

EFFECT OF TAX POLICY ON THE EXPENDITURE OF LOCAL GOVERNMENT COUNCILS IN ANAMBRA STATE

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ABSTRACT

The objective of the study is to evaluate the effect of the Nigerian tax policy on the ability of local governments to raise and spend money in the discharge of their statutory responsibilities. The investigation was prompted by the fact that local governments seem to be carried away by the euphoria of the periodical statutory allocations from the Federation Account to the extent that they are blinded towards the potential of fiscal operations that would make them less dependent on the statutory allocations. The study therefore re-awakens the senses of local government administrators to the need to exploit more efficiently the opportunities that come with the recent national tax policy. The study is anchored on the Decentralization Theory as postulated by Richard Musgrave (1959) cited in Arowolo (2011). The study adopted a descriptive approach. The secondary data were analysed by means of Ordinary Least Square regression and by employing the Chow Test of structural stability. It was established that the tax policy which came into operation in January 2010 has a significant impact on the fiscal operation of local governments in Anambra State. Furthermore, the study shows that the tax policy had a significant positive effect on the expenditure of local governments, for instance, for Aguata Local Government, a unit increase in tax revenue brought about one million naira increase in total expenditure of the local government. It also shows that the tax policy improved the ability of local governments to raise revenue through various forms of taxes. Hence, local governments would fare better when they fully avail themselves the opportunities within the tax policy which make fiscal operations easier and more efficient. The implication of the result is that if local governments do not become enthusiastic in exploiting the benefits of the tax policy, they will remain inefficient in the discharge of their statutory functions. The study therefore recommends among others, that local government authorities should be more proactive in the business of fiscal operation by setting targets on the level of tax revenue to be realized within a particular period and reviewing same periodically.

Keywords: Tax Policy, Local Governments, Council, Revenue.

INTRODUCTION

Governments exist to serve the social interests of her subjects. To effectively discharge this duty, efforts are being made to situate governance right in the grassroots of the territorial districts of states. This gives rise to the need for finance both from within the local governments and from sources outside the local governments. Collection of taxes is one of the formidable options to generate revenue and this is what brings about taxation. A tax is a fee charged or levied by a government on a product, income, or activity taking place within its territorial boundary. The main reason for taxation is to finance government expenditure and to re-distribute wealth which translates to financing development of the state or region (Ola, 2001; Jhinghan, 2004; Bhartia, 2009). Hence, tax revenue refers to receipts from tax structures.

Prepared in 2002 and given effect on January 22 2010, the National Tax Policy (NTP) is a document which is essentially about taxation and other ancillary matters connected with taxation. It stipulates what constitutes taxation and distinguishes it from revenue. Consequently, the document on one hand defines tax as “a financial charge or levy imposed upon an individual or legal entity by a state or component of a state”. By this definition, a tax is a monetary charge on a person’s or entity’s income, property or transaction and is usually collected by a defined authority at any of the three tiers of government.

On the other hand, revenue is defined as “income received from all activities engaged in by the receiving entity” (NTP, 2002). In government terms, revenue is the entire amount received by the government from sources within and outside the government entity. Revenue therefore encompasses the entire gamut of government income, which is realised and available for expenditure by government within a particular fiscal year or period. Owing to the foregoing, we deduce that taxes are a sub-component of government revenues, but they are not the only revenue item which is internally generated by government. Other sources of internal revenue include fees, rates, levies, fines, tolls, penalties and charges. Taxes are, however, a major contributor to government revenue and ideally present a major source of revenue.

The present structure of taxation as stipulated by the constitution of the Federal Republic of Nigeria reflects the three-tier system of government at the Federal, State and Local Government levels. Under the constitution, each tier of government has been granted powers and responsibilities in respect of the imposition and collection of taxes. Tax heads in the exclusive legislative list are outside the jurisdiction of local government councils whereas activities that would ordinarily attract taxes, fees and charges (forms of levies) are placed squarely as part of the responsibilities of the Local Government Council and this is set out in the Fourth Schedule of the Constitution of Federal Republic of Nigeria. In this regard, state and Local Governments are allowed to employ their broad discretion in establishing fees, charges or fines keeping in mind the purpose for imposing such payments.

