Budget, Budgeting and Budgetary Control in the Public Sector

By

Orie Sylvester Okorie, PhD, FCNA
Department of Accountancy,
Chukwuemeka Odumegwu Ojukwu University,
Igbariam Campus

Abstract
Government annual budget serves as a determinant of a lot of economic decisions in both private and public sectors. And once passed into law by the legislature it becomes the totality of all laws empowering the government to implement it for the benefit of the citizens. In Nigeria, prior to the announcement of each year's budget by the federal government, banks refrain from granting loans, industries reduce their production, employment remains at a standstill, importers wait for possible change of customs and tariffs, exporters also wait for possible change in the rates of excise duty. Ordinary citizens pray for better deals and possible reduction in taxation. So, the budget as a law has impact on the citizenry. Appropriate control measures must be in place to ensure that the expected standard performance services are rendered to the public. The study aims at assessing the effectiveness or otherwise of major flaws in budget, budgeting and budgetary control measures in the public sector by using a research survey design. Also, both primary and secondary data were collected and analysed in the light of federal and state ministries, departments, and agencies. Findings revealed that budget, budgeting and budgetary control were fraught with unrealistic revenue estimates, non-involvement of stakeholders, weakness in institutional framework, inadequate monitoring and absence of strong political will by administrators. It was recommended that estimates should be more realistic, stakeholders participation advocated for, institutional framework be strengthened and strong political will have to be demonstrated by our leaders to ensure effective delivery of public goods and services to the society.

Keywords: Budget, Budgeting, Budgetary Control, Public Sector

1.0 Introduction

Normally at the end of each year, governments in this country – both the Federal and State governments announce their budgets for the new year. They state the goals/objectives which are intended to be pursued over the period. Similarly, they indicate the broad 'strategies' by which they are expected to accomplish their goals. The budget statement or budget address is followed by a comprehensive document on financial estimates that many citizens often find boring to read. Soon after the budget is announced, interest groups, other stakeholders and commentators on public affairs bombard the general public with analysis and comments on the budget proposal either commendation and mass support or criticism or rejection. Usually, this excitement goes on for up to a month or so after which the government is left alone to settle down to the implementation of its budget. Year after year, we hear again about the preparation of another yearly budget for next year's operations and/or developmental activities. Unfortunately, most of the problems which the government's budget was designed to tackle also persist on yearly basis (Akpakpan, 2005).

The failure of government budgeting in this country has caused disillusionment with the exercise; it has led many citizens to look at government budgeting as an annual ritual. The budgeting exercise in virtually all tiers of governments in Nigeria are carried out on yearly basis in principle. In practical terms, the real implementation of the budgets is often seen as an exercise in futility due to lack of serious commitment by our leaders. This attitude does not help matters. The persistent socio-economic problems the citizens face need urgent solutions, and government budgeting has worked for some other countries. It is against this backdrop that the issues of budget, budgeting and budgetary control in the public sector have to be properly addressed in order to put the management of the public resources on the path of sustainable development.

2.0 CONCEPTUAL ISSUES AND REVIEW OF LITERATURE

2.1 The Budget

Okonjo (2012) posits that the word 'budget' in whatever context, is basically a plan that gives information about the objectives, policies and policy measures an organization intends to pursue during a specified period of time. There may be differences in the funding requirements of the chosen policy measures and projects, the funding sources, and the allocation of funds to projects depending on the nature and purpose of the organization. For instance, between the private sector and public sector organizations, but the basic function and elements are the same.

According to Okunna (2013) a budget may be defined as an estimate of planned expenditure and the expected resources to be utilized to meet the planned expenditure over a period of time. A Government Budget is thus a document in which the revenue and expenditure plans of governments are specified for each given financial period, usually a year. In this regard, the government proposes expenditures, recurrent and capital, and estimates the revenue with which to fund them. It also provides for contingencies that might arise in the course of spending in the year.

The budget of Government could then be described as a statement of government's spending plans and priorities for a given period to deliver public goods and services to its citizens. It is the single most important political and policy document in governance after the constitution because it states clearly how the state plans to engage with the citizens and address issues of concern to them in a given year. The budget can be said to be the main tool for governance, enabling the government to appropriate funds to meet the needs and goals of the citizens.

