or decreasing the 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 stabilise the economy. Taxes can be used as a means of steering the economy in a desired direction.

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

From the point of view of ensuring economic stability, it is pertinent to note that the tax system must be progressive in relation to changes in the national income. Through taxation, inequalities in income and wealth can be reduced. In light of this, this study is being done to look at taxation as a way for the Nigerian government to get money and keep the economy stable.

One of the problems is that some people feel that the government should accept all the responsibilities alone. Therefore, they ignore their responsibility to pay their taxes. Moreso, some people feel that the money collected from taxes was not used effectively and, therefore, they should not be paying taxes. However, they failed to understand that Nigeria operates a fiscal federation system. This refers to the system in one country of more than one level of government, each with a different pattern of operation: the federal, state, and local governments.

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 and a lack of proper macro-economic management, coupled with a massive level of corruption and fraud, have resulted in a loss of revenue, thereby resulting in economic instability. All these constitute problems that necessitate the essence of this study.

Meaning of taxation and its nature

According to Ajaji (1981), "tax" is a compulsory payment imposed and received by the government from persons, firms, etc. for public purposes. 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 an 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 other words, it is a compulsory payment of money from private individuals, institutions, or groups to the government.

Tax is the amount levied by the government on the economic activities of the citizens (both producers and consumers), and the revenue so obtained is 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 an amount levied on the economic activities of the citizens (both producers and consumers) by the government, and the revenue so obtained is used to finance government expenditures. Taxes are 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's economy:

- **Reduction of Inequalities in Income and Wealth:** One of the main objectives of taxation is to reduce inequalities in income and wealth; if inequalities are not removed, progressive taxes must be levied on the affluent sector of society.
- **Accelerating Economic Growth:** For this purpose, the rate of saving and investment should be encouraged.
- **To Curb Inflation:** Certain taxes are imposed to stabilise prices with a reasonable level of firm employment and economic growth; for example, higher taxation unaccompanied by increased government expenditure will decrease consumers' purchasing power and hence check inflation.
- **To Raise Revenue:** Taxation enables the government to raise its revenue to finance such services as general administration, maintenance of law and order, provision of social amenities like electricity and water, construction of roads, etc.
- **To Prevent Dumping:** Certain tariffs are also imposed to serve as anti-dumping devices since certain industrialised nations have the tendency to dump their relatively cheap commodities in the developing economy.
- **To Protect Infant Industries:** Protective tariffs are also imposed to prevent the demise of local infant industries as a result of foreign competition. Import duties are specially designed for this.

Issues with Taxation

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

- Lack of independence of the state tax authorities
- complete neglect of tax consultants.
- Tax evasion and avoidance
- improper use of tax consultants.
- Inadequate funding.
- To collect taxes, tax consultants employ extralegal means.
- lack of qualified and experienced tax officials at the state and local government level.

Since 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 manufacturer.

However, the manufacturer is trying to sell his product to recover the payment of the tax by including it in his price. In doing so, he shifts the tax burden to the final consumer, who bears the incidence of tax.

Impacts of Taxation on Economic Development

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

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

Just as fiscal measures in the form of a reduction in taxes can have an expansionary effect on the economy, an increase in the general level of taxes can have a concretionary effect on the economy in terms of income, employment, and output. falling from their previous equilibrium levels, the government is therefore very cautious about applying these fiscal measures.

Tax Reengineering as a Source of Economic Stability

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, fines, fees, etc. It is also defined as the total amount of income that accrues to an organisation (public or private) within a specified period of time (Hamid, 2008). States' revenue comprises receipts from taxation as well as those that are not the proceeds of taxation but rather the realisations from the sale of government properties or other interests and returns from loans and investment earnings. Bhatia (2001) contends that revenue receipts include "routine" and "earned" income. For these reasons, according to him, revenue does not include borrowing and recovery of loans from other parties, but it does include tax receipts, donations, grants, fees and fines, and so on.

Similarly, Pearce (1986) defined government revenue as all the money received other than from the issue of debt and the liquidation of investments. Tax collections, charges and miscellaneous revenues, utility and insurance trust revenue are all examples of government revenue for all funds and agencies.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. The 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 accrue to state governments. These are generally internally generated revenues and revenues allocated from the Federation Account.

Internally generated revenues are those that are derived within the state from various sources, such as taxes (pay as you earn, direct assessment, capital gain taxes, etc.), motor vehicle licences, among others. While the statutory allocation is derived from the Federation Account, the value added tax is derived from a separate source.

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

Conclusion

Taxation is unquestionably a means of steering the economy in the desired direction.Also, tax is a compulsory payment imposed and received by the government from persons, firms, etc. for economic reasons. The primary purpose of imposing taxes is to collect revenue for the various government developmental programs; such programmes include the construction of roads, hospitals, schools, etc.

The government could meet its tax goals if more attention was paid to human resource management of internal revenue in order to increase productivity.

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

Recommendations

Taxes should be made a compulsory responsibility for all taxable individuals.

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

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

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