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AN ASSESSMENT OF THE CONTRIBUTION OF PAY-AS-YOU-EARN TO THE INTERNALLY GENERATED REVENUE OF KANO STATE BETWEEN THE PERIODS 1999 TO 2008

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ABSTRACT

The paper assessed the contribution of pay-as-you-earn to the internally generated revenue of Kano state between the periods 1999 to 2008. Data was collected from the annual reports and account of the Accountant General of Kano State and the internally generated revenue statement of Kano State Board of internal revenue which were analyzed using Descriptive statistics and Pearson correlation coefficient. The results show that pay-as-you-earn contribute significantly to the internally generated revenue of Kano state. It constitutes significant percentage of the personal income tax and also to the board of internal revenue collection. The contribution should have been much more than this due reluctance of revenue generation efforts This is partly as a result of the certainty of earnings from the federation account, poor remittance and collection machinery, lack of motivation of revenue staff, inadequate demographic information on tax payers, corrupt practices by some tax officials and tax payers among others. Finally it is recommended that effort should be made by the government to identify taxpayers that are yet to be captured in the tax payers net, through the issuance of a unique tax identification number and the development of data base of tax payers' profile in order to improve pay-as-you-earn collection, personal income tax and internally generated revenue of Kano state.

KEYWORDS

Internally generated revenue, Pay-as-you-earn, Personal income tax.

INTRODUCTION

Generation of revenue by every entity is an issue of paramount importance. This cuts across households, firms, states and nations. Every country of the world today is striving to achieve rapid socio-economic growth and development through optimum tax assessment, collection and utilization. Government at every level (Federal, State or Local) is expected to discharge certain functions to its populace which includes the provision of basic infrastructure and social amenities (Abdulkadir 1998). The generation of adequate revenue is, therefore, very important for the effective discharge of the functions of government, as no meaningful development can be achieved in the absence of revenue.

Revenue as explained by Oni (2005) means the receipt of a government, state or firm. In accounting terms, revenue means gross income received before any deduction for expenses incurred in generating the income. The 1999 Constitution of the Federal Republic of Nigeria, section 162(10) (1) defined revenue as any income or return accruing to or derived by the government from any source (internal or external). On the other hand, internally generated revenues are those revenues that are derived from various sources within a state or local government. The sources include pay – as – you- earned, direct assessment, capital gains tax, withholding tax on rent, motor vehicle license, stamp duties, earning and sales of governmeent properties etc (Buhari, 2001).

Revenue is necessary for the effective functioning of the government machinery, as no government can survive without adequate revenue. However, studies have shown that state being the second tier of government in Nigeria has over the years shown sheer laxity toward enhancing internally generated revenue (Hamid, 2008). Most state governments have over the years over- relied on their share of revenue from the federation account, neglecting other internal sources of revenue generation available to them. Although pay-as-you-earn has the potential of generating sufficient internal revenue to state governments, it has not been given the desired attention. This has resulted to decrease in the share of the contribution of pay-as-you-earn to the overall revenue being generated at state level. Thus, current dwindling in the price of crude oil at the international market coupled with the world economic meltdown creates a shortfall to all the three tiers of governments, including the government of Kano State. With the price of crude oil in the international market crashing from $140 per barrel in early 2008 to the current average price of about $80 in December, 2009, coupled with the reduction of Nigeria's OPEC quota to 1.88 million bpd compared to the budgeted 2.292 million bpd for 2009, all the three tiers of government have to explore other sources of revenue. Presently, the grim picture that confronts states in Nigeria is that of drastic reduction in allocation from the Federation Account. In January 2009, the funds allocated to the three tiers of government dropped to N285 billion as against N435 billion allocated in December 2008, a difference of N150 billion. The allocation reduces further in March to 251.5 billion (Federal Republic of Nigeria, 2009; Mukwuzi, 2009; Omose; 2009 and Subair, 2009). Such reduction together with the crisis in the Niger-Delta is affecting all the states in Nigeria leading to cutting down of expenditure. If this trend is to continue, states governments may not be able to provide the desired basic amenities to the masses, which will in turn affect the standard of living of the majority of the populace.

The internally generated revenue (IGR) level in Kano state for most of the years under review (1999-2008) has been below the desired target (Annual Report and Account1999-2008). The unfavorable situation has been as a result of weaknesses in judicial and tax administrative machinery and laxity in the exploitation of all the sources of revenue available to the state, among others. Though in the recent past, considerable efforts have been made by the government in improving the internally generated revenue level of the state. For instance in 2005 and 2006, an increase of 10% and 24.27% were recorded respectively over the budgeted amount (Annual Reports and Accounts Kano State, 1999-2008).