2.2 Budgeting

'Budgeting' on the other hand, is the act of preparing a budget. And, because the budget is a plan, budgeting is about planning or, more accurately, a planning process (Akpakpan, 2005). It is the process in which the objectives, policies and policy measures, funding requirements and sources, and allocation of funds stated in the budget are determined. The details of the activities and procedures will obviously differ from organization to organization, and from sector to sector.

2.3 Budgeting Control

Budgetary control is the use of the budget or budgets to control the activities of the organization (Nwandu, 2014). It involves insisting that the units of the organization carry out their responsibilities as specified in the budget, monitoring the operations of the various units to see what is being done or achieved, and comparing what is being achieved with budget estimates for remedial actions where necessary. Sometimes budgetary control is considered synonymous with budgeting for there would be no point in formulating a budget if it was not intended for use in controlling activities. For this reason, the two terms will sometimes be used interchangeably.

2.4 Public Sector

Public sector as a concept is simply those parts of the economy that are owned by the society as a whole. That is, the parts owned by the general public as distinct from those parts owned by private individuals and organizations (Osisioma, 2011). The sector has two main components namely, the general government – federal, state and local governments with their agencies/parastatals and public corporations or state – owned enterprises (SOEs). They are regarded as SOEs because they are business organizations which are expected to operate like privately-owned business organizations in the application of budgetary control.

3.0 Budgeting Principles

In the Nigeria context, budgeting could be described as the annual statement of income and expenditure of the Federal, State or Local Governments.

3.1 Budget can be conceived as a process of taking deliberate measures aimed at moving the relevant economic system from its current state towards a specified desired state. The budget sets forth priorities as well as level of spending, ways of financing the spending and a plan for managing the funds. Budget is the single most important fiscal tool available that government uses as a yardstick to raise and allocate funds and measure its performance in a fiscal year.

3.2 The first step towards sound, realistic financial management in Government is to ensure the production of a well focussed and realistic budget. According to Fleischman and Marguelse (1986) "it is difficult looking back to imagine government without budgeting".

Budgets are thus, monetized expression of targets to be accomplished in a given year by a nation. It is a deliberate attempt to achieve superior targets over a time with available and expected resources. Such targets are influenced by experiences of the past and expectations of the future.

3.3 Since the Colonial times, Nigeria governments have attempted to manage national development through planning and budgeting. The first national development plan launched in 1946 was followed by succession of six medium term plans ending with the fourth National Development plan 1981 - 1985. The time series was interrupted with the introduction of Structural Adjustment Programme and replaced in 1990 with new concept of Rolling plan (Onah, 2009). In all the periods, budgets were the off spring of the development plans which were supposed to reflect the state of the economy.

3.4 The practice and methodology of budgeting have evolved over ages. As new management techniques are discovered, developed and improved upon, various principles have emerged to guide budgeting practitioners in the formulation, implementations and monitoring of budgets. A most important principle for success in budgeting is a strong political will to succeed.

Ministers of Finance must have pragmatic and political clout. The Minister of Finance must be ready to stand up to political colleagues and the public at large even when unpopular decisions have to be made.

3.5 A sound Legislative framework is another important principle of budgeting because that fixes responsibilities for political role players in the budgeting process.

3.6 Budgeting principles have shown that creating a budget is important because it:-

- Forces government to carefully consider the expected demand for its services and the resources required to meet the expectation of the citizens;
- Translates the government priorities into the appropriate resources required to achieve the priorities;
- Highlights potential problems in sufficient time to take corrective actions; and
- Creates a baseline against which actual results can be compared.

Thus, the objectives of preparing budgets are:

- To estimate amount to be received and spent;

- It serves as a guide for future plans; and
- To distribute limited resources.

3.7 Budgets can be used for planning, for communicating plans, for motivation, for measuring standards of performance, for evaluation and as an instrument of social policy.

3.8 Classification of Budgets

Mainoma (2009) noted that budgets may be classified as follows:

(i) **Capital budgets:** The aspect of the plan that indicates objective to be achieved on the creation and development of fixed Assets, the expenditure outlay on them and means of financing them. This covers expenditure on construction of roads, building of schools, hospitals among others.

