IMPROVING INTERNALLY GENERATED REVENUE (IGR) OF SOUTH EASTERN STATES OF NIGERIA: AN EMPIRICAL REVIEW OF ABIA STATE

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Abstract:

Revenue generation is the nucleus and the path to modern development. Thus, this study assessed the various ways of enhancing internal revenue generation in Abia state. The research methodology entailed the use of survey research design and purposive sampling method to select respondents from Abia State Inland Revenue Office..
Questionnaires and statistical data were instruments used for the study. Descriptive and inferential statistics were the statistical tool used for the analysis. The descriptive statistics involves the use of simple percentages. The result showed that there are several factors hindering IGR and the system of generation which need to be reformed. The study also revealed the various methods of generating internal revenue, which are the enforcement of tax personnel, contribution, and creating awareness to the public. The findings of the study however show that revenue administration agencies need to be reviewed to generate more revenue in the country.

Keywords: Revenue, states, internal and federalism

Introduction

Nigeria's economic and political fortunes hang on a notoriously precarious but potentially advantageous fiscal federalist system. The system is made up of four cardinal component parts: the Federal Government, 36 state Governments, the Federal Capital territory, Abuja and 774 Local Governments. At least in theory, Nigeria operates on the principle of federalism with three tiers of government among which the constitution allocates varying revenue generation and spending powers. Once described as the only country in the world that regularly changes its internal boundaries, the Nigerian federal system has over the years helped reduce its internal political tensions. But it seems that the reduction in internal political tensions has created specific economic problems unique to the country's kind of federalism. State creation over time has hardly paid attention to the economic viability and independence of the resulting entities. So the challenge of sustainability of states has come to assume a dimension that could aptly be described as necessitating special intervention.

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. Hardest hit are the state governments all of whom have experienced unusual reduction in their share of the National Revenue from the Federation Account. 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 three 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 local governments to generate adequate revenue from internal sources has therefore become a matter of extreme urgency and importance. This need underscores the eagerness on the part of state and local governments and even the federal government to look for new sources of revenue or to become aggressive and innovative in the mode of collecting revenue from existing sources.

Strikingly, Nigeria's economic fortunes continue to be based on hopes of a stable domestic oil production and increasing oil prices. Unfortunately, times are changing and this is becoming problematic. Between 2008 and 2010 alone, in addition to a crippling global economic crisis involving the capital and real estate markets, oil prices have been on the decline putting the future of the only significant export item of the country on a balance. The country's foreign reserves, on a comfortable USD 67 billion before the economic crises, have been shrinking since the crisis and as at March, 2010 were reported to stand at only USD $40.48 billion. While there may be disagreements over the size of impact of the deteriorating global economic situation, there is little disagreement of the potential negative impact of the trends on the country's economy. For all tiers of government in the country therefore, there seems to be little option to effective increases in the internally generated revenue as well as fiscal prudence to ensure effective utilization of available resources.

Prior to the civil war in Nigeria, the three regions of the country were in healthy competition with resources from the regions. Following commercial exploitation of oil resources, this commendable approach to national development has been jettisoned. Agriculture and other non-oil sector that could have been harnessed to boost the economy have been grossly neglected. States have generally relied on the monthly allocation from the Federation Account to handle both capital and recurrent responsibilities. It is obvious that should the monthly allocation from the federation account be withheld, governance at the state and local government level becomes paralyzed. To say that this is unsustainable is to be mild. Both analysts and practitioners know it is only a matter of time before many of the participating entities hit bankruptcy. Consequently, it is reasonable to suppose that all tiers of government would be concerned about measures to shore up the only sustainable sources of revenue – internally generated revenue (IGR).

Fortunately, the five states of the South East – Enugu, Imo, Abia, Ebonyi and Anambra get good junk of money from Federal allocation as a result of the oil base in some of the states; it is time to look beyond oil gain. While some states in the South East are making some moves to internally generate revenue, efforts need to be intensified both in these states and others. It therefore becomes necessary that a critical assessment of the options for increasing the internally generated revenue base of the states and of tapping these for the development of these states is conducted. Answers are needed on what options exist, what instruments can be used by state operators to tap into the options, and what measures to ensure political acceptance and economic sustainability of measures implemented by states in the region in the bid to positively affect internally generated revenue.

Statement of Problem

The South Eastern States government in Nigeria enjoyed an improved revenue from the 1990's till date due to reforms introduced by different regimes all aimed at making the state government effective and efficient in discharging statutory responsibilities to the people. This was achieved through increased sources of revenue generation; this problem is multifarious ranging from low borrowing capacity, corruption, mismanagement and misappropriation of state government funds, ineffective strategies for enhancing internally generally generated revenue, lack of skilled and technical personnel, etc.

Mismanagement and misappropriation of state government funds is one of the major problems of revenue generation in the State; in most cases the state government funds have been mismanaged. Tax collectors that are charged with the responsibility to collect all the revenue sources do not adequately use their freedom to collect them and exploit other sources of revenue available to the state government. Many state government officials embezzle local government funds through all sorts of manner like inflating contracts or embarking on white elephant projects or outright siphoning of funds which has affected the developmental process of Lagos State.

The internally generated revenue which was hoped to accelerate the finance of the state government is bedevilled by corrupt practices on the part of revenue collectors. It has been observed that these revenue collectors have in the possession unofficial receipts; this enables them to divert state government funds into private use. Corruption is the locust that has eaten state government revenue, this manifested in the distorting of revenue return receipts, embezzlement and misappropriation of funds.

Also Poor financial management is a major problem of revenue generation in Abia State and this arises from poor attitude to work as well as lack of integrity of revenue collectors. Ineffective Strategies for Enhancing Internally Generated Revenue in the state government, was also contributed to poor revenue generation. These human related factors no doubt negatively affected development at the state government level which is the bedrock for genuine national development.

Objectives of the Study

The purpose is to serve as follow-up to previous IGR work undertaken in the South East and will aim to outline the resource potentials in each of the states of the South East zone. Therefore, the objectives of this study are:

1. Outline current revenue generation measures with respect to strengthen available options to revenue generation in the state.
2. Analyse revenue trend of the state as well as provide situational analysis that will form the background for the content of the presentations during a dissemination workshop/economic forum for all the stakeholders.
3. Recommend possible ways of improving revenue generation in the state.

METHOLOGY OF THE WORK

This study covered the entire spectrum of the Abia State Government of Nigeria. It involved the different players in the revenue generation process (i.e. Ministries, Departments and Agencies), agents, banks, and civil society observers. The study also teased public opinion from non-formal observers and watchers of the revenue generation process, especially through review and opinions pieces.

Sources of Data

Primary Sources: The study relied on both primary and secondary evidence. Primary data came mainly from responses to structured questionnaires administered on key participants in the revenue generation process. Copies of Questionnaires were distributed to the Public and Private Sectors in the State to access the level of Internally Generated Revenue. The study sought responses from staff of MDAs as well as from the organized private sector. Percentages were used to present the responses from the Respondents. The Consultants meet with the Hon Commissioner for Finance, Hon Commissioner for Land Survey, BIR Chairman and other key revenue administration staff of Abia State. Two survey instruments were used to generate responses from public and private sector officials in the State. For the Public Sector, a total of thirty-five (35) copies of the questionnaire were distributed to respondents in the rank of Commissioners, PSs, Directors, Secretary of Agencies, and PRO of BIR.