Although Kano State government has been making concerted efforts to shore up its internal revenue base, through setting up of machineries to tackle tax evasion, restructure management of the State's Board of Internal Revenue, as well as engaging a number of experts and consultants, the level of achievement recorded is yet to be ascertained.

The paper is aimed at assessing the contribution of Pay-As-You-Earn (PAYE) to the internally generated revenue in Kano state between the periods 1999 to 2008 and also to see the extent to which Pay-As-You-Earn (PAYE) contributes to the personal income tax and the Kano state board of internal revenue collection. To accomplish this, the paper is divided into five sections. Introduction, conceptual framework and literature review, methodology, results and discussions, conclusion and recommendations.

LITERATURE REVIEW

THE CONCEPT OF REVENUE

The term revenue has been defined by various authors in different ways. Adam (2006) defined revenue as the fund required by the government to finance its activities. These funds are generated from different sources such as taxes, borrowing, fine, fees etc. It is also defined as the total amount of income that accrues to an organisation (public or private) within a specified period of time (Hamid, 2008). States revenue comprises of receipt from taxation as well as those which are not the proceeds of taxation, but of either the realization from the sale of government properties or other interests and returns from loans and investment earning. Bhatia (2001) contends that revenue reciept include "routine" and "earned" income. For these reasons, according to him, revenue do not include borrowing and recovery of loans from other parties, but it includes tax reciept, donations, grants, fees and fines and so on.

Similarly, Pearce (1986) defined government revenue as all the money received other than from issue of and debt, liquidation of investments. Government revenue includes tax collections, charges and miscellaneous revenues, utility and insurance trust revenue for all funds and agencies of a government. Public revenue according to Stephen and Osagie (1985) is concerned with various ways in which the government raises revenue. From the above definitions, it can be said that revenue is the total amount of income accruing to a state from various sources within a specified period of time.

States' government, like the other two tiers of government, has sources and uses of revenue. Oshisami (1994) states that there are basically two types of revenue that accrues to state governments. These are internally generally generated revenue and revenue allocated from the Federation Account. Internally generated revenue are those revenues that are derived within the state from various sources such as taxes (pay as you earn, direct assessment, capital gain taxes, etc), and motor vehicle license, among others. While the statutory allocation from Federation Account, Value Added Tax etc constitute the external source.

Most states of the federation get the bulk of their revenue in form of statutory allocation from the federation account to finance their expenditure programmes (Mukhtar, 1996; Isyaku, 1997; abdulkadir, 1998; Ibrahim, 2002; Ishaq, 2002 and Hamid, 2008). State governments as the second tier of government in Nigeria derive its revenue from various sources. However, it should be noted that sources of revenue are by no means uniform among the states. States derive their revenue depending on the resources available to them; (Anyafo, 1996; Daniel, 1999; and Adam, 2006). The share of federation account to states constitutes 57.97% in 2002 of the total revenue plus grant and this rose to 65.82% in 2006; while the internally generated revenue decline from13.38% in 2002 to 8.11% in 2006 (CBN,2006). The average percentages of internally generated revenue in relation to the federal allocation were between 5-9 percent for most non-oil producing states in the recent past. Kano was able to slightly exceed 10% in 2004 to date due to aggressive revenue generation efforts, with Lagos state as the only exception. The Internally Generated Tax Revenue of Lagos State has gone up sharply over the period 2000-2004 and to date, in both nominal and real terms. This favourable development is due to the general dynamism, enthusiasm and professionalism of private sector agents (tax consultants) whose remuneration is performance based (Zeeuw and Abdulrazaq 2005 and Sagagi 2007).

The common sources of revenue among the state governments in Nigeria as highlighted in Anyafo (1996), Jimoh (2007) and Hamid (2008) include taxes, fines and fees, licences, earning and sales, rent from government properties, interest and repayments of loans, re-imbursements, statutory grant and miscellaneous. Revenue generated by state governments is used to finance various expenditure programmes. Expenditure is an actual payment or the creation of an obligation to make a future payment for some benefit, item or service received. Government expenditure is broadly divided into two (2) main categories, viz, recurrent expenditure and capital expenditure (Sosanya, 1996; and Jimoh, 2007).

