

# **SUB-NATIONAL TAX POWERS IN NON OECD FEDERATIONS: THE NIGERIAN CASE<sup>+</sup>**

*By*

**AKPAN H. EKPO<sup>++</sup>**

**<sup>+</sup>Paper presented at a roundtable organized by the National Institute of Public Finance and the Forum of Federations,  
New Delhi, India,  
December 12 – 13, 2011**

**<sup>++</sup>Professor Of Economics and Director General, West African Institute For Financial and Economic Management (WAIFEM)  
Lagos, Nigeria.**

E-mail: [ahekpo@waifem-cbp.org](mailto:ahekpo@waifem-cbp.org); [ahekpo@yahoo.com](mailto:ahekpo@yahoo.com)  
Web: [www.akpanhekpo.com](http://www.akpanhekpo.com)

# **REVISED FOR PUBLICATION AS A CHAPTER IN: SUBNATIONAL REVENUE CHALLENGES IN SIX SELECTED COUNTRIES: THE ROLE OF INDIRECT TAXES AND NATURAL RESOURCE REVENUE**

## **SUB-NATIONAL TAX POWERS IN NON-OECD FEDERATIONS: THE NIGERIAN CASE.**

### **1.0 INTRODUCTION**

Nigeria obtained independence from Britain in 1960. The country has a land area of 924,000 square kilometers and a population of over 160 million people. There are over 250 ethnic groups with Hausa, Ibo and Yoruba in the majority. It is important to state that since 1960, military rule dominated the governance structure for almost thirty-five years. From 1999, the country began to implement the Presidential democratic system of governance. During the period of military rule, the unitary system was in practice while government pronouncements mirrored a federal system of governance. The 36 states structure and the federal capital city (Abuja) is shown in the country's map in the appendix.

Nigeria operates three tiers of government: a Federal government, thirty-six states, a Federal Capital Territory (FCT) and 774 local governments. The country is a federal system therefore its fiscal operations also follow the same principle. A burning issue on Nigeria's federalism is on how to allocate revenue among the three levels of government such that each can undertake its assigned statutory functions. The 1999 constitution of the Federal Republic of Nigeria stipulates the functions of each tier of government. The

federal government at the centre provides public goods and services whose benefits are national in scope. Furthermore, it has the power to make laws on the major taxes. For state governments, their functions are with respect to public goods and services with large external benefits which are not national in coverage. Similarly, local governments which are the third level provide public goods and services whose benefits are within local provinces.

The fiscal arrangement between the three levels of government was less complicated and less tense when the major revenue source was not crude petroleum. For example, during the era of regions, each region benefited to the tune of 50 per cent under the derivation principle based on the agricultural commodities produced in that region.

The ascendancy of crude petroleum as the major revenue earner for the country presented challenges to its fiscal federalism. Apart from the challenge of how the tax system is managed, the sub-national governments (SNGs) (states and local) have been calling for a review of the revenue-sharing formula. Consequently, the fiscal power is based on a three-tiered tax structure divided between the federal, state and local government; each level has its own tax jurisdictions but about 40 different taxes and levies are shared by all three levels of government.

The tax system in Nigeria is lopsided and dominated by oil revenue. The juicy tax handles are under the control of the Federal government while the SNGs are left with the less buoyant ones. The Federal government taxes corporate bodies while states and local governments tax individuals. Most of the revenues are generated from taxing the oil sub-sector. Oil in the last two decades accounted for at least 80 per cent

of the revenue showing that traditional tax revenue has never being important in the management of the country's fiscal policy. The exogeneity and volatility of oil revenues have resulted in several government policy aiming to diversify the economy away from oil thus increasing non-oil tax revenues.

There is still confusion as to which level of government is empowered to collect what kind of taxes. For example Decree 21 of 1998<sup>1</sup> list taxes and levies approved for collection by the Federal, State and Local governments. In addition, the 1999 Federal Constitution though not specific about whether SNGs could collect taxes provides a loophole. "The House of Assembly of a State shall have power to make laws for the peace, order and good governance". Consequently states have exploited this provision to enact and impose taxes on Estate duties, Belling duties, Casinos tax, Entertainment tax as well as Merriment tax. Part of the need to address the problem resulted in several tax policy reforms.

---

<sup>1</sup>*Decree has the laws enacted by the military government on taxes and levies approved for collection.*

However, there are still challenges such that even the 2010 National Tax Policy is yet to be implemented; states and local governments continue to push for the right to collect certain taxes; sometimes this has resulted in multiple taxation on companies with the inherent adverse effects on investment; existing and new investors have called for the removal of double taxation as a way of stimulating investment. Another issue concerns how the state governments deal with local governments on tax issues. The enhanced status of local government councils has raised the question whether or not they

have independent power to raise their own taxes. "Consequently, the division of legislative power under section 4 of the constitution involves only the Federal and state governments. Also, it will be observed that matters that the constitution mandates the state governments to rest in the local government councils are matters within the residual power of the states "(CITN, 2002, p.658). The meaning of this is that local governments have no legislative power of their own and cannot impose any tax on any subject whatsoever. That is, the power of a local government to tax must be vested on it by the state government.

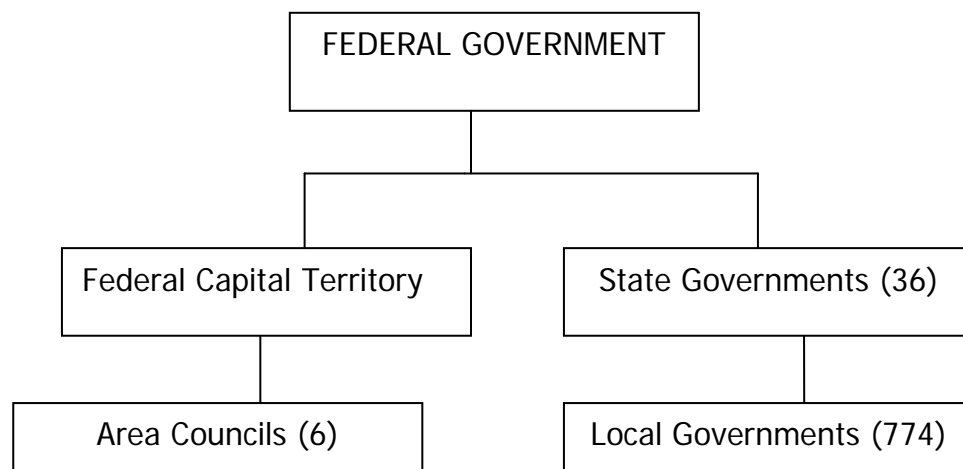
It is important to examine the tax powers of sub-national governments in Nigerian as part of the economy's fiscal policy. States and local governments have assigned statutory spending functions but without adequate revenue handles except dependence on the centre for oil revenue. SNGs do have large deficits which if not controlled would create challenges for the macroeconomic management of the economy.

In this chapter, we analyze taxing powers of the different levels of government in Nigeria with particular discussion on the SNGs (States and local governments). The chapter is organized as follows: Following the introduction, section 2 looks at the structure of government highlighting the main powers of each. Section 3 examines the current financial arrangements within the context of intergovernmental fiscal arrangements between the three tiers of government including their revenue and expenditure profiles. In section 4, we try to look at selected oil and non-oil producing States. We attempt to highlight salient issues within the recent National Tax Policy (NTP) and offer some concluding remarks in section 6.