For the purpose of clarity, there are three relevant tax authorities in Nigeria with capacity to collect various designated taxes: the Federal Inland Revenue Service (FIRS) collecting taxes on behalf of Federal Government; the State Boards of Internal Revenues (SBIR) collecting State taxes and the Local Government Revenue Committee (LGRC) which serves the Local Governments. Consequently, similar to the other tiers of government, Local Governments have constitutional power to assess, impose or levy taxes, collect, account for such taxes and utilise same for the administration of government activities as stipulated by the constitution (Ogbonna, 2010).

Indeed, the NTP creates awareness on the importance of the role which taxation can play in securing a stable flow of revenue for even the local government councils. In an era when Nigeria is regarded as a single product economy due to its significant dependence on oil revenue for over four decades, taxation has been identified as a more dependable source of revenue due to its perpetual nature. Hence, the tax policy provides a shift in paradigm from non tax revenue to tax revenue by governments at all levels of the Nigeria political and economic system. With this renewed focus, the tax policy and related

legislations seek to resolve issues that have hitherto impeded tax administration in the country, such as those who collect what, how it is collected, who controls what is collected, how what is collected is shared, who is responsible for spending what is realised, and who ultimately is responsible and accountable to the tax payers for the revenue collected and its expenditure.

This premise that local governments are statutorily empowered to impose and collect forms of tax like fees, levies, rates, fines and penalties in addition to their monthly allocation from the Federation Account forms the basis for the present investigation into their expenditure behaviour as it relates to the local government councils of Anambra State, Nigeria.

For about four decades now, local governments have been recognised as the third tier of government entitled to statutory allocations from both the federal and state governments (Ogbonna, 2010). The local government councils are established to serve the specific needs of their communities in such areas as economic planning and development, provision of cemeteries/ burial grounds, home for the destitute and infirm, markets, sewage and refuse disposal, roads, streets, street lighting, drains and other public facilities.

The justification for running the local government system in Nigeria is hinged on the premise that these would not constitute unnecessary burden on especially the state government. Local governments ought to be able to meet their obligations through internal resources. This, however, is a far cry as most local governments over the years fall short of generating a mere 10% of their required capital outlay and thus depend heavily on statutory allocation from the Federal Account (Akindele & Obiyan, 2002; Ekpo and Nddebio, 1998).

There is, however, a great danger in total dependence on allocation. This is because the size of the account is related to revenue from oil which is subject to unfavourable fluctuations. Take 2009 for example, the statutory allocation to Aguata Local Government Council rose to N151,731,909.91 in July from N77,771,470.39 in June of the same year but crashed to N83,190,415.28 in the following month and never got to around N90,000,000 throughout the year (FMF, 2009). The case was similar for the rest of the local government councils. Hence, if statutory allocations are not forthcoming, if oil is depleted, how are local governments to survive?

2.0 REVIEW OF RELATED LITERATURE

2.1 The Concept of Taxation and Revenue

A tax is a compulsory levy regularly imposed on transactions and on the income of individuals and corporate bodies and, as a rule, not designated for a special purpose. Taxes are regarded as a contribution from all corners of a state into a revenue pool or central reserve from where it can be re-distributed to the different tiers of government in a federal system like Nigeria. The main purpose is to raise revenue and not to commensurate or compensate directly or indirectly for a particular expense.

This does not mean that all and sundry is in favour of the imposition and collection of taxes. Some authors are of the view that tax is an inhibition to the full exercise of human rights and so should be shelved. Marshall (1999) and Merson (1972) quoted in Ogbonna (2010) belong to this category. While the former has it that "The power to tax involves the power to destroy", the later opined that there really is no benefit from taxation, saying "For every benefit you receive a tax is levied", implying that tax is a payment made in advance for benefits yet to be enjoyed.

It may be true that in some cases taxation is abused in which case the principles or CANONS of taxation as set forth in Adam Smith (1776) cited in Ogbonna (2010) are violated. This however is not always the case. Moreover the benefits associated with taxation far outweighs whatever negative impact there-

from. Among other things, tax is an instrument in the hand of government for use to keep the excesses within an economy in check. This informs the reason behind ensuring that taxation be regarded as a serious business and must be guided by national or sub-national legislation.

