Stakeholders' Perception On Resolving A Deterministic Budget Benchmark In Nigeria: A Case For Tax Based Budgeting

U.I. MAFIANA[1], Phd, CNA
E. JEROH[2], Phd, ACA
[1&2]Department of Accounting and Finance,
Faculty of Social Sciences,
Delta State University, Abraka.

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Abstract

This paper examines stakeholders' perception on the resolve for a deterministic budget benchmark in Nigeria by proposing a tax based budgeting system for Nigeria instead of the present commodity (or crude oil) based system. In the course of writing this paper, information was obtained from journals, textbooks, periodicals and newspapers. Responses were also obtained from 314 participants in an opinion poll that was specifically conducted. Hypothesis was formulated and tested at 5% level of significance using the F-test, via Stata 13.0 regression software. Result showed that stakeholders strongly believed that switching from crude oil price benchmark to tax based benchmark would provide a more deterministic budget benchmark in Nigeria. It was also found that the present system of budgeting has not motivated states to be inward looking and creative in generating revenue internally. Instead, states relied mainly on the statutory allocation from the central government. It is therefore recommended that budgeting should be tax-based rather than oil or commodity sales based. Also, the need for tax reform that will revamp tax justice and administration in Nigeria through the plugging of existing loopholes is thus justified.

Keywords: Tax Based Budgeting; Crude Oil Price; Budgeting System; Statutory Allocation

I Introduction

Budgets are comprehensive details of proposed government activities (economic and otherwise) for specified years. Apart from containing details of expected or proposed activities of governments, budgets outlines governments' objectives, policy strings and strategies designed to accomplish such objectives. Budgets are usually projections on anticipated expenditures based on anticipated revenues (Ugoh & Ukpere, 2009). Every country and governments prepare budgets and most governments are judged by the level of budget performance for successive years. The importance of budgets to governments was well capture by Ogboru (2016) who pointed that the absence of budgets will make governments to wonder aimlessly.

In Nigeria, budget preparation has always been based on projected revenue from commodities (agriculture products in time past, and oil revenue for the now). One key problem with the commodity sales budget is that individuals and states focus on their share of the 'national cake' from the distributable funds from the centre which is currently crude oil, which inhibits creativity. Another problem of benchmarking budgets on projected commodity sales (e.g. crude oil sales - the case of Nigeria) is that when the price of the commodity slumps as it has done recently, the budget virtually collapses and budget performance plunges. Where revenue is based on taxes, individuals and states becomes more imaginative and creative in establishing the infrastructure that will stimulate a productive base that will yield greater revenue through taxation. Noteworthy thus, with the establishment of better infrastructure base, it is hoped that diverse investment opportunities can be explored to attain enhanced tax revenue base. It is on the above premise that this study aims at assessing stakeholders' perception on the need for an alternative budget benchmark for Nigeria.

II Conceptual Framework

Budgets and Budgeting in Government

Budgets are prominent financial instruments in all sectors (public or private). Edame & Ejue (2013) noted that *budget* as a term, came from the French word *"Bourgettee"* which meant wallet containing papers/documents on various countries' or organizations' financial plans. In today's usage, this meaning has gone beyond mere wallet, to become a fundamental fiscal policy instrument employed in exercising control over government receipts (revenue) and expenditures (Edame, 2010; and Edame & Ejue, 2013).

Budgeting for a country or state connotes all planned allocation and use of resources in quantitative and financial terms in advance of a period/time. Budgets are designed on the basis of the expected net revenue that will accrue to the state/country/jurisdiction within the said period.

Budgets and budgeting is essential to every economic set up. Hence, the relationship between economic growth and budgets/budgeting has generated strings of academic discourse. According to Taiwo & Abayomi (2011), the pattern and manner of growth in an economy's output is dependent on the magnitude of her government's spending; questions on how such spending affect economic growth creates a lacuna yet to be empirically resolved.

Notwithstanding however, an analysis of the genetics of government budgeting in Nigeria reveals dismal budgeting patterns where expenditures mostly exceed revenues (Nurudeen & Usman, 2010; Chude & Chude, 2013; Aigheyisi, 2013; and Obinyeluaku, 2013). The consequence of this trend is widened budget deficits, budget mismatch, inadequate provisioning *cum* inefficient budget performance. Studies have thus queried the budgeting patterns in Nigeria given these recurring problems, with little concern on the benchmark on which such budgets were based.

