Abstract

The primary objective of this paper is to consider the determinants of an effective revenue mobilisation system. The present system and structure existing in Nigeria create problems for effective mobilisation of revenue for the country. This paper adopts a priori approach in analyzing the various issues associated with an effective mobilisation of revenue for government and the indices for determining its effectiveness and efficiency. The paper concludes that the role of government in a good revenue mobilisation system is very important in assisting the various economic groups in the country to prosper, and to impose reasonable tax that they will pay voluntarily.

Introduction

This paper will consider a public sector revenue mobilization framework; the principles to be adopted in designing a good revenue mobilization system and the distinction between efficiency and equity (or social justice). The paper will identify and discuss the indices for determining good revenue mobilisation system and revenue mobilization machinery. The last sections of the paper are the recommendations and conclusion.

Sources of Public Sector Revenue in Nigeria

Public sector revenue emanates from three main sources. The sources are taxes, charges and borrowing. Of the three main sources, taxes contribute the highest proportion to public sector revenue. The powers to impose taxes are contained in the second schedule, parts I and II of the 1999 Constitution. The companies' income tax, petroleum profit tax, mining royalties and rent, import arid excise duties are under the exclusive tax jurisdiction of the Federal Government. These taxes are the most important sources of government revenue from indirect taxes. Nigeria gets a substantial percentage of its tax revenue from petroleum profit tax and value-added tax.

Public sector revenue depends on the wealth creating ability of the private sector. The economic expansion in the private sector enhances public sector revenue. A country that has to improve its public sector revenue should consider expansion in production, processing and export trade. In a deregulated economy, the major source of public sector revenue is tax revenue.

The success of any government in this area depends on the buoyancy of the private sector. Hence, the government has to direct its activities to areas that would assist the private sector to create economic wealth. The role of government in a good revenue mobilization system is to create conducive environment that will assist the various economic groups to prosper, impose reasonable tax that they could pay and the ease to pay the taxes (Ahmad and Stern, 1991; Bird and Vaillancourt, 1998; Tanzi and Zee, 2000).

Public Sector Revenue Mobilization Framework

The success of the private sector enhances the financial resources available to the public sector. The profits, incomes and capital gains of companies and individuals are subject to taxation. Taxes are not a price for goods and services but a compulsory contribution made to the government towards meeting public sector expenditure. Taxes bear no relationship with the services enjoyed or obtained (Engel et al, 1999; Fjeldstad and Semboja, 2000; Sahn and Younger, 1999). The buoyancy of the private sector usually reflects in the amount of taxes collected from both direct and indirect taxes.

There are two elements in a tax. Most times, policy makers do not integrate them appropriately in designing a revenue mobilization system. The two elements are the tax base and tax rate. The objects on which taxes are deductible must be identifiable for the taxes to be properly collected. The objects in this case may be the personal income or companies profits. The other element, that is, the tax rate constitutes the proportion of the tax base that the taxpayer contributes to the government. It is usually a percentage of the tax base or a flat rate. A public sector revenue mobilization framework has to recognize classification (Broadway et al, 2000; Gautier, 2001; Musgrave, 2000; Wayne, 1997).

Taxes can be classified as progressive, proportional and regressive depending on the relationship between the tax rate and tax base. A tax is progressive if there is a direct relationship between the tax rate and the tax base. The tax rate increases as the tax base (in this case, income) increases. A good example is the Pay As You Earn. A proportional tax has a constant relationship
between the tax rate and tax base. The tax rate is a constant percentage of the tax base. An example of this classification is the companies' tax, which is a percentage of profit. The regressive tax has an indirect relationship between the tax rate and the tax base. The tax rate decreases as the tax base increases.