## 2.0 STRUCTURE OF GOVERNMENT AND ASSIGNMENT OF FUNCTIONS

The organization structure of Nigeria's Multi-tiered fiscal system in 2012 is presented in the figure below:

Figure 1. Nigeria's Multi-tiered Fiscal System



This structure was not always thus. The structure had evolved over-time. After independence in 1960, the country had three regions namely Northern, Eastern and Western regions. In 1963, the Mid-western region was added to make it four regions. In 1966, the military government created a twelve state structure which was later increased to nineteen and twenty-one in 1985 and 1987 respectively. The present structure of thirty-six states and a Federal Capital city as well as 774 local governments came into existence in 1994. There exist an old debate that there should be a correspondence between the assigned constitutional expenditure responsibilities to the different tiers of government and the assigned tax powers. The argument is that the revenue mobilized from the assigned taxes should be adequate to finance the expenditure responsibilities. Consequently, the vertical revenue sharing formula should be based on expenditure functions assigned to each level of government.

Theoretically, the optimal allocation of functions among the different levels of government is emphasized in the examination of the structure of government. This demands that the central government should provide goods and services whose benefits are national in scope. For goods that can be divided geographically, they should be supplied by the state or local governments. Therefore, geographic range of spill-over-effect or externality is an important determinant of optimal allocation of functions between the central and sub-national governments. The other factor is economies of scale implying that certain goods and services could be provided in larger quantities than others; thus the cost of production declines as output increases. The provision of such goods should be limited to the central government.

In Nigeria, vertical distribution of responsibilities is contained in the 1999 constitution. Therefore, the constitution assigns defence, foreign affairs, international trade, currency matter, postal and telecommunication services, citizenship and naturalization rights, shipping, aviation, immigration, national statistical system, among others to the federal government. Both the federal and state governments are responsible for social services (health, education (post primary), and technology), culture, state economic policy, commerce – these are under the concurrent list. The states are exclusively in charge of those activities not assigned to the federal or local government by the constitution. Local governments have responsibility for local services such as local economic planning and development, primary health care; primary, adult and vocation education, sewage and refuse disposal and registration of births.

The objective underlying the distribution of responsibilities across the three levels of government is to achieve results consistent with national and local needs and at the same time obtain efficiency in carrying out the expenditure functions. From the box below, it appears that the federal government has the largest share of governmental functions. This was not the case before the military intervention in the country's politics. Hitherto, regions as they were then known had jurisdictions over main service delivery sectors. Then the regions were in charge of agriculture, education, health and transport except those of trans-regional significance such as railways, aviation, trunk roads and waterways. The regions also played a key role in regional and local government police. Given that citizens are closer to states and local governments, it is debatable whether the Federal government needs to be assigned large functions.



<b>Responsible Level of Government</b>	<b>Expenditure Category</b>
Federal Only (Legislative Exclusive List)	Defence, External Affairs, International Trade including Export Marketing, Currency and Banking Borrowing, Exchange Control, Use of Water Resources, Shipping, Federal Trunk Roads, Elections, Aviation, Railways, Postal Services, Police and other Security Services, Regulation of Labour, Inter-state Commerce, Bankruptcy and Insolvency, Public Debt of the Federation, Telecommunications, Immigration, Mines and Minerals, Nuclear Energy, Citizenship and Naturalization Rights, Social Security, Insurance, National Statistical System (census, births, deaths etc). Guidelines and Basis for Minimum Education, Business Registration, Price Control, Meteorology, Maritime Shipping and Navigation.
Federal State (Shared) (Concurrent List)	Health, Social Welfare, Education (Post Primary/Technology), Culture, Antiquities, Monuments, Archives, Statistics, Stamp Duties, Commerce, Industry, Electricity (Generation, Transmission, Distribution), Research Surveys, Statistics, Electoral law relating to Local Government Councils, Trigonometrical, Cadastral and Typographical Surveys, Scientific and Technological Research, Industry, Commerce, Agriculture.
State Only (Residual List)	Residual Powers, that is any subject not assigned to federal or local government levels by the Constitution.
Local Government	Economic Planning and Development, Health Services, Land Use, Control and Regulation of Advertisements,

	<p>Pets, Small Businesses, Markets, Public Conveniences, Social Welfare, Sewage and Refuse Disposal, Registration of Births, Deaths and Marriages, Primary, Adult and Vocational Education. Development of Agriculture and Natural Resources, Construction and Maintenance of Cemeteries, Burial Grounds, Homes for Destitute. Other are: Establishment, Maintenance and Regulation of Slaughter Houses, Slaughter Slabs, Motor Parks and Public Conveniences; Construction and Maintenance of Street, Street Lighting, among others.</p>
--	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

*Source: Compiled from the 1999 Constitution of the Federal Republic of Nigeria*

## **2.1 Assignment of Taxes**

In a federal structure, some principles guide revenue assignment (Anderson, 2003). Tax instruments are often assigned among the different levels of government:

- Only the national (central or federal) government should impose progressive income taxes. Progressive income taxes are effective as countercyclical instruments; moreover macroeconomic goals are better pursued by the government at the centre. However, proportional income taxes are suitable source of revenue for SNGs.
- National governments should impose and collect taxes for which the tax bases are distributed unequally across jurisdictions in order to prevent excessive fiscal disparities between SNGs.

Revenues from these taxes may be utilized to equalize fiscal capacities across the area. Hence, taxes on natural resources and corporations accrue to governments at the centre.

- SNGs should rely on taxes on immobile tax bases, user charges and revenue sources that follow the benefits principle. For example, property taxes provide a good source of local revenue because the tax base is not mobile and the tax conforms to the “benefit principle”.
- SNGs should be assigned adequate sources of revenue base on their expenditure responsibilities. These governments should have discretion over the rate of taxes so as to ensure accountability of elected officials and to establish a relationship between services demanded and the cost of service provision. Assigned taxes need to be elastic so that collection can grow with the demand of services over-time.
- Transfers should be utilized to finance services that have spillovers to nearby jurisdictions so that balanced provision of goods and services can be guaranteed at the minimum.

It is clear that in the Nigerian context, these guidelines are generally not followed, for example, State and Local Governments are not assigned significant own-source revenues. Fiscal capacity which is a measure of a government’s ability to raise revenue is difficult to capture in Nigeria. It is difficult to quantify the fiscal capacity of a State. One obvious and intuitive measure of fiscal capacity is the level of revenue collection of a State. But the amount of revenues collected is not a good measure of fiscal

capacity because revenue collections are not only a function of fiscal capacity but also of a State's fiscal effort.

Table 2 below shows the disposition of major taxes in Nigeria. The federal government collects the most buoyant taxes and the revenue so generated are paid into a common pool (Federation Account) and shared among the three tiers of government based on existing revenue sharing formula. Table 2 indicates that trade taxes, excise duties, mining rents and royalties, value Added Tax (VAT), petroleum profits tax, companies income tax, among other are assigned to the Federal government. This option is informed by efficiency consideration. It is the federal government that has the administrative and legal capacity to collect these taxes at the lowest cost. The revenue collected from these sources is shared with the lower levels of government. But the federal government has independent tax revenue source for which it has exclusive power to legislate and also the full right to the revenue. This involved the personal income taxes of personnel of the armed forces, the Nigerian Police Force, Ministry of Foreign Affairs and the residents of the Federal Capital Territory, Abuja.