Within the final draft of the National Tax Policy for Nigeria submitted to the Federal Executive Council for instance, tax is explained thus:

“A financial charge or levy imposed upon an individual or legal entity by a state or a component of the state. A tax is usually a monetary charge on a person’s or entity’s income, property or transaction and is usually collected by a defined (and empowered) authority at the Federal and State level.”(National Tax Policy, Final Draft submitted in 2002 and approved in 2010)

Table 1: Bases for Imposition of Tax and Tax Objects

Individual	(Corporate Entities) Companies	Transactions	Assets
<p>(i) Personal Income Tax: Imposed on the income of all Nigerian citizens or residents who derive income in Nigeria and outside Nigeria.</p> <p>(ii) Development Levy: A flat charge imposed on every taxable person typically within a state.</p>	<p>(i) Companies Income Tax: Imposed on the profits of all corporate entities who are registered in Nigeria or derive income from Nigeria, other than those engaged in petroleum operations;</p> <p>(ii) Petroleum Profits Tax: Imposed on the profits of all corporate entities registered in Nigeria or who derive income from oil and gas operating in Nigeria.</p> <p>(iii) Education Tax: Impose on all corporate entities registered in Nigeria.</p> <p>(iv) Technology Levy: Imposed on selected entities (Telecommunication companies, internet service providers, pension managers, banks, insurance companies and other financial institutions with a specified turnover range) in Nigeria to support national development of technology</p>	<p>(i) Value Added Tax: Imposed on the net sales value or non-exempt, qualifying goods and services in Nigeria;</p> <p>(ii) Capital Gains Tax: Imposed on capital gains derived from sale or disposal of chargeable assets</p> <p>(iii) Stamp Duty: Imposed on instruments exerted by individual and corporate entities in Nigeria.</p> <p>(iv) Excise Duty: Imposed on the manufacture of goods within the government territory collected by the Nigeria custom service.</p>	<p>Include Taxes such as:</p> <p>(i)Property tax.</p> <p>(ii)Other such taxes imposed on land or landed property.</p>

infrastructure and capacity.

(v) Import Duty:

Imposed on the import of goods into the government territory collected by the Nigeria custom service.

(vi) Export Duty:

Imposed on the export of goods outside the government territory collected by the Nigeria custom service

Source: National Tax Policy for Nigeria (2014)

2.2 Overview of National Tax Policies for Nigeria

Taxation in Nigeria can be traced to 1904 when the personal income tax was first administered in Northern part of the country prior to the amalgamation of the major regions by the colonial master (Udu, *et al*, 2013). In 1917 it was implemented in the Western region but in the Eastern region by 1928 both through the Native Revenue Ordinances. From the 1930s saw an amendment in which taxation was incorporated into the direct Taxation Ordinance No. 4 of 1940 and later pegged on the 1948 British tax laws.

Tax system in the country has continued to evolve. As noted in Udu *et al* (2013), a vital aspect of the evolution is the introduction of the Federal Inland Revenue Service (establishment) Act of 2007, Companies Income Tax (Amendment) Act of 2007 and the National Tax Policy. Tax policies though are but an aspect of a vibrant tax system as Sanni (2005) points out that such a system comprises of tax policy, tax law and tax administration. The major tax laws in existence in the country as of September 2010 and various related amendments include the Personal Income Tax Act of 2004; Company Income Tax Act of 2004; Petroleum Profits Tax Act of 2004; The Petroleum Act of 2004; Education Tax Act of 2004; Capital Gain Act of 2004; Customs and Exercise Management Act of 1998; Minerals and Mining Act of 1999; Stamp Duties Act of 1990; Taxes and Levies (Approved List for collection) Act of 1998; and the 1999 Constitution of the Federal Republic of Nigeria (Anyaduba *et al*, 2012).

According to Ogbonna (2010), tax administration involves all the principles and strategies adopted by any government in order to plan, impose, collect, account, control and co-ordinate personnel charged with the responsibility of taxation and it includes the effective use of tax revenue for efficient provision of necessary social amenities and other schemes intended to improve the welfare of tax payers. In summary, it may be said that tax system begins with tax policies, progresses to the development of tax laws and culminates in the administration which bothers on actual implementation.

World over, every tax system seeks to improve the welfare of people. This is achieved by proper utilization of tax revenue as administered by the government. This general objective equally serves as the foundation upon which the Nigerian tax system is based. To achieve this aim, national tax policies are formulated based on certain objectives. The NTP as it exists today was initiated on 6th August 2002

and effected on 22nd January 2010 when the final draft submitted to the Federal Executive Council was signed.

