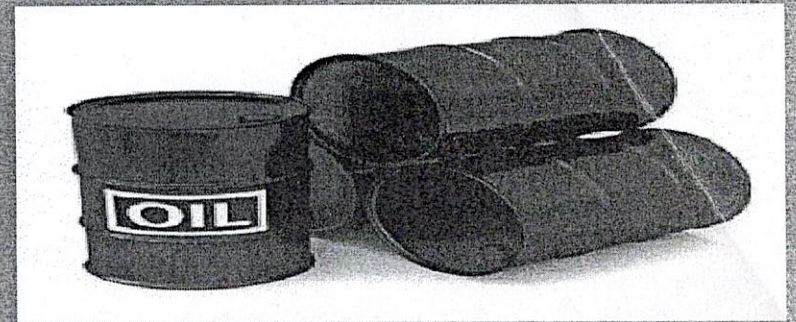
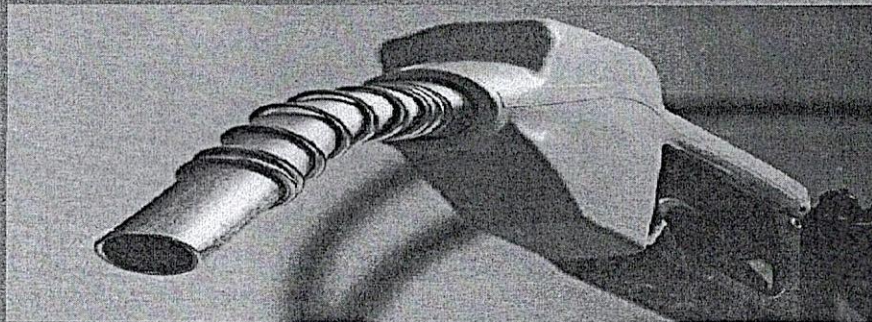


DIVERSIFICATION OF NIGERIA'S SOURCES OF REVENUE



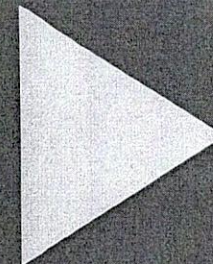
ADEOLA ADENIKINJU
Professor of Economics,
Department of Economics, and
Director, Centre for Petroleum, Energy Economics and Law,
University of Ibadan

outline

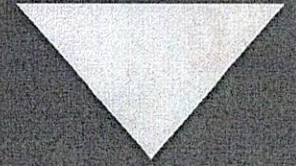


- Introduction
- Stylized facts of Nigeria sources of revenue
 - Sectorial bases of Nigeria revenue
 - Dependences of federal, state and local government on oil revenue
 - Composition/trends of government revenue in Nigeria
- Nigeria versus Comparator Countries
 - revenue structure in comparison with BRICS, N11, OPEC countries.
- Policy Issues: Options and solutions.
- Conclusion & recommendations

Introduction

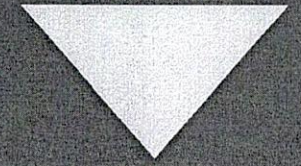


Introduction



- Taxes are the single most important way of raising revenue for the government.
- They are also regarded as the most sustainable source of finance for development.
- An enormous amount of money is required to run the federal, state and local governments of Nigeria. In 2012, all 3 governments collected approximately N 2.7trillion or about N16.87 per person. This is about USD0.10 per person. In 2003, for the US, the figure was USD10,300
- The overwhelming proportion of this revenue is collected from the oil sector.

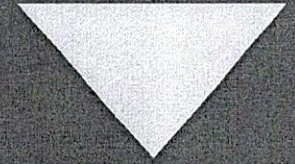
Introduction contd..



Taxes and other government revenue influence the economy by affecting:

- Resource allocation - raises costs of production and shifts supply curve to the left
- Consumer behaviour - encourages/discourages certain type of activities
- Nation's productivity and growth – it can change the incentives to save, invest or work.
- The incidence/burden of tax may also vary. Hence there is the issue of welfare impact of taxes.
- **Hence productivity of tax must be balanced against other consequences (its expendiency)**

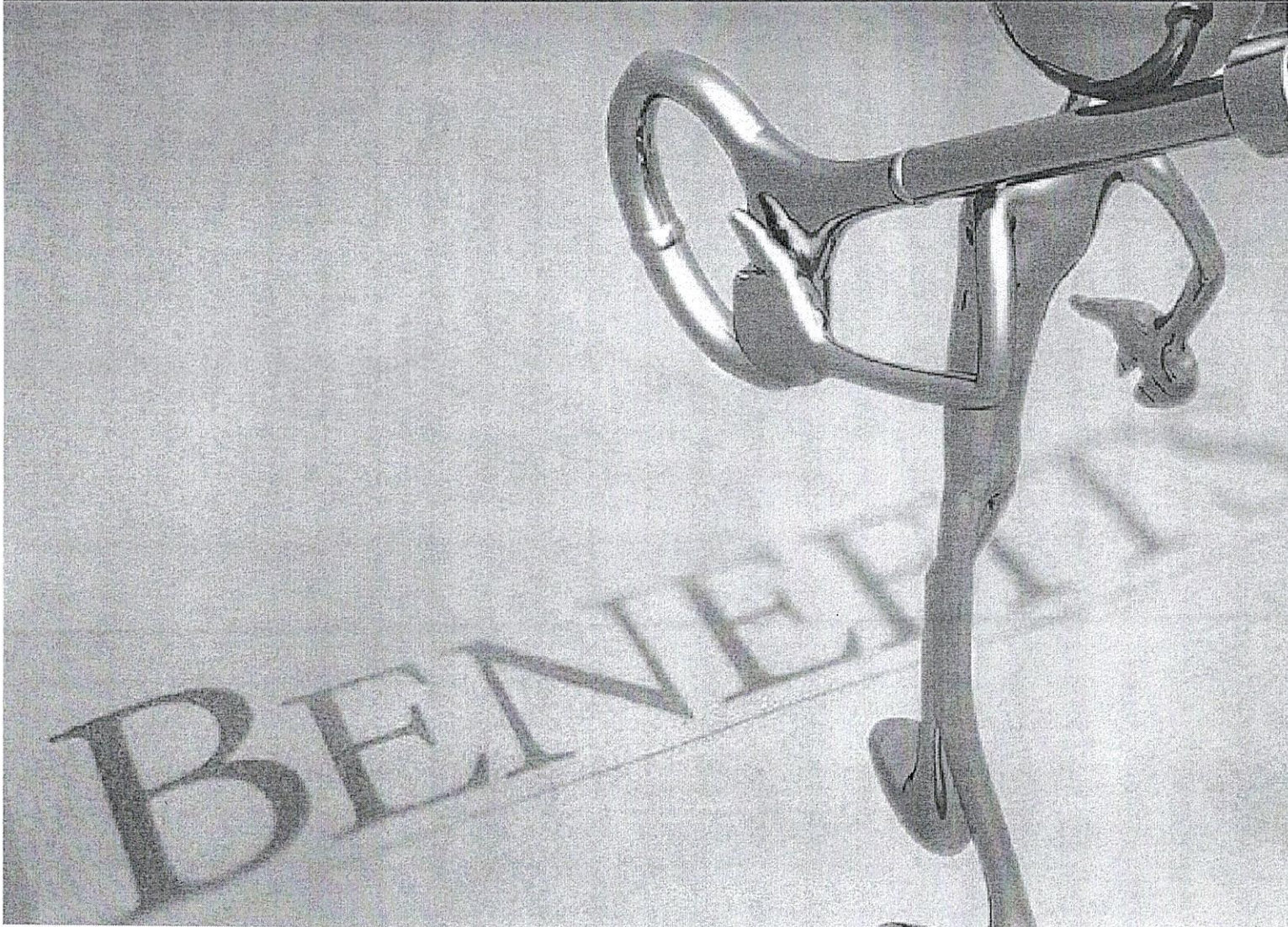
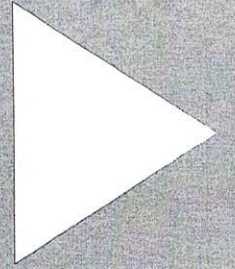
Introduction contd..



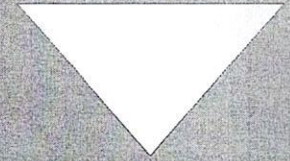
Criteria for Effective Taxes:

- Equity and fairness – Impartial and just. Everybody pays its fair share
- Simplicity – this principle states that a tax should be easily understood by tax payer and tax administrator.
- Efficiency – relatively easy to administer and reasonably successful at generating revenue (tax productivity and tax buoyancy).
- **Tax is part of a social contract between the Government and the citizens**

Diversification: Rationale and Benefits



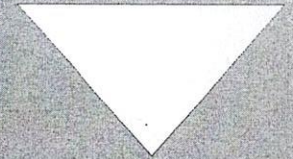
Rationale for Revenue Diversification



Rationale for diversification...

