

“TAPPING REVENUE POTENTIALS OF AKWA IBOM STATE: A ROAD MAP”

BEING A PAPER PRESENTED
BY

ETUBOM ESSIEN OKON ETIM

MANAGING PARTNER,
ESSIEN ETIM & ASSOCIATES
CHARTERED TAX PRACTITIONERS
152 AKA ROAD
UYO

AT
THE

**1st AKWA IBOM STATE
REVENUE SUMMIT**



APRIL 6 & 7, 2009

“TAPPING REVENUE POTENTIALS OF AKWA IBOM STATE: A ROAD MAP”

PROTOCOLS

Preambles:

Without any prejudice to all acclaimed and generally accepted academic procedures of a clearly defined methodology, I wish to open my discussions with gratitude to God the Almighty, the God who created Akwa Ibom State in due season and sustained her to this moment with a divine guarantee for the future, to Him be glory for ever; to our esteemed Governor, His Excellency Chief Godswill Akpabio who has once again fulfilled one of his 2009 budgetary promises by the hosting of the Revenue Summit, indeed, this is turning point in revenue generation, to the organizers of this august gathering who have accepted to rob minds as to the future of the financial viability and stability of our dear State. The summit judging from the lead papers is very timely in contents and prospects. It is most consoling that His Excellency, the Executive Governor has within two years in office is organizing this thought provoking summit as a clear indication of success. What is being built by the gigantic projects all over the State must be maintained and the bottom line for good maintenance is adequate revenue. Maximizing internally generated Revenue (IGR) potentials in Akwa Ibom State is really a Collective Responsibility.

The line up of the lead papers and the array of the eminent professionals and scholars is convincing enough that Akwa Ibom State Government is up for a very important business. Indeed Revenue Generating is Business and the Enterprise Philosophy is the underline catalyst. I would presume very earnestly that this talk-shop would be followed by committee work on the issues and consensus reached, and the fruits will be realized in no distant date through careful implementations.

As one whose background is imbedded in revenue generation and collection. I feel happy that at least, the State government is giving thought to Internal Revenue Generation. Tax is a fact of life and there is no wishing that it goes away. As I share my thought on the topic **"TAPPING REVENUE POTENTIALS OF AKWA IBOM STATE:**

A ROAD MAP, I plead that where my comments do not conform to accepted protocols, they are done in good faith and with the highest sense of responsibility.

1.0 THE CONSTITUTION AND INTERNAL REVENUE GENERATION

Given the theme of this summit, we must have heard a lot on the basic framework of Internally Generated Revenue. However, it is pertinent to underscore the basics of the theme. My emphasis here is the Collective Responsibility in Internal Revenue Generation. The governments in this country are constitution based. The 1999 constitution is the principal law of the country. Chapter 2 of the said constitution stipulates the "Fundamental Objectives and Directive Principles of State Policy, this can generally be described as the "Government Social Contract with the Citizens" This chapter outlines the responsibilities of government to the people and the obligations of the citizens to the government. For this discussion emphasis is on section 16 which stipulates inter alia that the State shall direct its policy towards ensuring that the material resources of the Nation are harassed and distributed as best as possible to serve the common good and that suitable and adequate shelter, suitable and adequate food, reasonable national minimum living wage, old age care and pensioners and unemployment, sick benefits and welfare of the disabled are provided for all citizens. This implies that there should be Good Governance by the government of the day.

The other side of the Social contract provides for obligations of the citizen to the government as stipulated in section 24,; It shall be the duty of every citizen to abide by this constitution, respect its ideals and institutions, the National Flag, the National

Anthem, the National Pledge and legitimate authorities and to DECLARE

HIS INCOME TO APPROPRIATE AND LAWFUL AGENCIES AND PAY HIS TAX PROMPTLY, "(emphasis mine) .