Economic stabilization is perceived as a national public good to be provided by the federal government. Thus, the assignment of the important taxes to the federal government is expected to facilitate the use of the tax system to achieve national objective. Within this context, the federal government also has the advantage of utilizing the tax system to redistribute income. This disadvantage with this model of tax assignment is that the decision to collect revenue is not tied to the decision to spend the revenue. In this regard, this method destroys the concept of price theory of public finance which is

based on **quid pro quo** terms. This is assuming that the taxpayers will find it very difficult to relate their benefits from public expenditure to the tax paid under this scenario; lower levels of government are likely to spend with little restraint as has been the case in Nigeria. Conversely, taxpayers are less inclined, even restraint to paying taxes (Economic Management Team, 2010).

Under this type of tax assignment option, notwithstanding the legal and constitutional challenges, states and local governments have some taxing powers. Therefore, state governments in the country collect and spend the revenue from personal income tax, motor vehicle tax and driver's' license fees, stamp duties and capital gain tax. However, the base and rates of these taxes are set by the federal government. State governments also collect revenue from other taxes and levies over which they have legislative authority. These include business licenses, road taxes and lease fees on land owned by the state. The internal revenue of state governments is generated from all these taxes. Personal income tax represents the most important source of internally generated revenue of the state government.

Local taxes are assigned to local governments, some of the taxes are property tax, fees charged for refuse disposal and sewage, and motor park fees. The legislative authority determining the rates and bases of these taxes is with the states or local governments. According to section 162(7) of the 1999 constitution: "Each state shall pay to local government councils in the area of jurisdiction such proportion of its total revenue on such terms and in such manner as may be prescribed by the National Assembly." Prior to 1999, Decree 106 of 1992 specified that 10 percent of the states' internally generated revenue should be paid to the local governments. In reality, transfers are hardly made to local governments by the state

governments. Almost all state and local governments do not generate own revenues to meet their expenditure and other obligations. Hence, SNGs in Nigeria are heavily dependent on statutory allocation from the centre; this is the obvious way of filling the gap in SNGs revenue requirements.

**Table X Disposition of Major taxes in Nigeria**

Type of Tax	Jurisdiction	
	Law	Administration and Collection
1. Excise Duties	Federal	Federal
2. Import Duties	Federal	Federal
3. Export Duties**	Federal	Federal
4. Mining Rents and Royalties	Federal	Federal
5. Petroleum Profit Tax	Federal	Federal
6. Companies' Income Tax	Federal	Federal
7. Capital Gains Tax	Federal	Federal
8. Personal Income Tax (Other than those listed in 9)	Federal	Federal/States
9. Personal Income Tax: Armed Forces, External Affairs Officers, Non-Residents of the FCT and Nigerian Polices Forces	Federal	States
10. License Fees on Television and Wireless Radio	Federal	Federal
11. Stamp Duties	Federal	Local
12. Capital Transfer Tax	Federal	States
13. Value Added Tax	Federal	Federal/States
14. Pools, Betting and other Betting Taxes	Federal	States
15. Motor Vehicle and Drivers' License	Federal	States
16. Entertainment Tax	Federal	States

17. Land Registration and Survey Fees	Federal	States
18. Property Taxes and Rating	States	Local
19. Market and Trading Licenses and Fees	States	Local

Notes" \*The peculiar status of the Federal Capital Territory has not been taken into consideration in respect of this table.

\*\*Listed but no longer imposed.

Source: Constitution of the Federal Republic of Nigeria and other legislation to date.

### **EXISTING TAX LEGISLATION**

1. Capital Gains Tax Act 1990
2. Casino Taxation Act
3. Chartered Institute of Taxation of Nigeria Act
4. Companies Income Tax Act 1990
5. Deep Offshore and Inland Basin Production Sharing Contracts Act
6. Education Tax Act 1993
7. Federal Inland Revenue Service (Establishment) Act
8. Income Tax (Authorized Communication) Act
9. Industrial Development Act
10. National Information Technology Development Act
11. Nigerian Export Processing Zones act
12. Oil and Gas Export Free Zone Act
13. Personal Income Tax Act 1993
14. Petroleum Profit Tax Act 1990
15. Value Added Tax Act 1993
16. Stamp Duty Act 1990
17. Taxes and Levies (Approved List for Collection) Act
18. Others

What is the cost implication of the vertical division of functions? The next analysis on the intergovernmental fiscal arrangement among the three tiers of government may shed some light on the issue.

### **3.0 CURRENT FINANCIAL ARRANGEMENTS: INTERGOVERNMENTAL FISCAL ARRANGEMENTS**

Fiscal transfer among the different tiers of government has a long history in Nigeria. The revenue formula has always been subjected to revisions from colonial times up to the 1981 Revenue Act which was stable for a long-time pending the establishment of the Revenue Mobilization Commission (Ekpo, 1994). In 1999, under the vertical revenue allocation structure, the federal government received 48.5 percent of total federal revenues ; state governments got 24 percent and local governments 20.0 percent. All federal agencies are supposed to pay all revenues generated into the federation account; in recent times, they have almost all complied though there are still controversy regarding the exact amount paid into the account. Foreign loans and aid are not included in the federation account. For horizontal allocation which involves sharing between States and local governments, see (Ekpo, 2005). The balance of 7.5 percent was for special funds with the following distribution: development of mineral resources (3.0 percent); general ecology (2 percent); derivation and the FCT (Seat of government) received 1.0 percent each and the balance of 0.5 percent went to stabilization fund. The 7.5 percent for special funds was administered by the



federal government bringing its total allocation to 56.0 percent. After 1999, there were some modifications to the formula in 2004.

The modifications were due largely to dissatisfaction by the federal government which felt that its revenue allocation was inadequate to meet the constitutionally assigned functions. The initial adjustment drew attention to the state governments demand for a fair share of the revenue in the Federation Account. In addition, states from which territories crude oil is produced agitated for a review of the sharing formula in favour of increased rate for derivation. It is difficult to ascertain explicitly the factors underlying the present vertical revenue allocation formula in any government document.

Tables 1a – 1c summarize the finances of the federal, states and local governments in Nigeria for the period 2000 – 2010. The allocation from the Federation Account<sup>2</sup> constitutes the largest source of revenue for SNGs. Between 2001–2005, it averaged almost 73 percent of their total revenues. In 2006, it stood at 65.8 percent and thereafter declined steadily to 37.6 percent in 2009. However, if other revenues which include VAT are added then it is clear that SNGs are heavily dependent on federal sources of revenues. The federal government receives 15 per cent of VAT while 50 per cent and 35 per cent go to the states and local governments respectively. The internally generated revenue of state governments cannot finance their recurrent obligations and we have argued elsewhere that it was unhealthy for states to depend on this source of revenue for development (Ekpo, 2008).

The revenue of the federal government, dominated by oil, rose from N592.2 million in 2000 to N3089.2 million in 2010. The increased revenue resulted in enhanced total expenditures for the period

2000-2010. The shares of revenue and expenditure in GDP also reflected increases during the same period (see Table 1a). For SNGs, the pattern seems mixed; state governments revenue which was N359.1 million in 2000 plummeted to N2,739.4 million in 2010. For the same period, total expenditure increased from N359.7million to N2871.5 million. Local government finances also indicated huge increases during the period 2000-2010.