Recurrent expenditure according to Jimoh (2007) is the type of expenditure that happens repeatedly on daily, weekly or even monthly basis. The amount involved is charged to some operating account (e.g. profit and loss account or income and expenditure account).This includes for example payment of pensions and salaries, administrative overhead, maintenance of official vehicles, payment of electricity and telephone bills, water rate and insurance premium, etc.

Capital expenditure on the other hand refers to expenditure on capital projects. It is expenditure for the purpose of acquiring or improving a relatively permanent asset. This includes construction of houses, roads, schools and hospitals, human capital development (expenditure on education and health), purchase of official vehicles, construction of boreholes, electrification projects, etc. The above expenditures both recurrent and capital, are therefore incurred with the aim of improving the standard of living of the populace(Sosanya, 1996; and Jimoh, 2007).

Anyafo (1996) explains that government expenditure produces different degrees of impact on the economy. The effects vary greatly, depending on exactly how the government disburses public funds. If not undermined by poor management and fiscal indiscipline, government expenditure is expected to have positive impact on resource allocation, that is, on the pattern of goods and services produced by the economy. It is also expected to produce some implications on the distribution of real income and welfare. Since many government expenditures benefit some groups at the expense of others, the impact is usually in the form of income redistribution.

PERSONAL INCOME TAX

Personal Income Tax (PIT) is the oldest form of tax in the country. It was first introduced as a community tax in the Northern Nigeria in 1904 (before the unification of the country in 1914). It is implemented through the native revenue ordinances to the western and eastern regions in 1917 and 1928 respectively. It was later incorporated into direct taxation ordinance number 4 of 1940 (Ola, 2001). The need to tax personal income prompted the Income Tax Management Act (ITMA) of 1961. Several amendments have been made to the 1961 ITMA Act in 1985, 1989, 1990, and 1992.

The application of ITMA varied across regions/states causing the burden of multiple taxes on individuals. As stated by Odusola (2006) two study groups were set up in 1991 to review the situation and improve tax collection. The 1961 ITMA was replaced with an amended act which was superseded in 1993 by Personal Income Tax Act (PITA) number 4. It was applicable with nationwide coverage. Its administration however, was assigned to the states, which were empowered to tax individuals, or bodies of individuals residing in its territory in a particular year. The PITA empowered the Joint Tax Board to administer the tax throughout the country and to coordinate its administration while the State Board of Internal revenue (SBIR) became responsible for the administration of the revenue.

Dandago and Alabede (2000) defined Personal Income Tax as taxes imposed on the income of individuals, communities and families, etc. arising from employment, business, trade, profession, vocation etc. Bimpe (2002) consider Personal Income Tax as employment income taxes (payroll taxes) operated on the basis of Pay–As –You Earn (PAYE). He further explained that the tax applies to all employees of a Nigerian Company including expatriates as well as self employed individuals, partners and trustees. In these regards, the definition implies two forms of personal income Taxes. That is the PAYE and the Direct Assessment form of personal income tax.

Two forms of personal income tax exist; the Pay-As-You-Earn system (PAYE) and Direct assessment. Mballos (2005), Taiwo (2002) and Ola (2001) described PAYE as the system whereby the employee pays tax on whatever income he earned from his employment in any particular month at the end of that month. It is a progressive tax arrangement whereby an employee pays income tax on his/her current earnings when it becomes payable. PAYE applies only to employees resident in Nigeria and employees of Nigerian government oversee. It applies to income from all sources, salaries, bonuses, commission, directors' fees and any other income from employment etc. The employer deducts the tax from the employee's monthly earnings including any allowances or benefits paid in cash or given to or on behalf of the employee. The total amount deducted by the employer from the employee's earning at the end of every month is then remitted to the relevant tax authority (the relevant State Board of Internal Revenue).

Evasion (partial or total) is described by Jimoh (2007) and Olaofe (2008) as outright or deliberate breaking of law to minimize or not to pay taxes at all or efforts outside the law to minimize taxes. The PAYE system seems to be the most effective way of enforcing payment of tax (from employment). Since tax is deducted at source, Hence, PAYE system reduces the level of evasion.

In an attempt to solve the problem of Personal Income Tax and Companies Income Tax, especially in the areas of evasion, self assessment system was introduced by the federal government of Nigeria through the 1991 budget pronouncement. The system is to run concurrently with the existing Government assessment (or non-self assessment) for both individual and corporate tax payers. The system is based on the assumption that every tax payer is patriotic. It is expected to be reinforced by some compliance measures like regular and selective tax audit in order to sustain credibility of the system. Those who exploit the system to evade legitimate tax liability are to be severely punished (Buhari, 2001 and Jimoh, 2007).

