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Effect of Efficient Tax Collection in Nigerian Local Government: A Case Study of Yewa North Local Government Area, Ogun State, Nigeria

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ABSTRACT

This study is aimed at identifying the problems of tax collection in Yewa North Local Government Area, Ogun State, Nigeria. The study emphasizes the extent to which the tax collection irregularities hindered sustainable infrastructural development that arises from low-income generation by the local council, in the study area. The opinions of the population of study comprising taxpayers and authorities were sought through a structured questionnaire to elicit the opinions of fifty (50) respondents in the study area, then analysis of data was done by using the simple percentage method, while the formulated hypotheses were tested using the chi-square of fit technique at 0.05 level of significance. The findings revealed that there were inadequate facilities and infrastructure for the people, income generated by the council through taxes and levies was grossly inadequate. The study concluded that the local government needs to focus on improving the quality and condition of infrastructures such as inner roads within the communities. It was recommended that the citizens should pay tax correctly, and as at when due, the local government authority should make payment of taxes and levies to be very convenient for compliance.

Keywords: Tax, Tax collection, Small Scale Business, Local government, infrastructures

1. INTRODUCTION

The three tiers of government in Nigeria are the Federal, State, and Local government. The Constitution of the Federal of Nigeria, 1999 as amended, enshrined the basic structure of the financial control and regulations for local governments in the country. The constitution defines local governments as government at the local level, that is government at the grassroots, which exercises its authority through representative councils established by law to execute specific powers within a defined area.

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The functions of the local government council were spelled out in the constitution, in most cases the functions of this tier of government amount to what generates their revenue which assists in the delivery of their constituted mandate. Part of the responsibilities of a local council is the provision of infrastructures such as construction and maintenance of roads, streets naming and lighting, construction of drainages, recreation parks, motor parks, and other facilities as spelled out in the law of the land. Development is highly associated with funding, in which revenue is needed to plan, execute and maintain infrastructures and facilities at the local government level. The needed revenue collected for such development projects like construction of accessible roads, building of public schools, health care centers among others are derived from the states, national and international government, and also the list of taxes and levies collectible by the local government include shops and kiosk rents, tenement rates, slaughter slab fees, cattle tax, etc.

Thus the local government cannot embark on, or execute any of their proposed projects and other responsibilities without an adequate tax collection system. Apart from other sources of income to the local government council, such as statutory allocation from the federation account, the share of internally generated revenue from the state, grants, and aids from international organizations, governments, and NGOs, taxes, and levies are also significant to the revenue-generating ability of the third tier of government in Nigeria. The Nigerian tax system was structure from the united kingdom tax system (Kath, 1997).

Ogbonna and Ebimobowei, (2011), thought that the objective of imposing tax and levy on citizens is to assist in improved service delivery to the people. The local governments are expected to embark on an efficient and effective tax administration to be able to achieve their set objectives and responsibilities. Taxes and levies have been defined by (Anyanwu,1997) as a compulsory levy expected to be paid by all citizens whether the benefits derived from such payments are enjoyed directly by the payers or not. Odusola, (2006) highlighted tax reform policies by the government of Nigeria and the importance of tax revenue to any country. the negative attitude of most tax collectors, discourage taxpayers, according to the finding of (Odusola, 2006).

Adesoji and Oboh (2012) did an empirical analysis of tax leakages with Nigerian Gross Domestic Product (GDP), the study suggested that government should find a way to block all leakages. Ekwubi, (2010) expected the local governments to have appropriate budgeting systems that can improve revenue generation. Likewise, Ndunda et al (2020) concluded in their study that local governments required to have revenue collection strategies, but Sanni, (2012) opined that local government are not expected to imposed tax but to collect taxes and levies, the study emphasized that government should be aware of the multiplicity of taxes on taxpayers, he suggested that collection of taxes should be undertaken by the state and federal government.

