

# PDF - EFFECTIVE TAX ADMINISTRATION AND ITS IMPACT OF INTERNALLY GENERATED REVENUE OF STATES IN NIGERIA (THE LAGOS STATE MODEL) - researchcub.info

## CHAPTER ONE

### INTRODUCTION

#### 1.1 BACKGROUND TO THE STUDY

Recently the revenue that accrues to state government is derived from two broad sources, viz: the external sources and the internal sources. The increasing cost of running government coupled with dwindling revenue has left various state governments in Nigeria with formulating strategies to improve the revenue base. More so, the near collapse of the national economy has created serious financial stress for all tiers of government. As a result of fall in the international price of oil and the collapse of the national economy, the direct allocation from federation account to the states has fallen. Despite the numerous sources of revenue available to the various tiers of government as specified in the Nigeria 1999 Constitution, since the 1970s till now, over 80% of the annual revenue of the 3 tiers of government come from petroleum.

However, the serious decline in the price of oil in recent years has led to a decrease in the funds available for distribution to the states. The need for state and state governments to generate adequate revenue from internal sources has therefore become a matter of extreme urgency and importance (Raji, 2015). This urgent need for improvement in revenue generation has underscored the reason why revenue from tax has been the focus of state government in improving the revenue generation. The importance of taxation as a source of revenue to any government cannot be overemphasized. The study of the teachings of Christianity, Islamic and other prominent religions in the world shows that tax is a religious duty based on social and civil responsibilities (Agbetunde, 2004). The world over, taxes is one major source of government revenue, however, not every national government has been able to effectively exploit this great opportunity of revenue generation.

This can be attributed to a number of reasons including the system of taxation; tax legislation; tax administration and policy issues; overreliance on other sources of revenue (such as foreign aid and grants); corrupt practices in the system – especially as it relates to the system of tax collection and behaviour of citizens towards tax payment; and ease of tax payment (Akintoye and Tashie, 2013). Nigeria is richly endowed with natural resources chief of which is oil and gas. This oil and gas dominate the country's economy as it accounts for over 80% of the country's revenue thereby making government to lose its sense of reasoning in exploring other revenue sources. The overdependence on oil and gas has led to low GDP and economic retardation. According to Okoyeuzu (2013) taxes are the major tools required to overcome such and also to control other market imperfection, and achieve social justice by wealth redistribution. Due to the over reliance on oil, little effort has been made to generate sufficient revenue from taxation. Popoola (2009 cited in James Abiola) opines that Nigeria tax administration and practice be structured towards economic goal achievement since government budget for the year centres on the oil sector while decrying the low productivity of the Nigerian tax system.

According to Jhingan (2008) to meet up with their numerous commitments and live up to their responsibilities, governments thus, require a substantial amount of funds; such funds are usually raised from various sources such as issuing of public debt, creation of money or levying of various types of taxes, fees, fines and specific charge. Ariyo (2014) opines that Nigeria's over dependence on oil revenue to the total neglect of other revenue sources was encouraged by the oil boom of 1973/1974. This was unsustainable due to frequent negative fluctuation in the price of oil in the world market; this fluctuation has led to low

revenue from oil and resulting in budget deficit. Financial resources are needed for the developmental goals of any successive and successful government to be achieved. Such goals may include provision of infrastructure, security of life and properties and maintenance of law and order. Fagbemi, Uadiale and Noah (2010) opine that government needs money to execute their social obligations which include provision of infrastructure and social services. Ogundele (1999) views taxation to be the process or machinery by which communities or groups of persons are made to contribute some agreed amount of money for the purpose of administration and development of society. Aguolu (2004) states that though taxation may not be the most important source of revenue to the government in terms of the magnitude of revenue derivable from taxation, however, taxation is the most important source of revenue to the government from the point of view of certainty and consistency of taxation.

Apart from the over reliance on oil, mismanagement of tax revenue has scared many honest payers away from performing their civic responsibility of paying tax. In many parts of Nigeria, citizens are opposed to the payment of any form of taxes and rates on the ground that government had been unfair in the provision of amenities for which tax is primarily collected. Evidence of wastage of public funds abound in the form of inflated contracts or in the criminal acts of using diverse methods and loopholes exhausts funds voted for ministries and government departments before the financial year runs out (Ovute and Eyisi, 2014). The cumulative effect thereby produced is the resolve of many honest tax payers never to pay their due taxes again or at most pay under compulsion (Kiabel and Nwokah, 2009 cited in Ovute and Eyisi, 2014). If the tax administration is seen to be honest, fair, informative and helpful, acting as a service institution and thus treating tax payers as partners and not inferiors in a hierarchical relationship, tax payers have stronger incentive to pay taxes with honesty (Frey, 2003 as cited in Ovute and Eyisi, 2014).