**Table 1(a): Nigeria Federal Government Revenues And Expenditure As Share of GDP, 2000 – 2010 (₦ Million (%))**

<b>Year</b>	<b>Revenue</b>	<b>Total Expenditure</b>
2000	1.81	2.12
2001	2.23	2.82
2002	1.65	2.32
2003	2.14	2.57
2004	2.52	2.82
2005	3.13	3.42
2006	3.25	3.42
2007	3.67	3.86
2008	4.75	4.85
2009	3.67	4.80
2010	3.98	5.40

*Source: Calculated from: Central Bank of Nigeria, Statistical Bulletin, 2010, Abuja.*

**Table 1(b). Nigeria States Government Revenue and Expenditures, 2000 – 2010 (₦ million)**

<b>Year</b>	<b>Revenue</b>	<b>Total Expenditure</b>
2000	359.1	359.7
2001	573.5	596.9
2002	669.8	724.5
2003	854.9	921.2
2004	1,113.9	1,125.0
2005	1,419.6	1,478.6
2006	1,543.7	1,586.8
2007	2,065.4	2,116.1
2008	2,852.1	3,021.6
2009	2,590.7	2,776.9
2010	2,739.4	2,871.5

*Source: See Table 1. \* Includes data for the Federal Capital Territory (FCT), Abuja.*

**Table 1(C) Nigeria: Local Government Revenue And Expenditure, 2000 – 2010 (₦ million)**

<b>Year</b>	<b>Revenue</b>	<b>Total Expenditure</b>
2000	151.8	153.8
2001	171.5	171.3
2002	172.1	169.8
2003	370.2	361.7
2004	468.3	461.0

2005	597.2	587.9
2006	674.2	665.8
2007	832.3	827.4
2008	1,387.8	1,387.9
2009	1,069.4	1,067.6
2010	1,359.2	1,356.7

*Source: See Table 1*

---

<sup>2</sup>The Federation Account is a distribution account where all revenues are put together and shared among the three levels of government on an existing revenue-sharing formula

In the same vein, local governments were also heavily dependent on federal source of revenue as revenue from the federation account and other statutory allocations averaged almost 89 percent during the period 2001 – 2006; the Federation Account source stood at 81.6 percent in 2006 and declined steadily thereafter. The decline in the Federation Account from 2007 is due partly to the establishment of an excess crude oil account.

The expenditure profile of SNGs presents interesting results. For state governments, during the period 2001 – 2005, recurrent expenditure was almost 41 percent of total expenditure and averaged about 50 percent for the period 2006 – 2010. Capital expenditure followed almost similar pattern (Table 2). The

situation is different for local governments where recurrent expenditure averaged 66.8 percent in 2001 – 2005; in 2009, it was 66 percent. Most of the revenue from the centre is used in financing recurrent expenditures at the local government level. It may be necessary to decompose the recurrent account component to determine exactly where the buck of expenditure is directed at. The fiscal profiles of state governments reveal increased growth in both revenue and expenditure, for the period 2006 – 2010, states are characterized by deficits; the deficit of states jumped from ₦43 billion in 2006 to ₦132.1 in 2010 representing a three-fold increase. For the same period local governments' profile shows surpluses except for 2008 with a deficit of ₦3 billion. It may also be necessary to examine the fiscal profile of individual states to determine which state is the culprit.

The analysis so far confirms the need for SNGs to increase own source of revenue so as to meet their obligations rather than continuous dependence on an exogenous source of revenue. It is, therefore, not surprising that stakeholders have reviewed the tax policies in the country to determine how best to transfer certain tax powers to SNGs. Unfortunately even the 2010 National Tax Policy yet to be passed by Parliament has not seriously addressed the taxing powers of SNGs in Nigeria. It appears that the federal government is weary of losing its tax powers to SNGs.

**Table 2. Nigeria: State Governments' Finances, 2001 – 2010 (As Percentages of Totals)**

Fiscal Indicator	2001 - 2005	2006	2007	2008	2009	2010
------------------	-------------	------	------	------	------	------

Federation Account	72.77	65.8	53.7	58.2	37.6	49.4
Internally Generated Revenue	11.7	8.1	14.8	12.4	17.8	15.3
Other Revenues*	15.6	8.9	11.9	7.9	8.4	6.7
Recurrent Expenditure	40.8	56.3	57.5	49.8	51.4	50.0
Capital Expenditure	40.7	36.8	40.4	48.2	46.2	46.6

*Source: Calculated from: Central Bank of Nigeria: 2010 Annual Report and Statement of Accounts.*

**Notes:** Expenditures may not add up to 100% due to extra budgetary expenditure

\*Includes VAT, grants and stabilization funds; excludes loans and aid

**Table 3. Nigeria: Local Governments' Finances, 2001 – 2010 (As Percentages of Totals)**

<b>Fiscal Indicator</b>	<b>2001 – 2005 Average</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Federation Account	88.6	81.6	68.3	52.4	50.0	52.7
Internally Generated Revenue	4.8	3.4	2.5	1.6	2.4	2.0
Other Revenues	6.6	3.6	1.3	0.8	4.8	4.5
Recurrent Expenditure	66.8	59.8	82.6	59.3	66.0	60.7
Capital Expenditure	33.2	40.2	17.4	40.7	34.0	39.3

*Source: See Table 2*

#### **4.0 FISCAL PROFILE OF SELECTED STATES IN NIGERIA**

Out of the 36 states in the federation, we discuss briefly the fiscal profiles of five states namely Akwa Ibom, Cross River, Kano, Lagos and Ondo. Akwa Ibom, Cross River and Ondo are oil producing states. Akwa Ibom and Cross River are in the south-south zone of the country while Ondo is in the south-west but part of the Niger Delta region. Kano and Lagos are both non-oil producing as well as business and commercial centres in the country; Kano is in the North while Lagos is in the south-west. The Tables below provide a summary of the statutory transfers and the internally generated (own revenues) of the selected states for the period 1999 – 20010.

In the Nigerian system, revenues are highly centralized. Almost all federally collected revenues are paid into the “Federation Account” which is then shared by a formula (see Table 4 below); sharing from the federation account is done monthly by the Federation Allocation Committee comprising all finance commissioners from the states with the Federal Minister of State for Finance as Chairman among the three tiers of government – federal, state and local governments. Certain major non-oil revenue sources also contribute to the Federation Accounts; these include companies’ income tax as well as customs and exercise duties. State governments collect most personal income taxes, minor taxes, levies and fees. Tables in the appendix for years where data are available for some states show taxes, fees and levies that can be collected by the three tiers of government in Nigeria. Through the Joint Tax Board (JTB), States have inputs in determining the appropriate rates for certain taxes. However, the final decision lies with the Federal Inland Revenue Service (FIRS). But for rates and fees at the SNG, state tax authorities determine the appropriate rates and they vary among the states.

Tables 5 and 7 below show some stylized facts on state government finances. It is evident that States are heavily dependent on federal transfers (statutory allocations). Between 2001 and 2005, States were almost 74% dependent on federal sources of funding. This dependence declined during the period 2007-2009. This situation is unhealthy given the fact that the bulk of the resources in the Federation Account is from petroleum with its inherent volatility. On the other hand, during the same period, States own revenue sources averaged about 12%. It is thus pertinent that State must increase own sources of revenue if dependence on federal sources is to be drastically reduced. From the selected states, Lagos showed increased IGR during the period 2007-2010; this is perhaps due to the success of the state in reforming its tax administration resulting in enhanced tax revenue collection.

The statutory transfers are based on a revenue sharing formula as shown in Table 4 below. It is generally acknowledged that fiscal decentralization is the nucleus of federalism. Hence, for a country like Nigeria, the path of a satisfactory revenue allocation formula that is fair, just and equitable is expected to change over-time. There are renewed demands in recent times to fine-tune the present formula in favour of states to enable them meet the recently approved minimum wage, for example.