(ii) **Recurrent Budgets:** The aspects of plan which indicates the operating expenditure of the various organs of the government to guarantee the continuity of government services such as maintaining peace and order, provision of health services and education facilities. It includes expenditure on salaries of civil servants, judges, police men and military personnel as well as working materials.

Budgets could also be described as fixed budgets or flexible budgets.

(iii) **Fixed budgets:** These are those in which appropriations made are for a specific (fixed) naira sum and may not be exceeded because of changes in demand for government goods or services.

(iv) **Flexible budgets:** Authorization of expenditure under flexible budget are fixed per unit of the measure of activity (goods and services), but are variable in total according to demand for delivery of the services of government.

3.9 Classification by Budget Types, based on Method of Preparation

Various methods have been identified in preparing budgets. The common methods as highlighted by Agboola (1983) include:

(i) Line/item budgeting system – Line itemization of expenditure;
(ii) Traditional/Incremental Budget System;
(iii) Planning Programming, Budgeting System (PPBS);
(iv) Programme and Performance Budgeting System; and
(v) Zero Base Budgeting System.

- **Line/item:** The items on which government wants to spend money are itemized and money voted. No regard is given to the outcome of the expenditure.
- **Traditional or Incremental Budgeting:** This is where a proposed budget depends on the previous year budget with consideration for inflation and new activities.
- **Planning Programming Budgeting System (PPBS):** This follows a procedure for reviewing goals and objectives for backing and planning programmes over a period of years in terms of output and resources.
- **Programme and Performance Budgeting:** Under this, input of resources is related to the output of service/product. It emphasizes on the thing which government does rather than things which government spend. This budget system was first adopted by the FGN in 1981 but was later abandoned.
- **Zero – Based Budgeting:** This requires a spending unit to justify the entire budget from the scratch (zero) in each year of budget formulation. The projects that have commenced still require annual justification for continuous funding under the budget.

Generally, the Nigeria budgeting system is based on financial inputs not on the output of services (Orie, 2005).

3.10 Classification based on Forms of Budgets

Budgets could be classified into forms such as continuous or rolling budgets and periodic or fixed budgets (Uchendu, 1999).

(i) Rolling budget: CIMA defines this as the continuous updating of a short-term budget by adding say, a further month or quarter month and deducting the earliest month or quarter month so that the budget can reflect current conditions.

(ii) Periodic budgeting: This is the operation of a budget over a certain period of time usually a year.

4.0 Budgetary Control in the Public Sector

The public sector budget is a very significant tool of economic development. It provides the instrumentality for linking availability of resources with spending requirements in the fulfilment of government's best set objectives. In the process, the budget, among others, serves as

(i) A means of implementing policy decisions predominantly through making money payments and receiving money payments;

(ii) A tool of management, being an operational document which specifies expenditure items, costs, time and nature of expected results;

(iii) A tool of planning, particularly plan; implementation closely linked to the national development plan; the budget provides a framework for determining the financial resources required to execute each phase of a development plan; and

(iv) An instrument of accountability, whereby it ensures legislative control over the executive arm by requiring proper management of programmes for which funds have been appropriated.

When budget is appropriately formulated and effectively implemented, it can result in effective use of resources and help to achieve development objectives, economic growth, income and wealth distribution, poverty reduction, internal and external balance, as well as economic stabilization. For the budget to accomplish these, it must be good and hence characterized by

- Comprehensiveness;
- Transparency;
- Probity and Accountability;
- Sound budget process;
- Preparation by the executive followed by legislative consideration and approval, execution/implementation, auditing and evaluation/reporting (Osisioma, 2000).

Osisioma further pointed out that in the public sector, the budgetary control measures that need to be explained are those of the general government. We will focus on the national (federal) government because of its central position and the fact that it is expected to set standards for the other tiers of government in the country.

4.1 Budgetary Control in Government

The process begins with budget formulation and proceeds through legislative approval, implementation, to audit and evaluation and reporting. We will attempt an outline of the categories of activities to illustrate what is involved at each stage.

