

# UTILIZING APPROVED TAXES AND LEVIES COLLECTION ACT 2004 FOR EFFECTIVE REVENUE GENERATION AT STATES LEVEL: THE ROLES OF CHARTERED ACCOUNTANTS

## 1.0 INTRODUCTION

Taxes and levies are important sources of revenue generation all over the world, accounting for the greater part of the revenue that is annually generated in most of the advanced economies of the world (Dandago, 2011). In an economy with more than one tier of government, efforts must be made to ensure that each tier of government is in control of some taxes and levies so that revenue assurance could be equitably established at each tier of government. Before the 1997 budget pronouncement, Nigerian taxpayers had been complaining of multiple taxes to the extent that businesses were suffering from heavy cost of production, which ultimately had been bringing about high prices of goods and services.

With effect from 1<sup>st</sup> April, 1997, the Federal Military Government, in furtherance of its philosophy of investor-friendly tax regime, announced that it would tackle the multiple dimensional problems consequent on the multiplicity of taxes at federal, state and local government levels. It further directed the joint tax board (JTB) to publish the list of all approved taxes and levies collectible by each tier of government. After an exhaustive study of the issue nationwide, JTB prescribed a list of all taxes and levies that every tier of government in Nigeria can legitimately collect. The taxes and levies are based on the provisions of the Constitution of the Federal Republic of Nigeria and the various tax statutes in the country. In fact, the 1998 Act on those taxes and levies collectible by the three tiers of government in the country was amended in 2004, through Cap T2 Law of the Federation of Nigeria.

With this development, it is hoped that complaint on multiplicity of taxes in Nigeria would be a thing of the past; all that is required of each of the three tiers of government is an aggressive utilization of the taxes and levies approved for it to massively generate revenue that could be used in executing developmental projects. The relevant tax authorities at each tier of government are to make good use of those approved taxes and levies on behalf of their governments.

Webster's Dictionary describes 'tax' as a charge imposed by governmental authority upon property, individuals or transactions to raise money for Public (expenditure) Purposes. Again, Dandago and Alabade (2000:2) define tax as "a compulsory contribution made by individuals and organizations towards defraying the expenditure of the government". Levies, on the other hand, are the compulsory payment made by capable individuals and organizations in an economy for the financing of a particular developmental project.

The subjects to a government for taxes and levies are individuals (natural persons) and organizations (artificial persons). The income they earn; the profit they realize; the capital gains they make; and their consumption of goods and services are all subject to assessment for taxing, levying, or charging purposes, as per the provisions of relevant tax laws in the country. Tax assessment and collection are done by a government agent, called tax authority, with a view to avoiding cases of multiplicity of taxes and levies. The tax agent needs the support of tax experts that are widely recognized as chartered accountants.

A chartered accountant is a professionally trained member of the Institute of Chartered Accountants of Nigeria (ICAN) or any other internationally recognized accountancy professional body. This person is expected to be thoroughly trained in the principles and practices of taxation, and to have deeper understanding and intimate knowledge of the problems and solutions to the imposition of taxes and levies at different tiers of government in a federal set up, like Nigeria. He/she is expected to play some roles in ensuring effective revenue generation, using taxes and levies approved for each tier of government in the country.

Taxes and levies, therefore, represent an important source of revenue to government of any nation. As every government engages in a number of economic and political activities, which require spending of money, the fund generated through the natural resources available to the government is always grossly inadequate for achieving set goals and, so, more funds must be raised through taxes and levies. In fact, taxation is the most durable source of revenue to any serious society, from time immemorial to date (Abdulrazaq, 2002).

Revenue generation, however, is not the only purpose of taxation in modern economic system. It is now apparent that taxation, as a strong instrument of fiscal policy, is used for economic stabilization; for regulation and control of the activities of businesses; and for redistribution of income with a view to narrowing down the gap between the rich and the poor. With this development in the scheme of things, in the modern world economy, it has become imperative for every tier of government in a federal set up, like Nigeria, to effectively utilize the taxes and levies available to it to attain the purposes mentioned above, one of which is revenue generation to execute developmental projects.

