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The Fluxional Relationship between Internally Generated Revenue and Cost of Collection in Cross River State, Nigeria: Tax Education and Sensitization Measures

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Abstract- This study is about the determination of the fluxional relationship between Internally Generated Revenue and the cost of collection in Cross River State with a view to proffering cost minimization measures. The research is focused on the possibility of finding an optimum level of collection in an era when all tiers of government have been forced by circumstances of the dwindling fortunes of the Federation Account to look inwards for a sustainable model of fiscal operation. Secondary data was obtained from the Cross River State Board of Internal Revenue, the State Budget Department and Ministry of Finance. Descriptive statistics was used to analyze the trend and relationship between Internally Generated Revenue (IGR) and collection cost in Cross River State. Trend analysis was also used to find if the increase in collection cost resulted to corresponding increase in revenue. The result showed that although internally generated revenue increased steadily within the period in response to increase in collection cost, other factors such as attitude to work and relevant logistics need to be addressed. It was concluded that the expenditure on revenue collection should be carefully planned, budgeted for, implemented and monitored to ensure that priority areas such as, tax education and sensitization, mobility of revenue officers, infrastructural development and welfare of personnel are guaranteed. The state should equally apply the Pareto principle to ensure revenue collection efficiency by matching revenue potential and collection costs. Social mobilization was also found to play a key role as most tax payers would voluntarily declare their income for the purpose of assessment and collection if government programmes were executed transparently by capturing the needs of the people through an all-inclusive budgetary approach. In all, enforcement machinery was found to be vital in income assessment and collection.

Keywords: internally generated revenue, fluxional relationship, collection cost, off-shore sourcing, outsourced collection, tax education, sensitization.

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I. Introduction

The need for inward looking and development of sustainable fiscal operation has become obvious today than ever. The global economic crisis from 2008 has resulted in a chain-reaction with more unpleasant fiscal consequences on developing countries, especially those with import dependent economies and mono-product foreign exchange earner such as Nigeria. The situation is dierer as most states of the Nigerian Federation cannot afford the settlement of their basic recurrent bills. The Federal Government on the other hand is faced with humongous recurrent bill to settle for adopting a governance structure with an expensive bicameral legislature and an unwieldy bureaucracy whose fate is more tilted to the whims of the political class rather than statute. The economy has been pelted from many fronts, ranging from falling value of the national currency, volatility of price of petroleum products, rising inflation rate and above all, high level of unemployment and economic sabotage.

This state of quagmire has left the country with an option of applying creativity and discipline to ensure a better and more productive approach to shore up the internally generated revenue profile without compromising the business climate. The imperatives are explained by this study to provide a sustainable solution to the Cross River State experience.

The overriding objective of boosting internally generated revenue according to Dike (2000) is to "collect the maximum revenue with the minimum economy and minimum interference with legitimate trade of the tax payer". The basic strategies that are currently in use to generate revenue by states according to Ojo (2003) include: original assessment; back duty assessment, deduction at source; tax clearance certificates; best of judgments; warrant of distrain; search and seizure as well as the use of consultants.

Taxes cost money to collect. State Owned Enterprises (SOEs) may generate large revenues but incur even larger costs. An effective policy to raise internally generated revenue must, therefore, be based on analysis of the net revenue generated. At present this is not possible as the Internal Revenue Service (IRS) report gross inflows in many cases and the cost of collection are not separately accounted for. This is particularly critical for large State Owned Enterprises (SOEs), some of which may be so unprofitable that their contributions to Internally Generated Revenue (IGR) might actually be negative. Net revenues from taxes collected irregularly and in small quantities are also likely to be low. Typically, they cost more to collect than they yield. These issues are summed up in the concept of tax efficiency. Tax efficiency implies that the net taxation yield relative to the cost of collection or generation, hence, eliminating inefficient taxes or revenue sources and raising the efficiency of others is a key part of Government Fiscal Strategy.

The contemporary issue in Nigeria Public Sector today is about Internally Generated Revenue (IGR). The attention being given to IGR by the various tiers of Government today is occasioned by the dwindling resources from the Federation Account. It is obvious that more Revenue would increase the spending capacity of Government with the concomitant effect on development. This research is concerned about the cost of such revenue collection, because the dominant factor in most revenue statistics is the gross amount. It is important to investigate the cost of collection with a view to engaging in the process of cost analysis and cost minimization.