A total of twenty-eight (28) copies of the survey instrument (questionnaire) were completed and returned by representatives of various MDAs. The Consultants distributed a total of sixty Questionnaires to the Private Sector in the State (Umuahia/Aba). Using random method of selection in three categories, the copies of questionnaire were distributed to Private Individuals, Corporate Firms/Multi National Companies and Small Businesses in the ratio of 3:5:2. A total of thirty Questionnaires were correctly filled and returned representing 50% of return rate.
The questionnaire also built in checks to balance consistency of responses within a group. The appendix to this report contains copies of the questionnaires.

Secondary Sources:
Secondary evidence came from various literature sources: Abia State Report of the Accountant General with Financial Statement (Various Years), State annual budgets, State published laws on revenues, other published and unpublished documents and internet based sources. Other publications of the states contributed to the literature for the work. These include relevant official documents obtained from the state on ministries of finance and budget and planning. The National Bureau of Statistic web-site and e-Newsletters, was another useful source of secondary information. General web and internet research also provided further materials, especially on good practices. Other sources include unofficial publications, reports, opinions, studies, etc., sourced from various groups and duly referenced in the report. Finally, previous research work (although limited in number), published workshop proceedings, and news articles were useful sources of background documentary information.

LITERATURE REVIEW

Revenue

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, fine, fees etc. It is also defined as the total amount of income that accrues to an organization (public or private) within a specified period of time (Hamid, 2008). States revenue comprises of receipt from taxation as well as those which are not the proceeds of taxation, but of either the realization from the sale of government properties or other interests and returns from loans and investment earning. Bhatia (2001) contends that revenue receipt include “routine” and “earned” income. For these reasons, according to him, revenue do not include borrowing and recovery of loans from other parties, but it includes tax receipts, donations, grants, fees and fines and so on.
Similarly, Pearce (1986) defined government revenue as all the money received other than from issue of and debt, liquidation of investments. Government revenue includes tax collections, charges and miscellaneous revenues, utility and insurance trust revenue for all funds and agencies of a government. Public revenue according to Stephen and Osagie (1985) 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. State government, like the other

two tiers of government, has sources and uses of revenue. Osisami (1994) states that there are basically two types of revenue that accrues to state governments. These are internally generally generated revenue and revenue allocated from the Federation Account.

Internally generated revenue are those revenues that are derived within the state from various sources such as taxes (pay as you earn, direct assessment, capital gain taxes, etc), and motor vehicle license, among others. While the statutory allocation from Federation Account, Value Added Tax constitute the external source.

Most states of the federation get the bulk of their revenue in form of statutory allocation from the federation account to finance their expenditure programmes. (Mukhtar, 1996; Isyaku, 1997; Abdulkadir, 1998; Ibrahim, 2002; Ishaq, 2002 and Hamid, 2008). State governments as the second tier of government in Nigeria derive its revenue from various sources. However, it should be noted that sources of revenue are by no means uniform among the states. States derive their revenue depending on the resources available to them; (Anyafo, 1996; Daniel, 1999; and Adam, 2006). The share of federation account to states constitutes 57.97% in 2002 of the total revenue plus grant 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). The average percentages of internally generated revenue in relation to the federal allocation were between 5-9 percent for most non-oil producing states in the recent past.

Kano was able to slightly exceed 10% in 2004 to date due to aggressive revenue generation efforts, with Lagos state as the only exception.

Recurrent expenditure according to Jimoh (2007) is the type of expenditure that happens repeatedly on daily, weekly or even monthly basis. The amount involved is charged to some operating account (e.g. profit and loss account or income and expenditure account).This includes for example payment of pensions and salaries, administrative overhead, maintenance of official vehicles, payment of electricity and telephone bills, water rate and insurance premium, etc.

Analysis of Revenue Trend in the State

Given that generation and management of internally generated revenue (IGR) is simply a component of overall fiscal strategy of a government, it is natural that such weak fiscal statistics as we have seen in the preceding section should also produce weak internally generated revenue statistics. The inconsistencies in fiscal management should translate to inconsistencies in IGR management and overall performance. It might be unrealistic to expect that IGR strategies will be more consistent than overall fiscal strategies. If the noted discrepancies between fiscal planning and actual fiscal performance be anything to go by, even the relatively good performance of the states on IGR budgeting may not reflect in an impressive IGR raising or management system. But then these are all assumptions. In this section, we explore actual IGR performance in relation to these assumptions. The aim is to evaluate the consistency or otherwise of the IGR policies and programmes and to what extent they are impacted by overall weak fiscal strategies of the states. The discussion in the section shall be issue based though examples shall be drawn from a specific state or group of states on the issue of discussion at each point.

As indicated from table 2, the state actual internally generated revenue exceeded its budgeted IGR from 2007 to 2011 while in 2012 and 2013. The difference between the budget IGR and actual IGR in 2012 and 2013 were N6, 092.35Billion and N17, 145.46Billion respectively. Figure 2 presents diagrammatically the Budgeted and actual IGR trend of the state from 2007 to 2013.

Table 2: IGR Trend 2007 to 2013

Year	Budgeted IGR	Actual IGR	Variance
2007	2,898.92	4,624.89	(1,725.96)
2008	3,330.59	13,727.59	(10,397.00)
2009	6,762.59	7,938.02	(1,175.43)
2010	9,338.60	11,124.64	(1,786.04)
2011	10,491.12	11,763.51	(1,272.39)
2012	22,202.32	16,109.96	6,092.35
2013	37,964.63	20,819.17	17,145.46
Total	**92,988.78**	**86,107.78**	**6,881.00**

Source: Abia State Report of the Accountant General with Financial Statement (Various Years)

Figure 2 presents the revenue trend of Abia State from 2007 to 2013.