- **Budget Formulation**

This stage is the responsibility of the executive branch of government, and so it is sometimes described as executive preparation. It involves three main sets of activities, as outlined by Ezekwesili (2010), namely:

(i) Suggesting the objectives and policies that should be pursued, and the policy measures that should be adopted – which is normally based on a review of social and economic conditions;

(ii) Making estimates of expenditure and revenue; and

(iii) Suggesting the allocation of funds to sectors, programmes, and projects.

The activities are managed by the Federal Ministry of Finance, (FMF) through the Budget Office of the Federation.
The process begins with a review of the past budget and macroeconomic development and conditions since that budget, followed by a series of inter-ministerial meetings (including the Presidency) to discuss the macroeconomic conditions and reach broad agreements on what the objectives of the government should be in the next year, and a Call Circular by the Budget Office to all ministries and agencies of government requesting budget proposals for the ensuing year, which must be in line with the agreed general objectives. The proposals submitted by the ministries and agencies are analyzed and summarized for examination at another round of inter-ministerial meetings – the meetings commonly referred to as 'budget discussions' – during which individual ministries and agencies are expected to justify their proposals and modifications are made. Thereafter, the Budget Office cleans up the submissions based on the outcome of the discussions, and briefs the Minister of Finance on the budget proposals at that stage. The Minister of Finance meets the other Ministers to discuss the proposals and prioritize projects after which he/she briefs the President on the outline and recommendations.

The Committees of each House send their recommendations to the Committee of the whole House for consideration and approval. After approval by the Committee of the whole House at both the Senate and House of representatives, the Finance and Appropriation Committees of the two Houses meet to reconcile any differences in the versions approved by each of the two Houses. The reconciled version of the proposals is sent to each House for the Third Reading after which the appropriation bill is passed and returned to the President to sign into law – the Appropriation Act – and it becomes ready for implementation. (OAGF, 2009).

- **Budget Implementation**

Budget implementation or execution sounds simple and straightforward, but it is a very difficult stage in the process. The difficulty lies in the nature and scale of activities that must be carried out.
The sets of activities involved in budget execution can be summarized as follows:
(i) Collection of approval revenues (payable into the Federation Account);
(ii) Sharing of the overall collected revenues among the three tiers of government – federal, state, and local government;
(iii) Release of funds from retained revenues of the federal government (payable into the Consolidated Revenue Fund) to spending agencies;
(iv) Commitment of funds released for approved projects.
(v) Execution of approved projects.
(vi) Disbursement of funds for approved projects.

All of these activities involve difficult tasks, but they all have to be carried out as planned if the objectives of the government are to be achieved.
One thing that should be noted about this stage of the budgetary process is the fact that the revenue for the execution of the planned projects will be earned over the year, i.e., from the 1st of January to the 31st of December. This means that unless there is some funding arrangement with the central bank, e.g., an overdraft arrangement – the practice commonly referred to as 'ways and means advances' – the government may not be able to execute many of its projects in the early months of the year. It is for reasons like this that the government often borrows from the central bank, and it makes sense as long as the money is properly used.

Another feature that should be noted is the procedure for the release of funds for projects. Because the money the government controls belongs to the entire nation, its use is guided by law. And often the steps that have to be taken in compliance with the law cause delays in project execution.

The aspect of budget implementation most people often focus on is the actual execution of projects. For instance, construction works, procurements, and the delivery of services. These projects must all be executed as approved. But progress in any of the activities will depend to a very large extent on progress in the other aspects, especially revenue collection and the release of funds.

4.2 Budget Implementation and Controls

The budget implementation phase begins when Mr. President signs the Appropriation Bill into the Appropriation Act. The Appropriation Act, as passed by the National Assembly allows Federal agencies to own obligations and make payment from the Treasury for specified purposes.

The Appropriation Act is otherwise referred to as the Approved Budget. The annual approved budget of the Federal Government is printed in book form and its content is as follows:

- The President Budget address.
- Press Briefing by the Minister of Finance.
- Revenue Heads.
- Recurrent Expenditure:

(i) Personnel Emolument; and
(ii) Over Head costs.

