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An Assessment of Revenue Jurisdiction and Fiscal Federalism in Nigeria

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Abstract : *The concept of Revenue jurisdiction and Fiscal federalism connotes an arrangement in which fund raising powers through taxation and control over public spending are shared among the various federating tiers of government. The focus on revenue sharing rather than revenue generation has been the root cause of acrimonious relationship among the federating units in the country and has equally led to the creation of many unviable states and local governments in Nigeria. This has also culminated into the creation of many revenue sharing commissions/committees yet, without arriving at a satisfactory formula. The mismatch between revenue raising powers and responsibilities among the federating units with the federal government taking the juicy revenue sources while leaving the states with the semi juicy sources to the detriment of the local government is uncalled for. This paper has therefore enumerated some measures that will put an end to this ugly trend to include the redistribution of the juicy revenue sources exclusively enjoyed by the federal government among other tiers of government, diversification of the Nigerian economy to curtail over reliance on the oil sector, concentrating on increased revenue generation other than revenue sharing and granting of financial autonomy to local government areas among others.*

Key Words*: Federation, Revenue jurisdiction, Fiscal federalism, Inter-governmental financial relations.*

INTRODUCTION

Federation implies the existence of more than one level of government in one country, each with different expenditure responsibilities and taxing powers. Nigeria is a federation consisting of states and federal capital territory, the federal government, 36 states and 774 local government areas. Among the different levels of government, fiscal arrangement ought to be worked out properly to ensure fiscal balance in the context of macro economic development and stability. The fiscal arrangement among the different tiers of government in a federal structure as contended by Osisioma and Chukwuemeka (2007) as cited in Emma and Denis (2011) is often referred to as fiscal federalism. In other types of political structure it is known as intergovernmental fiscal relations.

Fiscal federalism according to Ajibola (2008) denotes an intergovernmental fiscal relations defining functions and responsibilities among the various tiers of government as well as the financial resources to achieve the stated objectives. It is a term used to describe a system of government in which the fiscal responsibilities rest with the various tiers of government in the country. In Nigeria, for instance, the federal, state and local governments have the joint responsibility of generating and expending revenue to carry on government responsibilities. Fiscal federalism therefore relates to the division of tax income and functional responsibilities among the various tiers of government in a federal state.

It is in view of the underlying imperatives of federalism that Okoli (2004) as reported in Nkwede, Tiben and Josephine (2013) argued that federalism is a system of shared powers between units of government. It is a way of organizing a nation so that two or more levels of government have formal authority over the same area and people. From this point, it could be seen that federalism rests on divided sovereignty where the states and nation control some portions of political power independent of other's authority.

THE OBJECTIVES OF FISCAL RELATIONS IN A FEDERATION

As outlined by Anyanwu (2014), an ideal system of fiscal relations among the federating units of a federation would:
(a) Ensure correspondence between sub national expenditure responsibilities and their financial resources (including transfers from the central government) so that functions assigned to sub

national governments can be effectively carried out;
(b) Increase the autonomy of sub national governments by incorporating incentives for them to mobilize revenues of their own;
(c) Ensure that macroeconomic management policies of the central government are not undermined or compromised;
(d) Give expenditure discretion to sub national governments in appropriate areas to increase the efficiency of public spending and to improve the accountability of sub national officials to their sub national constituents for provision of sub national services;
(e) Incorporate intergovernmental transfers that are administratively simple, transparent and based on objective, stable, non-negotiated criteria;
(f) Minimize administrative costs thereby economizing on scarce administrative resources;
(g) Provide "equalization" payments to offset differences in fiscal capacity among states and among local governments so as to ensure that poorer sub national government can offer sufficient amount of key public services;
(h) Incorporate mechanisms to support public infrastructure development and its appropriate financing;
(i) Support the emergence of a governmental role consistent with market-oriented reform; and
(j) Be consistent with nationally agreed income distribution goals.

CHARACTERISTICS OF INTERGOVERNMENTAL RELATIONS

As a process, intergovernmental relations are associated with some characteristics. According to Wright (1988) as cited in Bello (2014) the major characteristics of intergovernmental relations could be summed up as follows:

- ✓ Intergovernmental relations have a bearing on all governmental units in operation in a given system. From the top to the bottom, for example, in Nigeria, that is, the federal government, state governments, local governments, government agencies, public corporations, commissions, committees, institutions etc., are all involved in it. The relationship between each other and the quality of the same coupled with frequency of interaction amongst them has its impact on policy making and implementation;
- ✓ Intergovernmental relations aim at purposeful behavior of the governmental officials involved in the process. The officials' actions and attitudes have to be positive and meaningful. For their self-interest, they should not put the public interest at stake. The officials' goal-oriented attitudes does not permit them to have wrong inclination regarding the other participants involved in the process of policy making;
- ✓ Intergovernmental relations aim at regular interactions among officials. Through frequent interactions, based on objective data and analysis, the officials at various levels can contribute to the attainment of targets fixed for the given unit of governance. The day-to-day contacts called for practical working relationship among the official. This would go a long way in improving the policy making process;
- ✓ Public officials include all governmental officials and actors. These are elected representatives such as members of the national assembly, state legislative assemblies, local governments, or indirectly elected representatives as in the local governments, political executive and appointed officials, including the administrative personnel at lower and middle ranges, etc. The interaction amongst all the governmental actors and officials whether elected or appointed, contribute in improving the policy process; and
- ✓ The financial aspects, viz., loans, grants-in-aid, revenue sharing, auditing, etc., also strengthens or weakens the intergovernmental relations. The governmental structures which are evident at grassroots, states, or federal level are made to facilitate the policy process in such a way whereby the common person could get the maximum benefits through the policies made. The financial assistance and help from one level of government to another is also a step in this particular direction and an important component of intergovernmental relations.

REVENUE JURISDICTION AND FISCAL FEDERALISM

According to Akpa (2014), the concept of revenue jurisdiction and fiscal federalism refers to an arrangement in which fund raising powers (via taxation) and control over public spending are shared among the various federating tiers of government. In the case of Nigerian experience, the three federating tiers of government are the federal, state and local government. The second schedule, part II, item D, sections 7-10 and 163 of the 1999 constitution do share the relevant revenue powers among the three tiers of government.

As a matter of fact, the whole issue of revenue jurisdiction and fiscal federalism in a federal set up boils down to the following three questions

- Which government can legislate over what revenue source?,
- Which government can administer the law to collect revenue from the various sources?, and
- Which government can spend the collected revenue?

All in all, these three issues can be compressed into the question: Which government (i.e. jurisdiction) can control certain revenue sources? This is the main question posed in the resource control controversy in Nigeria today.

In response to the above questions, the federal government has exclusive legislative powers over certain revenue sources like import and export duties, mining rents and royalties, petroleum profit tax, company profit tax, capital gains tax and so on.

Concerning administrative power, it should be found that the states have the power to collect certain revenues even though the legislative powers lie in the domain of the federal government.

With respect to spending rights, the subsisting arrangement is that, while some revenues are collected into a common pool (e.g. the Federation Account and Value Added Tax) and later shared, others are exclusively controlled by the government which enjoys legislative power over them. The whole issue therefore boils down to that of exclusive and concurrent powers and it is at the heart of the explosive resource control controversy in the country.

The revenue profile of the three tiers of government in Nigeria (that is the federal, state and local government) includes the following:

S/N	Types of Tax	Administration and Collection of the tax
	Import duties	Federal
	Excise duties	Federal
	Export duties	Federal
	Mining and royalties	Federal
	Petroleum sales and profit tax	Federal
	Companies gains tax	Federal
	Capital gains tax	Federal/States
	Personal income tax (other than listed in 9)	States
	Personal income tax: armed forces, external affairs officers, on-residents, resident of the Federal Capital territory and the Nigeria police.	Federal
	License fees on television and wireless Local radio	Local
	Stamp duties	Federal
	Capital transfer tax (CTT)	Federal
	Values Added tax	States
	Pools Betting and other Betting taxes	Federal
	Motor Vehicle and Drivers Licenses	States
	Entertainment tax	States
	Land registration and survey fees	States/Local
	Property taxes and rating	States
	Marketing and trading licenses and fees	Local
	Motor park duties	Local
	Advertisement fees	Local
	Gift tax	States
	Rates, Tenement Rates	Local

Source: Adopted from Nkwede, Tiben and Josephine (2013)

COMPONENTS OF REVENUE ALLOCATION FORMULA IN NIGERIA

The Vertical and Horizontal Formulae:-

Fundamentally, there are two components of the revenue allocation formula used for the disbursement of the Federation Account as indicated here under.

Vertical Allocation Formula (VAF)
Horizontal Allocation Formula (HAF)

THE VERTICAL ALLOCATION FORMULA: This formula shows the percentage allocated to the three tiers of government i.e. federal, states and local governments. This formula is applied vertically to the total volume of disbursable revenue in the Federation Account at a particular point in time. The VAF allows every tier of government to know what is due to it; the Federal Government on one hand and the 36 States and 774 Local Governments on the other (Bashir, 2008).