The constitutional provisions of the legislative responsibilities and objectives are the authority for the levying and collection of revenue, Government and the citizens are involved. While government ensures good governance, the citizens pay taxes/levies for the upkeep of government. There is an exchange between the two, for as the citizens pay taxes; they are expectant that the cardinal objectives as spelt out by the constitution will be vigorously pursued with the taxes paid. Hence if we do not pay taxes, then we have no moral rights to build up our expectations for good governance.

1.1 THE EXECUTIVE ROLE IN REVENUE GENERATION

Section 121 (1) provides that "the governor shall cause to be prepared and laid before the House of Assembly at any time before the commencement of each financial year, estimates of REVENUES and EXPENDITURES of the State for the next following financial year. This is done through an Appropriation Bill section 121 (2). The revenue estimates are cumulative expectations from revenue heads or items which are to be tapped within the next financial year.



APRIL 6 & 7, 2009

1.2 THE LEGISLATIVE ROLE

By the provisions of section 120(3) the power of budget authorization is vested in the House of Assembly. The approval is usually given after a series of consultations and bargaining both at the ministerial and inter-ministerial levels including hearings before the relevant organs of government which have responsibility for the management of public funds,- Umane (2002). This function is more than just approving function. The House can among other duties "make changes in taxes or other receipts in line with constitutional power. It may reject the budget as presented- Meyeh ed. (1998), this scenario makes the State legislative an important overseer in revenue generation. More so, section D, 8-10 of the second schedule, 1999 constitution gives the State Assembly power to "regulate the liability of persons to that tax or duty both at the State and Local Government levels". This approach is to highlight the collective responsibility of all arms of government in the tapping internal revenue potential. It is a TOP-BOTTOM approach.

2.0 INTERNAL REVENUE GENERATION

Nigeria as a federation has by its constitution allocated functions to each tier of government and with them are attached taxing powers. Thus State revenues emanate from the tapping of these sources of revenue. Akwa Ibom State revenue comes in by way of:

(a) External Revenue

These are revenue that flows in from outside the political boundaries of the State and their generative potentials to a very large extent cannot be influenced by the State government. These include:

- Statutory Allocation from the federated Account
- Value Added Tax (VAT)
- Ecological Funds.
- Derivation(including Excess Crude)

External revenue sources look good and promising but recent experiences have shown how volatile they have been. The crises in the world oil market and the "Financial meltdown" ravaging the nations of the world have given governments, not only in this country, sleepless nights as the controlling variables are outside the manipulations of even the Federal government. Such a picture as presented above for external revenue sources lead directly to a position where the State Government must examine alternatives and/or supplements.

(b) Internal Revenue Sources

Internal Revenues also financial resources whose potentials the State government can tap as government has controlling influence on the means of exploitation through budgetary guidelines and hence determine to a large extent the quantum receivable.

Head	Source
401	Taxes
402	Fines and Fees
403	Licenses
404	Earnings and Sales
405	Rent on Government Property
406	Interest, Receipts and Dividend
407	Re- imbursement
408	Miscellaneous

As means of checking overlapping in generational powers and multiple taxation, the Federal government enacted Decree 21 of 1998 - Taxes and Levies (Approved list for collection) Act 1998. Part B of that Act lists out taxes and levies to be collected by the State Governments. These include:

1. Personal Income Tax in respect of -

- a) Pay- As- You Earn (PAYE) and
- b) Direct Taxation



2. With-holding Tax (individuals only)
3. Capital Gains tax (individuals only)
4. Stamp duties on instruments executed by
5. Pools betting and Lotteries, gaming and casino taxes
6. Road Taxes
7. Business Premises registration fee in respect of:
 - a) Urban areas as defined by each State, maximum of
 - i) N 10,000.00 for registration and
 - ii) N 5,000.00 per annum renewal of registration, and
 - b) Rural areas:
 - i) N 2,000.00 for registration and
 - ii) N 5,000.00 per annum renewal of registration
8. Development levy (individuals only) not more than N 100.00 per annum on all taxable individuals.
9. Naming of sheet registration fees in the state capital
10. Right of occupancy fees on leads owned by the State government in urban areas of the State

These taxes collectable by State government relate to items on the government legislative list (part 11, second schedule to the 1999 constitution) or taxes delegated to the States in accordance to Item D, Part 11, second schedule to the same constitution. A pitfall of the Act 1998 Act is that it is restrictive in stipulating the fees payable to the State for Business premises Registration (item 7) and Development levy (item 8) These should be left to the State to determine, may be with appropriate advice from the Joint Tax Board (JTB).