This paper is aimed at discussing the roles chartered accountants could play in ensuring that the taxes and levies approved for states governments to collect are effectively utilized for massive revenue generation necessary for execution of developmental projects at the state level. This would go a long way in making the "love" of taxation to be inculcated in the minds of the present and prospective taxpayers, as they see the positive impact payment of taxes and levies could make in their lives.

The rest of the presentation is in four sections. Section 2 discusses the general purposes of taxation. Section 3 presents the approved taxes and levies collectible at the state level, as per Act 2004. Section 4 highlights the roles chartered accountants could play in ensuring the effectiveness of those taxes and levies for massive revenue generation, and section 5 summarizes and concludes the paper.

## **2.0 PURPOSES OF TAXATION**

A good tax system should be able to meet up with the modern principles of taxation for it to serve all the modern purposes of taxation. These principles or 'canons' are: equity (it should be fair and equitable); convenient (it should be administratively simple to implement); certainty (it should be clear and unambiguous); economical (it should be revenue productive, that is, its cost of collection should not be higher than or equal to the amount collected as income/revenue); and neutrality (it should be neutral, that is, it should not change the consumption pattern of individual tax payers or influence the production decision of businesses, after it has been levied).

A good tax system should amount to the achievement of the following purposes:

**2.1 Revenue to Cover Expenditure:** Taxation is the most important source of revenue for governments, all over the world. Tax payers (individuals and firms) enjoy government services, in one way or the other and, so, they pay tax to cover part of the cost of these services. Government provides infrastructural facilities and welfare packages, for all to enjoy, using funds generated mainly through taxation (Adesola, 1998).

**2.2 Economic Stabilization:** Taxation is one of the two main instruments of fiscal policy; the other being government spending/expenditure (Buhari, 1993). Fiscal policy is about the way government generates and expends revenue, in such a way that the economy would be moving in a stabilized direction. Direct taxes could be used to stimulate economic growth and direct the economy towards sustainable development. They could be used to reduce level of inflation in an economy from a high level to a desired level. For example, companies income tax rate could be reduced from 30% to 25% to enable companies retain more earnings to be used in financing more viable projects. This would amount to employing more people, producing more goods and services, reducing prices of goods and services and increasing the national income level and reducing crime rate and other anti-social activities. All other direct taxes could be used to enhance the robustness and bubbling of the economy.

**2.3 Regulation and Control:** Taxation is used to regulate the production patterns of firms on goods and services and to control the consumption behavior of the citizens. Indirect taxes, like import duties, are used to control the importation behavior of importers of durable and consumer goods and services. Excise duties are used to regulate the production patterns of producers of some goods and services. Export duties are used to regulate the production patterns of producers of some exportable goods and services. Value Added Tax (VAT) is used to control the consumption behavior of consumers of VATable goods and services (Naiyeju, 1996). These indirect taxes bear different rates which are subject to changes by government, depending on the economic regulation or control purpose to be achieved.

**2.4 Income Re-Distribution:** Taxation is an instrument for narrowing down the gap between the rich and the poor. It is the income earners (individuals or firms) that are to pay tax, based on the amount earned, and the income tax realized is to be used in providing infrastructural facilities and welfare packages for all to enjoy, especially the incapacitated among the citizens in the economy. With this arrangement, the disparity in standard of living between the rich and the poor would be narrowed down to a bearable level. Without taxation, especially the progressive taxes, the disparity between the "haves" and the "have-nots" may aggravate (Oremade, 1986). Taxation, therefore, is serving the purpose of closing or narrowing down the gap between the rich and the poor, by collecting income tax from the rich and redistributing it to the poor, in a systematic way (through execution of public goods projects).