2.3 Theoretical Review

Public expenditure is spending made by government of a country - at any level - on collective needs and wants such as pension provision, infrastructure and similar social services (Guaray, 2012). Until the 19th century, public expenditure was limited due to the reason that laissez faire or free market philosophies had it that money left in private hands could bring better returns. In the 20th century however, John Maynard Keynes argued the role of public expenditure in determining levels of income and distribution in the economy. Government expenditure has then been on the increase as expenditure has been significantly diversified.

Several theories of public expenditure exist in literature. Foremost is the theory of taxation which finds its roots in the great economist of old, Adam Smith. The theory holds that government at all levels (national, regional and local) need to raise revenue from a variety of sources to finance public sector expenditures. Proceeding from this theory is the Dalton's principle of maximum social advantage. This theory suggests that maximum satisfaction should be yielded by striking a balance between public revenue and expenditure by the government. Welfare of the people is achieved when benefits from marginal utility of expenditure equals marginal disutility due to imposition of taxation.

Further proceeding from the theory of taxation is the principle of Maximum aggregate benefit as put forward by Arthur Pigou. Pigou explains it with reference to what he termed "Net social Benefit" which is the difference between Marginal Social Benefit (MSB) and Marginal Social Sacrifice (MSS). It is maximum when $MSS = MSB$.

Considering the case of only public goods, Bowen (2008) put forth a model which states that "If goods are consumed by people, then they themselves should provide the cost of those goods". Similarly, Lindahl (1919) postulated the voluntary Exchange Theory. The theory has it that determination of public expenditure and taxation will happen on the basis of public preferences which they will reveal themselves. Cost of supplying a good will be taken up by the people. The tax they will pay will be revealed by them according to their capacities.

The most general economic theory of fiscal federalism postulates that the provision of services should be local at the lowest level of government consistent with the incidence of costs and benefits, since lower tiers of government have greater information about local conditions and can therefore provide services that are better suited to the needs of the local population (Khemani, 2001).

2.4 Empirical Review

This literature is thrust with studies that focused on fiscal operation and public expenditure at the national level thus making those on local research hard to come by. In recent times however, a few scholars have ventured into this area and their efforts have served as a stepping stone for present-day studies.

Ekpo and Ndebbio (1998) is one of such. The study analysed fiscal operations in 13 local governments in Nigeria which were randomly selected and included Odeda (Ogun State), Bassa (Plateau State), Agaie and Bida (Niger State), Bichi (Kano State), Gusau (Zamfara State) Calabar (Cross River), Umuahia (Abia State), Ikeja (Lagos State) among others. The study covered the period 1980 – 1991 and focused on allocations to these local governments from the Federal Account (FA) and how these were spent. It found that allocations from the Federal Account (FA) to the local governments increased over time from 1979 – 1990 (for example, allocation to Kaduna, Lagos and Ogun States grew

by 26.7%, 29.2% and 30.2% respectively). The report noted that even at that time, local governments - like their State counterparts - were heavily dependent on federal allocations in order to meet both recurrent and capital expenditures, the recurrent expenditures comprising mostly of personnel costs.

Further, for the rural based local governments, the bulk of capital expenditures were on agriculture, rural development and health services. The urban local governments were also reported to have spent a lot on education and general administration. A point of interest is the negative growth of capital expenditure reported for Bida, Agaie, and Bichi at -28.2%, -14.8% and -0.9% respectively, between 1980 and 1985.

Ekpo and Ndebbio (1998) study highlighted a serious case of lack of revenue from sources other than federal allocation but it was based on the 1989 constitution and the then existing states. The present study therefore attempts to provide current information based on the 1999 constitution and using more recent data.

Another relevant study is Coker and Adams (2012). It focused on how local government councils manage their finances against the backdrop of lack of financial autonomy, corruption, and undue interference in local affairs, especially in the areas of joint state/local government account which gives the state government undue advantage over local governments. The study set out to deepen the understanding of the revenue status of local governments so that the public may appraise the financial challenges faced by this third-tier of government in Nigeria that has adversely affected the delivery of quality services to the rural inhabitants. Employing descriptive qualitative analysis, the study found out that local governments in the country have not been doing well due to lack of financial autonomy, undue involvement of state governments in local affairs, corruption among local government administrators and the like.