2.1 INTERNAL REVENUE COLLECTION

The Eight revenue Heads spelt out in section 2.0 above are divided into sub-heads and distributed among the collecting agencies which include the State Board of internal Revenue operated by the technical arm, the Internal Revenue Service (IRS) and the different ministries. The Chairman of the IRS is the Relevant Tax Authority (RTA) for the State and thus the Chief Revenue officer.

Tables 1 & 2 show internally generated revenue in Akwa Ibom State for the year's 2005-2008. From the data collected in table 1, the percentage collection was derived using year 2005 as the basis. While the Internal Revenue Service grew its budgeted revenue from N3, 001,000 in 2005 to N 7,560,800.00 in 2008, other ministries budgeted revenue rose from N753, 926,260 in 2005 to N2, 420,997,950 in 2008. That is, in 2005, other ministries revenue was 28.12% that of the Revenue service while in year 2008 it was 32.02%. In terms of generating power this is an unacceptable situation if the State is tapping its revenue potentials effectively and efficiently.

On actual collection, the IRS collection rose from 74.34%

against budget in 2005 to 102.47% in 2008 while other ministries collection rose from 23.86 to 64.59% in 2008.

In both cases, there are marked improvements especially in 2008. What factors could be responsible for this improvement. More so, is this the optimum in terms of our generating capacity.

In table 2, we see an overall picture in terms of revenue heads. Budgeted Internal Revenue rose from N3, 569,656.180 in 2005, to N6, 422,954,260 in 2007 only to decline to N4, 622,521,117 in 2008. What caused the declining in 2008 in Taxes from N5, 245,750,000 in 2007 to N3, 126,050,000 in 2008? May be the budget office has its reasons but the House of Assembly could have called for adequate clarifications during the budget briefings. Again, actual collections show rather peculiar scenario. Total revenue increased from N 3,538,165,359 in 2005 to N9, 316,238,637 in 2008. This position eclipses the fundamental deficiencies as per individual revenue heads. How does one explain the low collection of fines and fees, licenses, earnings and sales, interest, receipt and dividends? How do we explain the NIL Interest etc? Have we exploited potentials to the maximum or are there any constraints? Can the critical success factors be examined in the light of improvement in 2008?



APRIL 6 & 7, 2009

- a) **. State Internal Revenue Service-** As stated earlier this is the king-pin and controlling agency of Internal Revenue generation.

The following revenue are collectable:

- i) Personal Income Tax- the flow in through Pay As You Earn (P AYE) taxes from workers income. Direct Assessment tax payers- self employed, professions etc. who are the elites and the wealthy of society. P A YE taxes form the back of tax revenue. How do we reverse the trend?
 - ii) Motor Vehicle Reverses - vehicle licenses and Drivers licenses with ever increasing motor vehicles and motorcycles, why is the revenue on licenses so low.
 - iii) Stamp Duties - This is the revenue source that needs more public enlightenment. The yield can be dependable if controlled especially with increase in land/property development in the State.
- b) **Ministry of Land, Housing and Urban Development-**This Ministry should rank second in terms of quantum of revenue yield to the Revenue Service. Land Surveying and Housing fees, land taxes and rent fees for certificate of Deposit and certificate of Occupancy, Urban Renewal levy constitute the bulk of its revenue.
- c) **Ministry of Agriculture and Natural Resources-**This Ministry should be gold mine given the fact that the State economy is agriculture based. We have not exploited revenue in this area.
- d) **Ministry of Commerce and Industries -**In concert with the Ministry of Agriculture and Environment, this Ministry should be a revenue spinner for the State government Trade licenses, business premises licenses, produce grading and classification are areas not fully tapped.
- e) **Ministry of Health -**This Ministry in terms of revenue yield needs adequate coordination with improved health facilities currently going on the yield through the Hospital Management Board can be increased significantly.
- f) **Ministry of Finance -**This is the hub of government accounting system "The Ministry of Finance Incorporated" as a fully fleshed department can be revitalized for increase in revenue from government investments especially now that there is an operational floor of the Nigerian Stock Exchange in Uyo. The dismay revenue returns in terms of Interest, Receipts and dividend should be unacceptable.
- g) **Ministry of Works -**This Ministry seems to be over looked in the search for adequate internal revenue generation. The Transport Directorate is vital if properly reactivated. The vehicle Inspection Unit has high revenue potential in the collection of road worthiness now that both private and commercial vehicles are to obtain road worthiness.