Budget Benchmark

Budget preparation requires the determination of a yardstick or measure upon which budgets would be based. This is where budget benchmarks come in. Budget benchmarks are points of reference upon which budgets are pegged, prepared or measured. Resolving a deterministic benchmark for budgets requires conscious evaluation of several factors. In Nigeria, budgets are pegged on crude oil price based on government objectives, crude oil production costs, among others (Abiola & Okafor, 2013). The common practice of anchoring Nigeria's budget on crude price became evident since 2005, while policy makers have continuously relied on the Moving Average Method (MAM) in benchmarking budgets and in the budget preparation process (BOF, 2012). The idea of adopting the MAM in benchmarking Nigeria's budget on crude oil price has multiplier effects budget efficiency and budget administration so far in the country. The above according to Abiola & Okafor (2013) has consequently triggered further short-run economic challenges and unexpected fluctuations affecting Nigeria's development. The present economic trend in Nigeria occasioned by the recent global decline in crude oil price (Ezenwe ,2014 and Abiola & Abraham, 2015) speaks better of this situation.

Budgeting Methods

Several types/forms of budgeting methods exist. These include input budgeting, output budgeting, probabilistic budgeting, planning, programming budgeting system (PPBS), incremental budgeting and zero-based budgeting. In this current study, only the incremental budgeting and the zero-based budgeting (ZBB) being implemented/recommended for use in Nigeria at both local, state and federal levels will be discussed.

- **Incremental Budgeting Method (IBM)**

In this method, a certain percentage is usually added to the previous budget figure to make allowance for anticipated inflation and for possible unforeseen contingencies. It gives room for the administrators to maneuver and possibly have a surplus eventually. The basic advantage of IBM is that it is easier to prepare. A major disadvantage of IBM is that wrong assumptions might be made at the initial preparation stage and this may continue to be part of the following years' budget. This method discourages innovation.

- **Zero-Based Budgeting (ZBB)**

In this method, every expenditure is reviewed from the nick and justified based on need and cost-benefit analysis and other positive considerations. The process is repeated for every budget each year. Any unjustifiable expenditure is dropped. One advantage of ZBB is that it is more cost effective and leads to the optimal utilization of resources. Conversely, it is time consuming and requisite skills/experience is needed at the preparation stage. ZBB is preferred for a country like Nigeria because it minimizes wastages and wrong assumptions since every expenditure must be deemed as justified, giving rise to proper spending of the taxpayers' money. Besides, it allows for innovation.

III. Taxes, Reforms and the Levies Approved For All Tiers of Government

Taxation is compulsory levy by a state on its citizens, entities and organizations. One main problem of tax revenues is that many people evade and avoid tax leading to a serious shortfall in tax revenue for the country. There is therefore the need for tax justice by including all eligible citizens both in the formal and the informal sectors.

Tax Reforms

To achieve tax justice and increase revenue, there is dire need for tax reforms and creativity in the collection of taxes. Evidence from Benue State for instance reveal that tax reform enhanced IGR from "as low as N1.2 billion in 2009 to close to N1 billion monthly in 2011" (Ayabam, 2011). This development followed the enactment of a law making the State's Revenue Agency semi-autonomous. Among other things, the agency engaged in sensitizing the public using billboards and state's tax agency made efforts to reach out to several markets by establishing offices in the markets and helping/assisting taxpayers in preparing their tax accounts through a simple format for tax returns that was designed.

Approved Levies For Federal State and Local Government

A. Federal Government

i. Companies Income Tax
ii. Withholding tax (WHT) on companies
iii. Petroleum profit tax
iv. Value added tax
v. Education tax
vi. Stamp duties (corporate entities)
vii. Personal income tax (*wrt* armed forces and police personnel, police personnel, Abuja (FCT) residents, external affairs officers and non-residents

B. State Governments

i. Personal income tax (PAYE, direct assessment and WHT (individuals only)
ii. Capital gain tax
iii. Stamp duties (individuals)
iv. Pools betting, gaming, lotteries/casino taxes
v. Road taxes
vi. Registration/renewal levy of Business premises: Urban areas (as defined by each state)
vii. Rural areas registration N2,000 p.a. and renewal of N1,000 p.a.
viii. Development levy (individuals only) not more than N1,000 p.a.
ix. Street Naming registration fee (state capitals only).
x. Fees for Rights of occupancy (state capitals only)
xi. Market Rates (where state finances are involved)