Figure 2: Budgeted and actual IGR trend of Abia state from 2007 to 2013

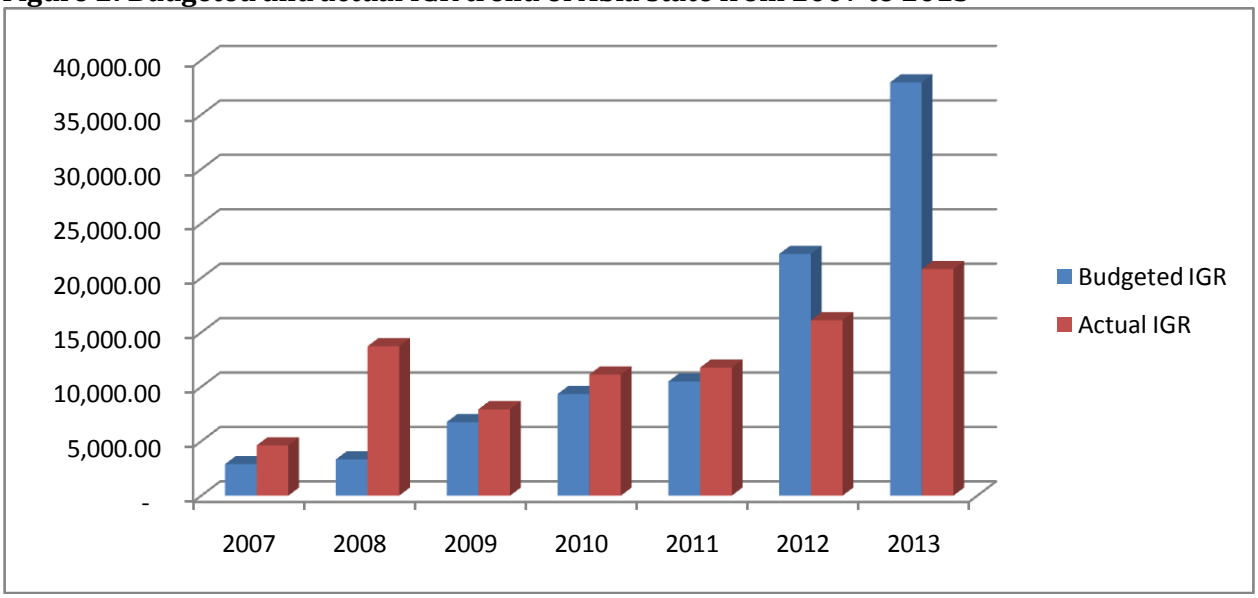


Table 3 presents the subhead from which the state generates her revenue from 2011 to 2013.

Table 3: IGR Types and Actual Revenue

Description	Actual 2011 (N,000)	%	Actual 2012 (N,000)	%	Actual 2013 (N,000)	%
Taxes	5,380.78	45.74	3,760.28	23.34	4,931.52	23.69
Fines and Fees	419.5	3.57	6,558.37	40.71	8,458.64	40.63
Licenses	369.69	3.14	276.62	1.72	371.51	1.78
Earnings and Sales	17.36	0.15	31.47	0.2	13.34	0.06
Rent on Govt Property	46.47	0.4	186.6	1.16	229.34	1.1
Interest & Dividend	40.11	0.34	-	-	30	0.14
Reimbursement	-	-	-	-	-	-
Below the line Receipts	563.22	4.79	-	-	-	-
Revenue from Parastatal	4,904.28	41.69	5,296.61	32.88	6,784.76	32.59
Miscellaneous & Others	22.09	0.19	0.01	0	0.05	0
Total IGR	**11,763.51**	**100**	**16,109.96**	**100**	**20,819.17**	**100**

As depicted from table 3, the total actual IGR of the state was N11, 763.51Million in 2011. The state highest revenue type in 2011 was from taxes. The state generated N5, 380.78Million from taxes representing 45.74% of the total IGR in that year. This was followed by revenue from government parastatals in the state where N4, 904.28Million representing 41.69% of the actual IGR in 2011. Other sources of IGR in the state are Fines and fees which generated N419.5Million representing 3.75% of the total IGR. IGR from Licenses was N369.69Million representing 3.14% of the total IGR of the state. Below the line receipt also contributed 4.79% (N563.22Million) of the total actual IGR of the state. The least IGR type of the state in ascending order are Earnings and Sales, miscellaneous and others, Interest and Dividend and Rent on government property where their contribution to the state IGR were 0.15% (N17.36million), 0.19% (N22.09million), 0.34% (N40.11million) and 0.40% (N46.47million) respectively.

In 2012, the total actual IGR of the state was N16, 109.96million representing an increase of 36.95% above 2011 IGR revenue. The state highest revenue type in 2012 was from fines and fees. The state generated N6, 558.37million from fines and fees representing 40.71% of the total IGR in that year. This was followed by revenue from government parastatals in the state which generated N5, 296.61Million representing 32.88% of the actual IGR in 2012. Revenue from taxes which was the highest in 2011 was N3, 760.28Million representing 23.34% of the total IGR of the state in 2012.Other sources of IGR in the state from Licenses which generated N276.62Million representing 1.72%% of the total IGR of the state. Rent of government property was 1,16% of the total IGR and Earnings and Sales contributed 0.2% (N31.37Million). In 2012, there was no revenue from Interest and Dividend, Reimbursement, Below the line receipts and Miscellaneous.

In 2013, the total actual IGR of the state was N20, 819.19Million representing an increase of 29.23% above 2012 IGR revenue. Fine and Fee maintained the led revenue source of the state with a contribution of N8, 458.64Million representing 40.63% of the total IGR of the state. This was followed by revenue from government parastatals in the state which generated N6, 784.76million representing 32.59% of the actual IGR in 2012. Revenue from taxes was N4,

931.52Million representing 23.69% of the total IGR of the state in 2013.Other sources of IGR in the state where from Licenses which generated N371.51Million representing 1.78%% of the total IGR of the state. Rent of government property was N229.34Million representing 1.1% of the state total IGR. Revenue from interest and Dividends was N30Milion representing 0.14% of the state total IGR in 2013 while Earnings and Sales contributed N13.34Million representing 0.06% of actual total IGR of the state. Again in 2013, there was no revenue from Reimbursement, Below the line receipts and Miscellaneous.

Figure 3 and 4 present diagrammatically the actual total IGR of the state in 2012 and 2013.