We have made a bird's eye view of some collecting Ministries whose revenue potential are quite high. The aim of this evaluation is to high light necessary strategies for improved revenue and point out some untapped areas for further exploitation.

3.0 **STRATEGIES FOR IMPROVED PERFORMANCE**

In the generation of revenue for maximum yield, it is good to examine key problems militating sufficiency. Among the most pressing problems are:

- a) **The level of economic activity-** It was generally accepted that Akwa Ibom State is a "Civil Service State". The implication is that government was everything to everybody. That assertion may not be correct for now. There is general increase level of economic activities. In all sectors of the economy, business is striving and the structures hitherto unseen and unheard of are springing up everywhere.
- b) **The Political will of Government-** this is the necessary muscle that government would pull through its revenue generating policy. That we are here today holding this summit shows that the political will is alive. They should be more enabling legal instruments to enforce collection of necessary taxes and levies.



APRIL 6 & 7, 2009

- c) Man Power Requirements- The necessary potential manpower to operate the revenue generating machinery is vital to maximum revenue collection. Man power developments with attendant equipment are necessary inputs. Today, as enterprises and businesses operator in knowledge based envirom1 lent and the pace of change is so fast that one is easily out witted if one's knowledge becomes stale. John C. Maxwell captures it completely when he asserts that "the more people you develop, the greater the extent of your dreams".
- d) Structure of Rates, Licenses and fees - Prevailing structure of rates, licenses and fees is a major determinant of the revenue levels that are collectable.
- e) Government Pronouncements - many a time's government does not encourage the payment of taxes. Governm1 lent officials rarely invite its citizens to see the need to pay taxes. If one rewinds all speeches at the various inter-ministerial projects, a major observation is that payment of taxes was never mentioned as a reciprocal for the good work of government in keeping to its terms of the social contract mentioned earlier as stipulated by the constitution.
- f) Machinery of collection - as long as revenue is viewed as a civil service duty, so long shall the yield be poor and government will continue to depend on consultants. The right calibers of staff are inadequate vehicles and other equipment are in Sh011 supply.
- g) Accounting and Audit Controls -Reasonable sound accounting system and audit controls are easily short circuited, resulting in the mis-use of receipts and embezzlement of revenue collected. The poor attitudes to financial rule and regulations manifest in a variety of ways. One of this is the non-challant attitude to audit queries.

We have gone this length to highlight some of these problems and in the next section we profer strategies for improved revenue collection

3.1 STRATEGIES FOR IMPROVED PERFORMANCE

Improved revenue generation is vital to the viability and stability of the government. Given the increase recorded in the overall picture in the last twelve months, it becomes pertinent to ask whether the state has reached it optimum. What then is improved revenue for Akwa Ibom State. If the yield for 2006 exceeded that for 2005 while that for 2008 exceeded that of 2007, then we could infer that

- a) Surpassing the collection for the previous period entails improved revenue or
- b) As the Internal Revenue Service over Sh011 its target in 2008 or
- c) As other ministries collectively had an actual collection exceeding previous years but falling short of target.