The growing concern of tax administration throughout the world is on how to simplify the tax assessment system to encourage voluntary compliance and many countries have adopted the self-assessment as a solution (Sarker, 2003). This recent trend in developing countries sees a shift from the official assessment system to self assessment. Compliance costs are all costs incurred by taxpayers, non- filers and third parties to comply with tax obligations Das-Gupta (2003). The success or failure of the self assessment system from the view point of the tax administration is ascertained from the amount of taxes collected by the system and is found to be successful in countries like Japan as a result of their half century experience (Sarker, 2003).

The self assessment tax system is an assessment by the tax payer in which he carries out the computations of the tax liability, usually on a prescribed form and accompanies this with payment of the tax due to the tax authority. The non-self assessment tax on the other hand, is the assessment made by the tax authorities and conveyed on an assessment notice to the tax payer. In most cases, the tax payer provides the relevant information on a tax return form to assist the tax authority to carry the necessary assessment'

RESEARCH METHODOLOGY

Ex-post facto research design was used for this study. Data was also obtained from the revenue statement of the Board of Internal Revenue and report of the Accountant General Kano State for the period of ten (10) years, (1999-2008) in order to determine the extent of pay-as-you-earn (PAYE) contribution to the internally generated revenue in Kano State, total personal income tax and the board of internal revenue collection. Descriptive statistics and Pearson correlation coefficient were used in analyzing the data collected. This is with a view to enable the researcher to find out whether or not pay-as-you-earn (PAYE) contributes significantly to the internally generated revenue in Kano State.

RESULTS AND DISCUSSION

This section presents analyses and interprets the data generated for the study. The data generated from the revenue statement of Kano state board of internal revenue and report of the Accountant General Kano State for the period of ten (10) years, (1999-2008).

RELATIONSHIP BETWEEN PAY-AS-YOU-EARN AND INTERNALLY GENERATED REVENUE

Table 1 (appendix) shows the Pearson correlation coefficients on the relationship between pay-as-you-earn (PAYE) and total internally generated revenue. The values of the correlation coefficient range from -1 to 1. The sign of the correlation coefficient indicates the direction of the relationship (positive or negative), the absolute values value of the correlation coefficient indicates the strength, with larger values indicating stronger relationships. The correlation coefficients on the main diagonal are 1.0, because each variable has a perfect positive linear relationship with itself.

The results (appendix) show the correlation coefficient for Pay-As-You-Earn (PAYE) and Internally Generated Revenue (IGR) is 0.786 which is relatively close to 1; this indicates that PAYE and IGR are strongly positively correlated. The significance level or p-value is 0.007, also indicates that PAYE contributes significantly to IGR in Kano state because it is close to zero. The average contribution of PAYE to IGR is 28%. The implication of this is that PAYE is one of the major sources of revenue in Kano state. However, in view of the status of Kano state been the centre of commerce of the Northern Nigeria and the most populous state of the country; the contribution of PAYE to IGR which is a little above one quarter of the total IGR suggest that other sources of IGR are not contributing enough particularly direct assessment. Some of the problems facing the state in the area of revenue generation include tax evasion, lack of trained, effective and motivated personnel, non-challant attitude of some tax officials, problem of assessment, problem of legal proceedings, lack of commitment to collect capital gains tax on all capital gains accruing to individuals, lack of commitment to pursue all internal revenue sources available to the state. For example withholding tax on rent and investment income), high tax rate, accessibility lack of mobility, networks, neglect of tax administration, and lack of up- to- date statistics on tax payers. These problems have hindered the state from generating enough revenue to the state and consequently affected the level of essential services the state government provides.

RELATIONSHIP BETWEEN PAYE, TOTAL PIT AND KSBIR COLLECTION

The correlation coefficient for Pay-As-You-Earn (PAYE) and total personal income tax is 0.991 (appendix II) which is close to 1; this indicates that Pay-As-You-Earn (PAYE) and total personal income tax are strongly positively correlated. The significance level or p-value is 0.000, which indicates that Pay-As-You-Earn (PAYE) contributes significantly to the total personal income tax on average PAYE contribute 88% of the total personal income tax with direct assessment contributing the balance of 12% .