It is interesting to note that SNGs always insists that the revenue sharing formula be changed rather than calling for constitutional amendments that would allow them to impose and collect taxes particularly those under the federal governments. SNGs have paid lip-service to increasing own revenue sources.

Oil producing states have in the last fifteen years argued for a larger share of the oil revenue based on the **derivation principle**. At present, the constitution allows for 13 per cent derivation. (balance is



shared based on the formula in Table 4). In 2002, oil producing states took the federal government to court on the matter bordering on which level of government is best suited to collect revenue from mineral resources, particularly off-shore oil resources. Though the states lost, all parties finally settled for a political solution. In addition, during the 2005 National Political Conference oil producing states staged a walk-out on the issue of increased percentage of derivation. There is no question that the struggle for political power in the country seems linked to resource control. Paradoxically, the oil resources are located in the minority groups of the country (Niger Delta Region) that do not have political power. It is worthy to indicate that when agricultural products (located within the majority ethnic groups) provided the bulk of revenue for the country, the derivation component of the revenue sharing formula was 50 per cent.

**Table 4. Nigeria: Vertical Allocation Formula Since 1981**

Period	Percentage Share Going To				
	Federal Governments	State Governments	Local Governments	Special Governments	Total
1981*	55	35	10	-	100
1989	50	30	15	5	100
1993	48.5	24	20	7.5	100
1994	48.5	24	20	7.5	100
1992 – 1999	48.5	24	20	7.5	100
May 2002	56.0	24	20	-	100
March 2004 - date**	52.68	26.72	20.60	-	100

**Notes:**

\*Revenue Act of 1981

\*\*Supreme Court Verdict in April 2002 – abolished the special funds.

**Table 5. Nigeria, Statutory Transfers to State Governments As % of Total State Revenues in Selected Nigeria States 1999 – 2010**

<b>Year</b>	<b>Akwa Ibom</b>	<b>Cross River</b>	<b>Kano</b>	<b>Lagos</b>	<b>Ondo</b>
1999	75.6	85.2	81.5	55.0	77.9
2000	84.5	87.5	87.8	49.9	78.6
2001	87.2	89.8	84.4	46.0	78.3
2002	85.4	91.4	85.6	48.1	65.9
2003	89.5	93.1	86.8	49.3	70.3
2004	92.8	91.4	86.1	49.5	78.4
2005	94.6	89.6	87.5	62.0	80.3
2006	90.6	89.4	86.3	54.0	81.4
2007	57.0	53.1	63.0	10.6	51.4
2008	54.0	46.6	49.6	16.4	37.7
2009	49.7	35.3	40.8	11.8	41.7
2010	62.3	54.2	52.1	14.7	60.7

Sources: (1) *Taiwo, I.O (2007)*;

(2) *CBN: Annual Report and Statement of Account, Various Issues.*

Part of the transfers from the centre to SNGs is the **value-added tax (VAT)** which was introduced through the VAT Act No. 102 of 1993 but its execution commenced in January of 1994. The Act has undergone several amendments since 1994. VAT which replaced the sales tax was originally

imposed on 17 categories of goods and 24 service categories items such as basic foods, medical and pharmaceutical products, books, newspapers and magazines, house rent, commercial vehicles and spare parts are exempted from VAT. The revenue generated from VAT was originally to be shared 20:80 between the federal and state government. At present, it is shared 15:50:35 among the federal, state and local governments. The state's allocation is set using the following parameters : 30 per cent for state of origin, 30 per cent for consumption/destination and 40 per cent as an equal amount to each state. It is collected in domestic currency by the federal government on behalf of other levels of government.

Though VAT is a consumption tax, a 5 per cent rate is levied on suppliers (taxable individuals) who are to add this amount to invoices for collection from customers and for further remittance to the VAT authorities on a monthly basis. VAT is retained at 5 per cent regardless of the stage of production or distribution thus avoiding cascading effects (Odusola, 2006). In 2005, VAT was 3.2 per cent of total revenues; it increased to 6.4 per cent in 2009 with a marginal decline to 5.9 per cent in 2010. VAT has become a major source of revenue for all levels of government in Nigeria.

**Table 6: Nigeria: Oil, Non-oil and Selected Taxes ( (As Percentages of Total Revenue for All Governments) (2005 – 2010)**

<b>Year</b>	<b>Oil Revenue</b>	<b>Non-oil Revenue</b>	<b>Education Tax</b>	<b>VAT</b>	<b>Customs &amp; Excise</b>	<b>Company Income Tax</b>
2005	84.7	15.3	0.3	3.2	4.1	2.9
2006	77.1	10.9	1.7	3.4	2.6	3.6
2007	63.7	14.2	2.1	4.1	3.4	4.7
2008	63.3	11.8	1.2	3.9	2.7	4.1
2009	43.6	21.6	3.4	6.4	4.1	7.7
2010	56.5	18.4	2.3	5.9	3.2	6.9

*Source: Calculated from: Central Bank of Nigeria Annual Report & Statement of Account, Abuja*

The selected States of Akwa Ibom, Cross River, Kano, Lagos and Ondo are not different from the total picture (see Tables 5 and 7 as well as in the appendix). All the five States, except Lagos shows increased dependence on federal transfers as well as very low internally generated revenue. Lagos State IGR as a percentage of totals stood at 53.6% in 1999 increased to almost 67% in 2003 and thereafter declined to 58% in 2006. It is clear from the IGR profile, perhaps except Lagos, that none of the States could finance its needs from own revenues.

When we decompose IGR, we observe interesting results. For all the States taxes have the dominant share averaging about 35%. The taxes are mainly personal income tax (PAYE and Self

Assessment). Available data show the sources of IGR and their share in total in the five States. In Akwa Ibom, the share of taxes in IGR which was almost 45% in 2000 rose to 83.0% in 2004 and declined to about 72% in the year 2005. On average the share of taxes stood at 54.4% during the period 2000 – 2005. For Cross River, taxes would have dominated but miscellaneous showed a larger share; both taxes and miscellaneous had large shares of IGR in the State. The other items such as fines and fees, licenses etc contributed less than 25% of IGR.

In Lagos State, taxes averaged 35.4% while earnings and sales stood at 6.0 percent during the period 2001 – 2005; fines and fees averaged 3.5%. It should be noted that Lagos State has relied more heavily on its internally generated revenue than all other States in Nigeria. The measures adopted by the State government for increasing its IGR include: (i) introduction of new tax handles such as the land use charge; (ii) use of private enumerators to widen the tax net; (iii) adoption of on-line revenue collection methods; and (iv) fine-tuning all tax documents to make them fraud proof (Taiwo, I., 2007. In addition, the ever busy business environment of Lagos State has boosted its ability to broaden the tax base.

**Table 7. Nigeria. Internally Generated Revenue (IGR) of Selected States As % of Total State revenues, 1999-2006.**

<b>Year</b>	<b>Akwa Ibom</b>	<b>Cross River</b>	<b>Kano</b>	<b>Lagos</b>	<b>Ondo</b>
1999	24.4	14.8	18.5	45.0	22.1
2000	15.5	12.5	12.2	50.1	21.4

2001	12.8	10.2	15.6	54.0	21.7
2002	14.6	8.6	14.4	51.9	34.1
2003	10.5	6.9	13.2	50.7	29.7
2004	7.2	8.6	13.9	50.5	29.7
2005	5.4	10.4	12.5	48.0	19.7
2006	5.2	12.2	13.7	46.0	18.6
2007	4.6	14.4	10.4	51.2	3.2
2008	4.6	8.5	11.4	63.5	16.4
2009	6.8	10.9	12.7	62.1	1.1
2010	5.7	15.6	16.1	60.7	5.5

*Source: Calculated from CBN: Annual Report And Statement of Accounts, Various Issues.*

IGR accounted for a small fraction of State aggregate revenue when compared to federal transfers in Kano State. "IGR at constant prices rose from ₦1.71 billion in 2000 to ₦2.43 billion in 2005, and averaged ₦2.37 billion during the period 200 - 2005. The most remarkable growth of IGR occurred in 2001 when it grew by about 64 percent. "(Taiwo, 2007, p.5). Taxes as a share of IGR was 36.6 percent in 2001 and then rose to 44.4 percent in 2002; but declined slightly to 43.3 per in 2005. Miscellaneous items also registered a large share of IGR during the period 2001 - 2005.