C. Local Governments

i. Shops/kiosk rates
ii. Tenement rates
iii. On/off liquor license
iv. Slaughter-slab fees
v. Marriage, birth ,death etc registration fees
vi. Streets (naming) registration fees (excluding state capitals)
vii. Rights of occupancy fees (excluding state capitals)
viii. Market/motor park fees (excluding markets built, managed and financed by state govt.)
ix. Domestic animal license
x. Bicycle, truck, canoe, wheelbarrow and car fees
xi. Cattle tax
xii. Merriment/closure of road fees
xiii. Radio/television (other than radio/tv transmitter) licenses and vehicle radio license (to be imposed by the local government in which the car is registered)
xiv. Wrong parking/tyre lock charges
xv. Public convenience, refuse disposal/sewage charges/fees.
xvi. Customary/burial ground/religious permits; and
xvii. Signboards/advertisement permit.

The essence of this listing is to highlight areas where each tier (local,state and federal) can harness tax revenue and also to avoid the incidence of multiple taxation.

IV. Tax and Internally Generated Revenue: Examples of Lagos, Rivers and Edo State

A look at the gross summary of statutory revenue allocation and VAT which was released by the Revenue Mobilization and Fiscal Commission (RMAFC.) in March 2013 (Table 1), revealed that apart from the under-listed States, no other states received up to N10billion naira from the Federation Account.

Table I: Revenue Profile

S/N	States	Amount ₦
1.	Akwa Ibom	22,205,383,781
2.	Rivers	20,934,686,737
3	Delta	17,057,045,907
4.	Lagos	14,219,026,551
5.	Bayelsa	13,350,351,654
6.	Kano	12,333,095,855

(Sunday Guardian, January 18, 2015, pp17): States' IGR: The Hope in Trying Times? By Ikechukwu Onyewuchi)

From the Nigeria Bureau of Statistics (NBS), the figures for IGR for selected states in Nigeria are as follows:

Table II: Some States IGR

S/N	States	Amount ₦
1.	Lagos	384,259,410,959
2.	Rivers	87,914,415,268
3	Delta	50,208,229,986
4.	Enugu	20,203,802,864
5.	Edo	18,899,233,710
6.	Akwa Ibom	15,398,828,428
7.	Kwara	13,838,085,972
8.	Bayelsa	10,500,916,262
9.	Ondo	10,498,697,469
10.	Anambra	8,731,599,912
11.	Plateau	8,486,806,640
12.	Benue	8,373,720,592
13.	Katsina	6,852,511,585
14.	Kogi	5,020,349,741
15.	Bauchi	4,937,242,873
16.	Niger	4,115,777,679
17.	Kebbi	3,732,343,145
18.	Taraba	3,344,006,052
19.	Yobe	3,072,006,052
20.	Zamfara	3,039,396,601

Source: RMAFC, 2013.

From the figures given by the RMAFC and Nigeria Bureau of Statistics (NBS), Lagos State collected N14,219,026,551 from the Federal Account and Generated Internally, N384,259,410,959. On the other hand, Rivers State collected N20,924,686,737 from the Federation Account and generated internally, the sum of N87,914,415,268. Olotu (2012) observed a monthly increase in revenue from N275million to over N1.6billion per month in Edo State which was attributed mainly to increase in tax revenue. The common characteristics of Lagos and Rivers State is that their internally generated revenues (IGR) are more than what they collected from the Federation Account. In the case of Edo State with the advent of the then Comrade Governor, (Oshiomole), the IGR more than quadrupled per month.

There are practical lessons to be drawn from these three states. One of which is the provision of infrastructure especially for the case of Lagos and Rivers State. However the case of Edo State shows another dimension in the sense of enforcing existing tax rules and closing loopholes in order to improve on IGR through taxation.

Table III: Non-Oil Taxes

Year	2004	2005	2006	2007	2008	2009	2010	2011
Types of taxes	**₦bn**	**₦bn**	**₦bn**	**₦bn**	**₦bn**	**₦bn**	**₦bn**	**₦bn**
PPT	876.60	1,352.20	1,352.20	1,132.00	2,060.90	939.40	1,480.40	3,115.82
CIT	130.80	170.20	246.70	332.40	420.60	607.80	666.10	654.49
VAT	163.30	192.70	232.70	312.60	401.70	484.40	564.90	656.15
TETF	17.10	21.80	28.40	59.60	59.50	137.80	89.20	130.74
Consolidated	5.00	4.90	5.90	10.30	27.00	27.90	32.90	43.87
NITDEF	-	-	-	-	2.50	6.20	5.90	8.68
Total	**1,194.80**	**1,741.80**	**1,866.20**	**1,846.90**	**2,972.20**	**2,203.50**	**2,839.40**	**4,609.75**

Source: CBN Statistical Bulletin, 2012.