- Exposure to oil price volatility. There are some countries that are heavily dependent on a single source of revenue that are sometimes totally exogenous to them.
- Every price change substantially and unpredictably cause large and uncertain movements in revenue . Adjusting to these movements typically involve economic, social and political costs
- One way to reduce the volatility of revenue is to diversify the tax base through innovative tax sources
- Smooth revenues using futures, options market. But the approach could be expensive and politically risky and would not eliminate volatility
- Another approach is the resource revenue stabilization fund. This would lead to growth in revenue stability

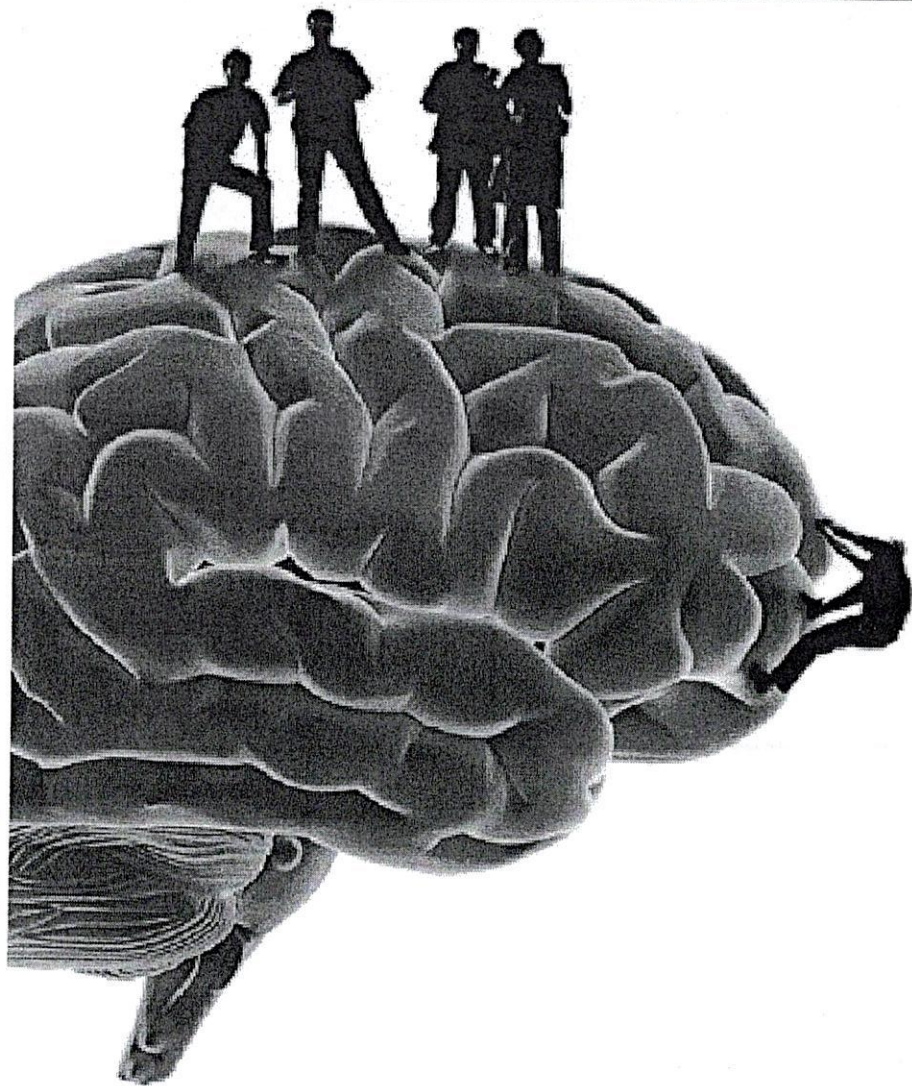
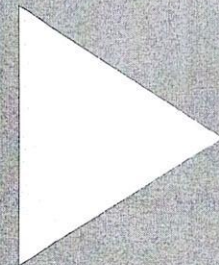
Rationale for Revenue Diversification



Government revenue volatility has important consequences...

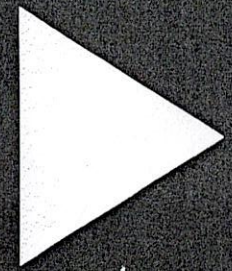
- It is difficult for government to set sustainable level of expenditure for investment and social services since it is not sure which part of the volatile revenue is permanent and which is temporary
- It becomes difficult to make long term plan if volatility undermines the ability of government to accurately forecasts and manage revenues
- It induces volatile movement in government spending
- Encourages large increases in government investment during the boom period on projects that have relatively low rate of returns.
- Rapidly expansion of government capital spending can erode the ability of government to monitor those projects.
- Oil resources are finite

Sources of Revenue

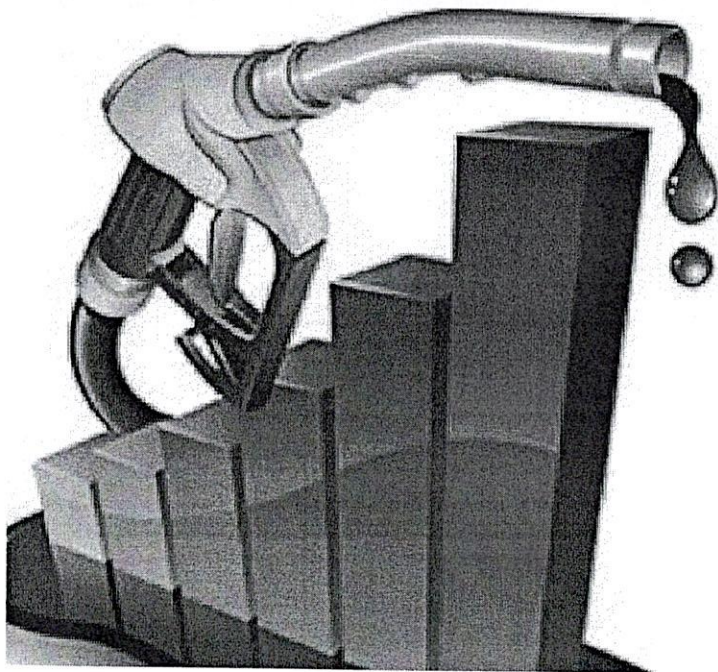


| Revenue Source | Intensity of current use | Potentials | Remarks |
|--|--------------------------|------------|-----------------------------------|
| 11 Taxes | | | |
| 111 Taxes on income, profits, and capital gains | Limited | High | Dependent on state of the economy |
| 1111 Payable by individuals | | | |
| 1112 Payable by corporations and other enterprises | | | |
| 1113 Un-allocable | | | |
| 112 Taxes on payroll and workforce | | | |
| 113 Taxes on property | Very Limited | Very High | State being responsible |
| 1131 Recurrent taxes on immovable property | | | |
| 1132 Recurrent taxes on net wealth | | | |
| 1133 Estate, inheritance, and gift taxes | | | |
| 1134 Taxes on financial and capital transactions | | | |
| 1135 Other non-recurrent taxes on property | | | |
| 1136 Other recurrent taxes on property | | | |
| 114 Taxes on goods and services | | | |
| 1141 General taxes on goods and services | | | |
| 11411 Value-added taxes | | | |
| 11412 Sales taxes | | | |
| 11413 Turnover and other general taxes on goods and services | | | |
| 1142 Excises | | | |
| 1143 Profits of fiscal monopolies | | | |
| 1144 Taxes on specific services | | | |
| 1145 Taxes on use of goods and on permission to use goods or perform activities | | | |
| 11451 Motor vehicle taxes | | | |
| 11452 Other taxes on use of goods and on permission to use goods or perform activities | | | |
| 1146 Other taxes on goods and services | | | |
| 115 Taxes on international trade and transactions | | | |
| 1151 Customs and other import duties | | | |
| 1152 Taxes on exports | | | |
| 1153 Profits of export or import monopolies | | | |
| 1154 Exchange profits | | | |
| 1155 Exchange taxes | | | |
| 1156 Other taxes on international trade and transactions | | | |
| 116 Other taxes | | | |
| 1161 Payable solely by business | | | |
| 1162 Payable by other than business or unidentifiable | | | |

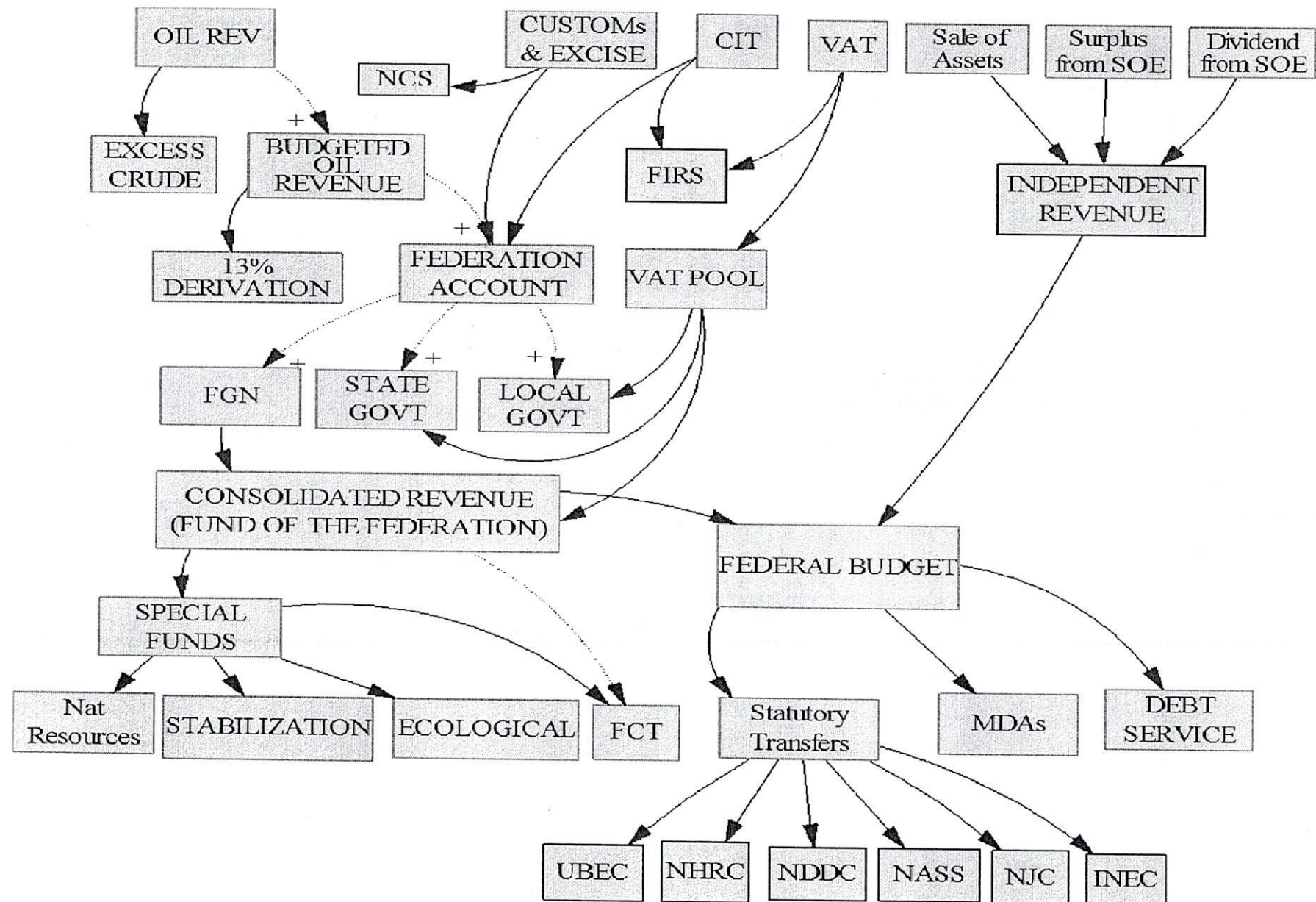
| | | | |
|---|--|--|--|
| <p>12 Social contributions [GFS] 121 Social security contributions 1211 Employee contributions 1212 Employer contributions 1213 Self-employed or non-employed contributions 1214 Un-allocable contributions 122 Other social contributions 1221 Employee contributions 1222 Employer contributions 1223 Imputed contributions</p> | | | |
| <p>13 Grants 131 From foreign governments 1311 Current 1312 Capital 132 From international organizations 1321 Current 1322 Capital 133 From other general government units 1331 Current 1332 Capital</p> | | | |
| <p>14 Other revenue 141 Property income [GFS] 1411 Interest [GFS] 1412 Dividends 1413 Withdrawals from income of quasi-corporations 1414 Property income attributed to insurance policyholders 1415 Rent 142 Sales of goods and services 1421 Sales by market establishments 1422 Administrative fees 1423 Incidental sales by nonmarket establishments 1424 Imputed sales of goods and services 143 Fines, penalties, and forfeits 144 Voluntary transfers other than grants 1441 Current 1442 Capital 145 Miscellaneous and unidentified revenue</p> | | | |



