AN ANALYSIS OF THE CHALLENGES OF TAXATION IN KWARA STATE

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ABSTRACT

This study investigates the challenges of taxation in Kwara state with a view to identifying viable solutions. Survey research methodology was adopted for the study. Questionnaire was administered on One hundred and twenty tax officers in Kwara State Board of Internal Revenue (KSBIR) and three Tax agents in the state. The collected data were analyzed using descriptive and inferential statistics. The study identified high rate of poverty, corruption, illiteracy, ignorance of tax procedure and tax evasion as the major societal factors hindering effective taxation in Kwara State. Also, ineffective utilization of collected taxes, poor remuneration of tax officials, improper record keeping, non-enforcement of tax policies and inadequate facilities to monitor tax payment and to assess taxable resources were expressed as the major administrative factors retarding effective and efficient taxation in Kwara State. It was also found that areas of specialization have significant influence on tax officers' views of the challenges of taxation while job experiences do not. Based on the findings of the study, it was recommended that the Kwara State government should employ the service of professionals in taxation such as Accountants, Auditors and Tax administrators to handle tax issues. Efficient allocation and usage of resources, effective usage of taxes, prevention and eradication of corruption and organization of enlightenment programme on the importance of paying taxes are also suggested.

Key words: analysis, challenges, taxation, tax evasion, tax policies, taxation problems

INTRODUCTION

Taxation is an ingredient of development in different parts of the world. This is due to the fact that the revenue derived from taxation can be used to provide for the needs of the people. However, Nigeria has not effectively exploited the values of taxation due to over reliance on the sales of crude oil. Currently, the country is the eighth largest

producer of crude oil in the world, producing 2.1 million barrels of crude oil per day at an average price of US$50-60 per barrel (BBC, 2006).

Oputa (2004) notes that Nigeria loses several billions of Naira in tax revenue every year to unreformed tax regimes and ineffective tax legislations that have aided tax avoidance and tax evasion by national and international corporate organizations. According to Ajayi (2004), the Nigerian governments since independence have failed to pay any particular attention to the necessity of restructuring the nation's framework for both personal and corporate tax regimes. He stressed that the country's tax legislations ·still remain colonial in nature, without much deliberate efforts by the successive rulers to revise it on an ongoing basis.

Kwara State which was created on 27th May, 1967 has 16 Local Government Areas. Despite the availability of taxable resources, the State relies heavily on the Federal Government for survival since more than seventy percent (70%) of its revenues are derived from the Federation Account (Abdulkareem, 2005). This dependency limits the ability of the State to meet the demands of its people in areas of infrastructure and essential public services. In this context, Kwara State Government requires a well structured framework of resource generation, allocation and effective tax legislation in order to provide for the needs of its citizens. Either by design or default, successive governments in Kwara State have not paid much attention to these issues.

Ajayi (2004) observes that the existing procedure for tax administration, collection and legislation is weak and ineffective while tax officials are not exposed to modern training. For instance, the Report of the Accountant-General of the State, (December 2002) indicates that a total sum of Ten billion, four hundred and eighty- five millions, one-hundred and ninety five thousand, seven hundred and thirty five naira (N10,485,195,735) was expected as total revenue. This comprised about N3billion naira (N2, 885,195,733) total internally generated revenue and about N8 billion (N7, 600,000,000) statutory allocation from the Federal Government. This indicates that more than seventy percent of the total revenue of the state was from the federal allocated revenue to the state (Abdulkareem, 2002). Also, in 2005, a total sum of twenty one billion, one hundred and four million, five hundred and sixty three thousand, eight hundred and thirty seven naira (N21, 104, 563,837) was budgeted as total revenue by the State Government. This consisted of a total internally generated revenue of about N5 billion (N5, 204,563,837.00) and a statutory allocation of

about N16 billion (N15, 900,000,000.00) from the Federation Account. This shows a dependency rate of about seventy-four percent (Abdulkareem, 2005).

In a federal system of government, this situation is unhealthy because each state is expected to generate revenue to complement the federal allocation in order to meet the needs and aspirations of its citizens. Owing to inadequate revenue, the Kwara state Government may not be able to provide adequately facilities such as good roads, regular supply of water and electricity and the required infrastructures to her citizens and attract foreign and local investors. In view of this development, this study investigated the effective challenges of taxation in the state with a view of making useful suggestions.

The main objective of the study is to investigate the problems hindering efficient taxation in Kwara State in order to provide useful suggestions. Based on the objective, the following research questions were formulated: What are the challenges of taxation in Kwara State?Is there any difference in the challenges of taxation in Kwara State as viewed by tax officials based on areas of specialization?Is there any difference in the challenges of taxation in Kwara State as viewed by tax officials based on job experiences?The following research hypotheses were formulated in relation to the research questions:

Ho: There is no significant difference in the challenges of taxation in Kwara state as viewed by tax officials based on area of specialization.