II. Literature Review and Conceptual Framework

a) *Theoretical underpinnings*

One of the theoretical bases of this work is the benefit received theory of taxation. This is predicated on the premise that a web of interconnectivity exist between the public authority and the individual tax-payers. The public authority in this exchange relations make available certain public goods and services to the citizens and contributes to expenditure of these items vis-a-vis the maximization of the receivable benefits. This theory requires the distribution of tax according to the benefits received from the services on which the taxes are spent, and hence internally generated revenue can be enhanced in a state only when the tax proceeds are judiciously used in providing public goods and services. However, the benefit principle can be applied where those who benefit from the services are clearly identified. This is not true of most services provided by the government.

Another theoretical framework is the service cost theory. This hypothesis is synonymous with the benefit received theory of taxation identified earlier but emphasizes the bi-directional contractual relations between the sub-national government and its subjects in the remittance of tax liabilities. Here the sub-national authority is obliged to provide relevant protections and statutory obligations which entails recovering of the cost of services and hence implies balanced budget policy. The major drawback of this theory is that it assumes the equality between the revenue generated from taxation and the cost of collection.

Zhou Gideon & Madhikeni Alouis (2013) opined that “an efficient national revenue collection system is the hub of every public administration system and the cornerstone of sound fiscal management. It enables governments to finance budget deficits from domestic sources, thus dissuading recourse to off-shore sourcing”.

Odd-Helge, Katera & Ngalawa (2009) say “outsourced collection generally implies lower administrative cost for local government authorities by shifting the collection costs to the private sector rather than utilizing government employees for the same purpose. They also assert that due to the seasonality of some revenue sources, a private agent or market association has much more flexibility in labour inputs than government bureaucracy where there are stringent conditions for labour engagement. This flexibility would allow the private sector to reduce its costs during periods of slack operation and increase same during peak periods.

The ability to pay theory by A. C. Pigou suggests that citizens of a country should pay tax according to their ability. The flaw in this theory is that the tax payer would as much as possible explore the possibilities of shielding his or her ability. There are several of such cases of tax avoidance and outright evasion as long as the tax authorities are not sufficiently equipped to uncover the whole truth about declaration by the tax payer.

Some theorists have also suggested that taxes should be based on ownership of property while others strongly feel that taxation should be based on expenditure. In all this, what is paramount is the integrity of declaration made by the tax payers about their capacities. The developed economies may have the capacity to track property owners and verify other claims, but the developing and underdeveloped economies lack such ability.

b) *Conceptual Issues*

i. *The Concept of Internally Generated Revenue*

Internally Generated Revenues (IGR) are those sources of government finance generated majorly by the federal, states and local councils, which help in broadening and widening the overall non-oil revenue structure of the state. The current challenges of the three tiers of government in Nigeria is the dwindling level of revenue generation, mostly by the state governments and the absolute dependence on federal allocation which is tilted more in favour of the Federal Government, hence giving rise to annual budget deficits in the states and inadequate financial resources for meaningful growth and viable projects development (Adewoye & Fasina, 2008). Udeh (2002) asserts that the poor financial status of states in Nigeria has escalated due to the non-provision of grants by the federal government which under the constitution are needed to be made available annually during budgetary disbursement to leverage sub-national governments in crisis to address challenges of inadequate financial resources needed to cope with their ever increasing areas of assigned services which include; shelter, health services, water supply, food, as well as qualitative education at primary and post-primary schools level which usually engulf huge sums of money. An observation of the income profile of Cross River State from 2007 to 2014 showed that the internally generated revenue is less than one fourth of the total inflows accruing to the state.

The fiscal potency with reference to tax assessment, which involves the jurisdiction to make tax laws and set the rate of taxes; the administrative authority as well as the right to revenue collection, largely resides with the federal government of Nigeria (Adesopo et al. 2004). To further exacerbate the funding challenges of states in the country, it has remained impracticable to get those who are self-employed to remit their tax liabilities realistically and since the public authority has not been able to device ways of assessing the income of those self-employed, they have been cases of evasion to the detriment of the internal revenue service and the government, and hence reducing the revenue generation strength of the states (Omogui, 2007).

c) *Raising Internally Generated Revenue and Filling the Funding Gaps in Cross River State, Nigeria*

Realizing the need to strengthen its capacity for Internally Generated Revenue (IGR), reforms are needed to re-engineer the process of assessment and collection. Digitalizing internally generated revenue and efforts to expand the tax base should be intensified; which must be hinged on the following critical factors:

- Right staffing and capacity building: continuous training and re-training of staff, engagement of professionals and technically- skilled staff to ensure continuity, sustainability as well as provision of incentives and motivational packages to staff.
- Development of team spirit and good working relationship among stakeholders – that is, Ministries, Departments and Agencies and others.
- Regular public enlightenment of tax payers through public education and sensitization.
- Performance monitoring of all revenue-yielding Ministries, Departments and Agencies (MDAs).
- Ranking of Ministries, Departments and Agencies based on their net collection (after matching gross collection with collection cost).
- Application of Pareto principle to emphasize efficiency.