Waziri (2010) critically examined the growth of public expenditure hypothesis of Adolf Wagner. Employing data on the overall expenditure of Nigerian local governments between 1993 and 2002, and some primary data, the paper examined the basic features of local governments. Spending, including their distribution between consumption spending (recurrent) and investment spending (capital) in relation to economic growth. He further examined the relative efficiency of the local governments in resource utilization and concluded that local governments in the country are most affected by the low level of capacity for development. The study however is unduly aggregative, looking at local governments as a whole. This is what the present study seeks to correct by being more specific.

Similarly, Adedokun (2010) examined local government tax mobilization and utilization in Nigeria. He looked at the allocations to local governments from the federal account between 1993 and 1997, as well as the revenue from taxes, fees, and so on and tried to estimate the total revenue base of local governments in the country. He opined that expenditure assignment should match with revenue generating powers in order for local governments to discharge their functions effectively. That is to say that revenue and expenditure decentralization needs to be patterned in lined with local government public revenue profile. The conclusion is meaningful as this will go a long way in curbing the inherent fiscal gap existing in the operations of local governments in Nigeria.

Ogbonna and Ebimobowei (2012) in Worlu and Emeka (2012) empirically examined the impact of tax reforms on economic growth by means of relevant descriptive statistics and econometrics analysis. Employing various statistical and econometric tests, they discovered that tax reforms are positively related to economic growth and is significant and that tax reforms granger cause economic growth. Based on the findings, they concluded that tax reforms improved the revenue generating capacity of government to undertake socially desirable expenditure that will translate to economic growth in real output and on per capita base. Again, the study is based on national level statistics.

Worlu and Emeka (2012) themselves undertook a study on the impact of tax revenue on the economic growth of Nigeria with a special emphasis on infrastructural development from 1980 to 2007. The secondary data were analyzed using three-stage least squares estimation technique. The results obtained showed that tax revenue stimulates economic growth through infrastructural development. They pointed out the need to create comprehensive fiscal policies and to strengthen the existing ones in line with macroeconomic objectives and in the light of prevalent economic realities.

Ogbonna (2010) is one of the authors who are of the opinion that government expenditures at all levels should be financed primarily by revenue from tax collectible from various entities and economic units on whom it is binding to pay tax. Data obtained through interviews and administration of questionnaires were analysed by simple percentage analysis to examine tax administration in Nigeria. The areas covered by the study include tax administration, constraints besetting tax payers, general principles of taxation, as well as its purposes, uses, classifications and effects. The results of the study agrees with the stark reality which characterizes Nigeria tax exercises, namely, that poor infrastructure, use of unqualified tax personnel, public resistance to pay tax due to lack of awareness, unconventional means of tax administration, greed and sharp practices on the part of tax officials and tax payers all stand in the way of effective revenue generation through tax in the country. The problem is even more compounded at the third and lowest tier of government.

3.0 METHODOLOGY

3.1 Research Design

The Study adopted a descriptive approach. It tried to analyze how local governments exercise their fiscal powers derived from the tax policy and how tax revenue thus generated along with their statutory allocation affects their expenditure outlay over time. Consequently, secondary data were collected and analyzed using ordinary least square regression. Secondary data drawn from annual financial statements of the local government councils were used. Four variables were employed which included Total expenditure of the local government councils (TEXP), the Statutory allocations received from the Federation Account (FAAC), Tax revenues of the local governments (TAXREV) and Fiscal gap (FGAP). Fiscal gap, as used in the study, means the difference between the total expenditure and revenue from tax for each local government. Data were obtained from publications of the Federal Ministry of Finance and Anambra State tax office. Data on fiscal gap were computed manually. Since statutory allocations are disbursed on monthly basis and tax revenue is also accounted for monthly, monthly data were used for a five year period covering 2007 to 2011.

3.3 Model Specification

The study examines the impact of the national tax policy on the expenditure of local government councils in Anambra State. Model specification means making hypothetical statements about the perceived relationship between at least two variables (one dependent and the other or others independent) expressed in mathematical form (Koutsoyiannis, 2001). Consequently the model used is stated as:

$$\text{TEXP} = f(\text{FAAC}, \text{TAXREV}, \text{FGAP}) \text{-----} \quad (1)$$

Where:

TEXP = Total Expenditure of the local governments (dependent variable)

f = Functional relationship notation

FAAC = Allocation from Federation Account

TAXREV = Tax Revenue (proxy for tax policy)

FGAP = Fiscal Gap (computed as the difference between the total expenditure and fiscal revenue of the local government councils)

Tax revenue (TAXREV) is used as proxy for tax policy because it is a reflection of the particular method or style of tax administration in existence. This means that the tax policy of the day to a great extent affects the level of revenue derivable from the tax system. Hence, the size of the fiscal revenue has much to say about the effectiveness of the tax system. The mathematical form of the model is expressed thus:

$$\text{TEXP} = B_0 + B_1\text{FAAC} + B_2\text{TAXREV} + B_3\text{FGAP} + U_t \text{-----} \quad (2)$$

(Where: B_0 , B_1 , B_2 and B_3 are parameters to be estimated and U_t is the error term.)