## 1.2 STATEMENT OF PROBLEM

Ability to generate enough revenue by states is dependent on the philosophy and the available human resources to drive it, hence each state relies on the human skills at its disposal as well as its constitution to mobilise as much revenue as possible. Much as the skilled revenue mobilisers are necessary, there must also be active legislative arms to promptly pass law that would empower the state government on any relevant revenue source that is just being discovered. The federal allocation to state governments to maintain their financial obligation is always inadequate; hence so much emphasis is placed on internally generated revenue. This is however been plagued by tax evasions, avoidance, poor record keeping and inability to cover all the tax nets available to the state government due to encroachment of sister states or federal government on what is legitimately due to the state under review. As the citizens expect the government to live up to expectation, the government, on the other hand, have some limitations through dwindling revenues, as the internally generated funds are always found to be inadequate.

## 1.3 AIMS OF THE STUDY

The major purpose of this study is to examine effective tax administration and its impact of internally generated revenue of states in Nigeria. Other general objectives of the study are:

To examine the extent internally generated revenues significantly affect state government total revenue

To examine the impacts of poor revenue generation on the development of Lagos State

To examine the impact of tax administration on internally generated revenue of states in Nigeria.

To examine effect of tax evasion and avoidance on revenue generation in Lagos State.

To examine the relationship between tax administration and internally generated revenue of states in Nigeria.

To examine factors that will hinder effective tax administration in Lagos state.

#### 1.4 RESEARCH QUESTIONS

To what extent has internally generated revenues significantly affected state government total revenue?

What are the impacts of poor revenue generation on the development of Lagos State?

What are the impacts of tax administration on internally generated revenue of states in Nigeria?

What are the effects of tax evasion and avoidance on revenue generation in Lagos State?

What is the relationship between tax administration and internally generated revenue of states in Nigeria?

What are the factors that will hinder effective tax administration in Lagos state?

#### 1.5 RESEARCH HYPOTHESES

Hypothesis 1

H0: Tax administration does not have significant impact on internally revenue generation of states in Nigeria

H1: Tax administration has significant impact on internally revenue generation of states in Nigeria

Hypothesis 2

H0: There is no significant relationship between tax administration and internally generated revenue of states in Nigeria

H1: There is a significant relationship between tax administration and internally generated revenue of states in Nigeria

#### 1.6 SIGNIFICANCE OF THE STUDY

The need for this study bears from the current troubling tax administration in Lagos State in particular and in Nigeria, in general. Therefore, this study seeks to find solution to the problems identifiable through historical and empirical approaches. The discoveries and suggested solutions by this research work will be useful to the government and the taxpayers. Specifically, the Board of Internal Revenue and Inland Revenue found this project useful. It serves as light unto their path to see structural problems associated with tax administration and would, however, make it instructive for them to make amend. It is, however, pertinent to state that the Lagos State Board of Internal Revenue is the researcher's main point. The members of the public already polluted with psychological depression regarding tax matters would, no doubt, found this study very important because it addressed this disorder. Finally, it would serve as a reference material for future research. It would identify the critical challenges such as corruption and fraud that are confronting the tax system so that appropriate measure could be taken to tackle the menace. It would serve as a powerful fiscal weapon to plan and direct the economy by shaping the economy growth and development of a state. It would serve as national debt and to provide retirement benefits.

#### 1.7 SCOPE OF THE STUDY

The study is based effective tax administration and its impact of internally generated revenue of states in Nigeria. A Lagos state Model.

#### 1.8 LIMITATION OF STUDY

Financial constraint— Insufficient fund tends to impede the efficiency of the researcher in sourcing for the relevant materials, literature or information and in the process of data collection (internet, questionnaire and interview).

Time constraint— The researcher will simultaneously engage in this study with other academic work. This consequently will cut down on the time devoted for the research work.

#### 1.8 DEFINITION OF TERMS

**Impact:** Impact in this study refers to the effect of revenue generated on service delivery by state government. It also determined the extent to which state government was able to deliver services with resources at its disposal.

**Tax:** is a percentage of persons' income or of the price of goods taken by the government to help pay the benefit received.

**Revenue:** According to 2009 constitution, revenue is defined as any income or returns accruing to or derived by the government from any source and include any receipt however described arising from the operation of any law, and receipt however, described from or in respect of any property held by government, and any returns by way of interest or loans and dividends in respect of shares or interest held by government in any company or statutory body. However, revenue can also be regarded or referred to as tolls, taxes, rates, fees, royalties, rents and other receipts of government from whatever sources such as proceeds from loans given out (Section 162(10) of 2009 Constitution). Revenue accruing to any tier of government may be classified as recurrent or capital. While the former is generated on day-to-day basis throughout the year, the latter arises once in a while and in a larger proportion. They are also described as internal and external sources of revenue respectively. Nevertheless, the word revenue will be used in the context of this research to mean any amount of money coming into the local government from whatever sources and which the local government has power of appropriation.

**Generation:** This is the process of sourcing revenue for the local government in carry out their aim and objectives.

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