The fundamental issue is achieving the revenue capacity of the State. What are the critical factors that if put in place would give raise the budget input of internally generated revenue to above 50% of budgeted revenue as in Lagos State. Thus evolving effective strategies for revenue generation in Akwa Ibom State rest on the following.

- a) **Complete Autonomy for the Board of Internal Revenue** - The State revenue board should be granted legal, financial and administrative autonomy to conduct its affairs. This will ensure the much desired level of efficiency and effectiveness. All revenue collecting staff in all ministries must be responsible to the Chairmen of the BIR. The Board should be constituted with the appeal commissioners put in place to safeguard tax payers right. As long as the revenue service remains a purely civil service extension, initiatives and insights will always suffer bureaucratic distortions. Autonomy is fast gaining grounds across the country and Akwa Ibom State will be joining the likes of Lagos, Adamawa and Sokoto. The Joint Tax Board has been firm on this issue within the last ten years.
- b) **Promulgate a Comprehensive Revenue Collection Law in the State.**

The legal instrument for generating and collection of revenue lies in the State House of Assembly. The law should spell out the nature of the post of Chairman of the Revenue Board which should be a five year term renewable for another five years (final) based on good performance. The State should exploit to the fullest, the principle of fiscal federalism. Lagos is doing it, why not Akwa Ibom?

- c) **Creation of Computerized Data Base-** Every revenue collectable should have complete computerized database. Once created, with periodic updating the process of assessment, collection and enforcement for evaders becomes easy. Moreso, fraud and leakages would be reduced to the bearest minimum.
- d) **Taxpayers Educational Enlightenment** - Taxpayer education is a necessary link in revenue generation. In Akwa Ibom State today, there is no ward without one project or the other to reflect the State government's presence. The public should be sensitized to appreciate their rights, duties and obligations to the upkeep of government and the maintenance of these projects. Mini versions of this summit should be held regularly in the local government areas with His Excellency the Government in attendance if his schedule permits. The political town-hall meetings should talk revenue.
- e) **Capacity building** - The human asset is the most vital in every organization. The revenue board should have extended manpower development plans based on professional backgrounds. Entry points at the lower levels should be based on the Taxation Technicians Scheme (TTS) of the Chartered Institute of Taxation of Nigeria, CITN. All staff that are not of the Inspectors cadre should be given a time limit to obtain the TTS certificate. For the Inspectorate cadre, passing the final example of CITN should be the criteria for promotion. This is what is obtained in the Federal Inland Revenue Service. This would make staff innovative and result oriented.
- f) **Creating a Tax Friendly Environment** -The State government must as a matter of good governance come out with its Revenue (Tax) Policy. This policy must deliberately institute and maintain a tax friendly environment. The result would be ; encourage voluntary compliance by taxpaying public; create an, investors haven for rapid development, eliminate multiple taxation especially by the Local Governments.
- g) **Intelligence and Investigative Taxation** -Information gathering about taxpayers' sources of income will facilitate reliable and defensible assessments. Monitoring and evaluation of assessment and collection would be easier and legal prosecution would be enhanced.



APRIL 6 & 7, 2009

- h) **Creation of Revenue Alarm** -the checks and balances in revenue collection would entail an alarm system where the expected revenue is not realized within the shortest possible term. Quarterly returns to the House of Assembly Committee or Revenue (when created) will help put the revenue authorities on safeguards.
- i) **Setting of Appropriate Revenue Target** -The budget office must set realistic and attainable targets for revenue collection. A position where targets are reduced despite preavailable favorable environment should be avoided.

3.2 **A LOOK AT POSSIBLE AREAS**

All the above discussion centered on the existing approved areas of collection. It is possible to derive revenue from the non-inclusive list.