Table IV: Federal Government and States Budget for 2013 and 2014

	2013		2014	
	Capital	Recurrent	Capital	Recurrent
States	**₦bn**	**₦bn**	**₦bn**	**₦bn**
Abia	137.8	149.6	87.5	62
Adamawa	95	97.9	39.7	58.2
Anambra	110.96	140	100.29	39.71
Akwa Ibom	599.180	*469.374	308.870	165.504
Bauchi	137.3	*133.7	68	65
Bayelsa	304.05	*299.2	136.7	162.5
Benue	130.992	*105.1	41.6	63.4
Borno	184.3	*178.5	121.784	56.717
Cross River	151.37	176.311	123.418	52.893
Delta	472	*391.51	231.51	159.78
Ebonyi	104.374	*99.84	53.473	41.368
Edo	154.125	159.213	85.595	73.617
Ekiti	97.6	103.88	52.78	50.12
Enugu	84.77	93.29	53.94	39.34
Gombe	107.893	*107.454	63.9	43.5
Imo	197.744	*137.027	75.272	61.384
Jigawa	115.4	N/A	N/A	N/A
Kaduna	176.4	198.679	124.4	74.2
Kano	238.281	*219.309	148.66	70.621
Katsina	114.584	*113.603	80.573	32.422
Kebbi	119.9	*131.7	100.1	31.6

Kogi	132.6	*129.7	70.02	79.6
Kwara	124.498	124.526	58.7	48.543
Lagos	507.105	*489.69	255.025	234.665
Nasarawa	110.2	114.5	54.9	59.6
Niger	83.7	98.852	51.562	47.29
Ogun	211.78	*210.29	117.51	92.7
Ondo	152.5	162	69.68	92.31
Osun	234.269	*216.745	119.137	97.608
Oyo	152.12	188.9	92.795	96.041
Plateau	136.641	228.743	147.107	81.634
Rivers	490.32	N/A	N/A	N/A
Sokoto	115.84	152.87	72	52
Taraba	73.4	79.6	37.9	41.7
Yobe	86.7	102.899	67.43	35.46
Zamfara	119.9	*114.8	67.7	47.1
FCT	235.2	-	-	-
FG	4.7trn	4.6trn	1.1trn	3.5trn
Total	**₦11.535trn**	**₦10.602trn**	**₦4.480trn**	**₦6.123trn**

Source: NBS, 2014

* Represents a decline in the federal government and states budget for the respectively years.

V Methodology and Statement of Hypothesis

By adopting the survey design, this study sought to examine stakeholders' perception on resolving a deterministic budget benchmark in Nigeria using tax based budgeting as an alternative. Questionnaire was designed and responses sought from an opinion poll in which 342 respondents participated in. Of this, responses from 28 participants were considered void given the nature of their responses, thus leaving a balance of 314 as the sample size of this study. The subjects/participants were majorly academics/researchers and professionals in Accounting and Finance covering different states in Nigeria. Specifically, participants/respondents were sought to among others, attest whether switching from crude oil price benchmark to tax based benchmark would provide a more deterministic budget benchmark in Nigeria Responses/opinions to the posed question were analysed and used to test the formulated hypothesis that:

H_o: *Switching from crude oil price benchmark to tax based benchmark would not provide a more deterministic budget benchmark in Nigeria.*

VI Results and Discussion

We present below, the results and analysis of participants' responses. Table V presents summary of responses from participants to the question used to test the formulated hypothesis, while Table VI and VII presents results of descriptive stat., and test of hypothesis respectively. Note that the test of hypothesis was at 5% level of significance using the F-Stat. from the AVOVA table.

Table V: Summary of Responses From The Questionnaire Items

STATES	RESPONSES					TOTAL
	SA	A	U	D	SD	
PARTICIPANTS	116	155	21	15	7	**314**
Percentage	36.94	49.36	6.69	4.78	2.23	**100**

Sources: Authors' Compilation, 2017.

Table V above clearly shows that about 86.30% of the participants believed that switching from crude oil price benchmark to tax based benchmark would provide a more deterministic budget benchmark in Nigeria, while only 13.7% had contrary opinion. This is an indication that stakeholders may be of the view that given dwindling prices of crude oil in recent times, countries, Nigeria inclusive, that may have hinged their budgets on crude prices should start considering other measures; tax base being an alternative.