It was observed that local governments are underfunded by the state, where their direct allocation from the Federation account cannot be independently utilized by the local government council except it is within the strategic plan of the state government. This is the basic reason why development is skeletal at the local government council in Nigeria and, not even felt at all in recent times in the country. The issue of poor tax collection is not exceptional to Yewa North Local Government of Ogun state, but this research tends to assess the tax collection problems that can affect revenue generation and more important developmental implications of these problems for Yewa North Local Government area of Ogun state, small scale businesses and trading form the basic economic activities in the area of study.

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This work seeks to examine the effective and efficient method use in taxes and levies collection in the area, whether it has any significant effect on the local government revenue system. The second objective is to assess the viability of tax as a source of revenue to Yewa North local government. The hypotheses for the study are as follows:

Hypothesis one
H_0: Tax is not a viable source of local government revenue
H_1: Tax is a viable source of local government revenue

Hypothesis two
H_0: Effective and efficient taxation policies have no positive effects on the local government system
H_1: Effective and efficient taxation policies have positive effects on the local government system.
   Hypothesis two

2. METHODOLOGY

Ogun state is a state in southwestern Nigeria. It was formed in the year 1976 on February 3rd and also it has its capital located in Abeokuta. The total population of the state is 4.045.272. It boundaries Lagos state to the south, Oyo and Osun state to the North, Ondo State to the East, and the Republic of Benin to the West. The state's slogan is "Gateway state" The case study of this research is Yewa North Local Government Area of Ogun State. Yewa North (formerly Egbado North) is a local government area in the west of Ogun state, Nigeria, bordering the Republic of Benin. Its headquarters are in the town of Ayetoro in the North East of 181,826. It came into existence through local government Edict No 9 of 1976. The area is noted for its agricultural products as most citizens are farmers. Prominent settlements in the area include Oja-Odan, Ohunbe, Ebute-Igbooro, Eggua, Ibese, Iboro, Sawonjo, Joga-Orile, Igan-Okoto, Imeko.

With the use of a structured questionnaire, data were collected on the different problems of tax collection. Frequency tables were used to analyze the collection of raw data and the chi-square method is used to test the hypothesis with interpretations. The target population of this study comprised employees who are 18 years and above in the public and private sectors in Yewa North Local Government of Ogun State where the private sector here, are the market women, petty traders and craftsmen, and women in the local government area. While the public sector refers to the employee of the council resident in the area, and other government workers.

The Sample and Sampling Techniques employed is the random sampling technique, both primary and secondary data were used for this study. The primary data was sourced through the use of a structured questionnaire and data was collected on the different problems of tax collection. The secondary data was sourced from journals, articles, textbooks, and other publications that are relevant to the subject of the study.

2.1 Questionnaire Design
A total number of fifty (50) questionnaires were administered to the respondents chosen from the Yewa North Local Government Area of Ogun State. The test-Re-Test method was used to establish the reliability of the instrument. This shows that the constructed questionnaires were distributed at intervals of more than one to the same group of persons to discover the differences between the test results.

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Table 1: Reliability statistics

Cronbach's Alpha	N of Items
976	9

Table 2: Item-total statistics

Questions	Scale Mean If Item Deleted	Scale Variance If Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha If Item Deleted
Tax is a viable source of local government revenue	17.80	51.102	.907	.973
The tax collection and administration often prone to corruption	18.08	53.096	.807	.976
Effective and efficient taxation policies affect the local government system	17.82	51.130	.903	.973
Payment of tax should be seen as a civic duty of every citizen	17.72	51.634	.806	.975
Similar tax base discourage tax payment	17.62	52.159	.829	.975
Government policies on taxation often discourage the payment of tax by the public	17.30	45.276	.935	.974
Challenges of bad governance militate against the payment of tax in Ogun state	17.68	48.589	.948	.972
Non-payment of workers' salaries and other entitlement may result in tax compliance problem	17.54	48.009	.953	.972
People's bad notion about tax is a major problem of tax payment in Ogun state	17.66	48.637	.948	.972

The above table shows the level of reliability of the research work. The column labeled corrected item-total correlation is the correlation between each item and the total score shown in table 2, Cronbach's alpha 0.976, in a reliable scale, all item should be correlated with this value. Therefore since the value of alpha is between 0 and 1, we can conclude that o.976 is reliable and that the research questions, as well as their sources, are reliable.