Since the National Tax Policy became operational in 2010, a study of the impact of the said policy should examine events before and after the policy went into full force in order to establish whether the implementation of the policy has changed anything. Consequently, 2010 is recognized as a period of structural break which divides the period covered by the study into two: 2007-2009 represents the pre-policy period and 2010-2011 the policy period.

Chow test was therefore employed to test the significance of the structural break. Chow test is a statistical test of whether the coefficients in two linear regressions on different data sets are equal (Chow, 1960). The model in effect uses an F-test to determine whether a single regression is more appropriate than two separate regressions involving splitting the data into two sub-samples.

Stages in Running the Chow Test

1. Firstly run the regression using all the data, before and after the structural break (in this case, 2007-2011) and collect the Residual Sum of Squares known as the pooled residual sum of squares (RSS_p).

2. Run two separate regressions on the data before and after the structural break, collecting the RSS in both cases, giving RSS_1 and RSS_2 .

3. Using the three RSS values, calculate the test statistic from the following formula:

$$F = \frac{[RSS_p - (RSS_1 + RSS_2)]/k}{(RSS_1 + RSS_2)/(n - 2k)}$$

[Where: $n = n_1 + n_2$ (total number of observations in the sample) and k = total number of variables in the model].

4. Find the critical values in the F-test table, in this case it has $F(k, n - 2k)$ degrees of freedom.

5. Conclude. The null hypothesis is that there is no structural break which means the impact of the policy is insignificant and in which case the pooled regression is more efficient.

4.0 RESULTS

In the result presented in this chapter, Total Expenditure (TEXP) is the dependent variable whereas Allocation from the Federation Account (FAAC), Tax Revenue (TAXREV) and the computed Fiscal Gap (FGAP) constitute the set of independent variables in the study model. First, the time series data were tested for unit roots by means of the Augmented Dickey-Fuller (ADF) Test (Bierens, 2001) after which the model was estimated.

4.1 ADF Unit Root Test

The unit root test examines whether a time series variable is non-stationary. The ADF version of the test was preferred due to the nature of the data employed and also because of the large sample size. The estimated ADF Statistic often returns a negative value but in the analysis it is regarded in absolute terms, hence the higher the absolute value of the ADF Statistic the higher the chances of rejecting the null hypothesis that there is unit root problem.

The test was conducted at the 95% level of confidence or the 5% critical level and the null hypothesis that there is unit root was rejected at the point where the absolute value of the ADF statistic is greater than the critical value. Rejection of the null hypothesis means the data is stationary. Table 18 shows the summary of the ADF test.

Table 2: Summary of T-Test

S / N	LGA	Independent Variable	Pre tax policy period			Tax Policy Period and After		
			Empirical Statistic	F- F- statistic	Tabulated statistic	Remark	Empirical Statistic	F- F- statistic
1	Aguata	FAAC	5.428	2.042	Significant	1.891	2.086	Insignificant
		TAXREV	2.49	2.042	Significant	5.60	2.086	Significant
		FGAP	3.30	2.042	Significant	3.96	2.086	Significant
2	Onitsha	FAAC	-5.481	2.042	Significant	3.53	2.086	Significant
		TAXREV	1.12	2.043	Insignificant	7.45	2.086	Significant
		FGAP	9.91	2.042	Significant	2.88	2.086	Significant
3	Awka	FAAC	5.449	2.042	Significant	4.187	2.086	Significant
		TAXREV	4.74	2.042	Significant	5.57	2.086	Significant
		FGAP	1.13	2.042	Significant	1.80	2.086	Significant
4	Nnewi	FAAC	-4.839	2.042	Significant	3.459	2.086	Insignificant
		TAXREV	3.30	2.042	Significant	3.19	2.086	Significant
		FGAP	1.04	2.042	Insignificant	1.39	2.086	Insignificant

Source: Regression Result, 2015.