Hi: There is significant difference in the challenges of taxation in Kwara state as viewed by tax officials based on area of specialization.

Ho: There is no significant difference in the challenges of taxation in Kwara state as viewed by tax officials based on job experience.

Hi: There is significant difference in the challenges of taxation in Kwara state as viewed by tax officials based on job experience.

LITERATURE REVIEW

Anyaduba (2004) defines tax as a compulsory levy imposed by a public authority or the government on the income, capital, profit or wealth of an individual, a group of people such as family, community, estate, corporate and unincorporated bodies for the purpose of obtaining revenue to meet the needs of the society. He also describes taxation as a device or system of generating public revenue through different types, forms and classes of taxes. It is usually based on an accumulating body of legislation which is reviewed and revised from

... . circumstances dictate (Anyaduba, 2004). Before the ... ... there had been the traditional system of taxation which ... ... one community to the other and was quite different from ... ... structure of modern taxation. Example of such is the ... :: royalties to the community leaders. Income tax (a form of ... taxation) was first introduced in Nigeria in 1904 by Lord ... This started from the Northern Nigeria and it was popularly referred to as community tax, while customs duties (indirect taxation) were later introduced in the Southern Nigeria. In 1940, two major legislations were passed. These are the Income Tax Ordinance No.3 of 1940 and Direct Taxation Ordinance No.4 of 1940. In 1957, the Raisman Commission was set up to review the tax system. The provisions in the recommendations of the commission gave birth to the Income Tax Management Acts (ITMA) of 1993 as amended. It deals with taxation of individuals, communities, partnerships, trusts, settlement and estates. The Federal Government also enacted Taxation Acts such as Petroleum Profit Tax Act of 1959, Companies Income Tax Act (CITA) of 1961,Capital Tax Act of 1967, Capital Transfer Tax Act (CTTA) of 1979 which was abrogated in 1996, Education Tax Act 1993 and value Added Tax Act (VAT) 1993.

According to Oyebanji (2006), a good tax system must be based on the following principles: **Certainty**: The procedures must be objective, certain and scientific. **Simplicity**: A good tax system should not be difficult to administer and understand so as not to breed problems of differences in interpretation and legal disputes. **Equity:** Tax must be equitable and should not be levied arbitrarily. **Administration**: The administration of tax should be easy. It must be possible to know the tax base and to collect the tax once it is levied.**Convenience**: The tax must be convenient to pay.

The purpose of leadership in governance is to tap the available economic resources of the nation, put in place appropriate mechanisms to assess and collect direct, indirect, personal and corporate taxes. It is also the responsibility of the leadership to utilize the economic resources and the revenue from taxes for the development of the society. Siwisa (2005) identifies some of the reasons for low level of development in Africa as deficiencies in the tax collection system, tax evasion, corruption, abuse and misapplication of tax exemption, political interference and low capacity of the tax collection agents.

Ajayi (2004) reports that there are too many corporate and individual tax dodgers in Nigeria. He stressed that many people in businesses in Nigeria own so much money without paying tax. According to Ajayi, most Nigerians hate to pay taxes due to general

belief that such money will be looted and bring no benefit to the masses. Similarly, Ola (2001) observes that in many of the states in Nigeria, the income tax from the government is low because of the low level of literacy, poor relationship between tax payers and staff, illegal tax evasion, illegal tax avoidance and defective collection procedures. The challenges of taxation in Kwara State as identified by Adeoye (2004) include tax evasion, falsification of documents, ignorance of the importance of taxation, poverty, negative attitudes of the public to tax, improper or inefficient utilization of collected taxes and inadequate qualified personnel to execute tax policies. All these can be classified into societal and administrative factors.

Although, the primary purpose of taxation is to generate revenue for the government, it provides basis for the formulation of political, economical and social policies (Owolabi, 2006). Taxes are means of controlling inflation, promoting economic growth and of providing social amenities to the people. Ajayi (2004) noted that tax objectives in Nigeria can be realized if tax laws in the country are reviewed to ensure collection of returns, filing of returns, imposition of penalties for late remittance, certification of tax debit through filing of writs, holding directors responsible for deliberate tax avoidance and evasion, imposition of interest on tax debt and legal warnings to tax debtors and failure to pay.