- Consolidated Revenue charges
- Capital Expenditure

(b) Furthermore, Okonjo (2012) highlighted the main objectives of budget implementation or execution as to:

- Ensure that the resources are made available to government bodies to allow them to perform the activities approved in the budget;
- Control and account for the funds to ensure that monies are spent in the proper approved categories of expenditure;
- Allow for the functioning of Government with minimum distortion during the budget year;
- Achieve maximum efficiency and effectiveness in the management and use of financial resources;
- Avoid both the misuse of fund or corruption by government employees and officials;
- Use the budget as the primary plan of government activity and report financial and programme data sufficiently to evaluate the performance of ministries and agencies; and
- Pay government’s bill and other financial obligations in a timely manner.

From the foregoing, Okonjo noted that effective budget implementation will:

- Ensure that the budget will be implemented in accordance with the authorization granted by the laws in relation to both financial and policy aspects;
- Adjust the execution of the budget to the significant changes in the macroeconomic environment;
- Resolve problems arising during implementation;
- Manage the purchases and procurement in the use of resources efficiently and effectively.

For the assurance of getting budget to be implemented as formulated, to realize the goals enunciated in the budget, there must be effective control, monitoring, evaluation and reporting.

4.3 Budgetary Control

Budget control is defined by CIMA as the establishment of budgets relating to the responsibilities of Executive to meet the objectives of an organization and the continuous comparison of actual results with budget estimate so that if remedial action is necessary, it may be taken at an early stage. It is a review of planned estimates against actual results to achieve performance evaluation. It ensures that actual results are positively in accordance with the overall financial and policy objectives of an establishment. Budgetary control involves the following steps:

(i) Identification of responsibility centers in the organization to execute specific activities forming part of the budget;
(ii) Adoption of mutually agreed targets of achievement to serve as a milestone;
(iii) A system for periodic monitoring of performance;
(iv) Careful comparison of the actual performance and outcomes with the corresponding parts of plan;
(v) Assessment of deviations and variances in actual performance and activities in relation to the plan and identification of causes of such deviation; and
(vi) Initiation of corrective action aimed at ensuring that the planned activities and actions are adhered to as far as possible (Soludo, 2011).

Budget control is thus, a technique encompassing the entire process starting from preparation of the budget, covering monitoring and review and culminating in corrective action. The concept encompasses the function of fund control, expenditure control, revenue control, payment or disbursement control, cash control, cost control and salary payroll control.

4.4 Budget Monitoring, Evaluation and Reporting

Budget monitoring is the continuous or periodic review of all activities in the budget cycle to assess delivery, identify difficulties, ascertain problem areas and recommend remedial areas. The aim is to achieve efficient and effective performance of providing feedback to project management at all levels. Monitoring is concerned with the delivery process, ensuring that inputs, through activities, are transformed into outputs and analyzing their quantity and quality.

The purpose of monitoring as identified by Osibote (2005) are:

(i) Ensure that implementation of the programmes in the budget is making progress;
(ii) Identify deviations from the original plan;
(iii) Measure effectiveness of management and financial soundness;
(iv) Measure effectiveness of the delivery of inputs;
(v) Online assessment of impact; and
(vi) Assess understanding and interests of stakeholders.

4.4.1 Monitoring is the continuous internal assessment of the activities in the context of implementation schedules. The use of project inputs by targeted populations in the context of design expectation is also assessed.

The parameters that are monitored are:

- Effectiveness, - Efficiency, - Relevance, - Impact,
- Reactions, - Responsiveness of clients – deliveries an inputs and outputs – rate of change and compliance.

4.4.2 Aspects to Consider in Monitoring

- When to commence the monitoring;
- The composition of the monitoring division;
- As management activity, use of management tools;
- Collection of accurate, timely data and information on regular basis;
- Merging the responsibility of monitoring with authority to take corrective action;
- Use of management information system; and
- Reporting requirements.

4.4.3 The methods of obtaining information when monitoring could be by (i) observation (ii) verbal communication, briefing meetings and committee, correspondence, performance reports, surveys and inspection by experts on programmes and projects at specified intervals.
Adeboye (2000) had observed that monitoring in Nigeria (important as the role of monitoring is), it is at present, seriously constrained by lack of resources for the exercise-vehicle, other logistics items including allowances for monitoring personnel while on field trips. The consequence is that monitoring is infrequently done. Instead of monitoring quarterly, it is hardly done once a year at present.