Notwithstanding the success factors and actions listed above, there are limits to the state's capacity for IGR set by the weak market potential occasioned by low income and the aspiration to become the preferred destination for tourism and investment. It is important to note however that taxes cannot fully be relied upon for filling the revenue/funding gap in an economy where private income is low, as excessive taxes can be a de-motivator to private investment. A major imperative for the tax manager is to determine the optimal tax capacity of the state (CRS Ministry of Finance, 2013).

Table 1 : Internally Generated Revenue and the Cost of Collection in Cross River State, 2007-2014

Year	TOTAL IGR(N'Billion)	TOTAL COC (N'M)	NET COLLECTION(N' Billion)	Ratio of Collection Cost (COC:IGR)	Rate of IGR +Or - (%)	Rate of Increase/Decrease In COC (%)
2007	3,341,876,034.00	435,439,094.20	2,906,436,939.80	13.03	-	-
2008	6,447,975,865.96	655,661,077.10	5,792,314,788.86	10.20	93.00	50.57
2009	7,106,292,956.28	437,281,512.30	6,669,011,443.98	6.20	10.20	-33.30
2010	7,870,941,915.00	402,482,195.00	7,468,459,720.00	5.11	10.77	-8.00
2011	9,159,651,948.00	532,003,763.30	8,627,648,184.70	5.80	16.38	32.33
2012	12,734,560,333.00	655,744,878.80	12,078,815,454.20	5.12	39.03	23.31
2013	12,002,167,999.57	576,363,952.93	11,425,804,046.64	4.80	-5.70	-12.20

2014	15,738,850,743.95	640,473,141.96	15,098,377,601.99	4.00	31.14	-11.11
TOTAL	71,060,441,928.40	4,335,449,615.50	66,724,992,313,40			

Source: Cross River State Internal Revenue Service (2015).

d) Tax Education and Sensitization Measures

Tax education and sensitization measures geared towards promoting internally-generated revenue in Cross River State could be initiated through integrated marketing communications (IMC) strategies and measures. Integrated marketing communications (IMC) according to Smith (2002) involves the coordination and integration of all marketing communication tools, techniques, media and strategies in a campaign into a seamless program in order to maximize the impact on the target audience at a minimal cost. In our context therefore, it is the expert deployment of marketing communication tools, techniques, strategies and media in such a way to achieve the willing acceptance of the populace in Cross River State to pay their taxed without being coaxed to do so. The American Association of Advertising Agencies (4A's), says that IMC is an approach aimed at achieving the objectives of a marketing campaign through a well-coordinated use of different promotional methods and media that are intended to reinforce each other (Businessdictionary. com, 2012; Docstoc, 2011).In doing so, various communication tools like advertising, public relations, sales promotions, publicity, personal selling, direct marketing, on-line marketing media are strategically employed (Vantamay, 2011). Abramovich (2013) also saw IMC as a strategic marketing process designed to ensure that all messaging and communication strategies are unified across all channels and are centered around the customer, as figure 1 below shows. All these IMC tools when employed will definitely lead to conflict-free tax drives and boost the internally generated revenue base of Cross River State.