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3. FINDINGS

The research study was carried out in Yewa North Local Government Area of Ogun State. It dealt extensively with the problem of tax collection in Nigeria. To achieve this, a detailed structured questionnaire of 50 respondents was taken. The age distribution of the respondent reveals that the majority of the respondent falls within the range of 45yrs and above which implies that those that pay taxes most are within the working-age group and can understand the tax allocated to them. Also, educational qualification shows that not all the respondents are learned. The majority of the taxpayers have tertiary education. From the data collected 44% of the respondents have NCE/OND with 19% and 4% have HND/B.S$_C$. And Ph.D./PGD respectively.

Moreover, the job cadre reveals 68% of the respondents to be senior staff and 32% to be junior staff. This shows that the majority of the taxpayers are from the category of the senior staff and do not have the zeal towards tax payment. It was also revealed that the challenges and problems of tax collection and administration are understood by the senior staff because they have better experience in their respective career as employees in the Local Government.

3.1 Testing of Hypotheses

Hypothesis One

Table 3: Tax is a viable source of local government revenue

	Observed N	Expected N	Residual
Valid SA	27	16.7	10.3
A	20	16.7	3.3
D	3	16.7	-13.7
Total	50		

Table 4: Test statistics

	Tax Is A Viable Source Of Local Government Revenue
CHI-SQUARE(a)	18.280
DF	2
ASYMP. SIG.	.000

Zero cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 16.7. Table 4 above indicates that there was a significant association between Taxation and Local Government revenue generation. X^2 (2) =18.280 p<0.001, the value of x^2=18.280 and the degree of freedom on which this was based were 2 and that it is significant. P<0.001. Based on the result above, we accept H_1 and reject H_0, and conclude that there is a significant relationship between Taxation and Local Government revenue generation which implies that Tax is a viable source of Local Government revenue.

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Hypothesis Two

Table 5: Effective and efficient taxation policies have a positive effect on the local government tax system, cross-tabulation

	Effective And Efficient Taxation Policies Have Positive Effects On The Local Government System			
	SA	A	D	Total
TAX IS A VIABLE SA	27	0	0	27
SOURCE OF LOCAL A	1	19	0	20
GOVERNMENT D	0	0	0	0
REVENUE	0	0	3	3
Total	28	19	3	50

Table 6: Chi-square tests

	Value	df	Asymp Sig. (2- sided)
Pearson Chi-Square	95.804(a)	4	.000
Likelihood Ratio	78.178	4	.000
Linear-By-Linear Association	46.437	1	.000
No Of Valid Cases	50		

5 cells (55.6) have an expected count of less than 5. The minimum expected count is 18.Table 6 above indicates that $x^2(4) = 95.804$ $p < 0.001$. The value of $x^2 = 95.804$ and the degree of freedom on which this was based was 4 and that is significant. $p < 0.001$. Based on the result above, we accept H_1 and reject H_0, and conclude that effective and efficient taxation policies have a positive effect on the local government tax system.

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4. CONCLUSION AND RECOMMENDATIONS

This work examines the challenges faced in the collection of local government taxes by local governments in Ogun state, in other words, to assess the effect of the effective collection of taxes, especially in Yewa north local government area of the state. From the findings of this study the tax authority personnel need to improve on their relationship with the taxpayers, so that the taxpayers would not be discouraged in fulfilling their civil responsibility, {Odusola,(2006) and Azubuike, (2009)}. This study supports the recommendations in (Ekwubi, 2010, and Ndunda, et al, 2020), that there should be an improved strategic plan and budgetary system relating to tax collection. This study disagrees with (Sanni, 2012). The study, therefore, recommends that tax authorities should ensure that payment of taxes and levies for local government should be as convenient as possible, to encourage compliance. Local government councils should be accountable and be transparent in all their financial dealings so that they can achieve an effective and efficient tax collection system.

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