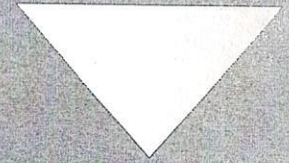
Nigeria Revenue Structure: Some Stylized Facts



Nigeria's Revenue Structure

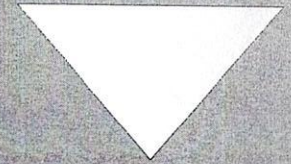


Stylized Facts on Government Revenue in Nigeria



- Nigeria government revenue is heavily dependent on oil revenue.
 - Transparency and governance issues remain critical challenge
 - Until recently, introduces significant volatility to fiscal process
- There is increasing share of non-oil revenue in total revenue.
- Tax share of GDP is relatively small compared to other comparator countries
 - Size of economic activities outside the formal economy and therefore not easily captured
 - Tax efforts relatively weak in subnational units as shown by the dependency on federation account
 - Citizens reluctance to pay tax due to perceived performance of the state in delivering social and economic services
 - Only limited diversities of taxes in the books are actually used and where they are employed, little efforts to check on tax productivity

Stylized Facts Contd..



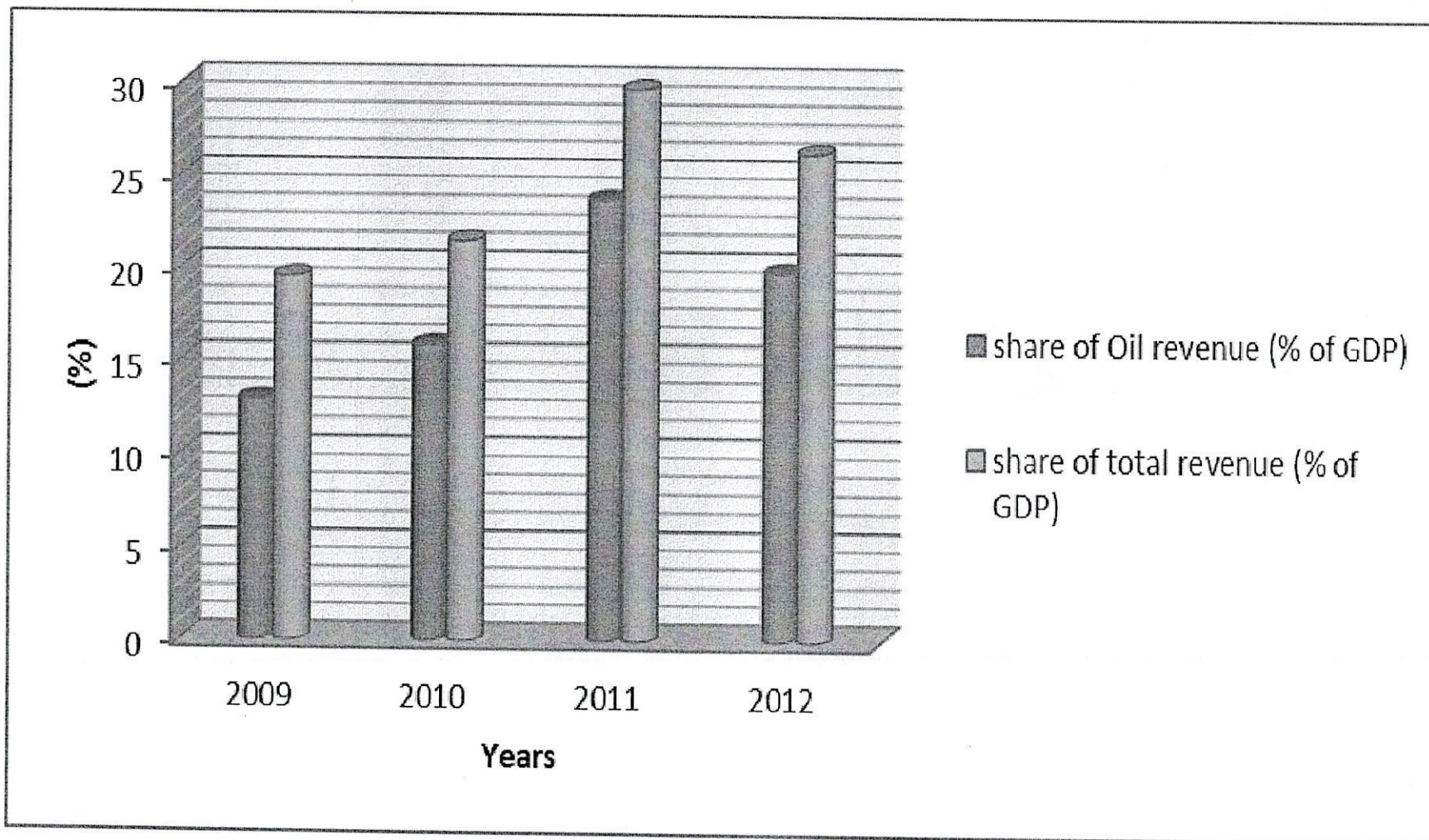
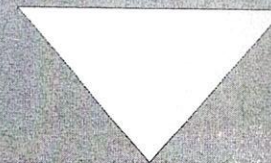
Between 2001-09, oil revenues average 27% of GDP, while tax revenue average 6.4% of GDP.

Oil revenues have been quite volatile ranging from 35.6% in 2001 to 19.6% in 2009

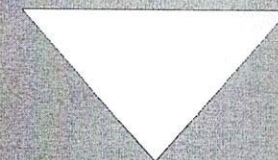
Between 2001-08, Federal govt independent revenue was about 6%; States IGR was 14% and local governments 3% over same period

At a time over 500 different taxes are levied by different tiers of governments in Nigeria

Trend in revenue (% GDP) for Nigeria

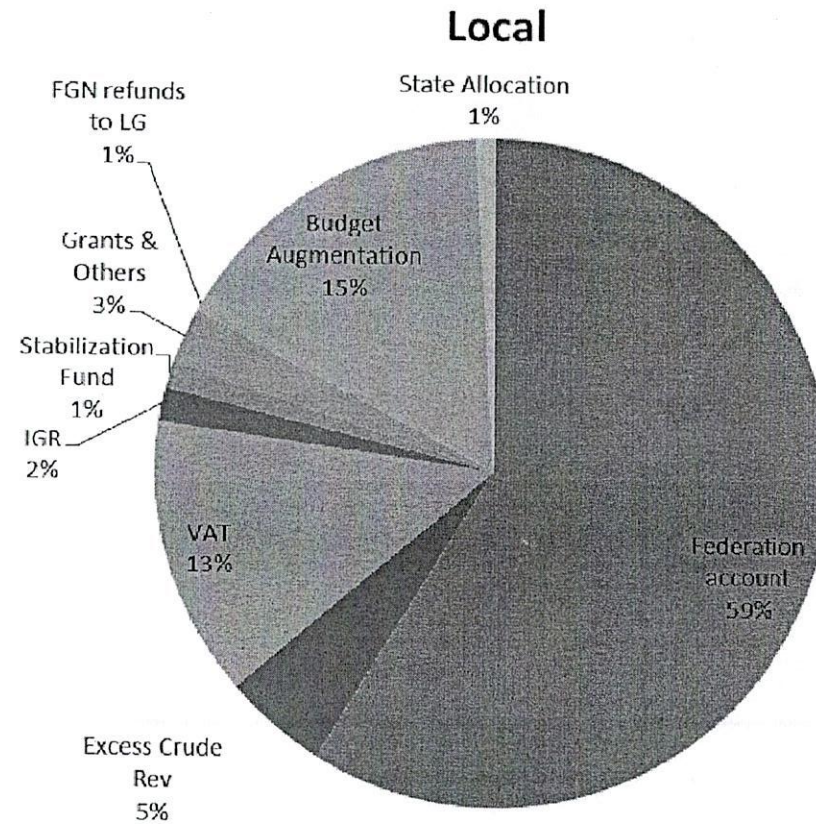
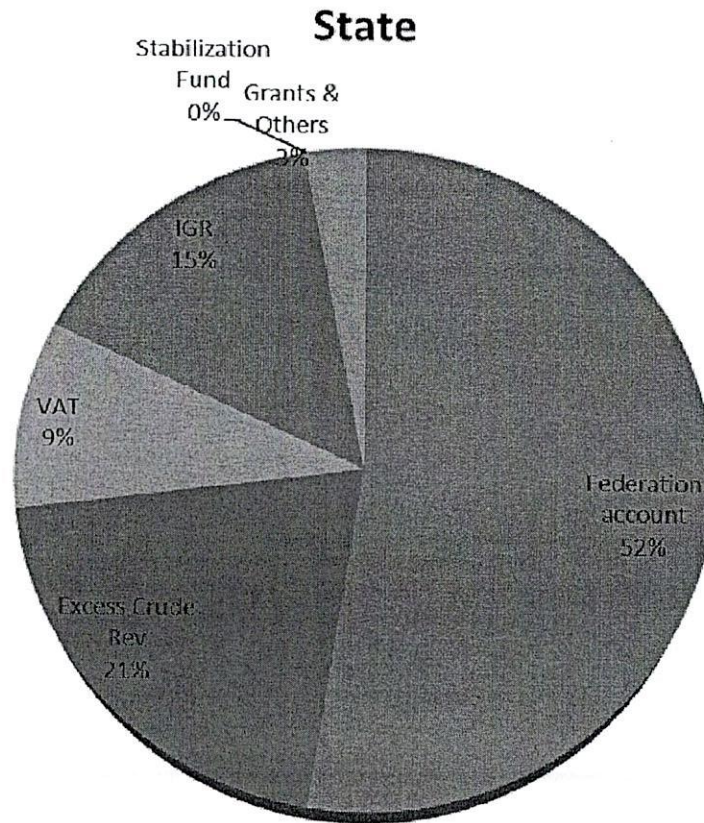
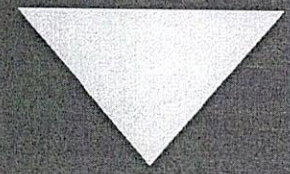