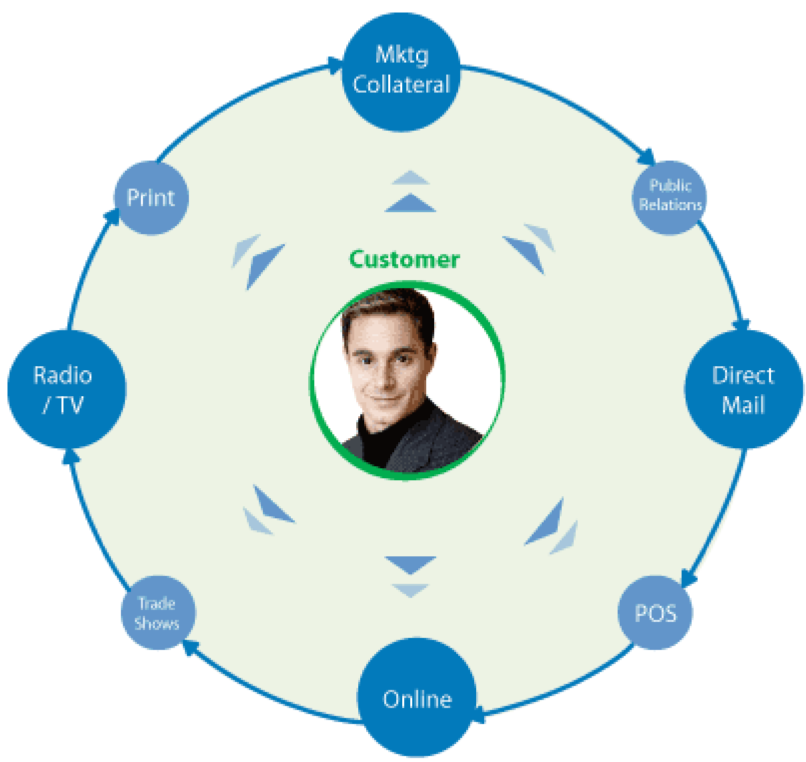

Fig. 2.1 : Abramovich, Danny (2013), Integrated marketing communications plan, *Marketing Communication Theories,* http://www.marketingPlanNOW.com

III. Methodology

Data analysis was undertaken using descriptive method. A major segment of the information collected during the study was descriptive in nature. Descriptive statistics such as charts, percentages and graphs etc were employed in most of the analysis in summarizing trends, changes and comparison across certain characteristics. Final presentation took the form of description, tabulation and illustrations. The major source of data is secondary as the data used were sourced from the Cross River State Internal Revenue Service, Budget Department and Ministry of Finance.

IV. Data Analysis and Discussion of Results

Between 2007 and 2014, total internally generated revenue increased steadily with increasing total cost of collection and decreasing rate of cost to IGR (COC:IGR). The internally generated revenue increased from ₦3.3billion in 2007 to ₦6.4billion in 2008. It further increased to ₦7.1billion in 2009, 7.8billion in 2010, ₦9.2billion in 2011, ₦12.7billion in 2012 but dropped to ₦ 12.0billion in 2013 and increased to₦15.7billion in 2014 (see table 1).

The state IGR caters for less than 10% of Government Annual Expenditure. There is an enormous resource gap between available IGR and the amount required to meet the developmental aspirations of the state. The cost of collection as table 1 shows indicate a steady drop from 13.03 percent of collection cost in 2007 to 10.2 percent in 2008 and 6.2 percent in 2009. The ratio of collection cost to the revenue generated was 5.11 percent in 2010, 5.80percent in 2011. The ratio dropped from 5.12 percent in 2012 to 4.80 percent in 2013 and further decreased to 4.00 percent in 2014. It should be noted that the ratios are within the band stipulated by the Cross River State Revenue Administration Law (2011) which approved collection cost of between 5 and 10 percent. Within the period, collection cost exhibited marginal downward trend between 2008 and 2014. Within the period, two years are outstanding; the rate of IGR increase in 2008 was 93 percent with rate of collection cost at 50.57 percent. In 2012, the rate of IGR increase was 39.03 percent with collection cost rate increase of 23.31 percent. Comparing 2012 and 2011, the rate of increase of 23.31 percent 2012 resulted in revenue generation of ₦12, 734,560,333.00, but with 32.33 percent in 2011 there was total revenue of ₦9, 159,651,948.00. The collection cost in 2013 was 4.8 percent and dropped to 4.00 in 2015 while the total IGR increased by 31.14 percent. This disparity is what prompted this work