Attention has to be given to the purposes of taxation in a revenue mobilization framework. At times, there are conflicts among the goals and objectives of revenue mobilization. Government uses taxation for different purposes, such as revenue generation, allocation and distribution, and stabilization purposes. Occasionally, there are conflicts in the fulfillment of these purposes. The primary purpose of taxation is to generate revenue to meet government expenditure. Apart from this purpose, taxation has been used for allocation and distribution of scarce resources as well as stabilizing the national economy. Taxation as an instrument of fiscal policy is used to reduce the inequalities in income distribution. The rich people are made to pay more tax than the poor people by using the progressive method of taxation. It is used to control inflation. A demand-pull inflation is controlled by increasing the tax rate. This increase in tax rate will reduce disposable income and reduce aggregate demand. Taxation is used to discourage the consumption of specific goods, protect infant industries and correct a deficit in the balance of payments. Where government considers certain goods as harmful to consumers and the national economy, it imposes higher import duties to reduce the importation and consumption of such goods. If the goods are manufactured within the country, it imposes higher excise duties, as it considers appropriate from time to time.

Principles Underlying a Good Revenue Mobilization System

The design of a good revenue mobilization system should take into consideration certain fundamental principles. Policy makers should consider the ability of taxpayers in the imposition of tax. They should not impose tax over and above the ability of an average taxpayer. If this is not taken into consideration, it will likely frustrate the willing taxpayer. Imposition of tax should consider equity in terms of fairness to every taxpayer. The tax system should be flexible enough to accommodate changes when the need arises. It should be simple to understand by every taxpayer. The taxpayer should be able to determine how much tax, he is supposed to pay and when it is due for payment.

In mobilizing revenue from taxation, the tax system should be convenient to tax payer in relation to the time of payment, method of payment and place of payment. The system of revenue mobilization should recognize cost effectiveness and economy in tax collection. The process of revenue mobilization should not interfere with people's willingness to work, save or invest (Enemuo, 2000; Heller, 1997). In other words, it should be neutral in application.

In the above principles, there is the issue of efficiency and equity (or social justice) in the design and application of a good revenue mobilization system. The definition of efficiency has been much attributed to the economist known as Pareto. An efficient social state is often called pareto-optimal. A situation is said to be efficient or pareto-optimal, if it is impossible to make one person better off except by making someone else worse off. Consider determining an efficient revenue mobilization system between the rich person (A) and the poor person (B). The objective of an efficient revenue mobilization system is to reach a situation where it is no longer possible to make A happier except by making B less happy. This is the property of a social state that is efficient. Equity ensures equitable treatment, in the sense that fairness should prevail, and equals should be treated equally. Person am taxes which are adjusted to the taxpayer's ability to pay, while in "rem taxes", otherwise known as taxes on "things" are imposed on activities or objects independently of the characteristics of the transactor or owner. These issues are crucial in the design and application of a good revenue mobilization system.

Indices of a Good Revenue Mobilisation System

A good revenue mobilization system should respond to all available influences in the economy, be they economic, political or social (Fukasaku and Mello, 1999; Oates, 1999; Tanzi, 2000). It cannot be rigidly constructed in line with the optimal requirements for a good tax structure. However, ideas as to what constitutes a good tax system should be incorporated in its development. Economists and social philosophers since the time of Adam Smith have propounded what such optimal requirements should be. The following indices are useful in determining a good revenue mobilization system:

- **Equity:** This index emphasizes fairness in the distribution of tax burden. Serious consideration is attached to the treatment of equals being treated equally. The tax system should allow for a fair and non-arbitrary administration. Taxpayers should pay according to their ability to pay taxes.

- **Transparency:** The system should be clear and understandable by the taxpayers. The taxpayers
should have access to the tax rates and ascertain how the taxes payable by them are arrived at. The various processes involved before arriving at the tax liability should be made clear. Any doubt on the part of taxpayers should be clearly resolved.

- **Effectiveness**: The system should be powerful enough to achieve the desired objectives. It should be capable of achieving a definite or desired effect. The revenue mobilization system in terms of tax revenue should be administratively capable to achieve the intended purposes.

- **Efficiency**: This index considers the productiveness of resource input to output. The administration and compliance costs should be compatible with the other objectives of revenue mobilization.

- **Probity**: There should be uprightness in the collection of tax revenue. Revenue officials should display and practice the highest level of honesty and decency. Taxpayers will be disillusioned in any revenue mobilization system that is devoid of probity and accountability.