Figure 3: Actual Revenue for 2012

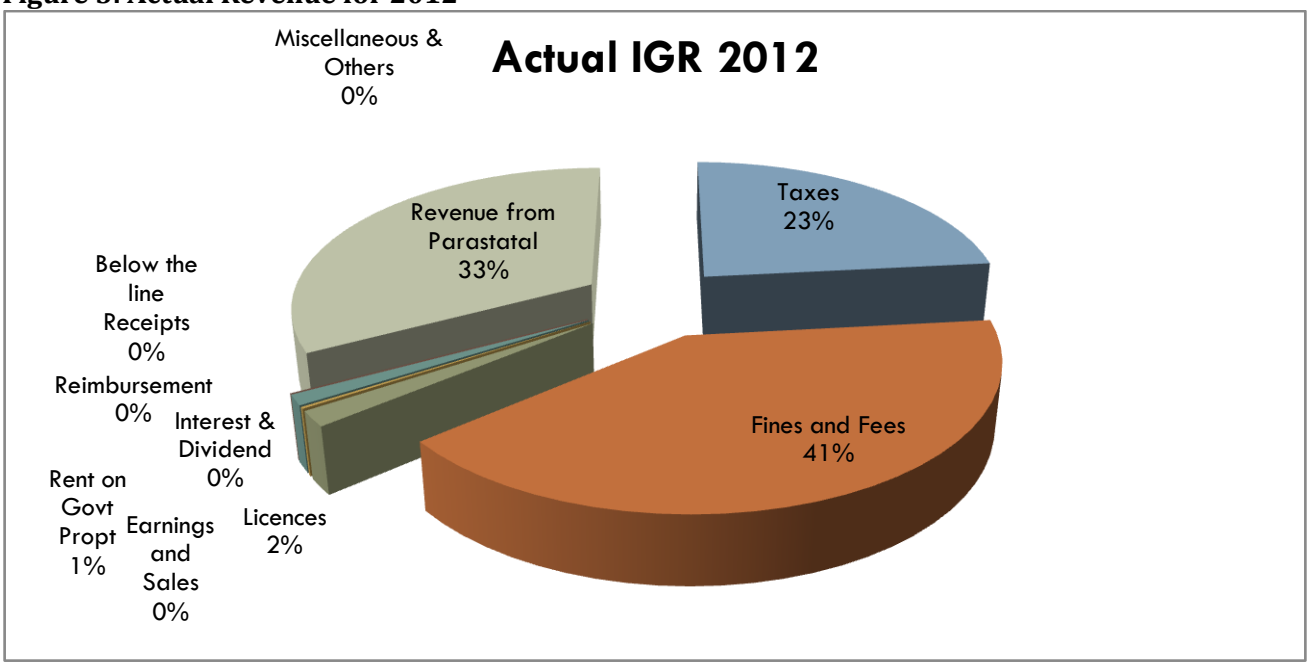


Figure 4: Actual Revenue for 2013

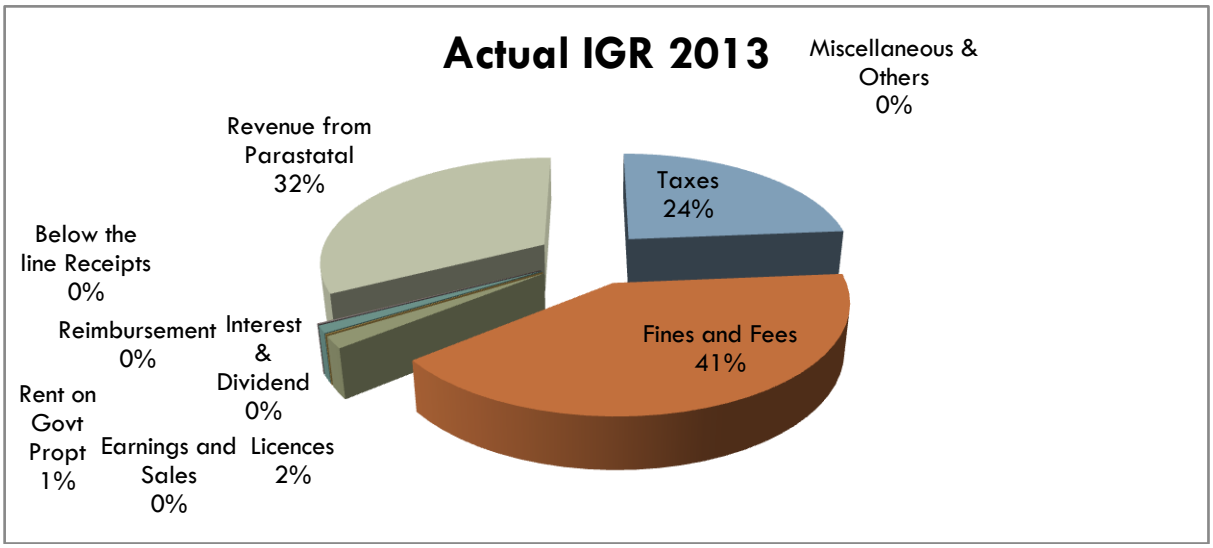


Table 4 compares transfer from federal government with actual IGR of the state.

Table 4: Comparison of Transfers with IGR

Year	Actual Transfers (N,000)	%	Actual IGR(N,000)	%
2007	26,541.26	85.16	4,624.89	14.84
2008	34,837.09	71.73	13,727.59	28.27
2009	28,164.29	78.01	7,938.02	21.99
2010	35,200.17	75.99	11,124.64	24.01
2011	43,676.64	78.78	11,763.51	21.22
2012	49,267.30	75.36	16,109.96	24.64
2013	55,987.16	72.89	20,819.17	27.11

Source: Abia State Report of the Accountant General with Financial Statement (Various Years

Table 4 compares actual transfer from the Federal government with the state IGR. A cursory look at table indicates that in 2007, the IGR component of the state's total revenue was 14.84% while actual transfer makes up 85.16% of the state's total revenue. In 2008, IGR of the state was 28.27% of the total revenue base of the state while actual transfer from the Federal government was 71.73%. In 2009, actual transfer from the Federal government was 78.01% while the state generated 21.99% of the state's total revenue base. In 2010, 2011 and 2012, the IGR base of the state was 24.01%, 21.22% and 24.64% while Actual transfer from the Federal government was 75.99%, 78.78% and 75.36% respectively. In 2013, the IGR component of the total revenue of the state was 27.11% while actual transfer from the Federal government was 72.89% of the total revenue base of the state.

Figure 5 depicts the comparism of actual transfer and actual IGR profile of the state from 2007 to 2013.

Figure 5 Comparison of Transfers and IGR

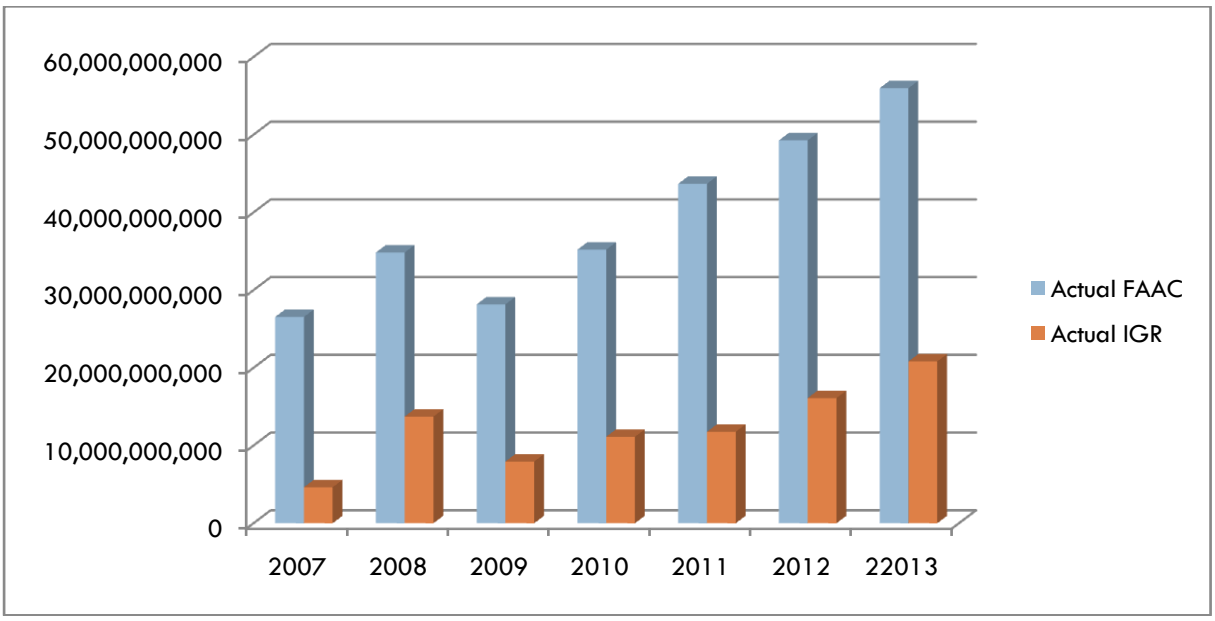


Table 5 presents the percentage of personal and overhead expenditure on actual IGR of the state from 2007 to 2013.