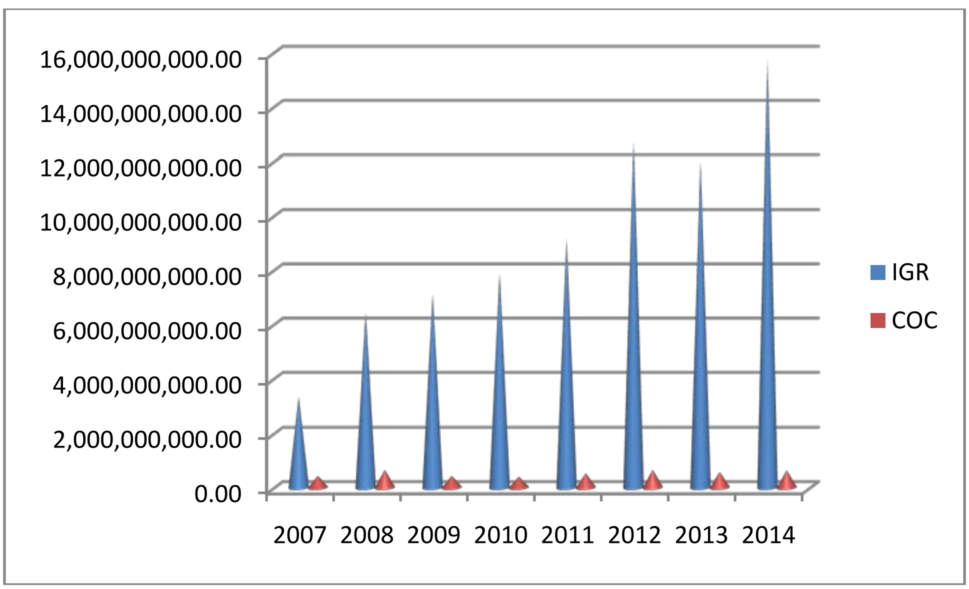

Fig.1 : Internally Generated Revenue And Cost Of Collection Trend, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

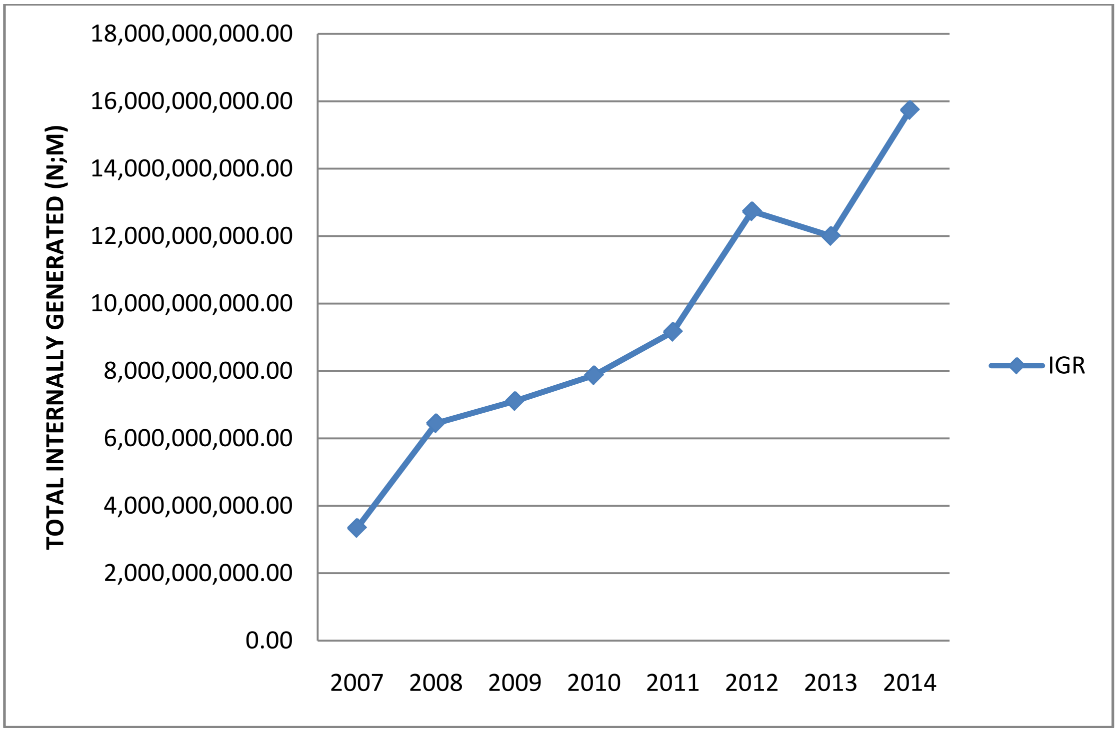

Fig. 2 : Internally Generated Revenue Trend In Cross River State, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