The result in Table 2 shows that the effects of each of the three explanatory variables on the dependent variable are mostly significant. Take Tax Revenue (TAXREV) which is a proxy for Tax Policy for instance, its effect on the expenditure remained significant both before and following the implementation of the tax policy in 2010 for Aguata Local Government Council. In Onitsha Local Government Council however, the tax revenue variable was insignificant prior to the implementation of the national tax policy but became significant thereafter. This means that the tax policy improved the

ability to raise revenue through taxation and related levies in the case of Onitsha South Local Government Council. Hence local governments would fare better when they fully avail themselves to the opportunities within the tax policy which make fiscal operations easier and more efficient. The implication of the result is that if local governments do not become enthusiastic in exploiting the benefits of the tax policy they will remain inefficient in the discharge of their statutory functions. It can be seen equally from the above table 2 that the effect of the gap between the tax revenue and the total expenditure of the local governments, denoted as Fiscal Gap (FGAP), is significant for Aguata and Onitsha South Local Government Council and insignificant for Awka and Nnewi Local Government Councils.

The last statistical test of significance conducted is the F-Test. The F-Test is used to test the overall significance of the study model. In other words, the test indicates whether the explanatory variables included are appropriate for examining the behaviour of the dependent variable. The test was conducted by comparing the empirical F-Statistic as contained in the estimated model with the F-statistic from the F-statistics Table and making decision to obtain the later, 5% level of significance was used at $k-1$, $n-k$ degrees of freedom for numerator and denominator respectively. In the pre tax policy period, $n = 36$ but in the later period, $n = 24$. Hence the degree of freedom is (3, 32) and (3, 32) for the first and later periods respectively. Therefore, from the Statistical Table of Percentage Points of the Inverted Beta (F) Distribution, we obtain the values of $F = 2.92$ and $F = 3.10$ for the two periods respectively (Koutsoyiannis, 2001).

As shown in table 2 above, the tax revenue variable estimate is significant at both sample periods for Aguata Local Government Council. Hence, we reject the null hypothesis and conclude that there is significant relationship between the exercise of fiscal powers conferred on the local government and the level of the local government's expenditure. For Onitsha South, Awka and Nnewi local government council, Tax Revenue estimate is insignificant in the period before the tax policy but significant following the implementation of the policy. Therefore, there is a significant relationship between exercise of fiscal powers and the level of the local government's expenditure.

As used in the study, fiscal gap refers to the difference between the total expenditure and the tax revenue of the local governments. The study observed that there is a significant relationship between fiscal gap and the level of expenditure of the local government councils and the study indicates that FAAC constitutes the primary source of funding to local government councils in Nigeria. Also, their ability to deliver social goods to local communities is reflected in the local governments' expenditure, the dependent variable. This means that funding of local government councils has significant effect on their ability to deliver social goods to local communities as reflected in the level of expenditure of the local governments.

4.0 CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

Nigeria has experienced several reforms of her tax policy predating the 1914 amalgamation of the Northern and Southern protectorates. The 2010 National Tax Policy in line with the 1999 Constitution empowers the Local Government Revenue Committee (LGRC) to be responsible for assessing and collecting all taxes, fines, fees and rates under the jurisdiction of the local government council and account for all amounts so collected. State governments to some reasonable extents have overlapping function. The overlapping functional tax responsibilities end up creating fiscal gaps and make the local government councils unable to discharge their statutory responsibilities to the local communities.

Majority of the residents in Anambra State local government councils lack the capacity to pay local government tax except in the case of market tolls and company income tax. As a result local government councils find it difficult to raise substantial revenue good enough to execute developmental projects which they are charged with. However, there is a significant relationship between exercise of fiscal powers of local government councils and the level of expenditure even though local government councils do not have the same level of internal sources of fund and do not exploit same in equal capacity. Going by the results of the study, changes in the monthly statutory allocation from the Federation Account significantly affect changes in the total expenditure of the local government councils.

4.2 Recommendations

Based on the result of the study, the following recommendations are made:

1. Local government authorities should be more proactive in the business of fiscal operations by setting targets on the amount of tax revenue to be realised in a particular period and reviewing these periodically.
2. Local government councils should exploit more fully their statutory fiscal powers so as to bridge the fiscal gap.
3. The existing overlapping functional authorities with respect to the collection of taxes, fines and other charges should be clearly separated and made specific to enable local government councils to plan and budget properly.

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