Types of taxes, jurisdiction and right to revenue in Nigeria



| | Types of taxes | Jurisdiction | | Right to Revenue |
|----|--|--------------|-------------------------------|------------------|
| | | Law | Administration and Collection | |
| 1 | Import Duties | federal | federal | |
| 2 | Excise duties | Federal | Federal | Federal account |
| 3 | Export duties | Federal | Federal | Federal account |
| 4 | Mining rents and royalties | Federal | Federal | Federal account |
| 5 | Petroleum profit tax | Federal | Federal | Federal account |
| 6 | Company Income tax | Federal | Federal | Federal account |
| 7 | Capital gains tax | Federal | Federal | State |
| 8 | Personal income tax | Federal | Federal | State |
| 9 | Personal income tax: armed forces, external affairs, non-resident, residents of the FCT and Nigeria Police | Federal | Federal | Federal |
| 10 | Licensing fees on television and wireless radio | Federal | Local | Local |
| 11 | Stamp duties | Federal | Federal/State | Local |
| 12 | Capital transfer tax (CTT) | Federal | Federal | State |
| 13 | Value added tax | Federal | Federal | Federal/State |
| 14 | Pools betting and other betting taxes | State | State | State |
| 15 | Motor vehicle and driver's license | State | State | State |
| 16 | Entertainment tax | State | State | State |
| 17 | Land registration and survey fees | State | State | State |
| 18 | property taxes and survey fees | State | Local | Local |
| 19 | Market and trading license and fees | State | Local | Local |

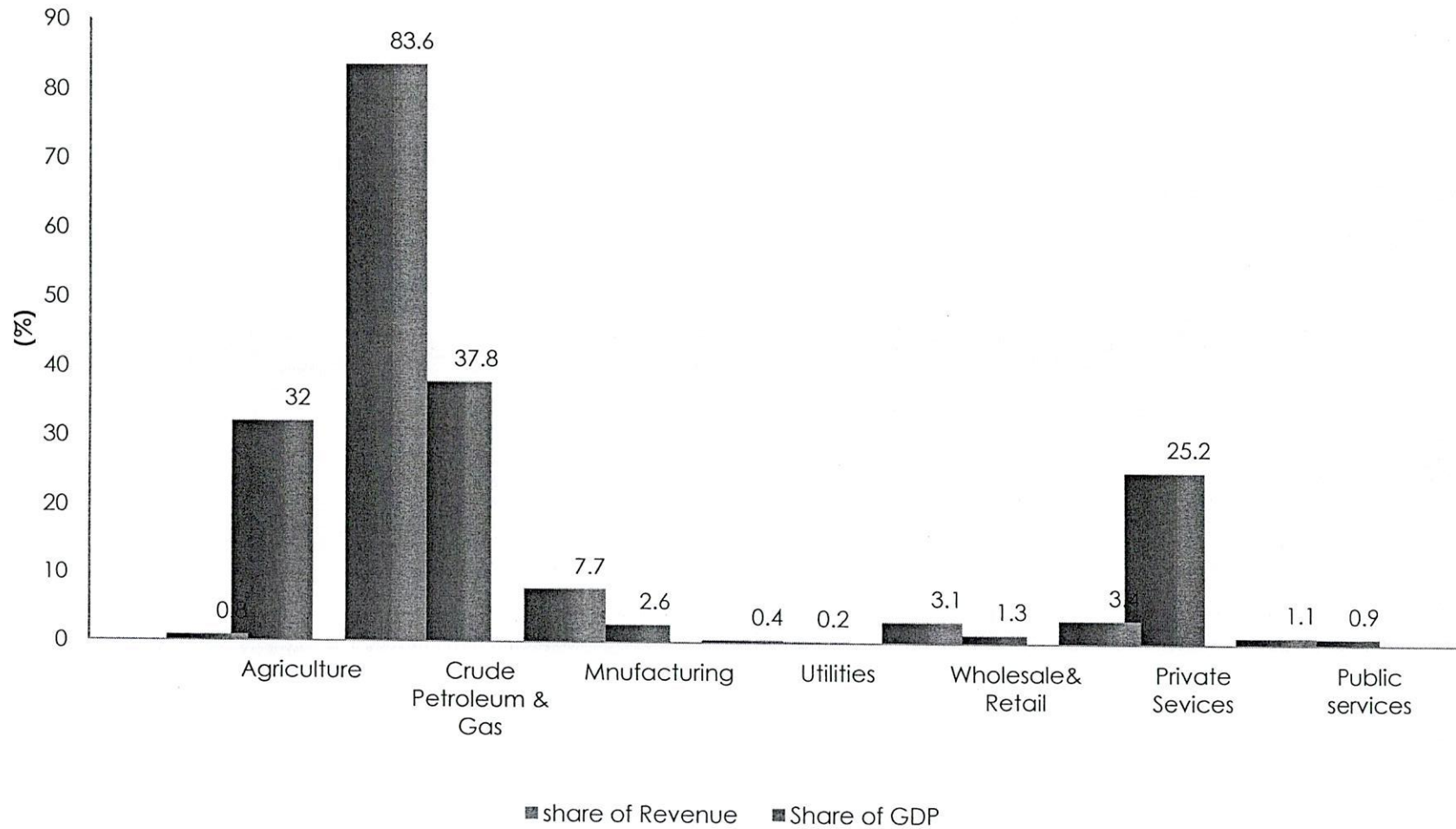
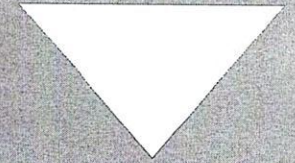
Sources of Revenue to State and Local Government in Nigeria.