THE HORIZONTAL ALLOCATION FORMULA: The formula is applicable to States and Local Governments only. It provides the basis for sharing of the volume of revenue already allocated enbloc to the 36 States and 774 Local Governments. Through the application of the principles of horizontal allocation formula, the allocation due to each State or Local Government is determined. Thus, it can conveniently be concluded that the vertical allocation formula is for inter-tier sharing between the three tiers of government while the horizontal allocation formula is for intra tier sharing amongst the 36 States and the 774 Local Governments in Nigeria (Bashir, 2008).

INSTITUTIONAL FRAMEWORK FOR REVENUE ALLOCATION IN NIGERIA

For analytical purpose, the table below provides at a glance the process which takes place monthly in the allocation of revenue from the Federation Account.

S/N	*Institution*	*Role*
1	Revenue Mobilization, Allocation and fixed Commission	Monitor revenue accruals into and disbursements from the federation account. It therefore determines the allocation indices
2	Central Bank of Nigeria	A custodian of the federation account
3	Federation Accounts Allocations Committee	It determined monthly disbursement from the federation account. It comprises of representative of the federal, 36 states government, RMAFC, OAGF and other revenue agencies etc.
4	State Joint Local Government Account	It determines monthly disbursement from the State Joint Local Government Account. It comprises of representatives of the State and local governments.

Source: Kabir A Bashir (2008), Workshop paper.

Victor (2013) has identified different revenue sharing formulas as proposed at different times and adopted by the three tiers of governments in Nigeria to include the following:

OKIGBO PRESIDENTIAL COMMISSION (1980)

The Okigbo Presidential Commission on revenue allocation which was constituted in 1980 gave the following recommendations for the sharing of revenue:

Federal Government – 55%
State Government – 35%
Local Government – 10%

Just like other post independence formula on revenue allocation, the Okigbo Commission recommendation was accompanied with controversy, disagreement and Conflict.

REVENUE ALLOCATION UNDER IBB REGIME 1985 – 1989

The thorniest issue under Babangida regime was the fiscal scheme. The issue of revenue allocation was so thorny that Babangida regime had to review the revenue allocation four times during its duration. From the inception of the Babangida regime in 1985 all through 1989, the formula of revenue allocation stood at:

Federal – 55%
State – 32.5%
Local – 10%

Allocation to the oil mineral producing states, and general ecological problems stood at 1.5% and 1% respectively.

REVENUE ALLOCATION UNDER ABACHA REGIME 1994 – 1998

Abacha regime adopted and maintained the formula bequeathed to it by the Babangida regime. This formula is presented below:

Federal Government – 48.5%
State Government – 24%
Local Government – 20%
Special Fund – 7.5%

The introduction of Value Added Tax (VAT) in (1996) has also diversified source of fund for the tiers of government. The formula adopted for the sharing of the VAT fund (vertically) since the 1997 fiscal years is:

Federal Government – 35%
State Government – 40%
Local Government – 25%

REVENUE ALLOCATION UNDER PRESIDENT OLUSEGUN OBASANJO (1999-2007)

The proposed formula by Revenue Mobilization, Allocation and Fiscal commission gives:
Federal Government – 41.3%
State Government – 31%
Local Government – 16%

REVENUE ALLOCATION (2000 – 2010)

The current vertical allocation formula which is based on Presidential Executive order is as follows:
Federal Government – 52.68%
State Government – 26.72%
Local Government – 20.60%

It must be noted however that the politics of revenue sharing in Nigeria has remained a controversial and contentious issue often resulting in acrimony and disharmony in polity (Angahar, 2013).

According to Akpa (2014), certain principles and criteria were mobilized to guide the work of the various revenue sharing commissions/committees in deciding on horizontal allocation among the states and local governments. The ones being used presently by the Revenue Mobilization, allocation and Fiscal Commission include the following:

- ❖ Population: The principle of population meant to proxy for needs has been overwhelmingly accepted but it application has been at the centre of social tensions in the country. For example, census figures have been manipulated, disputed and rejected in this country because of the fact that population figure is a vital tool for resources allocation in the land. The first republic collapsed principally over the disputed 1963 census.
- ❖ Derivation: According to this principle, it is only equitable to give an extra share to the state from which the bulk of the revenue has been deprived beyond that which every other state receives. The original thinking that gave birth to the principle was to encourage, at the time, farmers who were producing the basic items of export for the country example, Cotton, Cocoa, Groundnut, Oil palm etc.
- ❖ Equality of states and local governments: Everyone appears to hail this principle but its application is yet to satisfy many.
- ❖ Internal revenue efforts; The spirit here is to encourage each tier of government to strive harder in raising funds internally as opposed to an undue reliance on statutory allocations.
- ❖ Social development factor: The proxy measures for this include primary and secondary schools enrolment, and number of state hospital beds, water supply and average rainfall in five most recent years in the state capital.