When Pay-As-You-Earn (PAYE) and total Kano State board of internal revenue collection are related, the results (appendix II) shows that the correlation coefficient is 0.995 which is very close to 1. This indicates that Pay-As-You-Earn (PAYE) and board of internal revenue collection are strongly correlated. The significance level of 0.000 is very low indicating that the correlation is significant. Thus, Pay-As-You-Earn (PAYE) contributes significantly to the total Kano State board of internal revenue collection. The average contribution is 82% of the Kano State board of internal revenue collection. This means that the state board of internal revenue effort toward generating revenue from other sources is not encouraging; Pay-As-You-Earn (PAYE) is deducted from the source and requires not much effort from the tax officials for assessment and the contribution of just 18% from the other sources is insignificant looking at the diverse revenue potentials of the state. Thus, the need for effective assessment and collection of revenue from all sources

CONCLUSIONS AND RECOMMENDATIONS

The paper posits that Pay-As-You-Earn (PAYE) contributes significantly to the Internally Generated Revenue (IGR) of Kano state, it also constitute significant percentage of the personal income tax and the board of internal revenue collections. The significant contribution of Pay-As-You-Earn (PAYE) indicates that Kano state as a commercial state is not making enough effort in generating revenue from other sources of revenue. This is partly as a result of the certainty of earnings from the federation account, poor remittance and collection machinery, lack of motivation of revenue staff, inadequate demographic information on tax payers, Inadequate and unreliable information furnished by tax taxpayers, Politics and partisanship, Corrupt practices by some tax officials and tax payers among others.

The neglect of Pay-As-You-Earn (PAYE) a component of personal income tax which is an important source of revenue has contributed immensely to the over reliance of revenue from the federation account. Such over reliance has affected Kano state and other states of the federation negatively in the area of providing basic amenities that the citizens need.

It is recommended that effort should be made to identify taxpayers that are yet to be captured in the tax payers net, through the issuance of a unique tax identification number and the development of data base of tax payers' profile. Government should have the political will and should also ensure effective assessment, collection and utilization of tax revenue; this would improve Pay-As-You-Earn (PAYE) collection, PIT and the IGR of Kano State

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APPENDICES

APPENDIX I

TABLE 1:PEARSON CORRELATIONS RESULT ON THE RELATIONSHIP BETWEEN PAYE AND IGR

		Internally Generated Revenue	Pay-As-You-Earn
Internally Generated Revenue	Pearson Correlation	1	.786**
	Sig. (2-tailed)		.007
	N	10	10
Pay-As-You-Earn	Pearson Correlation	.786**	1
	Sig. (2-tailed)	.007	
	N	10	10

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Computed by the Author from the Data on Appendix III (SPSS Version 16.00)

APPENDIX II

TABLE 2: PEARSON CORRELATIONS RESULT ON THE RELATIONSHIP BETWEEN PAYE, TOTAL PIT AND KSBIR COLLECTION

	Pay-As-You-Earn	Total Personal Income Tax	Total KSBIR Collection
Pay-As-You-Earn	1	.991**	.999**
		.000	.000
	10	10	10
Total Personal Income Tax	.991**	1	.995**
	.000		.000
	10	10	10
Total KSBIR Collection	.999**	.995**	1
	.000	.000	
	10	10	10

Source: Computed by the Author from the Data on Appendix III (SPSS Version 16.00)

APPENDIX III

TABLE SHOWING INTERNALLY GENERATED REVENUE, PAY-AS-YOU-EARN, TOTAL PERSONAL INCOME TAX AND TOTAL REVENUE OF KANO STATE BOARD OF INTERNAL REVENUE

YEAR	1GR(N)	PAYE(N)	TOTAL PIT	TOTAL REV OF KSBIR
1999	1,453,309,124	286,993,832.00	376,420,283.08	476,354,698.31
2000	1,847,049,387	387,987,643.40	512,323,199.30	628,386,925.20
2001	2,337,313,746	713,959,883.30	902,832,307.79	1,041,822,740.77
2002	2,191,297,904	1,148,234,962.00	1,323,854,290.91	1,551,835,316.21
2003	4,517,503,134	1,012,868,694.00	1,150,963,603.92	1,416,905,484.40
2004	6,651,982,871	1,324,476,265.00	1,662,645,194.95	1,951,775,373.23
2005	6,754,740,822	1,497,918,511.00	1,828,423,879.68	2,101,990,302.66
2006	7,777,523,683	1,712,910,339.00	2,066,723,801.68	2,407,291,855.64
2007	8,293,966,984	2,150,287,268.00	2,188,129,688.52	2,864,855,587.33
2008	6,979,069,779	3,224,729,462.00	3,284,610,045.62	4,270,678,165.40

Source: Kano State Accountant General Report and KSBIR Revenue Statement 1999-2008

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