From a humble beginning of charges, levies and fines on agricultural products, solid mineral extracting activities to delivery services provisions, development has led many countries to put in place laws empowering those in positions of authority to tax income of individuals and corporate bodies; tax their profits; tax their capital gains; tax their consumptions and tax their transactions related to import or export. This taxing/levying is done with a view to achieving the purposes mentioned above.

### **3. 0 TAXES AND LEVIES COLLECTIBLE BY STATE GOVERNMENTS**

Internally generated revenue (IGR) sources at the States level in Nigeria are many. Decree No. 21 of 1998, as amended by Cap T2 Law of the Federation of Nigeria, 2004, gives a list of taxes and levies approved for collection by the three tiers of government in Nigeria. Those related to the State Governments are as follows:

- 3.1). **Taxes and Levies:** The following are the taxes and levies that are approved for collection by the State Governments in Nigeria: (i) Personal income tax (applies to residents of the state); (ii) Withholding tax (individuals only); (iii) Capital gains tax (individuals only); (iv) Stamp duties (applies to instruments executed by individuals only); (v) Road taxes (e.g. vehicle licenses); (vi) Taxes on pool bets, lottery and casino wins; (vii) Business premises and registration fees; (viii) Development levy (applies to taxable individuals only); (ix) Streets name registration fees (state capital only); (x) Fees for right of occupancy on urban land owned by the state government; (xi) Market taxes and levies where state finance is involved; and (xii) Miscellaneous revenue (e.g. rent on government property, income from investment, etc).
- 3.2). **Fines, Fees and Rates:** School fees, water rate, etc.
- 3.3). **Licenses:** These cover amount received for issuance of licenses of various types.
- 3.4). **Earnings from Sales:** Sale of government properties e.g. vehicles, houses, etc.
- 3.5). **Rent from Government Properties:** Include rent of government houses, land etc.
- 3.6). **Interest Payment and Repayment of Loan:** These are interest payments by state government employees and government companies, on loans granted by the state government.
- 3.7). **Re-imbursments:** These are refunds for services rendered to the Federal and Local Government(s), public corporations and other statutory bodies owned by the State Government.
- 3.8). **Miscellaneous:** Other sources than those mentioned above, e.g. dividend from investment in quoted or unquoted companies, etc.

These sources of revenue are available to each of the 36 states governments in Nigeria, but they appear to be poorly utilized for revenue generation by most of the states governments. By their training and inclination, chartered accountants are expected to show the states governments the way of putting these sources of revenue to good use for massive revenue generation that would give way to execution of developmental projects.

#### 4.0 THE ROLES OF CHARTERED ACCOUNTANTS

Chartered Accountants are expected to guide the states governments as to how to effectively utilize the taxes, levies and other sources of IGR available to them to massively generate revenue in a number of ways. They should play the role of guiding the states governments in the area of: (i) articulating solutions to problems of revenue generation through the taxes and levies; (ii) finding solutions to the problem of revenue accounting, accountability and transparency; (iii) conducting SWOT analysis on sources of revenue at the states level; and (iv) creating awareness on the need to make each state economy a tax-based economy.

#### 4.1 Problems of Revenue Generation at States Level

From the works of Mukhtar (1996), Isyaku (1997), Abdulkadir (1998), Ibrahim (2002), Ishaq (2002) and Williams (2002) the problems of internal revenue generation at States Government level are: [i] tax evasion; [ii] tax avoidance; [iii] lack of trained, effective and motivated revenue staff; [iv] nonchalant attitude of some tax officials; [v] problem of assessment; [vi] lack of effective tax administration; [vii] slow legal proceedings; [viii] lack of up-to-date statistics on tax payers; [ix] lack of commitment to pursue IGR available to the states governments; [xiii] non collection of development level from taxable persons.