The present revenue allocation formula for vertical sharing among the federating units has the following variables:

	PERCENTAGE
Federal Government	X
States	X
Local Government	X
Special fund	X
Total	**100**

INTER-GOVERNMENTAL FINANCIAL RELATIONS

In an attempt to prevent an acrimonious relationship between the federating tiers in a federal system of government, there should be a match between constitutional responsibilities assigned and the resources allocated for the discharge of the assigned functions. Government constitutional assignments should be backed up by a complement of taxing powers and revenue rights. Fiscal imbalance between the federal government and the state governments on one hand and the state government and the local government on the other as well as the need for developments by various states or regions can be a source of acrimony and bad blood between the federating units, this disharmony can however be ameliorated through the application of the principles of Administrative efficiency, Economies of scale and Desired social effects in the allocation of scare financial resources Akpa, (2008) as cited in Angahar, (2013).

- ❖ *Administrative Efficiency:* Due to the peculiar nature of certain revenue sources, a particular tier of government may be in a better position to harness such a revenue source more efficiently; the fiscal powers over such revenue source should be given to the tier of government that can handle it more efficiently.

- *Economies of Scale:* The tier of government that can most economically harness a revenue source with minimum wastage should be allowed fiscal powers over the revenue source.
- *Desired Social Effects:* The extent of the tax effect expected should act as a guide in arriving at the decision as to which tier of government should be allowed fiscal powers over a revenue source. The intended social effect may be national, regional or local in scope, based on this desired effect, fiscal powers may be granted to the federal ,states, and local governments respectively.

POWER SHARING AND IMBALANCE BETWEEN ASSIGNED RESPONSIBILITIES AND REVENUE POWERS

In a federal structure, it is normal for each tier of government to be given adequate resources to enable it discharge its responsibilities. In practice, this does not run all that smoothly. Often, one tier of government may end up with more financial power than it actually needs, while another may have less than it needs.

The fiscal arrangement in Nigeria is characterized by excessive concentration of fiscal powers with the federal government. Invariably, there is a lack of correspondence between the spending responsibilities and the tax powers and revenue resources assigned to different levels of government. The federal government is the "surplus unit" and the state and local governments on the other hand are the "deficit units." The allocation of tax powers centre on administrative efficiency and fiscal independence. The efficiency criterion insists that a tax be assigned to that order of government that will administer it efficiently (at minimum cost), while fiscal independence requires that each tier of government raise adequate resources from the revenue sources assigned to it in order to meet its needs and responsibilities. Concerning tax powers, the efficiency criterion often conflicts with the principle of fiscal dependence. In Nigeria, weighting has always been in favor of the efficiency criterion, which allows for the concentration of taxing powers in the hands of the federal government.

The effect of concentrating tax powers in the hands of federal government means dependence of states and local governments on federal sources of funding. The federal government is assigned to administer the most lucrative sources of revenue because it is perceived to be in a better position to administer those taxes efficiently. Thus, the federal government administers those taxes on behalf of all the governments of the Federation. Hence, the federal government has no more right over the monies it collects than do the state and local governments. It follows that, in sharing the revenues collected by the federal government on behalf of itself and the other tiers of government, it is not correct to assert that the lower levels of government depend on the centre. In fact, the federal government is not constitutionally assigned to collect such revenues.

THE CHALLENGES OF FISCAL FEDERALISM IN NIGERIA

A number of constraints and challenges both within and outside the fiscal system are part of the problems that must be solved in order to achieve an effective fiscal system (Nkwede, Tiben and Josephine, 2013). The challenge to effective fiscal federalism according to them can be identified to include the problem of external debt overcharge, macro-economic instability, distresses in domestic financial system, lack of political stability and above all, bad leadership or leadership ineffectiveness.

The external indebtedness of the country and inability to meet external debt service obligations had been a major constraint to fresh flow of foreign investment into the country, while the distress in the domestic banking system also constitutes a distinctive to the much needed growth in private savings and investments. This is further complicated by the high level of inflation experienced during the review period. High inflation is destructive to private savings as it continuously increases the share of disposable income of consumption.

It has been observed also that rapid growth and development cannot be achieved in an environment of political and social instability. Political stability implies an orderly system for a change of government. The absence of an orderly system and dedicated leadership is a great challenge to the operation of an effective fiscal system needed to support economic growth. The challenge is formidable because it is the leadership that would dictate the pattern and direction of fiscal engineering.