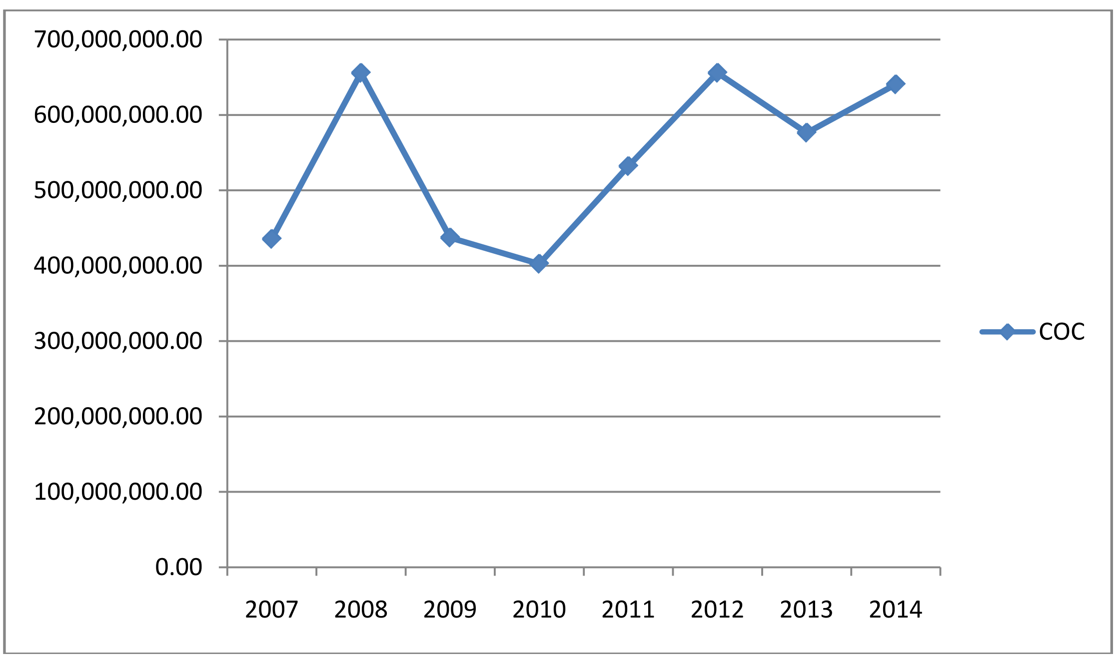

Fig. 3 : Collection Cost Trend, 2007-2014

Source: Cross River State Internal Revenue Service (2015)

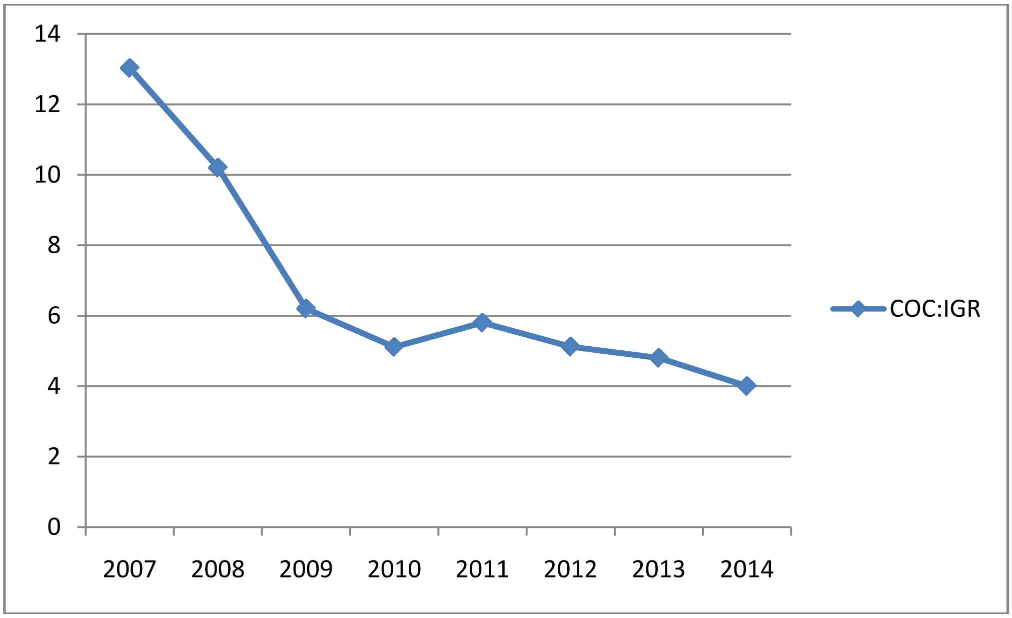

Fig. 4 : Ratio of Collection Cost to Internally Generated Revenue, 2007 -2014

Source: Cross River State Internal Revenue Service (2015).