5.0 Budget, Price Intelligence Monitoring Unit (BPIMU)

The BPIMU is one institution that emerged from the recognition by the Federal Government that Budget monitoring and evaluation as indispensable budget processes are more or less virtually nil. During the life of a budget, routine monitoring are expected to be made at least mid-way into the implementation and corrective or control actions are expected to be made where and when necessary. In a sound system, monitoring apparatus carry out the duties all the time and make appropriate report to authorities who are expected to take control measures as are considered adequate. One such monitoring apparatus is the BMPIU. The BMPIU was established in the office of President in mid 2001. The objective of the creation of the BMPIU is to crystallize budgetary and public expenditure management systems and procedures that have transparent and effective oversight. The BMPIU was created as an instrument to ensure that budgets and spending are not only based on authentic, reasonable and fair costing, but are also appropriately geared to the realization of set priorities and targets that were generated from medium range strategic plans. The activity of the BMPIU is generally referred to as the Due Process Compliance (DPC). Due process is the compliance with the mechanism for ensuring fiscal transparency, effectiveness and efficiency in the costing, prioritization and execution of budget expenditure items resulting in an effective "follow the money" tracking process by utilizing international and Nigeria expertise and by adapting the best information technology. The process is to ensure that there has been full adherence to laid down rules or regulations guiding budgetary, procurement and payment activity or action by all parties relevant to it. In respect of these matters the BMPIU has the power to make decisions on whether a spending unit has complied or failed to comply with Due Process.

6.0 Basically, Due Process is in three stages. These are budget formulation, tendering and payment stages (FGN, 2011).

6.1 Budget formulation: The objective is to issue budget preparation certification to attest that project preparation is adequate in respect of the followings:

- It is well aligned with FGN strategic and sectoral priorities;
- Project has been adequately prepared technically and financially;
- Project cost is consistent with consultant engineers' estimate and comparable with international practice;
- Detailed proper designs have been prepared;
- Detailed and realistic financing, procurement and implementation plans have been prepared;
- Measures have been identified to deal with adverse environmental and social effects where these exist;
- Future operations and maintenance requirements have been assessed; and
- Project components are appropriately packaged for procurement purposes.

The level of the adequacy of a project determines whether a project is classified as category 1 – project fully prepared, category II – Projects which are not fully prepared and category III – projects for which the preparation is flawed or seriously incomplete.

6.2 Tendering or procurement state: The objective is to issue a contract award certification to certify that each appropriated project has met the following conditions before contract can be awarded for its execution:

- Tender documents have been prepared in line with FGN guideline;
- The tender process has been carried out in compliance with FGN guidelines;
- Pre-qualification criteria were appropriate, clearly stated and fully complied with;
- Selection process has been carried out in line with FGN requirements;
- The best – evaluated bidder determined to be qualified to perform the contract satisfactorily, was recommended for contract award;
- Management has approved selection or good reasons for change in recommendation have been provided;
- Contract price is comparable with international experience;
- It has been verified that successful bidder continues to meet prequalification requirements; and
- Appropriate performance security has been indicated.

6.3 Payment stage: The objective is to issue a completion of work certificate to certify that a project has fully satisfied all due process requirements for release of fund or additional fund. Specifically, that it has met the following conditions:

- Funds released earlier have been fully utilized;
- Site visit has been carried out to assess progress of work of contract;
- Contract work is being carried out as agreed in contract;
- Percentage of work completed is commensurate with funds spent; and
- Anticipated project results are being achieved or if not appropriate measures have been taken to ensure that results and goals identified under the contract are fully achieve (Ezekwesili, 2010)

Due process has become the popularly adopted clearing house for all government contract and procurement of goods and services. It is a mechanism for ensuring strict compliance with openness, competition and cost accuracy, rules and procedures that should guide contract award within the Federal Government of Nigeria. Most state governments have adopted the mechanism of the due process (Obi, 2012).

Since the introduction of the due process it has been claimed in several fora that over N110billion has been saved for the FGN. It has also been suggested that the BMPIU should be upgraded into a procurement commission with power to regulate construction contracts and be able to sanction contractors who fail to perform.