In view of the foregoing points, Ajibola (2008) identified the following as the major challenges of fiscal federalism in Nigeria:-

- The major problem could be seen in the mismatch between revenue sources and functions of the various tiers of government. The revenue allocated to the lower tiers of government is lower in comparison to the enormous duties expected of them. This has actually influenced meaningful infrastructural development in the country.

- Frequent change in government and incessant military coups reduce the operations and effectiveness of fiscal federalism. This is because during military intervention, constitution is usually suspended in favor of decrees and edicts. In this situation, the principles of fiscal federalism were affected and this in turn affected development in the country, especially within the state and local government areas.
- Dwindling revenue due to reduction in the country's export and fluctuations in the prices of the nation's commodities in the international commodity market are among the challenges of the fiscal federalism in Nigeria.
- Economic and financial mismanagement which is reflected in corruption and financial impropriety of government functionaries have actually affected development in Nigeria especially where leaders in the country are corrupt and self centered.
- The sharing of federally revenue reflects political applications rather than economic consideration.

Rapid increase in fiscal unit thereby reducing the funds allocated to each state and local government in the country.

CONCLUSIONS

The practice of fiscal federalism in Nigeria has generated controversial issues around factors that would ensure an equal and stable revenue sharing among the three tiers of government. Revenue allocation in Nigeria be it in pre or post independence period is characterized by controversies as each tier of government (federal, state and local) expects to enjoy a reasonable share from the federation account. All efforts should therefore be aimed at achieving a generally acceptable formula for revenue sharing. In this regard, the sharing of revenue in Nigeria should be guided by national interest which should super cede individual interests. If Nigeria is to remain a federation, then revenue should be shared based on the responsibilities of each tier of government. Meaningful dialogues and compromises ought to guide deliberations which are aimed at reducing tensions emanating from the practice of fiscal federalism. It must be noted that fiscal federalism can only thrive if the principle of intergovernmental financial relations is reviewed and respected.

RECOMMENDATIONS

- The issue of revenue allocation in Nigeria should be focused on the development of the national economy as a whole as opposed to the existing political and ethnic considerations. Attention should be shifted from revenue sharing to that of increased revenue generation.

- Revenue Mobilization, Allocation and Fiscal Commission that is saddled with the responsibility of carrying out a routine review of the revenue sharing formula in the country and making appropriate recommendations to the government should as a matter of fact involve relevant stakeholders in discharging their duties as this approach will yield better results and fair representation.

- The Federal, States and Local Government areas in Nigeria needs to diversify the economy into other investment areas rather than over reliance on the oil industry. It is believed that this will boost the revenue base of the entire country and in times of economic recession like the one we are going through now, the economy can absorb the inherent shocks and be able to withstand its effect due to the impact of diversification. The effort of the present led government at the federal level to invest meaningfully in the Agricultural sector is a welcome development. States and Local governments must not be left out in this struggle if the programme is to yield the expected results. In the same vein, Banks, Insurance companies, Co-operatives, corporate investors as well as groups and Individuals should be encouraged to invest in other sectors of the economy other than oil.

- The existing fiscal imbalance between the federal, states and local governments in Nigeria needs to be bridged. The juicy revenue sources exclusively enjoyed by the federal government should be redistributed among states and local government areas. Adequate attention should be given to local government areas because the majority of the people lives there and it is there that real development needs to take place. In addition, the state governments should be made to concentrate on their own areas of tax jurisdiction and avoid encroaching on that of local governments. The sharing of revenue should also be based on the responsibilities and functions of each tier of government.

- For peace and harmony to exist among the tiers of government, especially between the states and Local governments, there is need to grant financial autonomy to the local governments in order to enable them operate independently from the state governments. The "Joint State/Local Government Accounts" as enshrined in the constitution should be removed. With this, allocations from the federation accounts to local governments will be paid directly to the local governments without the intervention of the states. One of the ways by which the infringement of the revenue rights of local governments by the states can be checked is for the state governments to give back to local governments certain sources of internal funds as well as other internal generating sources snatched away from the local governments by the states.

- The states and local governments in Nigeria should explore new sources of internal revenue generation so as to boost their revenue bases. With this, the issue of constantly and wholly depending on the revenue allocation from the federation account will be curtailed.

- Fiscal discipline should be encouraged among the three tiers of government in order to reduce wasteful expenditure and corruption. Fiscal discipline will go a long way in curtailing the recurrent expenses incurred in maintaining the three tiers government which is closely associated with corruption will make more funds available to governments for efficient service delivery.

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