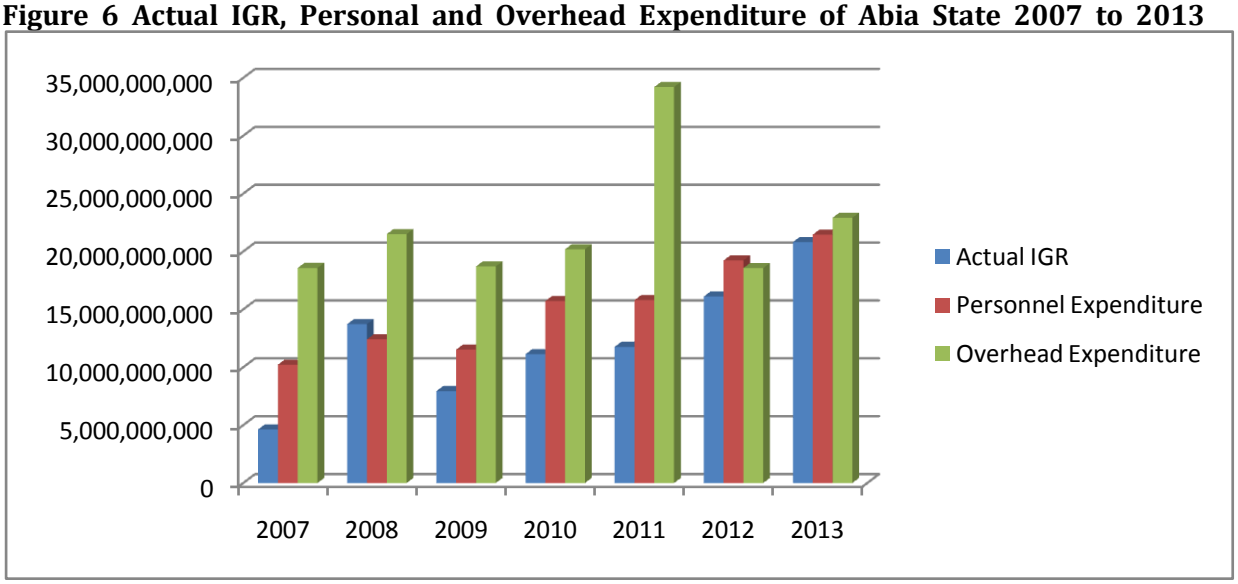
Table 5 Percentage of Personal Expenditure and Overhead on Actual IGR

Year	Actual IGR (N,000)	Personnel Expenditure (N,000)	%	Overhead Expenditure (N,000)	%
2007	4,624.89	10,220.03	45.25	18,580.32	24.89
2008	13,727.59	12,415.11	110.57	21,505.20	63.83
2009	7,938.02	11,520.40	68.90	18,709.21	42.43
2010	11,124.64	15,720.50	70.77	20,196.15	55.08
2011	11,763.51	15,802.13	74.44	34,209.43	34.39
2012	16,109.96	19,227.47	83.79	18,570.16	86.75
2013	20,819.17	21,456.24	97.03	22,913.71	90.86

Source: Abia State Report of the Accountant General with Financial Statement (Various Years

Table 5 reveals the contribution of the state's IGR in paying for her personal and overhead expenditure from 2007 to 2013. An examination of the table indicates that in 2007, when the actual IGR of the state was N4, 624.89Million the contributions of the state's IGR to personal and overhead expenditure was 45.25% and 24.89%. In 2008,'s when the actual IGR of the states was N13, 727.59Million, the contribution of the state's IGR to personal and overhead expenditure was 110.57% and 63.83%. In 2009, the percentage contribution to the state's personal and overhead expenditure was 68.90% and 42.43%. A reveal of the IGR profile in the state shows that for 2010, the percentage contribution of the state IGR to personal and overhead expenditure was 70.77% and 55.08%. Again in 2011 and 2012, the percentage contribution of the state's IGR to personal expenditure was 74.44% and 83.79% while it was 34.39% and 86.75% for overhead expenditure. Lastly in 2013, the contribution of the state's IGR to personal expenditure was 97.03% and 90.86% for overhead expenditure.

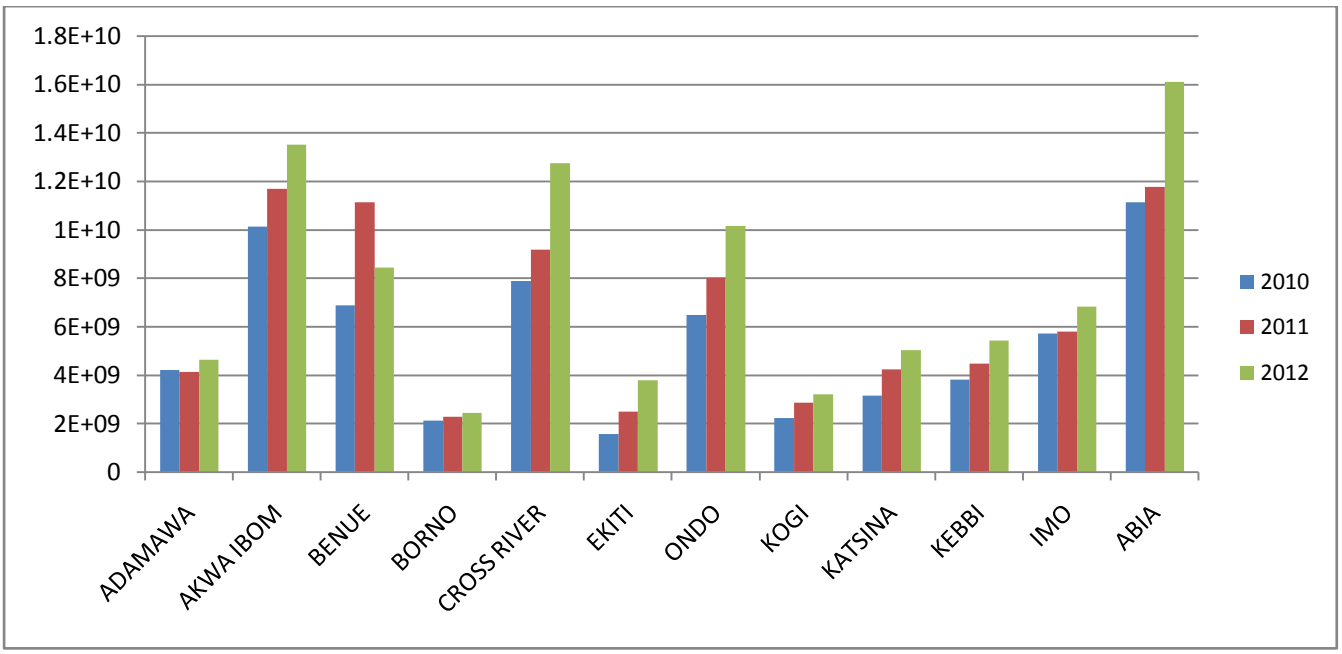
Figure 6 Actual IGR, Personal and Overhead Expenditure of Abia State 2007 to 2013