According to Ola (2001) the 1999 Constitution of the Federal Republic of Nigeria empowers the state government to collect the following taxes and levies:

- Personal income tax in respect of all taxable Individuals.
- Pay –As – You –Earn (PAYE)
- Direct (Self and Government) Assessment
- Withholding Tax (individual) only
- Capital Gains Tax
- Stamp Duties (Instruments executed by individuals)
- Pools betting and lotteries, Gaming and Casino Taxes
- Road Taxes
- Business premises Registration and Renewal Levies
- Development levy (individual only) not more than N100 per annum on each taxable individual.
- Naming of streets, registration fees in state capitals.
- Right of Occupancy fees on land owned by the state government in urban area of the state and
- Market taxes and levies where state finance involved.

METHODOLOGY AND DATA ANALYSIS

The research design adopted for the study is descriptive research of the survey type which investigated and described the challenges of taxation in Kwara state as identified by tax officers in Kwara State. In order to obtain relevant data, a Questionnaire on Challenges of Taxation {QCT} was administered on one hundred and thirty-five purposively selected tax officials in the Kwara State Board of Internal Revenue (KSBIR) as well as Tax agents in the state. A total of one hundred and twenty questionnaires were fully completed and analyzed using relevant statistics. Thus, frequency count and simple percentages were used to analyze the demographic data while means, standard deviation and t-test statistics were employed to test the hypotheses. A null hypothesis is accepted when the calculated t- value is less than the critical t-value from the appropriate table and rejected when it is higher than the critical t- value at 0.05 level of significance.

RESULTS AND DISCUSSION

The results are presented in two sections. Section A provides data on the characteristics of respondents while Section B presents information on the tested hypotheses.

Table 1:   Characteristics of Respondents

Variable	No. of Respondents	Percentage
GENDER		
Male	86	71.7
Female	34	28.3
OCCUPATIONAL STATUS		
Junior (Below GL08)	76	63.3
Senior (Above GL08)	44	36.7
AREAS OF SPECIALIZATION		
Related to taxation	72	60.0
Not related to taxation	48	40.0
WORK EXPERIENCE		
Below 5 years	23	19.2
5 years and above	97	80.8

Table 1 presents the characteristics of respondents. The table shows that 86 (71.7%) of the total respondents are males while 34 (28.3%) are females. Also, 76 (63.3%) of the total respondents are

junior tax officials while 44 (36.7%) are senior tax officials. On the areas of specialization, 72 (60%) of the total respondents specialized in tax related disciplines while 48 (40%) did not specialize in tax related disciplines. Also, 23 (19.2%) of the total respondents had less than five years job experience while 97 (80.8%) had five years and above job experience. The data revealed that the respondents comprised more males than females more junior than senior staff, more qualified staff in taxation than other disciplines and more staff with less than five years tax experience than those having more than five years working experience.

Table 2:   **Means and Rank-order on Challenges of Taxation (Societal Factors)**

Serial No	Item Number on Questionnaire	Items	Means	Rank Order
1.	7.	High rate of poverty among the members of public	3.43	1st
2.	9.	Rampant cases of corruption in the society	3.31	2nd
3.	8.	High rate of illiteracy among the people	3.23	3rd
4.	6.	Lack of knowledge of tax procedures by the public	3.06	4th
5.	1.	Tax Evasion	2.83	5th
6.	4.	Negative attitude of the public towards taxation	1.81	6th
7.	2.	Falsification of documents	1.63	7th
8.	5.	Inadequate co-operation with tax officers.	1.40	8th
9.	10.	Fear of leakage of tax information	1.28	9th
10.	3.	Ignorance of the importance of taxation	1.22	10th

Table 2 presents the respondents' views on challenges of taxation in Kwara State as related to the society. The table shows that, in order of importance the respondents identified high rate of poverty among the people, rampant cases of corruption, high rate of illiteracy among people, lack of knowledge of tax procedures and tax evasion as the major challenges facing taxation in Kwara State. Other challenges are negative attitude of the public towards taxation, falsification of documents, and inadequate co-operation with tax officers, leakage of tax information and ignorance of the importance of taxation.

Table 3   Means and Rank-order on Challenges of Taxation (Administrative Factors)

	Item Number on Questionnaire	Items	Means	Rank order
1.	1.	Ineffective utilization of collected taxes	3.15	1st
2.	8.	Poor remuneration of employees	3.12	2nd
3.	15.	Improper record keeping	2.86	3rd
4.	6.	Non –enforcement of tax policies by government agencies	2.76	4th
5.	3.	Inadequate facilities to monitor payment of tax	2.74	5th
6.	4.	Inadequate facilities to assess taxable resources	2.68	6th
7.	14.	Corrupt practices among tax officials	2.68	7th
8.	5.	Inadequate laws to ensure prompt payment of taxes	2.64	8th
9.	9.	Inadequate mobilization of tax payers to perform their civic responsibilities	2.63	9TH
10.	7.	Irregular training of tax officials	2.55	10th
11.	13.	Neglect of taxable resources	2.53	11th
12.	2.	Inadequate qualified personnel to execute tax policies	2.47	12th
13.	12.	Complex tax procedure	2.43	13th
14.	10.	High rate of taxation	2.32	14th
15.	11.	Leakage of tax information	2.25	15th