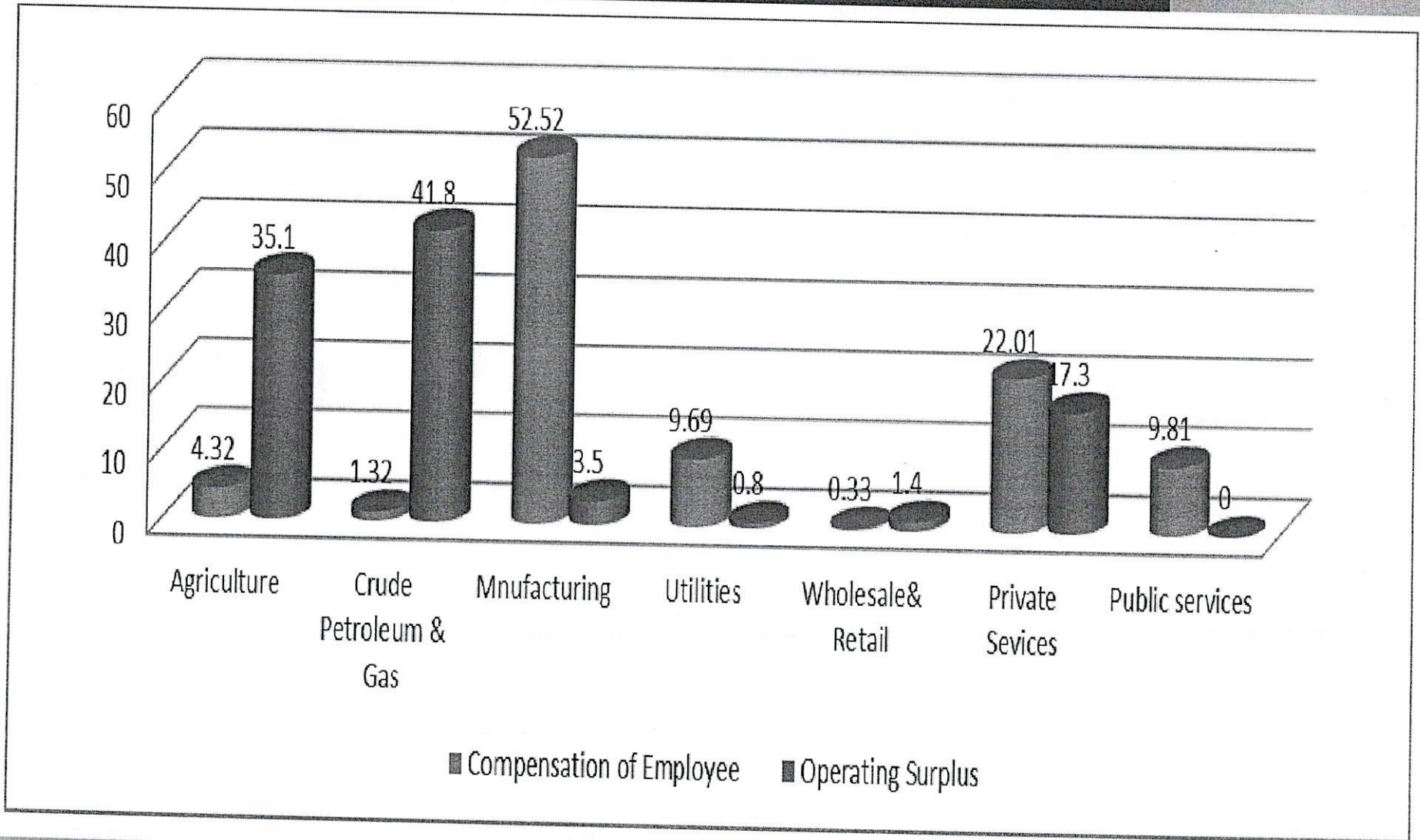
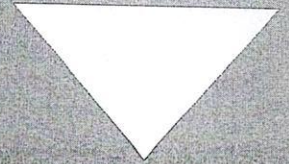
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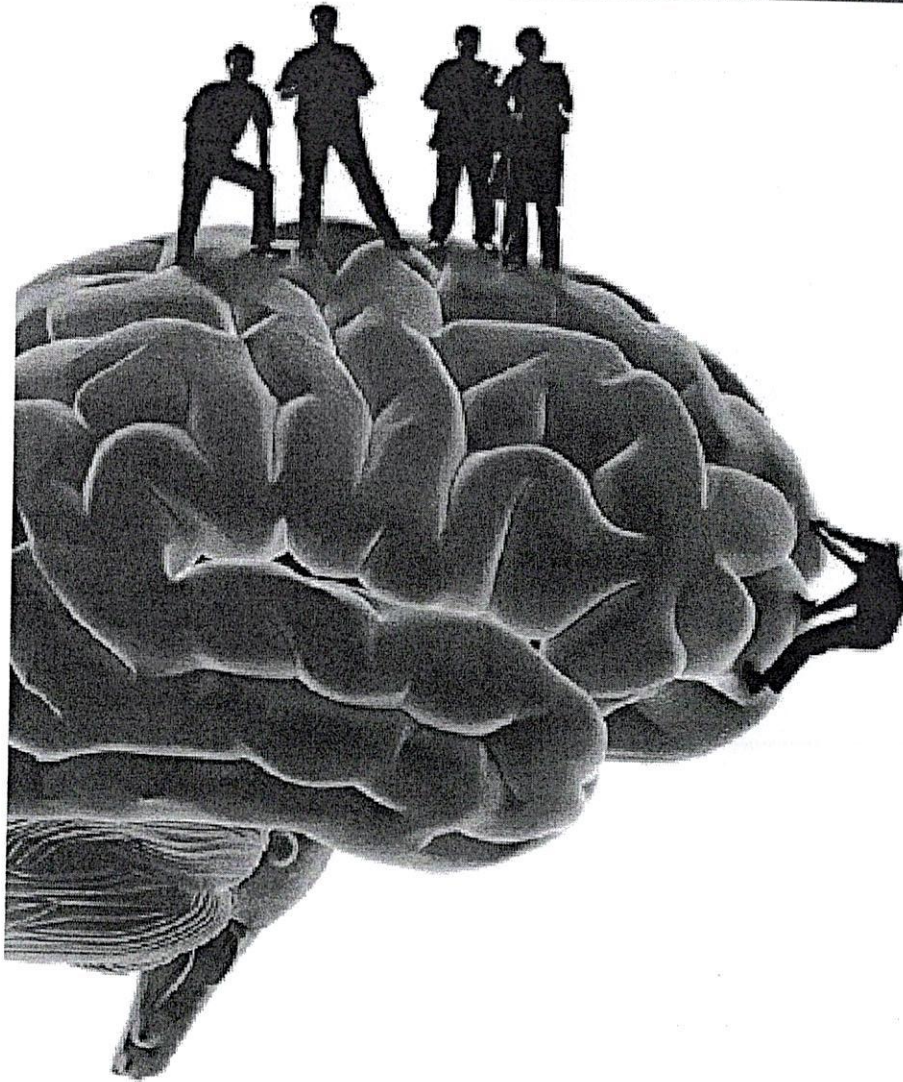
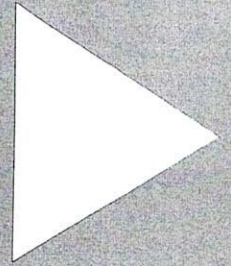
Nigeria Sectoral Contributions: Rev vs GDP,



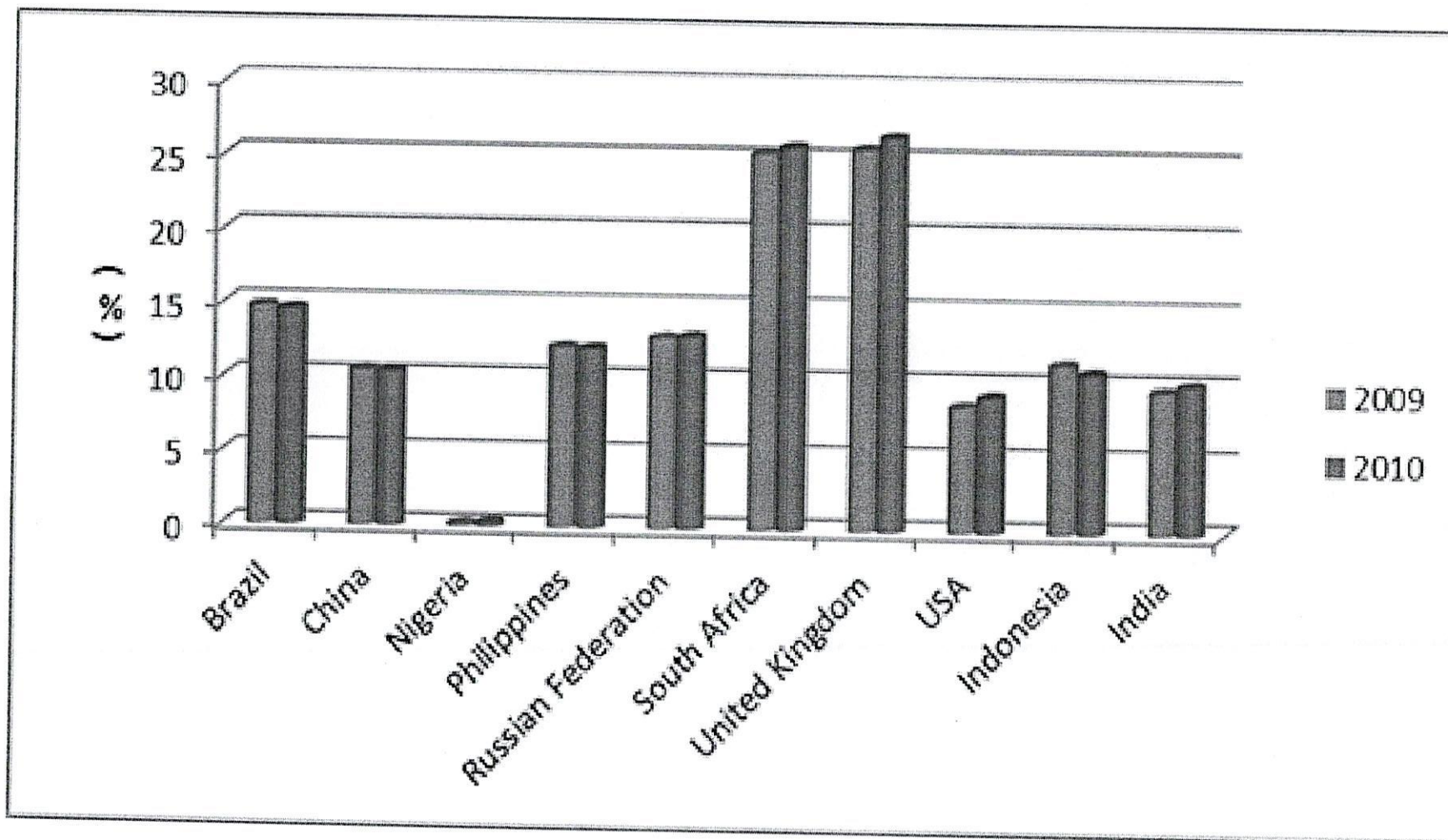
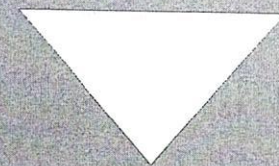
Nigeria Sectoral Contributions: Distribution of VA,