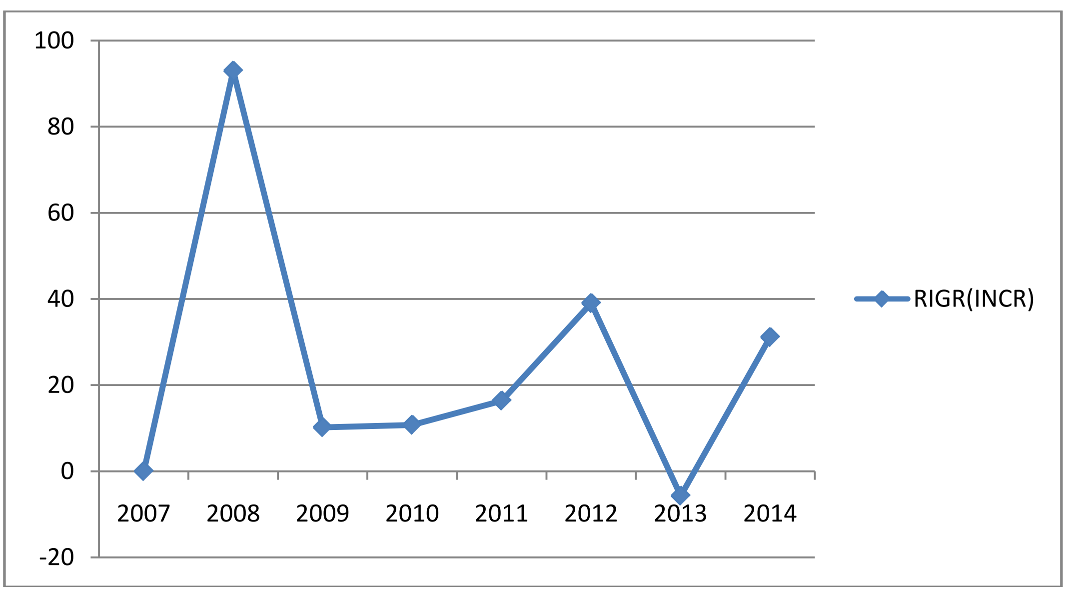

Fig. 5 : Rate of Increase/Decrease in Internally Generated Revenue in Cross River State, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

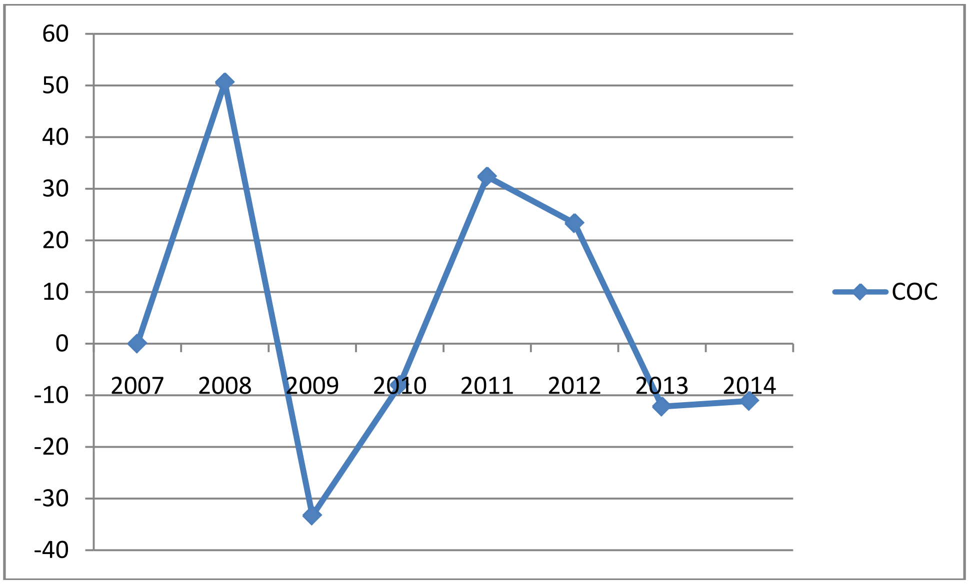

Fig. 6 : Rate of Increase/Decrease in Collection Cost, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