- a) **Marine derivable Revenue** -Akwa Ibom State has the longest coast line in the Country, with the proposed seaport in Mbo and attendant maritime activities, the State should exploit the possibilities in revenue derivable from the maritime sector. The Ministry of works in collaboration with the Ministry of Justice should examine the cabotage law and exploit entries points for revenue.
- b) **Hospitality/Tourism Revenue** - Tourism is a growing sector of the State economy. Potentials areas of revenue should be examine. The classification and grading of hotels and restaurants to maintain standards will boast patronage and hence increase activities which would lead to more revenue to the State.
- c) **Housing/Property Identification** - A base line survey of houses in the three main cities of Uyo, Ikot Ekpene and Eket would create a viable revenue source. Moreso, property taxation or Urban Renewal tax in collaboration with the relevant local Government Council has high potential of revenue to be tapped.
- d) **Increase Investment in Property and Shares** - The Ministry of Finance Incorporated should be re-organized and more active. It would make sense if the State should own more properties in most industrial cities of the country having high rental income potentials.

4.0 CONCLUSION

We have in the course of our discussions examined the collectiveness imbedded in revenue collection. We further examined the revenue potentials of some ministries and highlighted some fundamental problems. These are not exhaustive and we believe this paper calls for more in depth discussions. The strategies outlined can be combined for more fruitful yields, however, we have to stress that creating a revenue authority that is knowledge based with highly motivated work force holds the key to tapping the revenue potentials of the State. Autonomy for the State Board of Internal Revenue forms the bed rock for improved revenue yields. The contracted revenue consultants perform because they are autonomous, and operate on the enterprise philosophy. Since this is the key to success then let us give it to the Revenue Service to unlock the revenue potentials of the State.

Thank you for your attention.

Etubom Essien Okon *Etim, FCTI*
Managing Partner
Essien Etim & Associates
Chartered Tax Practitioners In Partnership with Ezekiel
Edem & Co,
152 Aka Road
Uyo.
Akwa Ibom State
Tel. 08023061366



IRS			OTHER MINISTRIES		% COLLECTION	
YEAR A	BUDGETED B	ACTUAL C	D	BUDGETED E	ACTUAL F	G
2004	3,001,000,000	2,231,192,042	74.34	753,926,260	179,619,029	23.82
2005	3,053,300,030	3,265,750,178	106.95	546,056,180	272,415,381	49.88
2006	3,677,700,000	3,889,041,315	105.74	1,141,672,690	314,061,283	27.50
2007	4,620,500,000	7,037,248,109	152.30	1,802,394,260	858,715,797	47.64
2008	7,560,800,000	7,747,980,772	102.47	2,420,997,950	1,563,771,779	64.59

		BUDGETED				ACTUAL			
HEAD	SOURCE	2005	2006	2007	2008	2005	2006	2007	2008
401	Taxes	2,903,800,000	3,587,950,000	5,245,750,000	3,126,050,000	3,131,953,451	4,494,907,853	6,850,542,839	7,655,415,435
402	Fine and fee	382,133,450	624,209,660	527,111,260	583,444,950	233,689,118	276,344,883	409,874,447	7,655,415,435
403	Licenses	62,750,010	211,550,000	242,550,000	239,750,000	31,137,822	57,684,115	73,070,317	97,242,042
404	Roaming and Sales	164,649,320	295,000,000	322,220,000	449,930,000	122,667,901	145,273,352	350,930,066	237,036,450
405	Rent on govt. property	42,300,010	41,900,000	30,600,000	150,160,000	1,661,127	27,454,723	177,359,272	14,902,264
406	Interest, receipt and dividend	33,000,040	33,150,000	20,150,000	32,654,167				741,708,782
407	Re-imbusement								51,791,65
408	Miscellaneous	10,723,350	25,613,419	34,573,000	40,663,000	11,056,140	15,864,304	30,186,965	194,680,624
	TOTAL	3,569,656,180	4,793,759,660	6,422,954,260	4,622,652,117	3,538,165,509	5,017,529,280	7,882,963,906	9,316,238,637
	% OVER YEAR 2005	BASE YEAR	34.29	79.93%	29.49	BASE YEAR	41.81%	122.79%	163.30%