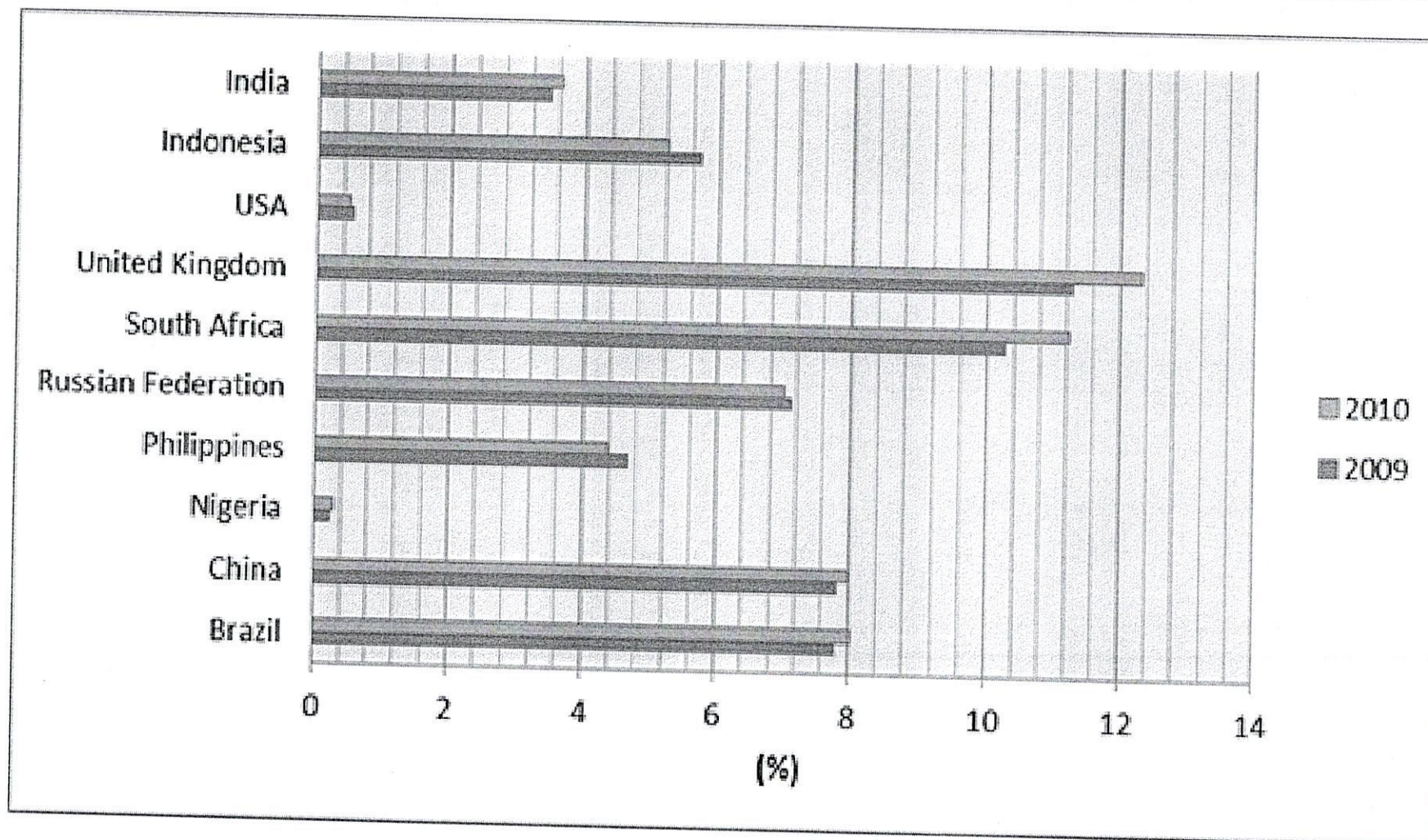
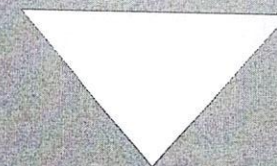
Nigeria vs Comparator Countries



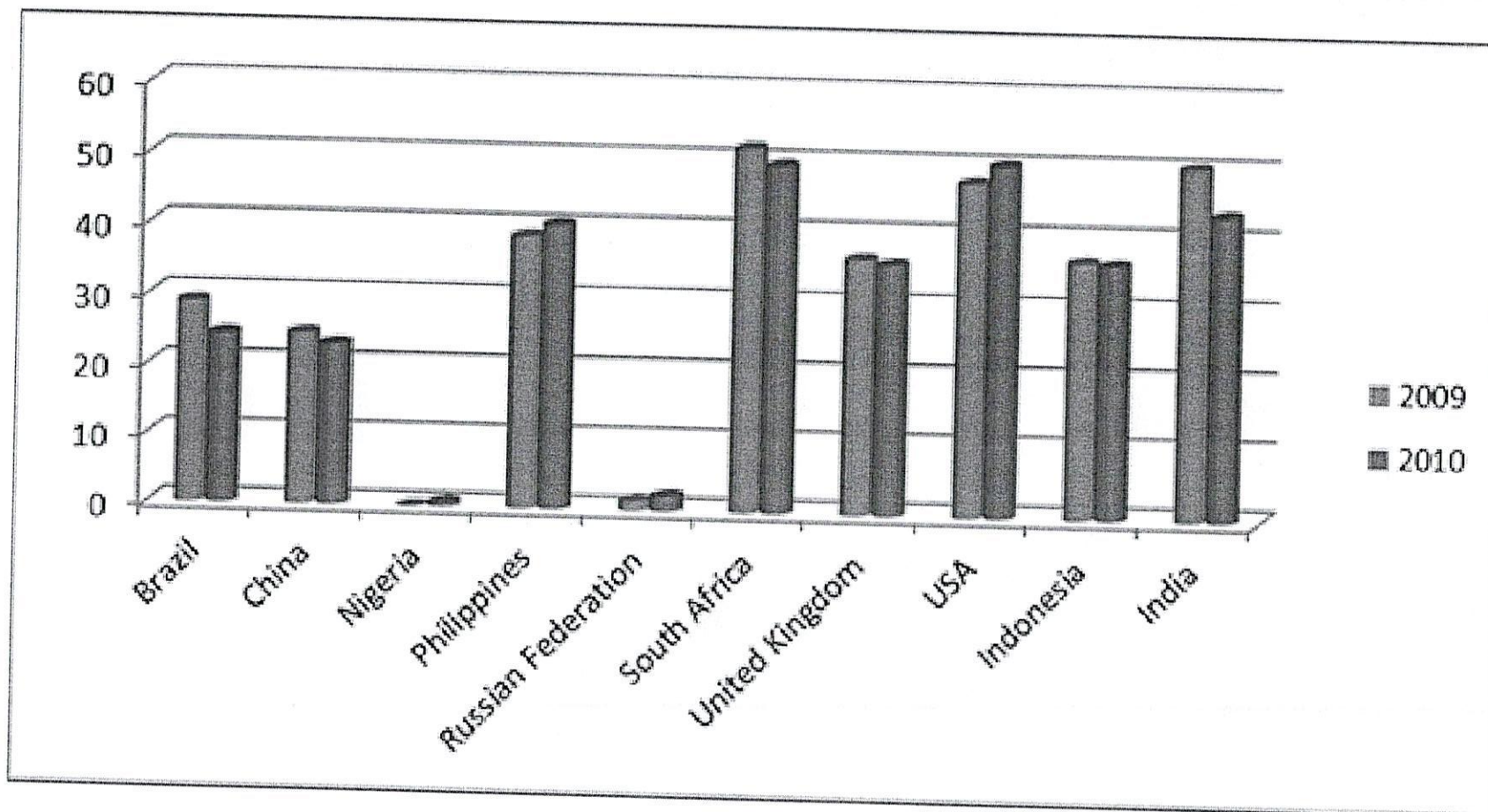
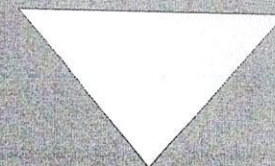
Tax revenue (% of GDP) of selected N11, BRICS countries of,2009-2010

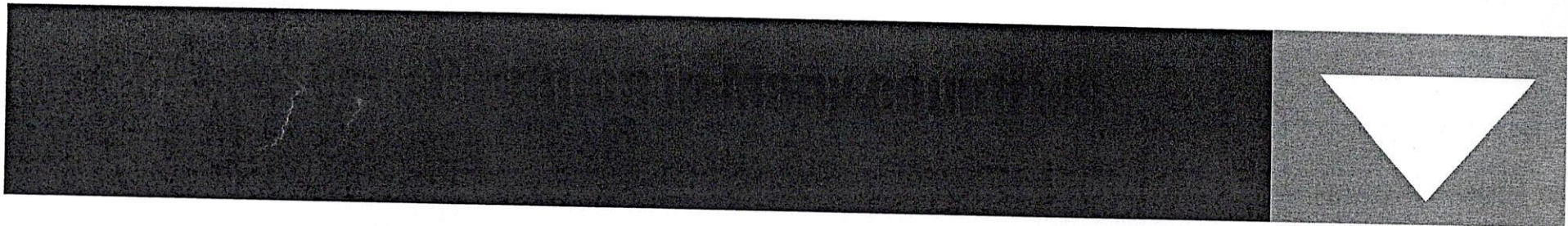


Taxes on goods and services (% of revenue) of selected N11, BRICS countries, 2009- 2010



Taxes on income, profits and capital gains (% of revenue) of selected N11, BRICS countries, 2009- 2010





| Ghana | South Africa | India | Nigeria |
|--|--------------|--------|------------------------|
| 5. Share of indirect taxes in final price | | | |
| 20.4% | 27.9% | 23% | None (1.51% in 1999) |
| 6. Margins of markers as % of final price | | | |
| 9.24% | 15.4% | N/A | 19% |
| 7. Sensitive Products | | | |
| Diesel and kerosene. Hence, there is cross subsidy tax on gasoline | N/A | Diesel | Gasoline |
| 8. Percentage change in price to trigger review | | | |
| 25% | 5% | N/A | Government decision |

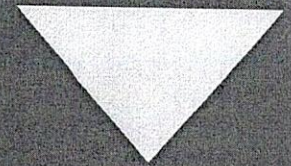


| Country | Retail fuel price mechanism | Price per Litre in US\$ | | | Tax as % of Gasoline Retail price |
|--------------|-----------------------------|-------------------------|----------|--------|-----------------------------------|
| | | Gasoline | Kerosine | Diesel | |
| Cameroon+ | Ad-hoc | 1.07 | 0.68 | 1.00 | - |
| Gabon* | Ad-hoc | 0.91 | 0.48 | 0.71 | 43.2 |
| Ghana+ | Automatic | 0.92 | 0.69 | 0.83 | 47.5 |
| Kenya+ | Liberalized | 1.04 | 0.74 | 0.90 | 26.6 |
| Nigeria* | Ad-hoc | 0.51 | - | - | - |
| India+ | Ad-hoc | 1.04 | 0.20 | 0.71 | 55.1 |
| Indonesia+ | Ad-hoc | 0.48 | 0.21 | 0.46 | 15.0 |
| Philippines+ | Automatic | 0.73 | 0.70 | 0.66 | 25.9 |
| Russia* | Liberalized | 0.62 | - | 0.60 | 30.8 |
| Egypt+ | Ad-hoc | 0.22 | 0.13 | 0.13 | - |

Note: + net oil importer and * net oil exporter

1/ latest information available as at Quarter 2 of 2006

Lessons from US: sources of Revenue to three tiers of Government.