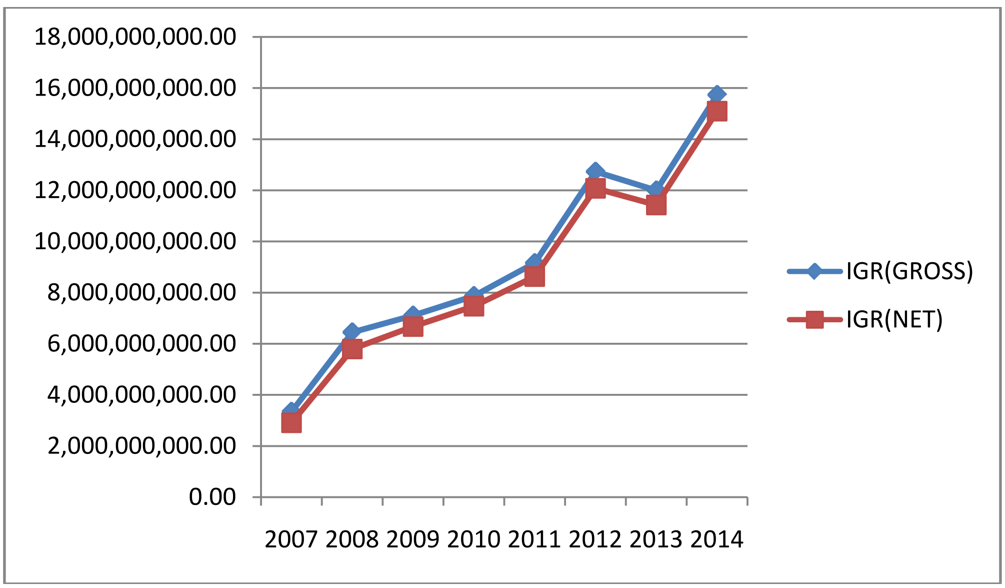

Fig. 7 : Gross and Net Internally Generated Revenue, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

The progress in government programmes and projects may be retarded if the cost of collecting revenue from taxation tends to be unstable over time. From the findings, the state should harness other revenue sources for the sustainable development of the economy.

V. Conclusion

Taxation is a vital instrument of fiscal policy if effectively applied or utilized to provide desired public goods and services for sustainable development. The nature of a tax system defines the capacity and well being of the people. Tax laws, no matter how stringent they may be couched must be backed by a strong compliance framework. The compliance framework should be laced with accountability and transparency to motivate positive response from tax payers and reduce collection costs. It is also important that maximum effort should be geared in the direction of potential maximum revenue yield. The study further reiterates the fundamental role of government revenue in any state's quest for economic growth and development and argues that any state or nation that does not efficiently utilize its revenue and expenditure streams will not have any advancement in economic growth. The study is of the view that the experience of Cross River State government since the beginning of the democratic era and its fervent attempt to develop underlie the need to redirect attention to the effective and efficient utilization of its internally generated revenue. The cost of collection must be within the statutorily prescribed band to ensure sustainable economic growth and development within the premise of the Pareto-efficiency thesis. In developing fiscal policies relating to revenue generation, there should be recognition of the behaviour of specific revenue sources which are often occasioned by their environmental conditions. Consequently, such policies should be seen as unique with modification if there have to be applied elsewhere.

VI. Recommendations

- The Cross River State government in order to be sustainable in its development strive must develop the internally generated revenue base, promote fiscal prudence in the management of its resources, develop relevant infrastructure, build human capacity, eschew corruption, emphasize cost minimization and employ IMC strategies to educate and sensitize the people of the State to pay their taxes willingly.
- There is need to increase its revenue base by leveraging areas of its comparative advantage over other states of the federation, such as, agriculture, tourism and culture.
- The state government should develop a cost minimization model to ensure efficiency in revenue generation.
- Outsourcing of some revenue heads would keep down collection cost as the private sector can respond quickly to seasonal variation in terms of cost reduction.
- Revenue generation should be given priority in the annual budget by making adequate provision for required human and material resources to achieve set target.
- There should be close monitoring of all related activities to ensure that adverse variances are promptly identified and addressed.
- The decision making chain should be abridged for prompt actions.
- Obsolete edicts/bye laws on revenue administration should be updated.
- There is need for the internal revenue service department to be fully computerized in their operations to enhance performance. A comprehensive database must be in place in compliance with the requirement of the Joint Tax Board.
- Electronics revenue monitoring and collection strategy is desirable.
- Multiple taxes should be discouraged and best of judgment window should be transparently administered to curb abuses.

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