4.3 Comparison of the State IGR across the six Geo-political Zones

S/N	State	2010	2011	2012
1	ADAMAWA	4,208,037,777.45	4,117,975,681.95	4,615,407,803.00
2	AKWA IBOM	10,133,958,927.00	11,678,520,984.00	13,516,810,150.00
3	BENUE	6,877,690,630.00	11,131,343,534.60	8,436,560,608.98
4	BORNO	2,108,612,985.25	2,282,102,699.76	2,444,613,205.37
5	CROSS RIVER	7,870,941,915.00	9,159,651,948.00	12,734,560,333.00
6	EKITI	1,554,020,325.64	2,489,797,191.33	3,787,607,515.35
7	ONDO	6,480,372,918.69	8,015,725,375.26	10,153,042,597.01
8	KOGI	2,217,504,390.25	2,848,556,782.15	3,185,459,549.72
9	KASTINA	3,151,689,985.00	4,239,692,674.00	5,029,720,846.00
10	KEBBI	3,807,258,812.42	4,472,397,621.47	5,424,015,848.65
11	IMO	5,714,554,547.72	5,787,413,934.58	6,810,221,957.04
12	ABIA	11,124,640,000	11,763,510,000	16,109,960,000

SOURCE: NBS IGR 2010-2012 Summary



4.4 Challenges that Limit IGR Performance in Abia State

Funding

The Abia State BIR, as shown in Section 2.4 and table 3 above, has insufficient overhead releases to run efficient and effective internal revenue operations. Lack of funding limits BIR ability to upgrade its operations to improve performance and will only collect revenue from soft sources as they lack the resources to manage and enforce compliance by all sectors of the state economy.

As also stated in section 2.4 the State Government in 2013 approved the transfer of 5% of IGR to Abia BIR to defray operational cost. The 5% of IGR to defray operational cost has been reviewed to 10% but the new rate is yet to be actualised. Even on actualisation of the 10% of total IGR to defray operational costs, there is need to note that within the next 5 years the amount will not be sufficient to cover pensions costs, particularly already accumulated pension and gratuity, as well as capital provisions for building new conducive office accommodation and acquiring equipment and facilities for the smooth and effective discharge of the functions and duties of a modern revenue administration entity. Another concern is the delay currently being experienced by Abia BIR in accessing the 5% of IGR approved to defray operational costs. Delay in release of the fund from treasury effect prompt payment of bills necessary for revenue drive.

Staffing Right People in Jobs

Section 21 of Abia Abia State Board of Internal Revenue Edict empowers the Board to appoint and employ such staff and agents as it deeds necessary for the discharge of its functions upon such terms and conditions of service as it may determine. Currently the Board is not discharging this function as employment is not done by the Board. Also there are no internal rules and procedures guiding staff recruitment, promotion, placement and discipline. The total number of employees of Abia State BIR as at the time of this assignment (January 2014) was 226. Abia Abia State BIR has 88 junior staff and 138 senior staff. In summary more than 60% of the staffs of Abia State BIR are senior staff. Cursory review of the staff list shows that Abia State BIR lack adequate qualified staff. The current composition of staff may not be able to run a modern revenue administration entity. The effect of skill deficiency in internal revenue administration is that the entity will not be efficient thereby not capable of generating optimum revenue for the State. Notwithstanding the above challenge the Board has formed various departments to discharge its functions as provided in the Edict. The departments are as explained above.

Administrative Framework

As stated in Section 2.1, the Abia State Board of Internal Revenue Edict (1988) established the Board of Internal Revenue. However, some provisions of Abia State Board of Internal Revenue Edict (1988) are outdated and not fully in line with the provisions of the Personal Income Tax Act 1993 as amended in 2011. Some of the outdated sections are Sections 4 'composition of the Board' particularly the position of the Chairman stated as part-time position, making provision for the qualification of the person that can be appointed as Chairman of the State Inland Revenue Services, making provision for process of appointment of the Chairman of the State Internal Revenue Services, changing composition of the board to be in line with Section 87 of Personnel Income Tax Act 1993 as amended by section 23 Personnel Income Tax Amendment Act 2011; Section 6 'functions and powers of the Board' to be consistent with the provisions of Personnel Income Tax Act as amended; Section 10 (2); and Section (12). The Personal Income Tax Act 1993 as amended in 2011 provides for fully autonomous State BIR. The BIR operates as a parastatal of Abia State Ministry of Finance and therefore not an autonomous body. The current administrative structure will not allow for proper and holistic revenue administration.

Systems and processes

The PIT Department maintains tax-payers' information manually.. Although there seems to be some order in the way the files are kept, tax-payers' information retrieval is very cumbersome and unhygienic; a staff needs to go through various heaps of dusty files to access needed tax payer's information. The PIT Department currently does not have any form of computerization for its operations. All demands for tax-payers' information is extracted manual. Since there is no electronic tax-payers' database, all other departments' request for tax-payer information may take days thereby slowing down tax collection processes.

The review meeting of the PIT Department showed that the department has two units as follows:

- Direct Assessment (DA) Unit and
- PAYE units;

Each unit is headed by an Assistant Director (AD). The Direct Assessment unit is further sub-divided into two sections:

- Assessment section and
- Investigation and Intelligence section.

The Assessment section deals with tax-payers that are not captured under the PAYE system, while the Investigation & Intelligent section conducts investigations on existing tax-payers in the State and submits its reports to the Departmental Head for filing and subsequent action.

Activities of the Assessment section are sequenced in the following order:

- October – December – Issuance of blank self-assessment forms;
- January – March – Filing of Returns (completed self-assessment forms);
- April – June – Raising Assessment on Returns/ Best of Judgement Assessment; and
- July – December – Follow-up action for collection.

The PAYE unit deals with MDAs and companies that operate the PAYE system.

Both the Direct Assessment and PAYE units send copies of all their assessment letters to the Collection Department for necessary follow-up activities to enhance collection.

The Collection systems within the Abia State BIR are a mix of manual and electronic processes. The taxpayer can choose to pay their tax through an electronic pay direct to bank. This is normally done by the larger more organized companies who are operating PAYE and by consequence a large amount of revenues are collected with minimum administration cost. Some withholding taxes are also remitted using this electronic system and again it is the larger more organized businesses that remit using the direct electronic system. The State uses "Pay-Direct" platform, being powered by Interswitch Nigeria Limited, to collect its IGR. The platform is deployed to collect revenue by Collecting Banks that signed Memorandum of Understanding (MoU) with the State government. First Bank Plc serves as the Lead Bank under the MoU and there are other nineteen (19) collecting banks under the arrangement.

The collecting banks collect taxes from tax-payers at their branches and post the transactions into the 'Pay-Direct' platform. Information on the 'Pay-Direct' platform can be accessed by up to 50 persons, with passwords, in the State including key offices of the State Government outside the BIR. Under the arrangement, collecting Banks are allowed to hold tax monies collected by them for up to six days before transferring them to a **Clearing Account** maintained by the Lead Bank (First Bank Plc). At the end of every month, total amount standing to the credit of the Clearing Account is swept to the Central Account of the State Government also being maintained by the First Bank Plc. All the Collecting Banks and the Lead Bank render monthly returns, in the

form of Bank statements, to the Board. The BIR can also access and print the pay-direct statements from time-to-time

Payments can also be made manually by the taxpayers to the various banks using cheque or cash which accompanies the paying in slip attached to the assessment or returns, this method can be used for PAYE, Direct Tax assessment and Withholding taxes

The third and final option for payment/ collection is the facility to pay at a local BIR office using cheque or cash and the payment slip attached to the assessment or return.