- **Level of Fiscal Performance**: The bottom line of a good revenue mobilization system is the level of fiscal performance. This should show the percentage of collection achieved or the percentage of the target of achievement or attainment. The primary objectives are to generate sufficient revenue to meet government expenditure, to redistribute scarce resources and to stabilize the economy.

- **Subsystem of the Revenue Mobilization System**: A good revenue mobilization system requires zonal offices and collection centres for the convenience of taxpayers. Accessibility to collection offices is very essential in revenue mobilization system. Taxpayers also require information as to methods of assessment, collection, payments, returns and relevant filling locations.

- **Allocation Effects, Distribution and Stabilization Indices**: These indices are very useful not only to policy makers but also to tax payers. The willingness to continue to pay taxes depends on the benefits obtainable from government. The benefits include the provision of basic amenities, control of inflation and the creation of job opportunities among others. The tax structure should facilitate the use of fiscal policy for stabilization and growth objectives.

**Revenue Mobilisation Machinery**
A good revenue mobilization system requires appropriate bodies for the collection of revenue and another agency to be responsible for monitoring those collecting the revenue. There should be agency responsible for monitoring the revenue collectible. The main bodies charged with the collection of revenue accruable to the Federal Government are the Federal Inland Revenue Service, the Nigeria National Petroleum Corporation, the Central Bank of Nigeria and the Board of Customs and Excise. Apart from the Decree establishing the Revenue Mobilization, Allocation and Fiscal Commission, the 1999 Constitution also recognizes its establishment. Both the Decree and the Constitution empower the Revenue Mobilization, Allocation and Fiscal Commission to monitor the accruals into the Federation Account and disbursements among other entrusted functions and powers. The various bodies responsible for collecting revenue should submit monthly returns to the Revenue Mobilization, Allocation and Fiscal Commission as a matter of necessity to enable it perform the function of monitoring of accruals into the Federation Account. The request for returns by the monitoring agency should be mandatory and not that of administrative convenience.

The revenue collecting bodies and the agency responsible for monitoring the accruals of revenue should establish a data bank for an effective revenue mobilization system. Information on taxpayers should be regularly updated and cross-checked to ensure up-to-date payment of taxes. This control mechanism will curb the incidence of tax avoidance and tax evasion. Effective monitoring of collectible revenue will also minimize collusion and revenue malpractices on the part of revenue officers and the taxpayers.

Revenue mobilization machinery should be strengthened in terms of adequate funding to enable them achieve the objectives for which they were established. Funds should be channeled to the provision of facilities to enhance the productive capacity of revenue officials. Appropriate incentives should be given to revenue mobilization officers including improvement in their conditions of services; regular training and re-training to prepare them for the challenges of revenue mobilization will boost the revenue accruable to the federation Account.

**Recommendations**
The paper makes the following recommendations:
1) In mobilizing revenue from taxation, the tax system should be convenient to tax payers with
particular reference to the time specified for the commencement of tax payments, the methods of payment and the places made available for the payment of the taxes.

2) The process of revenue mobilization should not interfere with the peoples' willingness to work, save or invest. The process should act as a source of encouragement for people to be in self and gainful employment.

3) A good revenue mobilization system should be flexible enough to respond to all available influences in the economy, be they economic, political or social.

4) The indices of equity, transparency, effectiveness, efficiency, probity, level of fiscal performance among others should be used as determinants of a good revenue mobilization system.

5) Revenue mobilization workers should be given adequate incentives in terms of working facilities, conditions of service, training and retraining to enable them cope with the challenges of revenue mobilization.

**Conclusion**

This paper has considered the sources of public sector revenue in Nigeria, the revenue mobilisation framework, the principles underlying a good mobilization system and the indices for a good revenue mobilization system. It also discussed what should constitute a good revenue mobilization system. The paper observed that public sector revenue depends largely on the wealth creating ability of the private sector. The paper concludes that the role of government in a good revenue mobilisation system is very important in assisting the various economic groups in the country to prosper, and to impose reasonable tax that they will pay voluntarily.

**References**