For Ondo State, taxes in IGR showed remarkable increases in 2003 (54.4 percent). In 2004, it declined to almost 27 percent. Earnings and sales as well as interest payments and dividends also showed large shares in IGR. IGR increased in nominal terms from ₦1319.2 million in 2002 to ₦2219.3 million in 2004.

The fluctuations in IGR in all the States coupled with its low share in total revenue suggest that States must be innovative in finding ways to increase revenue. While it is correct to assert that there is limit to taxation, it is also necessary to ensure that even the data on IGR are reliable. It may not be far-fetched to allude to the fact that IGR may be manipulated downwards in order to ensure better results when revenue sharing formulas are set. Nonetheless, it is important that States examine the issues of tax reforms vis-à-vis tax administration. *Inter-alia*, proper tax design and implementation may boost revenue collection. For example, it may be important to ascertain how best to bring players in the informal sector into the tax net. In Nigeria, those with formal employment pay taxes (PAYE) but those in informal tasks visit the tax office only when tax clearance certificate is required. In the tax office, self assessment of any amount could produce a tax clearance certificate.

#### **4.1 DESIGNNING AN EFFECTIVE TAX POLICY**

The low level of IGR indicates the need to examine tax administration issues in Nigeria. States lack discretion over State tax rates hence the effectiveness of State tax policy is predicated on the manner States' administer their taxes. Tax administration at the State level has several challenges:

- Collection of State revenues depends on tax consultants; States Board of Internal Revenue are yet to perform their functions optimally. Therefore, it is not common to find out that the collection of levies, rates etc remain fragmented. Tax consultants do boost revenue

collection but do not instill capacity in the revenue officers. It follows that tax consultants have an elastic life span in States in which their services are used.

- Revenue collections data are not made public. Consequently, it becomes a difficult task to obtain data. As part of fiscal transparency, the reporting of IGR collections is of vital importance.
- States' tax administration office appears to be poorly equipped for the task of collecting IGR. In some States, there are no computerized information systems to track collections. It is difficult to track those who evade taxes without a proper system.
- The level of voluntary tax compliance at the State level seems quite low. It is necessary for State Governments to provide services if compliance is to improve.
- It may be necessary to introduce a tax payer identification number just as firms have their VAT registration number. This will facilitate the collection of personal income taxes particularly in a computerized system.
- States have no discretion to determine either the tax-base or the tax rate for any own revenue sources. The federal government has the power to regulate State taxes. Hence State governments have no control over the size of their budgets except tax enforcement. This lack of revenue autonomy unnecessarily constraints the fiscal policy options of State governments. Any tax reform should allow States some discretion over tax rates.



Osoro (2000) identifies certain rules for designing tax systems:

- Involve stakeholders
- Ensure government support
- Rationalize tax instruments
- Build on existing institutions
- Link trade and tax reform
- Exempt the poor from the total
- Choose taxes that raise the most revenue with the least risk.
- Be happy if the system is satisfactory.

These rules should be followed as much as possible when tax reforms are being conceptualized, formulated and implemented for specific taxes. Redesigning the tax system in favour of a broad tax base will stimulate economic activity and poverty reduction. A broad tax base may reduce capital flight and increase foreign investment.

There is widespread tax resistance in SNG communities. It is not uncommon to find roadblocks manned by the local militants or police for tax enforcement. Taxes should be designed to be fair and citizens must derive benefits for taxes paid. In addition, fiscal corruption should be minimized by

making the tax rules and regulations simple and not allowing the revenue officer to have the monopoly of interpreting tax laws.

## **4.2 TAXING THE INFORMAL SECTOR**

There is a large and growing urban informal sector in Nigeria. The underground economy in Nigeria accounts for a fair share of GDP yet this sector is hardly taxed. One way of taxing this sector is by placing particularly heavy taxes on the type of goods that are consumed by them. It has been shown that this is desirable and can reduce inequality. However, the problem is in identifying the goods to tax and enforcing collection. Many persons working in the informal sector do not pay income taxes. SNGs could generate revenues by taxing the informal sector.

## **5.0 NATIONAL TAX POLICY AND TAX POWERS OF SNGs**

The country's fiscal policy measures have been driven by the need to promote macroeconomic objectives of rapid economic growth, generating employment, maintaining price levels stability and improving the balance-of-payment conditions in the country. The various tax policy study groups have identified the need to stream line tax administration and some states and local governments have stressed the desire to be allowed to collect certain taxes, for example, VAT.

To avoid conflict among the levels of government, the 1999 constitution classified governmental responsibilities and powers into exclusive, concurrent and residual list. Hence, the state Houses of Assembly may prescribe the collection of any tax, fee or rate or the administration of a law to provide for such collection by a local governed council (1999, FRN). This provision in the constitution allows the state government to impose, collect and spend any tax, fee or rate which is not expressly stipulated as being within the authority of the federal government. Thus, the state government is empowered to impose tax on all items in the concurrent list as well as residual matters (Odusola, 2006, P.3).

The National Tax Policy (NTP) seeks to provide a set of guidelines, rules and modus operandi that would regulate Nigeria's tax system, thus providing a basis for tax legislation and tax administration in Nigeria. The NTP was an initiative of the Federal Government which is being driven by the Federal Ministry of Finance based on the report from a Study Group of July 23, 2005. The NTP is meant to provide direction for the country's tax system. The NTP is yet to be passed into law.

The present NTP has not made clear what types of taxes should be imposed and collected by states and local governments. Concerning SNGs the NTP states. "With regard to Federal Taxes specifically covered in section D, Part II of the Nigerian constitution, the powers of the state Houses of Assembly are restricted to collection and administration of certain taxes subject to authorization by the National Assembly". SNGs particularly at the state level would have to exploit the loophole in the constitution and impose taxes that are collectable based on fairness and equity.

The contribution of the state governments to the present yet to be enacted NTP is stated in the appendix.

## **6.0 CONCLUSION**

We have examined the matter of SNGs tax powers in Nigeria. Based on Nigeria's fiscal federalism, the SNGs are allowed to impose and collect certain taxes subject to approval by states' Houses of Assembly. It is the states that would also empower local governments to impose and collect taxes. The SNGs are heavily dependent on statutory transfers from the federal government through the Federation Account. At present, IGR of SNGs is not adequate to meet their developmental needs. Even the NTP is not precise on whether new tax powers are to be given to SNGs or not. The NTP tried to resolve some of the challenges of tax administration in the country while seeing the SNGs as partners in progress.