Chartered Accountants are to assist states governments with solutions to all the identified problems, through training and retraining of the staff of Boards of Internal Revenue (BIRs) on effective tax-netting, tax assessment and tax collection strategies. They should partner with the BIRs in solving the perennial problem of poor tax-netting of businessmen and women. They also have a role to play in educating accounting staff/salary officers of organizations in both the public and private sectors on the implementation of PAYE system for optimum collection of personal income tax revenue from salaried workers.

#### **4.2 Revenue Accounting at States Level**

To ensure accountability and transparency, accounting and control of government revenue at States level in Nigeria is required to be carried out as follows:

- (i) A revenue cashbook is maintained
- (ii) Receipt (in triplicate) is issued for any money received
- (iii) All receipts issued shall be entered into the cashbook serially
- (iv) Revenue collector's pay-in-form is prepared at the end of every day, to be used in making payment to the sub-accountant, quoting relevant heads and sub-heads (or codes).
- (v) Revenue cashbook shall be examined by the sub-accountant to ensure that no other revenue is kept by the revenue collector.
- (vi) The duplicate of the receipts should accompany the revenue collector's pay-in-form submitted to the sub-accountant (after the original must have been given to the payer) and the triplicate should be retained on an audit trail.
- (vii) If the revenue collector paid the money collected to the sub-accountant in cash, treasury receipt is issued immediately, but where a teller is attached in lieu of cash, the main cashier should ensure that the deposit reflect in the bank statement before the issuance of the treasury receipt. The treasury receipt is an indication that the revenue collector has accounted for all the revenue collected.
- (viii) After all the revenue collectors have made return to the main cashier, who had issued treasury receipt, the head of account will transfer, on monthly basis, all the revenue collected to the sub-treasurer using the appropriate special cash transfer account numbers.

Some of the reasons why the states governments should maintain proper accounting books and records include the following: to provide financial information to all users (internal and external); to ensure effective internal control; to prevent and/or detect fraud; to ensure proper accountability, transparency and probity; and to confer credibility and confidence on the officials of the government.

The question is: where are the chartered accountants as states governments face the problem of revenue accounting, accountability and transparency? With their presence in the economy of the states, adherence to the procedures of revenue accounting prescribed above, and the demonstration of accountability and transparency in revenue generation, should not be a big deal to the states government!

#### **4.3 Conduct of SWOT Analysis**

SWOT Analysis entails an analysis of the Strengths, Weaknesses, Opportunities and Threats (SWOT) of the States Governments sources of IGR in order to generate strategic options. Chartered Accountants could, through regular conduct of this analysis for the states, help in formulating revenue objectives that are SMART (Specific, Measurable, Achievable/Attainable, Realistic and Time-bound) and SIMPLE (Suitable, Implementable, Measurable, Practical, Logical

and Evaluable). If chartered accountants are to work on the SWOT of states governments on IGR, they could come up with findings, like the following, which would aid in setting realistic revenue objectives that are SMART and SIMPLE:

**4.3.1 Strengths:** The following are the major Strengths of States Governments' sources of IGR.

- Greater capital gains and rent accruing to individuals through disposal of land and renting of houses, which if properly tapped, can help to improve internally generated revenue.
- Increase in internally generated revenue through the imposition of development levy on all taxable individuals and other miscellaneous taxes.

**4.3.2 Weaknesses:** In order to enhance internally generated revenue accruing to the State Governments, there is the need to improve on the following weaknesses:

- Lack of commitment to educate and enlighten Nigerian taxpayers of their civic responsibility of paying taxes to the government.
- Lack of commitment to collect all relevant taxes that are under the jurisdiction of the state governments e.g. withholding tax from rent and capital gains tax from individuals.
- Poor tax statistics, lack of effective research unit to gather and collect tax statistics and lack of tax intelligence service that can identify tax evaders for appropriate sanction.

**4.3.3 Opportunities:** Amongst the opportunities that abound for the States Governments in IGR are the following:

- Potentials for increase in internally generated revenue through adequate tapping of all available sources of revenue.
- Potentials for higher productivity in revenue generation through training and better motivation to revenue staff.