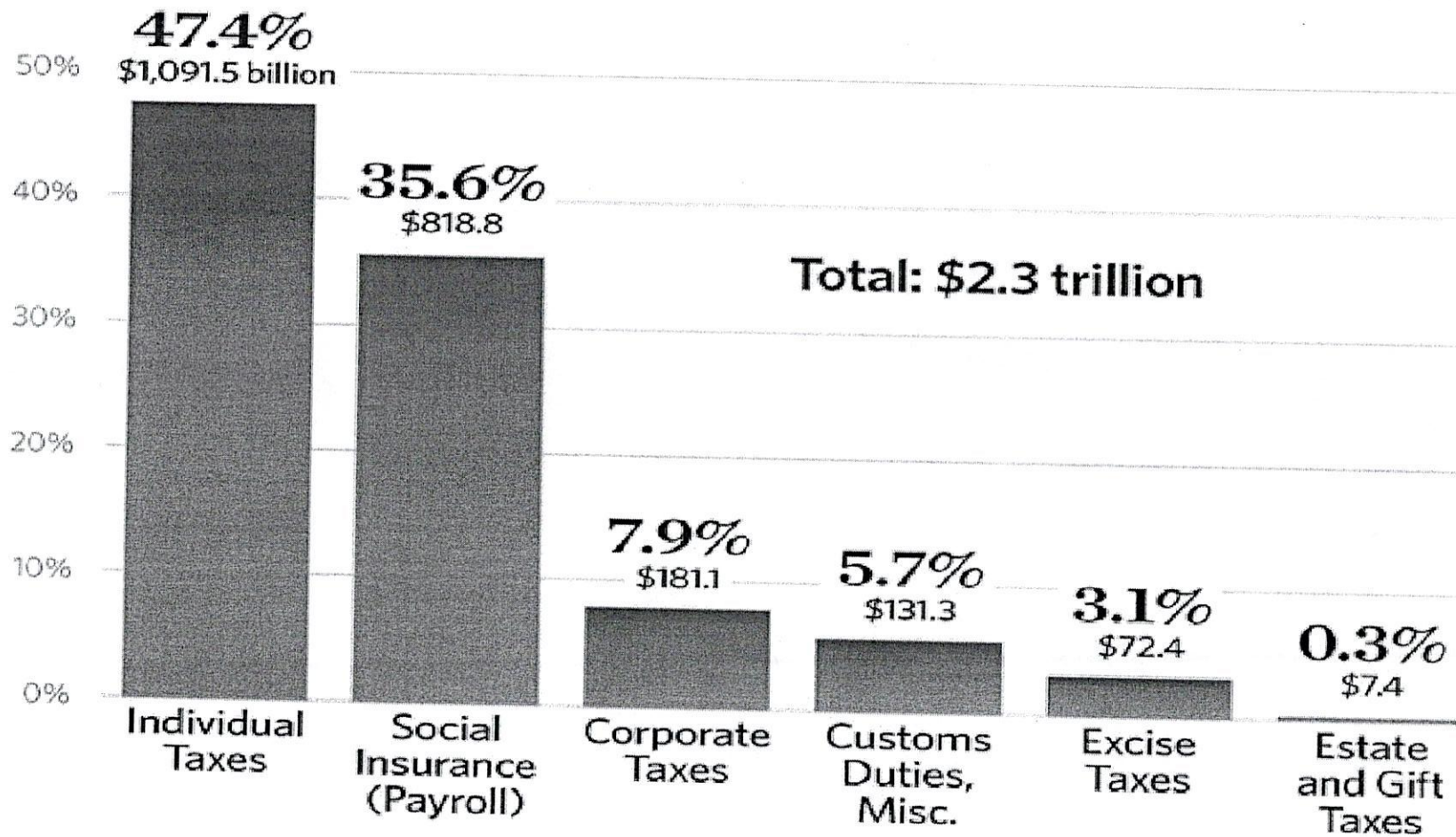
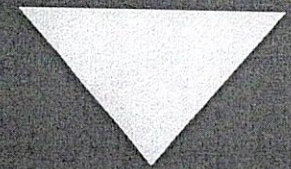


| Federal | state | Local |
|-----------------------|------------------------------------|---|
| Personal income tax | Intergovernmental Rev | Intergovernmental revenue |
| Payroll taxes | sales tax | Property taxes |
| Corporate Income tax | Employees retirement and Insurance | Earning of Public Utilities and state owned liquor stores |
| Estate and Gift taxes | Individual income taxes | Hospital fees and personal income taxes |
| Excise Taxes | Higher educational tax charges | |
| Custom duties | Corporate income tax | |
| Miscellaneous | Interest earnings | |
| | Hospital fees | |
| | Property taxes | |
| | Utility and liquor of states | |
| | Others | |

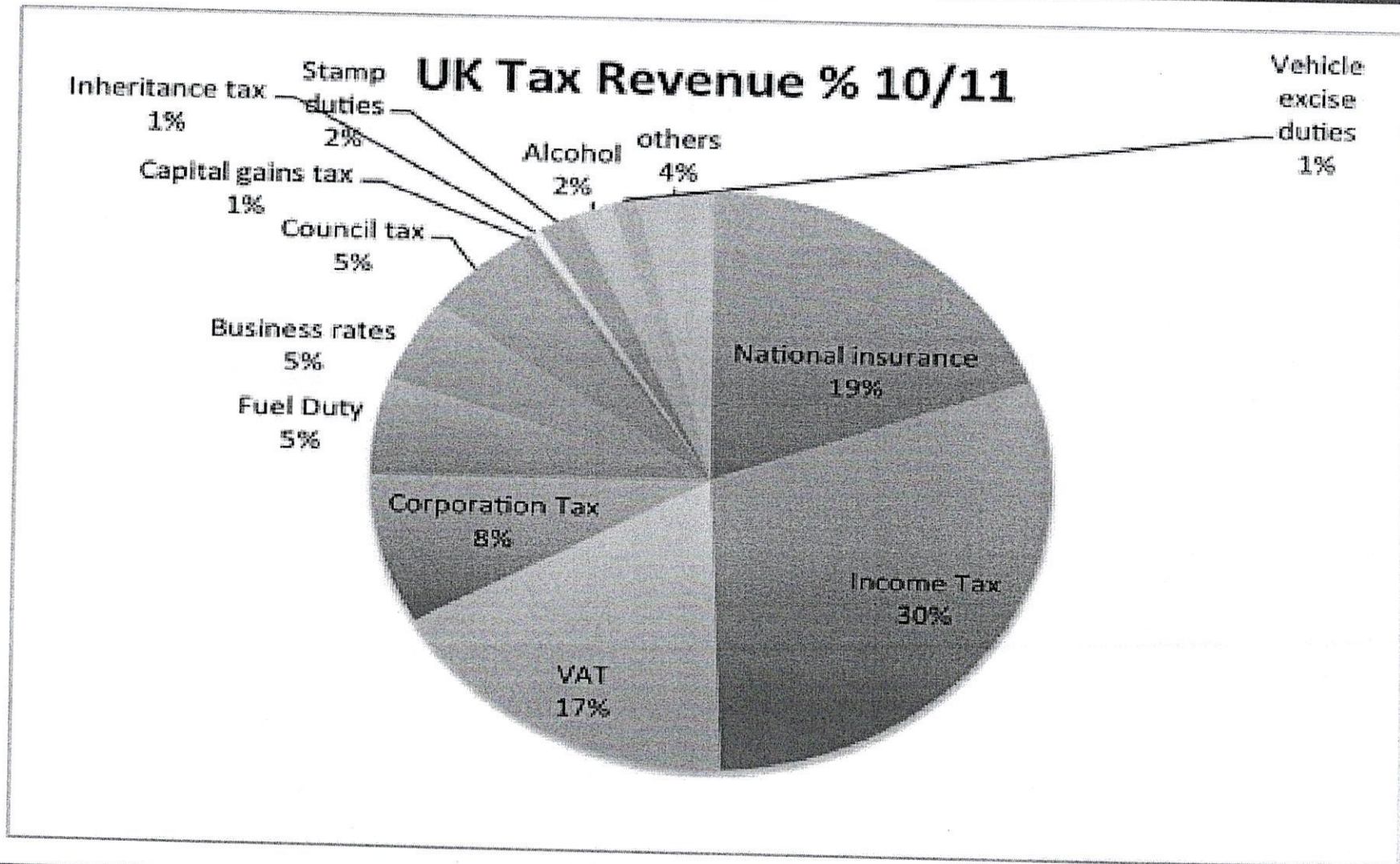
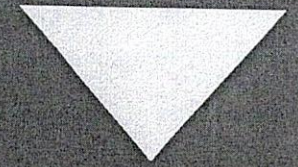
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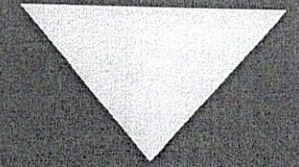
Lessons from US: Percentage of total federal revenue, 2011