Taxation is important to the economy if fiscal policy is to be sustained. This would cement efforts to avoid the risk of oil revenue volatility and exogeneity as well as the inability of SNGs to meet their ever-increasing fiscal responsibilities. To increase non-oil revenues via taxation and other levies, SNGs must seek improvements in (i) adequate investment for the tax system; (ii) the treatment of both the tax payer and tax administrators – quality service delivery and enhanced salaries for tax administrators; and (iii) transparency and accountability in the spending of tax payer's money. There is the need for SNGs and other stakeholders to engage the Federal government and continue to make the case to transfer the imposition and collection of certain taxes like VAT to state governments.



## REFERENCES

- Ageobenebo, T. T (2003) Issues in Fiscal Management: Implications for Monetary Policy in Nigeria. CBN Annual Conference.
- Ajakaiye, Olu; Paul Collier and Akpan Ekpo (2011): Management of Resource Revenue: Nigeria, in Collier, Paul, A.T. Venables eds. **Op.cit.**
- Anderson John E ( 2003) **Public Finance, Houghton Mifflin, New York**
- Collier, Paul and A. T. Venables (2011) **Plundered Nations? Successes and Failures in Natural Resource Extraction**, Palgrave Macmillan, New York.
- Collier, Paul Soludo, C and C. Pattillo. Eds. (2008) **Economic Policy Options for a Prosperous Nigeria**. New York, Macmillan
- Eboh, Eric Amakom U and M. Oduk (2006) **Budget and Public Expenditure Across Nigerian States**, BECANS Working Paper, AIAE, Enugu.
- Ekpo, A. H and A. Englaman (2008), "**Fiscal Federalism in Nigeria: Issues, Challenges and Agenda for Reform**" in collier, Paul et al, op.cit
- Ekpo, A. H. (1994) "Fiscal Federalism: Nigeria's Post-Independence. Experience, 1960-90. "**World Development**", 22 (8), 1129 - 1146
- Ekpo, A. H. and J. Ndebbio (1996) **Fiscal Operations in A Depressed Economy**. Nigeria 1970-1992. AERC, final report Nairobi, Kenya.

Ekpo, Akpan H. (2000) **Poverty-Oriented Budget Design and Implementation**, AERC Senior Policy Seminar, Dar-es-Slaam, Tanzania.

Ekpo, A. H (2001). "Equity, Efficiency and Incentive Effects of Revenue Policy. "**Nigerian Economic and Financial Review**, 6.1, June, pp. 1-27.

Ekpo, A. H., J. Ndebbio, E. Akpakpan and M. Nyong (@003) **Macroeconomic Model of the Nigerian Economy**, Ibadan, Vantage Press.

Ekpo, A. H. (2004), **Design and Implementation of the Tax System for Growth and Poverty Reduction in Africa** in Financing Pro-Poor Growth in Africa, Seminar Policy, Seminar Series, AERC, Nairobi.

Ekpo, A. H. and Enamidem Ubok-Udom (1999) **Issues in Fiscal Federalism and Revenue Allocation in Nigeria**, Ibadan, Future Publishing.

Ekpo, Akpan H. (2005) **Fiscal Theory and Policy**: Selected Essays. Somerprint, Lagos.

Ekpo, Akpan H. (2008c) **Fiscal Space for Sustainable Development at the State level in Nigeria**. UNDP Pro-poor Fiscal Policy Retreat, Abuja.

Egwaikhide, F. (2010) **Vertical Revenue Allocation Formula** in Nigeria, Report to Nigeria Economic Management Team, Abuja.

Ekpo, A. H. (2011e) The Imperative of a Tax Road Map for Nigeria in the wake of the New Global Tax Order, Conference on Women in Taxation, Abuja.

Mbanefoh, G. E. (1993) **Unsettled Issues in Nigeria's Fiscal Federalism and the National Question**, NES, Ibadan.

Odusola, Ayodele (2006) Tax Policy Reforms in Nigeria, Research Paper No. 2006/03, WIDER.

Onwioduokit and I. K. Obiora (2007) Fiscal Decentralization, Inflation and Economic Growth: Evidence from Nigeria West African Journal of Monetary and Economic Integration Vol. 3. No. December pp. 25 – 45

Osoro, N. E. (2000). **Design and Implementation of Specific Revenue Mobilization Measures**, Senior Policy Seminar IV, Botswana.

Taiwo, I. O. (2007). **Case Studies of Fiscal Management: Akwa Ibom, Cross River, Kano, Lagos and Ondo**, Fiscal Policy Capacity Building Initiative, UNDP, Abuja.

## **APPENDICES**

### **A1. STATE GOVERNMENTS POLICY ON TAXATION**

1. The State shall direct its policy towards ensuring fiscal responsibility and accountability to Nigerians. The tax system shall reflect the principle of Fiscal Federalism by ensuring that:
  - a. each tier of government retains revenue realised from its jurisdiction; and



- b. that there is an equitable sharing formula for taxes collected by the Government of the Federation.
2. The Government of the Federation shall ensure a periodic review of the tax laws and administration in Nigeria.
3. It shall be the duty of Government of all levels to ensure that:
  - a. revenue agencies are granted autonomy and adequate funding to meet their day to day activities;
  - b. the rights of all tax payers are recognised, whether they are Nigerian citizens or not; and
  - c. multiple taxation in all forms is minimised at all levels of Government.
4. It shall be the duty of:
  - a. every Nigerian citizen;
  - b. every company registered under the law of the Federal Republic of Nigeria; and
  - c. any other person or business entity whether resident in Nigeria or not, carrying out any economic activity in Nigeria;

to register for taxes in Nigeria, declare its income and pay its taxes promptly and fully to the appropriate tax authorities.

Source: culled from: National Tax Policy, FIRS, Abuja, 2008.



**A3.Harmonization of stamp duty rates and items charged by SIRS AND FIRS  
State governments flat rate charges**

Types of instruments	Current rates				
	(1996)		Renewed rates		
	Cost per copy for:		Cost per copy for		
	Original	Extras	Original	Extras	
Amounts in N					
1	Affidavit -affirmation statutory declarations Declarations of loss of items Declarations of ownership of property, etc	10	5	10	20
2	Ordinary tenancy agreement excluding corporate bodies (government agencies )	25		500	50
3	Standard receipts	5		20	
4	Certificates of occupancy	50	20(a)	500	50
5	Agreements (under seal)	50	20	500	50
6	Agreements (i.e, memo of any agreement)	50	20	500	50
7	Oaths & other affiliate documents relating to above	50	20	500	50
8	Bonds (ordinary)	50	20	1,000	50
9	Gifts (land), gifts other than land	50	20	1,000	50
10	Collateral securities	50	20	500	50
11	Certificates (other than occupancy certificates )	50	20	500	50
12	Legacies (movable assets)	50	20	1,000	50
13	Proxy forms or card forms	50	20	200	50
14	Partnership	50	20	1,000	50
15	Bank guarantees	50	20	1,000	50
17	Appointments of trustees or attorneys	50	20	500	50
18	Warrants of attorney, all kind	50	20	500	50
19	Notary dealings	50	20	500	50
20	Wills	50		500	50

Note: (a Cost of copy for counterpart

Soruce: JTB (2002)

**A4. Computation of PIT in Nigeria 1993 -2001 (in N)**

	1993-94	1995	1996-97	1998-2000	2001+
First	10,000(10%)	10,000(5%)	10,000(5%)	20,000(5%)	30,000(5%)
2 <sup>nd</sup> step	10,000(15%)	10,000(10%)	10,000(10%)	20,000(10%)	30,000(10%)
3 <sup>rd</sup> step	10,000(15%)	10,000(15%)	20,000(15%)	40,000(15%)	50,000(15%)
4 <sup>th</sup> step	30,000(25%)	10,000(20%)	20,000(20%)	40,000(20%)	50,000(20%)
5 <sup>th</sup> step	40,000(30%)	20,000(25%)	>60,000(25%)	>120,000(25%)	>160,000(25%)
Over	100,000(35%)	60,000(30%)			