As there is always a risk where cash and local collections are concerned, the challenge to fully automate the collection systems is an urgent requirement. Full automation of these systems and eventual integration with debt management would minimize obvious collection risks and provide essential data to the other operational departments including audit.

Collection procedure for non-tax revenue starts with collection of revenue collector's receipts by the revenue collecting MDAs from BIR. Collections made by the MDAs are receipted by relevant officer and then lodged in the pay direct platform of the designated banks. Returns are rendered by the MDA for all collections and lodgements made at the end of the month to BIR. The returns are thereafter reconciled with payment recorded against pay direct returns from receiving banks. The process is a mixture of manual and use of Information and Communication Technology (ICT).

In order to understand challenges of the collection processes detailed review were carried out on the processes and procedures in each of the operational departments of the Board and these are recorded in the following paragraphs.

The review meeting held with the management team of the Collection Department showed that the department has two units that are headed by an Assistant Director each, namely the Pay Direct Unit and the Tax Drive Unit

The Director and Assistant Director (Pay-Direct Unit) have access to the Pay Direct platform.

There are different reports that can be generated through the Pay-Direct platform by clicking on any of the links listed therein. The Director clicked on some of these links to show information on revenue collections of the State for month of October 2013. The various reports of the Pay Direct platform were also reviewed online.

The Tax Drive Unit, in the Collection Department, ensures that all assessment letters issued to tax-payers in the State are duly collected.

Collection Department renders monthly returns on Tax Revenue collected during the month to the Chairman of the BIR. Format of such report is attached as Annexes 5.1 to 5.3 to this report.

The Cash Office, in the Collection Department, only posts copies of Revenue Collectors Receipts issued to tax-payers manually into the Revenue Receipts Book. The book is not posted into any electronic medium for further analysis.
The Collection Department carries out reconciliation by printing out the required reports directly from Pay-direct platform and manually compares the entries therein with the banks returns on the one hand and revenue receipt book on the other hand. This manual process of reconciliation is quite cumbersome and it makes work in the department to be quite tedious and subject to human errors.

The Control Office is not computerised in any form. Most of the forms, receipts and other records received in the Office are kept only in their original manual form. Revenue receipts are

not entered into any form of register, to get information on a particular tax-payer often requires somebody to sieve through a huge pile of leafs for the needed receipts.

Tax Clearance Certificate (TCC) System is not a mandatory system and a TCC is only given to the taxpayer on request. That is when the taxpayer requires the TCC to fulfil some obligation with another organization. The challenge for the Abia State SBIR is that the administration and effort into producing the TCC does not have a return for the BIR. With the absence of full automation of collection and assessment systems and an inaccurate database then achieving the production of a TCC is arbitrary.

Tax Identification Number (TIN) System approved by Joint Tax Board is operational in the State. However, there is no system to ensure that all tax qualifying adult are compelled to register and be captured in the system.

Inadequate training

There is no training programme to develop the capacity of employees of the Board on improved data collection and management, assessment, and collection processes. To achieve the reforms recommended by the IGR Strategy, there will be a requirement to carry out a training needs analysis for the departments affected by the changes. New systems and processes are recommended and these will require the staff working in the operational areas of revenue collection to undergo relevant training.

The training and development required when introducing new systems and practices will involve an element of "change management" together with the necessary technical and procedural training. All levels of staff will be affected including the senior management.

Taxpayer compliance

Revenue collections are obviously dependent on the taxpayer base and the ability (and will) of the taxpayer to comply with the Tax Laws which enable the BIR to make the collections. The challenges for any revenue collecting agency are many but can vary depending on the social and economic conditions dictated to the area of responsibility for the Agency. The obvious challenges are:

- Non registration
- Not filing returns on time
- Not keeping adequate books and records
- Suppressing/hiding sales
- Maximizing expenses

The current practice in Abia State is that approved assessment is used to raise a demand notice in triplicate, with copies distributed as follows:

- Original copy – Organisation assessed;
- Duplicate copy – Collection Department; and
- Triplicate copy – Tax Audit Department

Each demand notice is accompanied by the details of computations. If the assessment has elements of PAYE and WHT, then a copy of the demand notice is sent to PIT department for information purposes.

The assessment raised is often based solely on the data as presented to the tax audit staff. Sometimes, however, it is based on judgement, especially when the BIR suspects that the organization did not make full disclosure of their information to the tax audit staff. The demand notice issued will always carry a 30 day window for objection within which the organization is expected to object to the assessment, but if the 30 days expires without any objection, then the demand notice is deemed conclusive and final, and then the organization has no choice than to pay the amount on the demand notice.

However, if an organization objected to a demand notice liability, they are requested to submit a basis for their objection. If the Board Chairman is satisfied with the new facts, then a revised assessment is carried out and a new demand notice issued based on the new information. If, on the other hand, the Chairman disagrees with the new information provided by the organization and the organization insists that the earlier information is correct, the BIR will request for the organisation to issue a certified true copy of the data duly signed by an Executive Director. When this has been done by the organisation, then the assessment will be based on the certified data.

Sometimes, data collection may be difficult because the organization being audited did not provide the tax auditors with the required information needed to conclude an assessment. In such instances, the BIR uses its experience to issue a Best of Judgement Assessment on such organization. If there is an objection and certified true copy of data made available, then an assessment is conducted and a demand notice is raised based on the new information. Otherwise, legal action may be instituted against the organization after the expiration of the 30 day window for objection.

It takes long time to dispose of the legal action as there is no specially designated court to handle revenue matters in the State. Consequently tax defaulters may not be punished.

Taxpayer and public education

There is low level of tax payers' awareness especially in the informal sector. Tax payers in the informal sector are not aware of their responsibilities to pay tax because the effort the BIR is making to educate them is hampered by lack of funds. Consequently potential taxpayers resist payment of tax. Abia State BIR produced bill boards, posters and hand bills for purpose creating awareness but the reach and scope is still limited.

Administration on Non Tax Revenue

The review of the Fines, Fees and Charges Department revealed that the department used to operate under the Ministry of Finance, Budget and Economic Planning (MoFBEP) until 2010 when the mandate of the Board was extended to cover monitoring of all IGR collections in the State. The department was then created in the BIR to enhance effective discharge of the additional responsibility.

The department monitors and checks non tax revenue collections by all revenue generating MDAs in the State (whether they are expending or non-expending MDAs). Expending MDAs are allowed to retain IGR they generate to meet their operational expenses but they are required to submit reports on the revenue they generate to the State Government. The Non-expending MDAs are those organisations that are not allowed to spend the IGR they generate. These MDAs are required to remit IGR generated to the Consolidated Revenue Fund (CRF) of the State Government. There are, currently, 47 revenue generating MDAs in the State comprising of 19 expending MDAs and 28 non-expending MDAs.

The department uses two types of revenue receipt books to MDAs, the Revenue Collectors Receipt (RCR) books and the Revenue Collectors Control Receipt (RCCR) books. RCR books are

issued to revenue generating MDA for their use and RCCR books are used by the department and the out-stations to record revenue returns submitted by MDAs under their jurisdictions. All non-expending revenue generating MDAs apply for the RCR books and they are issued with a required number depending on their established pattern of usage. The RCR are issued out by the MDAs to tax-payers in a serial order, hence the books are issued to the MDAs and recorded serially in an RCR Register.