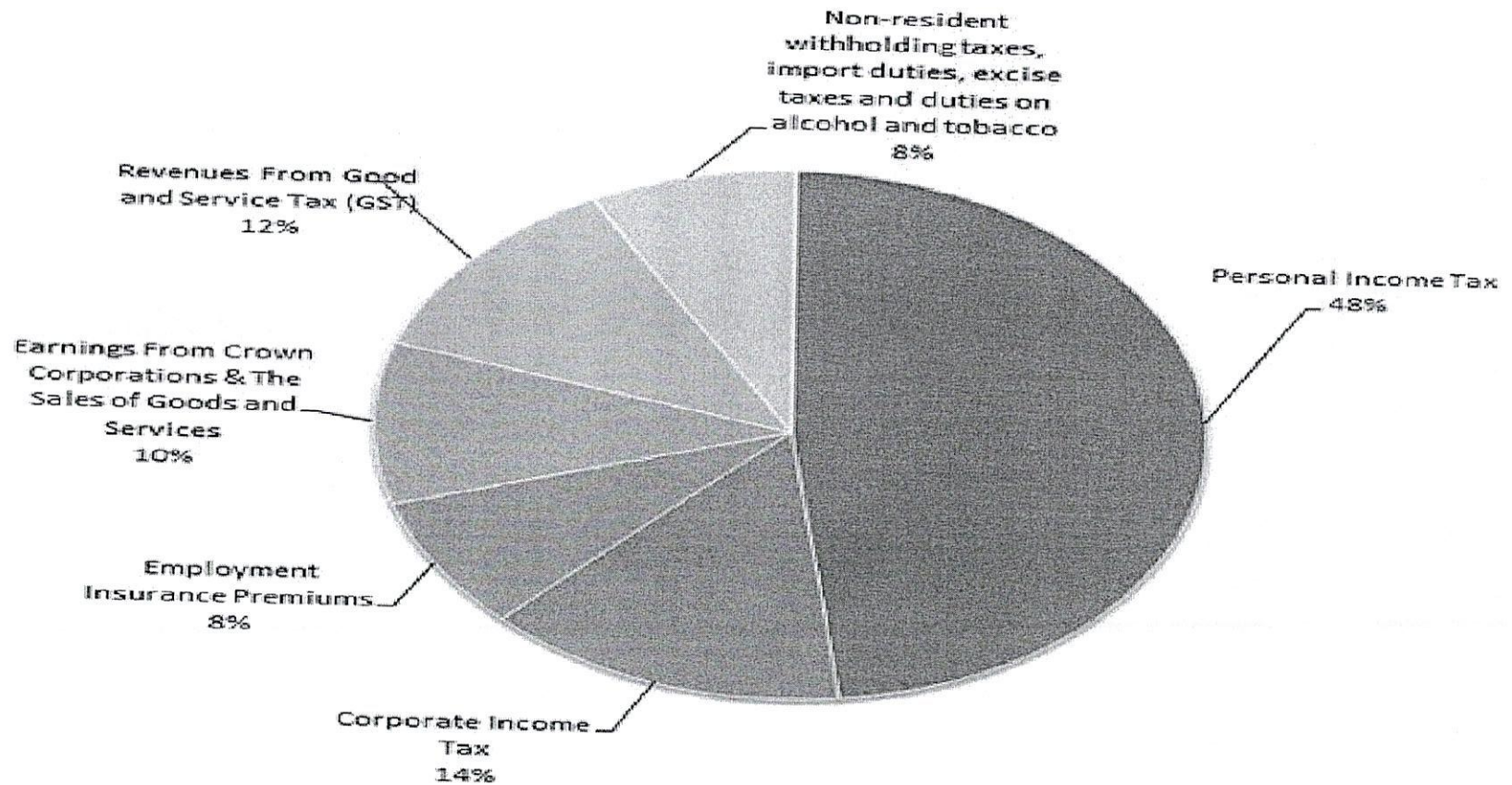
Lessons from UK: Percentage of total federal revenue, 2011



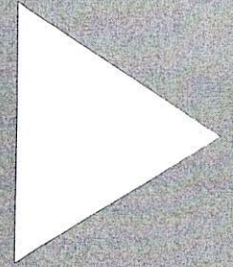
Lessons from Canada: % of total federal revenue, 2011



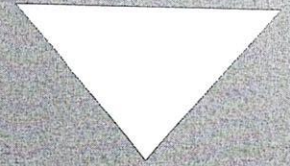
Sources of Government Tax Revenue



Policy Issues: Diversification Options and Recommendations



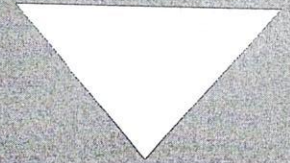
Policies



There are no quick fixes:

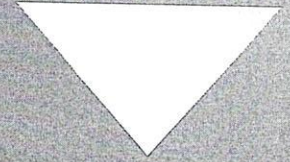
- Diversification of revenue base require significant efforts from the government
- It is important to analyse the various tax options available to Govt and their buoyancy, and productivity analyzed regularly
- There is need for horizontal and vertical diversification:
 - Horizontal Diversification occurs when the value chain within a sector is further developed internally so that more revenue can be generated
 - Vertical Diversification occurs when other sectors are developed

Diversification Options contd..



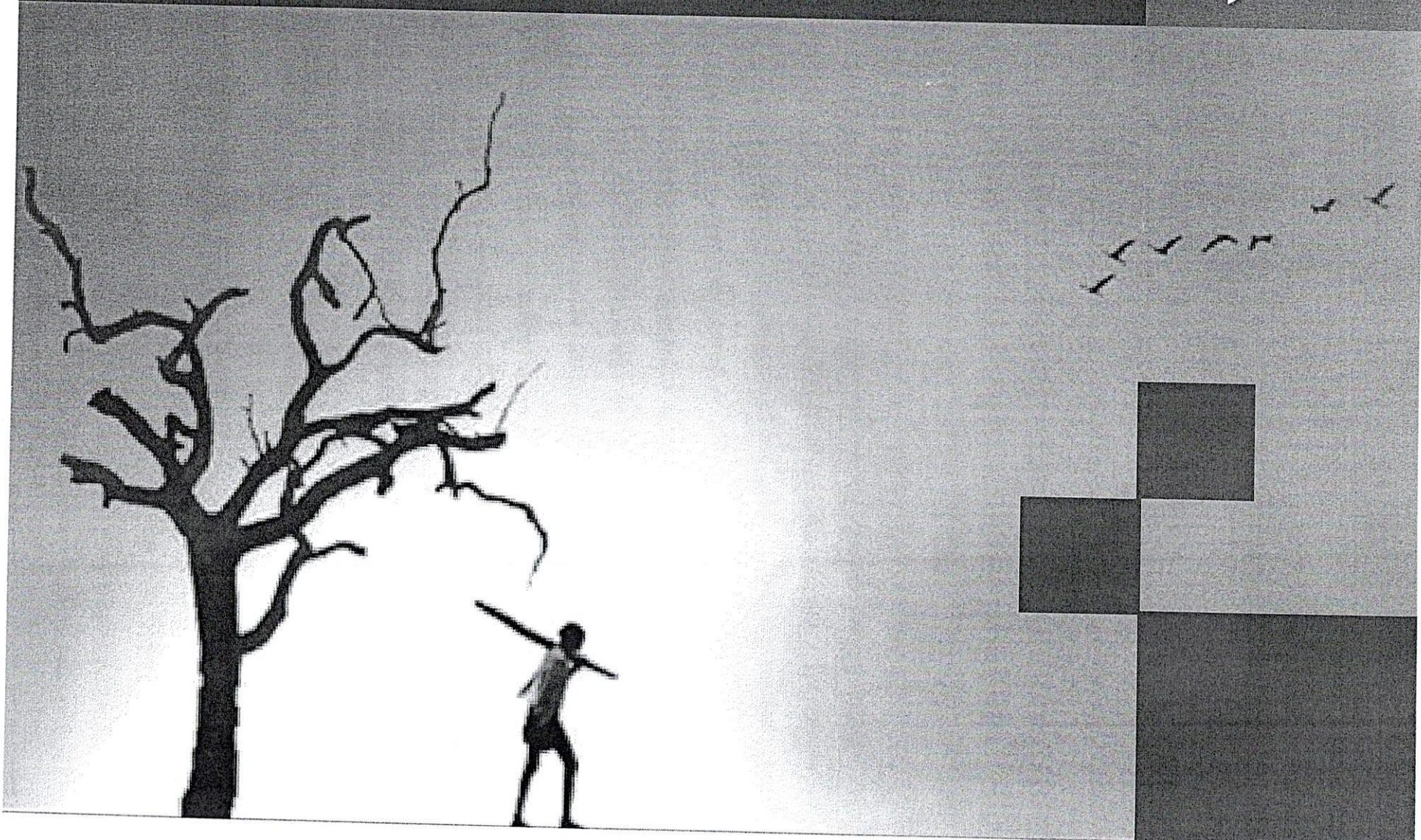
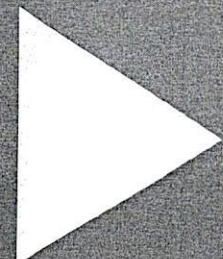
- Tax Revenue is often a function of the rate and the base. For most taxes, the base is a function of the state of the economy.
- Increase reliance on user charges/fees and direct taxes so that citizens can see a link between their payment and benefits
- Increase the formalisation of the informal sector to bring more activities into the open
- Property tax has a lot of potential. However, to be successful government must take up some of the responsibilities off the shoulders of citizens
- "Sin taxes" on liquor and tobacco can generate some revenue
- Estate tax and Gift Tax should be explored. In the USA, former ranged from 18-50%.
- Lottery generates significant revenue in many states of the USA.
- Still explore opportunity in near future of some tax on fuel consumption

Diversification Options contd..



- Reduce the gap between sectoral share of GDP and contributions to tax revenue
- Enforce compliance. Need to close loopholes, reduce tax evasion and leakages in the system
- Evolve a simplified basis of taxation to reduce corruption tendencies by tax officials
- Reduce tax rates and overlaps to lower the tendency for tax evasion.
- Strengthen the administrative and institutional capacity of revenue collection agencies
- Encourage proper maintenance of records and good bookkeeping culture
- Employers to register their employees and to remit taxes within specified period.

CONCLUSION

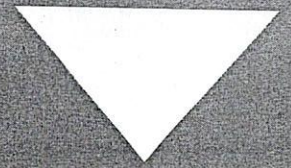


CONCLUSION



- Nigeria's development aspirations clearly shows that it has to diversify its revenue base
- This would involve horizontal and vertical diversification
- The revenue allocation system must have in-built system to reward internal revenue generation efforts
- There are some taxes whose potential productivity is very high, but will require much efforts by government.
- Nigeria is far behind most of its comparator countries in growing tax revenue as share of GDP
- Transparency, openness and accountability are critical to get citizens confidence
- The quality of service, efficiency and effectiveness of government must necessarily go up in tandem

CONCLUSION



- ***“(W)eak fiscal revenue bases are not necessarily due to low revenue generating capacity of these tiers of governments. The more plausible reason in Nigeria is the avoidance of the significant political cost of higher internally generated revenue effort. The availability of fiscal transfers derived cheaply from oil and gas revenues have encouraged minimal internally generated revenue effort. Clearly, it is rational for state and local governments to substitute fiscal transfers for local revenues that are costly to collect politically and administratively”. (Iwayemi, 2012)***

*Thank
You*

FOR YOUR ATTENTION