Sources: Various approved budgets and CITN(2002)

**Inflation rate is now about 12%.**

**A5. Ad valorem rates charged by state governments  
Amounts vary according to the value of transaction**

	Types of instrument	Current rates (1996)	Renewed rates (2010)
1	Land agreements	₦ 1 for each N200 of total value	₦2 for each ₦200 Of total value
2	Lease agreement sublease	₦ 3 for each ₦ 100 of total value	₦ 3 for each ₦ 100 of total value
3	Lease holding agreement or rent agreements 1 – 7 years 7 – 21 years 21 – 99 years	₦ 3 for each 100 of total value x no. of years	₦ 6 for each ₦100 of total value x no. of years

4	Deeds of assignment, ratification confirmation	₦ 1 for each ₦ 50 of total value	₦ 1.50 for each ₦ 50 x no. of yrs
5	Deeds relating to release, hire purchase or surrender	₦ 1 for each ₦ 200 of total value	₦ 1.50 for each ₦ 200
6	Legacies (immovable assets)	₦ 1 for each ₦ 100 of total value	₦ 1.50 for each ₦ 100 of total value
7.	Promissory notes (IOU)	₦ 1 for each ₦ 200 of total value	₦ 2 for each ₦ 200 of total value

Source: JTB (2002)

\*Table still in use.

**Table B1: State Revenues and Expenditures 2006 – 2008**

Year	Revenue	Total	Balance
------	---------	-------	---------

		<b>Expenditure</b>	
2006	1,543.8	1,586.8	-43.0
2007	2,065.4	2,116.1	-50.7
2008	2,934.8	3,021.6	-86.8
2009	2,590.7	2,776.9	-186.2
2010	2,739.4	2,871.5	132.1
<b>Total</b>	<b>11,874.1</b>	<b>12,372.9</b>	<b>-234.6</b>

*Source: Central Bank of Nigeria. 2010 Annual Report, Abuja*

**Table B2. Nigeria: Local Governments' Finances, 2001 – 2010 (As Percentages of Totals)**

<b>Fiscal Indicator</b>	<b>2001 – 2005 Average</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Federation Account	88.6	81.6	68.3	52.4	50.0	52.7
Internally Generated Revenue	4.8	3.4	2.5	1.6	2.4	2.0
Other Revenues	6.6	3.6	1.3	0.8	4.8	4.5
Recurrent Expenditure	66.8	59.8	82.6	59.3	66.0	60.7
Capital Expenditure	33.2	40.2	17.4	40.7	34.0	39.3

*Source: See Table*



**Table B3. Nigeria: Local Governments' Revenue and Expenditures  
2001 – 2010**

<b>Year</b>	<b>Revenue</b>	<b>Total Expenditure</b>	<b>Balance</b>
2006	674.3	665.8	8.5
2007	832.3	827.4	4.9
2008	1,379.0	1,382.0	-3.0
2009	1,069.4	1,067.6	1.8
2010	1,359.2	1,356.7	2.5
<b>Total</b>	<b>5,314.2</b>	<b>5,299.5</b>	<b>14.7</b>

*Source: See Table*

**Table B4: Akwa Ibom State: Percentage Distribution of IGR by Source 2000 – 2005**

<b>Source</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Average</b>
Taxes	44.9	29.9	63.2	65.8	83.0	71.6	54.4
Fees and Fines	6.9	4.5	4.3	5.2	6.8	9.5	5.9
Licenses	0.4	0.4	0.7	1.2	1.5	1.3	0.8
Earnings and Sales	0.2	0.2	11.9	1.6	2.0	5.0	3.2
Rent on Govt. property	0.6	0.1	0.4	0.3	0.5	0.5	0.3

Interest, Receipts and Dividends	41.3	0.7	-3.4	6.8	0.7	0.3	7.3
Reimbursements	0.0	60.0	8.2	6.0	0.0	0.0	19.2
Retained Revenue from Parastatals	0.0	0.0	0.0	0.4	0.0	0.0	0.2
Miscellaneous	5.7	4.2	14.8	12.5	5.5	11.8	8.6
Internally Generated Revenue	100	100	100	100	100	100	100

**Source:** Taiwo, I. O. (2007)

**Table B5: Cross River State: Percentage Distribution of IGR by Source, 2003 – 2005**

Source	2003	2004	2005	2006	Average
Taxes	46.1	23.1	37.9	44.0	37.7
Fines and Fees	3.8	7.3	1.6	18.1	8.2
Licenses	0.3	1.5	0.7	1.5	1.1
Earnings and Sales	0.2	0.2	4.6	2.8	2.3

Rent on Govt. property	0.1	0.0	0.6	0.2	0.3
Interest Payments and Dividends	6.5	3.6	16.3	6.8	8.9
Reimbursements	0.0	0.0	0.0	0.0	0.0
Miscellaneous	43.1	64.2	38.3	26.6	41.6
IGR	100	100	100	100	100

**Source:** Taiwo, I. O. (2007)

**Table B6: Lagos State: Percentage Distribution of IGR, 2001 – 2005**

Source	2001	2002	2003	2004	2005	Average
Taxes	30.9	36.3	35.6	38.9	34.7	35.4
Fines and Fees	0.4	0.4	7.1	1.2	7.7	3.5
Licenses	0.8	0.7	1.0	0.0	1.9	0.9
Earnings and Sales	7.0	7.5	7.7	5.6	2.5	6.0
Rent on Govt. property	0.1	0.0	0.2	0.0	1.0	0.3
Interest Repayments and Dividends	1.2	0.4	0.0	1.1	0.0	0.5

Reimbursements	1.4	0.0	0.0	0.0	0.0	0.3
Miscellaneous	3.2	4.8	2.4	5.1	2.8	3.7

**Source:** Taiwo, I. O. (2007)

**Table B7: Kano State: Share of IGR in Total (%), 2001 – 2005**

Source	2001	2002	2003	2004	2005
Taxes	36.2	44.4	37.2	47.7	43.3
Fees and Fines	7.9	7.5	7.4	5.8	5.2
Licenses	1.8	3.6	3.2	2.8	1.6
Earnings and Sales	0.2	0.7	0.8	2.5	3.6
Rent on properties	2.0	6.0	6.0	3.3	3.2
Interest Repayments and Dividends	4.6	0.7	12.8	8.7	13.0
Reimbursements	8.3	0.03	0.8	1.4	0.3
Miscellaneous	39.0	31.8	31.8	27.6	29.6
<b>Total</b>	100	100	100	100	100

**Source:** Computed from data obtained from CBN

**Table B8: Ondo State: Share of IGR in Total, 2002 – 2004 (in %)**

<b>Source</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Taxes	28.3	54.4	26.8
Fees and Fines	20.0	15.0	19.0
Licenses	4.3	5.2	8.4
Earnings and Sales	14.7	10.5	34.4
Rent on properties	1.3	2.2	2.8
Interest Repays and Dividends	17.1	6.0	5.8
Reimbursements	12.9	5.5	2.5
Miscellaneous	1.2	1.0	0.01
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

**Source:** Computed from data obtained from CBN

Unweighted average is applied; the other two states do not have complete data set for a five year average.

Please note that there are no state GDP figures in Nigeria.



# NIGERIA