Table VI: Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
Factor	314	4.738854	0.4399607	4	5
Response	314	4.140127	0.9005401	1	5

Source: Author's Computation From Stata 13.0 Output, 2017

Table VI presents results of the descriptive statistics. Notice that total observation was 314. Participants were first questioned on the level of their versatility of the concept of budget benchmarks. Responses on this question stood as factor variable. All were gauged with the 5-point Likert-Scale with response alternatives ranging from strongly agree (SA) to strongly disagree (SD). Result from the table indicates that minimum and maximum values of factor variable is 4 and 5 respectively meaning that all 314 respondents either agreed (4) or strongly agreed (5) that they are versatile with this study's subject matter. This is a proof that responses from the participants could be relied upon given their versatility/knowledge and understanding of the thrust of the opinion poll. Minimum value of 1 and maximum value of 5 for response variable clearly indicates the range of responses (from 1(SD) to 5 (SA).

Test of Hypothesis

Responses presented in Table V were subjected to statistical analysis using the ANOVA technique via Stata 13.0 regression software. Results from hypothesis test is presented in Table VII below.

Table VII: Analysis of Variance (ANOVA)

Source	SS	Df	MS	F	Prob>F
Between Groups	110.636409	2	55.3182044	120.14	0.0000
Within Groups	143.197986	311	0.460443685		
Total	**253.834395**	**313**	**0.810972508**	F_{tab} = 3.84	
Bartlett's test (equal variance): chi2(2) = 69.3201				**Prob>chi2 = 0.000**	

Source: Author's Computation From Stata 13.0 Output, 2017

From Table VII, the F_{cal} is 120.14 (table value (F_{tab}) = 3.84. The p-vale obtained is 0.0000 indicating the presence of a significant relationship (p-value<0.05). The null hypothesis that switching from crude oil price benchmark to tax based benchmark would not provide a more deterministic budget benchmark in Nigeria is hereby rejected. Thus, our conclusion is that the general belief of stakeholders is that switching from crude oil price benchmark to tax based benchmark would basically provide a more deterministic budget benchmark for Nigeria. The implication of this result is that by switching from crude oil price benchmark to tax based benchmark, the Nigerian government would be forced to channel her resources towards improving her revenue base and increasing IGR which will help to reduce fluctuations in budget figures. Also, the need for tax reform that will revamp tax justice and administration in Nigeria through the plugging of existing loopholes is thus justified.

VII. Conclusion

Given the revenue profile of some states (see Table I and Table II) and the IGR for Lagos, Rivers and Edo States, it can be deduced that following the challenges in Nigeria's budgeting preparation and processes occasioned by the dwindling crude oil price, a change to taxation as the benchmark for budgeting in Nigeria may lead to a broader revenue base for budgeting purposes. This however informed the hypothesis of this study. Table III on non-oil taxes showed an increase of N1,194.8 billion in 2004 to N4,609.75 billion in 2011 an increase of over three hundred percent. This shows the prospects for improvement in tax based budget benchmark in the facade of dwindling returns from oil revenue given the fluctuations in oil prices.

However, from the results of our analysis and test of hypothesis we conclude that switching from crude oil price benchmark to tax based benchmark would basically provide a more deterministic budget benchmark for Nigeria and this seem to be the general consensus of knowledgeable stakeholders. Notwithstanding Nigeria's budget figure which has consistently fluctuated since 2012 rather than making steady increase, the fact that a

change to tax based budgeting will reduce fluctuation in revenue base becomes a major consideration that government should give credence to.

VIII. Recommendations

The outcome of this study forced the authors to recommend that the country, Nigeria should change from commodity based budgeting to tax based budgeting. Facts and figures have confirmed that Nigeria's revenue based can be improved through increase in IGR and benchmarking the country's budget on tax revenue can help to reduce fluctuations in budget figures. Furthermore, the need for tax reform that will revamp tax justice and administration in Nigeria through the plugging of existing loopholes is thus justified. The cases of Benue and Edo States illustrate the practical approach where Inland Revenue could design efforts at reaching out to some big markets in a few towns should be contended to all the main markets in the whole country. Tax authorities nationwide should be further empowered through legislation by making them more autonomous (a case in point is that of Benue State). The payment of taxes should be advertised to sensitize the citizens of the urgent need to pay their taxes rather than evading or avoiding tax payments.

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Appendix

Budget Benchmark based on Crude Oil Price (2013-2016)

Year	Price
2013	$75.00 per barrel
2014	$77.50 per barrel
2015	$65.00 per barrel
2016	$38.00 per barrel