The RCCR serves as evidence that a revenue generating MDA has submitted its revenue return and that the return has been checked and certified to be adequate. Other revenue generating departments of the Board, including Collection Department, also submit their returns to Fines Fees & Charges (FF&C) Department for checking. RCCR is also issued to the Collection Department after checking of its returns, however, they are not included in the returns made by the department to the Chairman of the Board as the Collection Department makes their report directly to the Chairman.

At the end of each month, the department prepares the report of revenue collection on fines, fees and charges of all revenue generating MDAs, based on the returns received, and submit this to the Chairman for approval.

For effective monitoring of revenue generating MDAs members of staff from the department are assigned to the relevant MDAs to ensure that they submit returns as and when due. The assigned members of staff are also required to ensure that the relevant MDA issues the approved RCR to all tax-payers and that they pay relevant fines, fees and charges collecting into the collecting Banks.

Major challenge is that the activities in the Fines, Fees and Charges Department are carried out manually. The monthly revenue returns received from MDAs and checked by the Department are not posted into any computer system for further analysis. The RCCR issued to MDAs after checking their revenue returns are also not posted and analysed.

Proposed IGR Improvement Strategy for the State

It is an indisputable and incontrovertible fact that the internal revenue generation of most state governments in Nigeria are far below what it should be, all things being equal. Several reasons have been adduced/advanced for why internal revenue generation is unsatisfactory. For example, the report of the committee on the federation in 1978/79 year observed that generally the performance of state governments in revenue collection is very low. Factors responsible for the situation are poor communication network, particularly in the riverside areas of the country; lack of commitment on the part of some revenue collectors, some of whom are down-right dishonest; and defective revenue collecting machinery. In addition, some of the laws for revenue collection have not been updated by various state governments especially in areas of rating and tenement rates.

The problems of internal revenue generation in the Nigerian local government system are also compounded by the fact that the federal government have acquired the more lucrative, elastic and collectable revenue sources, leaving state government with taxation with low ceilings, revenue which are administratively and politically difficult to exploit in an environment where the vast majority of the people are poor, self employed and dispersed in rural areas.

The attitude of revenue collectors in state governments also falls short of expectation. There were reported cases of fraud and embezzlement during our fact-finding visits to a number of councils, particularly in business premises fees. Apart from the wrong attitudinal orientation of the collectors, collection of revenue, for example, from timber which would have constituted a viable source of revenue for local governments was hampered by illegal felling of trees, inefficiency of staff and other constraints. Their low level of training and the generally lazy attitude to work may also have accounted for poor collection of revenue. Inadequacy and

inaccuracy of data were reported as the major setbacks in the collection of tenement rate – a source which is particularly lucrative in the urban areas. We also found during our fact finding visits to a number of Councils that rates and fees neither expanded with the growth of the economy nor with the rate of inflation. For example, some of the rates fixed in 1974 were still in force unrevised in many councils although the annual rates of inflation in 1974 was 12.6 percent in 1975, and dropping to 10.2 percent in 1980 with an annual growth rate at 18 percent in 1974 and 31 percent in 1979. From the above discussion, we have seen the reasons generally given for poor internal revenue generation in most state governments in Nigeria.

The discussion shows that the state governments are partly responsible for the problem. The reason is because most state governments do not tap to the full, existing internal revenue sources. They seem to be more interested in the collection of the statutory allocations from the centre. This explains why most state governments have not taken pains to revise the relevant laws that concern their internal revenue generation and collection to be in line with recent development or changes in the society. Furthermore, most state governments in Nigeria today have become centres or fortresses of corruption. It is thus against this background that the following proposal are made which will enhance revenue generation in the state.

1. Government should provide an accurate database integrated with the Assessment and Collection system which will store data for registered taxpayers and record returns, assessed figures and penalties which will widen the taxpayer base.
2. The process of tax collection and remittances should be fully automated assessment systems.
3. Taxes collection by State MDAs and LGAs should be harmonised
4. Acquire and operationalize an Integrated Tax Administration System (ITAS), that is BIR central database linked to Taxpayer Identification Number (TIN)
5. Discuss and consider the use of a Presumptive Tax for small informal traders
6. Consider standard rates of taxes for particular sectors of Individual taxpayers
7. BIR to engage services of professionals to review assessment done by revenue collection MDAs.
8. High level dialogue with all stakeholders (CSOs, CBO, FBOs, Traditional Institutions, Market Associations, Organised Private Sector, Professional Organisation, etc).
9. Continual taxpayer education programme to encourage taxpayers to register.
10. Acquire and operationalize an Integrated Tax Administration System (ITAS) that is BIR central database linked to Taxpayer Identification Number (TIN)
11. Fully operationalize Taxpayer Identification Number (TIN)
12. To fully automate assessment systems.
13. To fully automate Collection Systems
14. To harmonize the taxes collected by State MDAs and LGAs
15. Discuss and consider the use of a Presumptive Tax for small informal traders
16. Consider standard rates of taxes for particular sectors of Individual taxpayers
17. BIR to engage services of professionals to review assessment done by revenue collection MDAs
18. Functional and Institutional review of the current BIR so as to position it to perform the functions as would spelt out in the law
19. Designate special courts to handle revenue matters

Conclusion

It is never an easy task concluding on a paper of this nature, where so many issues have been discussed and so many issues highlighted. Let me in fact note that there can never be an exhaustive discussion on the issues of tax collection, administration and matters generally pertaining to management of Government revenue. What is required is constant dialogue in forums of this nature as provided by the DFID. Let me therefore once again commend the efforts of the development partner (DFID) in bringing together the major stakeholders in the revenue generation process of the state government to discuss matters, which have a bearing on Government's ability to meet its revenue aspirations as a first step towards meeting its overall developmental goals. It is not in doubt that without sufficient revenue, Government will be unable to discharge its responsibilities to its citizens. I do not think there is need to recap all that I have discussed above, however I will like to set out the major points, which I will like participants at this forum to take home with them as follows:

- we are all stakeholders in the revenue generation and the responsibility of raising and managing Government revenue is a collective responsibility for all us
- it is not enough to generate and spend revenue, but there must be responsible, judicious and accountable use of such revenue;
- There is need for a paradigm shift in our attitude towards taxation and tax revenues. Taxation holds the key to sustainable system of revenue generation and there is a need to actively cultivate a tax culture at all levels of Government;
- Taxpayers must be carried along in all processes relating to revenue collection, allocation, disbursement and accounting. Without this level of participation by taxpayers, we may be unable to build the type of tax system that will propel Nigeria into the comity of developed nations;
- Taxation holds the key to providing a sustainable source of funds for the Nigerian government and there is need for all hands to be on deck to achieve an effective and efficient tax collection and administration system, which will propel Nigeria into the comity of developed nations.

The above in a summary represents the ideas, which we have tried to pass across in this paper. As I have noted we can never exhaustively discuss all issues relating to government revenue, however discourses of this nature are very helpful and are highly recommended. It is therefore my hope that we will dwell on the issues, which we have all discussed here and commit to contributing our quota in our own areas of influence towards ensuring that we reach the promised land of financial sufficiency and independence at all levels of Government.

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