**4.3.4 Threats:** The following are the threats facing internal revenue generation at the States Governments level:

- Lack of requisite training and tax education for tax officials makes it difficult for them to perform their duties effectively.
- High tax evasion due to increase in cost of living and poor tax statistics.
- Poor records keeping by businessmen and women to serve as the basis for realistic tax assessment.

Chartered Accountants have to make themselves available for regular SWOT analysis of revenue sources, generation and utilization at the states government levels. As they distance themselves away from the BIRs, it means that they are not playing the role expected of them in the area of revenue generation and utilization at the states governments' level.

#### **4.4 Awareness Creation on Tax-Based Economy**

Chartered Accountants are to play the role of educating the people on the two main types of revenue available to governments for the execution of capital and recurrent projects: Tax revenue and Non-tax revenue. The non-tax revenue sources are mainly natural resources like crude oil, solid minerals, precious minerals, groundnut, cocoa, etc. These sources could not last forever; they are bound to become extinct or dried up in a matter of time. They, therefore, could not assure any economy of revenue that would ensure economic development.

Tax-based revenue sources are all the forms of taxes in an economy: direct taxes (PPT, PIT, CIT, CGT, Edu T, etc) and indirect taxes (VAT, Excise Duties, Import Duties, Export Duties, etc), in the case of Nigeria. Taxation is the surest and everlasting source of revenue from the beginning of society to the end of the world. It is taxation; therefore, that assures revenue for economic development at all levels.

An economy that relies heavily on natural resources in generating revenue for development is termed resource-based, while the one that relies mainly on taxation for development is termed tax-based or knowledge-based. It is apparently clear, in the modern world, that resource-based economies are regarded as developing economies or backward economies of the world, due to the fact that the resources available to them make the government functionaries in those economies to become lazy, corrupt and greedy, while their citizens develop apathy on the way the resources are managed since they are natural endowments.

With the greed and laziness in the government functionaries, they are bound to fail in the implementation of all the excellent Development Plans, Rolling Plans, Visions, NEEDS/SEEDS and other economic development blue prints that could be thought out, and, therefore, leaving the economy to remain perpetually backward or underdeveloped. With the apathy in the majority of the citizens, they are bound to remain in absolute and chronic poverty, ignorance, diseases and perpetual hopelessness.

Tax-based economies are, not surprisingly, the developed economies of the world, due mainly to the fact that the governments of those economies are finding it necessary to be prudent, transparent, accountable, just and fair in spending tax payers' money, thereby achieving the objective of sustainable development. It is sustainable revenue that would ensure the development of all the four interwoven sectors of an economy: Manufacturing Sector; Services Sector; Extractive Sector; and Agricultural Sector. For sustainable economic development, at states governments' level, the four sectors are to be emphasized, using the revenue generated on sustainable basis.

Chartered accountants are to be apportioned with a substantial part of the blame for the states governments' inability to make their economies tax-based or knowledge-based and for their inability to use whatever revenue available to them in ensuring sustainable economic development in their states. They are expected to demonstrate professionalism in playing their roles of serving as professional advisers to the states governments.

## **5.0 CONCLUSION**

The paper argues for the important roles that are to be played by chartered accountants in ensuring effective utilization of all sources of internally generated revenue available to states governments for executing developmental projects at states level. It reviews the four major purposes of modern taxation; and the need to ensure sustainable revenue generation, through taxes, levies, and other sources of revenue available to states government, for sustainable economic development. These sources of revenue are as provided for in the amended provisions of Act 2004 on Approved Taxes and Levies to the three tiers of government in Nigeria.

The paper highlights four major roles Chartered Accountants are to play in ensuring effective utilization of sources of IGR available to states governments for massive revenue generation. Discharging those roles suggests that Chartered Accountants are to take it as a responsibility to

show the states governments the way of refocusing their economies to be tax-based or knowledge-based as against the present circumstance of the states economies being absolutely resource-based!

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