Table 3 presents the respondents' views on challenges of taxation in Kwara State as related to administration. The table shows that in order of rating, the respondents identified ineffective utilization of collected taxes, poor remuneration of tax officials, improper record keeping, non- enforcement of tax policies, inadequate facilities to taxable resources as the major challenges of taxation in Kwara State. Other administrative challenges are corrupt practices among tax officials, inadequate laws to ensure prompt payment of taxes, inadequate mobilization of tax payers to perform their civil responsibilities, irregular training of tax officials, neglect of taxable resources, inadequate qualified personnel to execute tax policies, complex tax procedure, and high rate of taxation and leakage of tax information.

Test of Hypotheses
The two generated null hypotheses were tested using t-test statistics at 0.05 alpha level.

Table 4: Mean, Standard Deviation and t-value Comparing Respondents' Views on Challenges of Taxation based on Areas of Specialization

Variable	No of Respondents	Mean	SD	DF	Cal. t-value	Crit. t-value
Related to taxation	72	72.43	6.62	118	2.21*	2.00
Not related to taxation	48	69.89	5.36			

*Significant at 0.05 alpha level

Table 4 presents a comparative data on the challenges of taxation in Kwara state as viewed by tax officers based on areas of specialization. The table shows a calculated t-value of 2.21 and critical t-value of 2.00 at 0.05 alpha level. Since the calculated t-value is greater than the critical t- value, the first null hypothesis which states that there is no significant difference in respondents' views on challenges of taxation is rejected while the alternative hypothesis is accepted.

Table 5: Mean, Standard Deviation and t – value Comparing Respondents' Views on Challenges of Taxation based on Job Experience

Variable	No. of Respondents	Mean	SD	DF	Cal t-value	Crit t-value
Below 5 years	23	72.83	6.91	118	1.21	2.00
5 years and above	97	71.08	6.08			

Table 5 presents a comparative data on respondents' expression on the challenges of taxation in Kwara state as expressed by tax officials based on job experiences. The table shows a calculated t-value of 1.21 and a critical t- value of 2.00 at 0.05 alpha level. Since the calculated t- value in less than the critical t – value, the second null hypothesis which states no significant difference is accepted while the alternative hypothesis is rejected.

The study identified the major societal factors hindering effective taxation as high rate of poverty, rampant cases of corruption, high rate of illiteracy and tax evasion and avoidance. The findings of the study also indicates that ineffective utilization of the collected taxes, poor remuneration of tax officers, improper record keeping; inadequate facilities to assess taxable resource constitute major challenges to efficient taxation in Kwara State. These findings are in line with the observation made by Adeoye (2004) that the Kwara State government was unable to provide adequately for the needs of its citizens due to ineffective and inefficient tax policies.

Furthermore, the study showed that there was a significant difference in the challenges of taxation in Kwara State as viewed by tax officials based on areas of specialization. The tax officials who specialized in areas that are related to taxation seemed to appreciate the challenges than those who specialized in non-tax related areas. This indicates the positive influence of specialization on the views of the respondents. The study indicated no significant difference in the challenges of taxation in Kwara State as viewed by tax officials based on job experience. This shows that job experience had no significant influence on respondents' views. An early study by Ola (2001) revealed that job experience might not have significant influence on the attitudes of respondents who worked in similar organizations or in the same location.

CONCLUSION AND RECOMMENDATIONS

The conclusion drawn from this study is that Kwara State still faces societal and administrative challenges as regards taxation. This demands urgent attention especially now that the price of crude oil has fallen, coupled with the crisis in the Niger Delta which has reduced the production of crude oil in Nigeria. The need to look inward can therefore not be overemphasized. Based on the findings of this study; the following recommendations have been made:

- The Kwara State Government should employ the services of professional tax consultants in addressing the challenges of taxation in the state.
- Tax laws should be implemented and essential facilities should be put in place to empower the Board of Internal Revenue (BIR) to perform effectively and efficiently.
- The Kwara Government should put in place appropriate and efficient strategies to reduce poverty among the people and to promote political stability.
- Effective utilization of collected taxes would encourage tax payment. Thus, corruption in public places and misuse of public funds should be reduced or totally eliminated.
- People should be adequately informed about the amount generated from taxation and purpose for which it would be utilized. Thus, public enlightenment programmes such as seminars, workshops, lectures, and symposia should be organized to educate citizens on the importance of taxation and its usefulness.

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