7.0 Budget Evaluation

This is the process that determines as systematically and objectively as possible the relevance, efficiency, effectiveness, impact and sustainability of activities in the light of the budget. In the context of budget, its concerns are who has benefited by how much, in what manner.

Evaluation is carried out during implementation (a review) after completion (an evaluation) or several years of budget implementation as an impact study of recent budgets. Evaluation is a past event appraisal of performance. It takes a retrospective view of the budget in terms of performance. That is, it assesses the extent to which government programmes and projects have achieved their initial designed objectives and results. It is essentially to ensure accountability and provide information by way of feedback from the lesson of experience of the on-going budget year for use in influencing the shape and character of subsequent budgets. Budget evaluation thus, assists in future policy formulation, execution and accountability.

8.0 Budget Reporting

A report is an account of a particular event, situation, activity, programme/project of concern such as a budget, which is provided based on due investigations and contains facts, opinions and recommendations on which to base effective decisions.

The public (and analysts) must be informed regularly on government progress with the implementation of the approved budget. Information on the progress with budget execution should come through regular reports.

Best practice on budget reporting suggests that reports should contain information on:

(i) Graphical presentation of sectoral performance on quarterly basis;

(ii) Emphasis on both operational and financial key performance indicators which should be the focus of the budget office;

(iii) Written commentary on the actual performance of the entire budget; and

(iv) A concise report from each high spending Ministry such as Works, Health, Education, Water, Indicating reasons and highlighting variances against budget (Okunna, 2011).

The reporting process on budgets also encompasses the following elements as further pointed by Okunna:

▪ Monthly reporting on:
- Actual revenue and expenditure for each month;
- Projections of anticipated revenue and expenditure for the remainder of the financial year;
- Conditional grants received and spending;
- Information on all transfers and
- Any material variances and a summary of actions to ensure that revenue and expenditure remain within the budget.

▪ Quarterly reporting: Treasury should publish, at least quarterly, a statement of revenue and expenditure showing actual performance against the budget for each spending agency. The process enforces discipline and informs the public (an analysis) on government progress with the execution of the budget.

▪ Annual Reporting: The production and publication of an annual report and financial statement in a timely manner, completes the accounting cycle. This reports the performance against predetermined objective and the budget approved by the National Assembly at the start of financial year.

9.0 Outline of Experiences in Budgetary Control by the Federal Government

9.1 FG Budget 1999

(i) **Objectives:**

1) To expand revenue base by exploring new sources;
2) To improve internal security;
3) To boost capacity building and utilization;
4) To reduce the level of unemployment;
5) To improve the purchasing power of the citizenry;
6) To sustain single digit inflation rate; among others.

(ii) **Results:**

The results were generally poor. Revenue base was not expanded in any significant way as the economy continued to depend on revenue from oil: Capacity building remained weak, and capacity utilization actually declined. Unemployment was not reduced, instead it rose. There were pay increases in the public sector but these did not bring about the expected general improvement in purchasing power,

inflation rate rose into double digits. The government itself assessed the performance of the economy a year later as follows:
'Despite the macroeconomic achievements of this Administration, basic structural imbalances persist. These include the lingering problems of import-dependence, reliance on a single economic sector-oil, weak industrial base, low level of agricultural production, a weak private sector, high external debt overhang, inefficient public utilities, low quality of social services and unabating unemployment'(Budget 2000, p. vi).

The government planned to use the next year's budget, Budget 2000, to tackle the 'lingering problems'.

9.2 FG Budget 2000

(i) **Objectives:** As promised, the government planned to:

1) provide the enabling legal, fiscal and monetary environment for the private sector to become the effective engine of growth and development in the economy;
2) upgrade the performance of major infrastructural facilities;
3) continue with the policy of probity, transparency and accountability in order to reduce the cost of doing business in Nigeria; and
4) intensify the pursuit of poverty alleviation and enhanced food security through fiscal incentives to lenders and borrowers for agricultural production, and by encouraging each state to concentrate on at least one crop massive and intensive production within the state; among other objectives.

(ii) **Results:**

This time again the results were poor. There was an improvement in GDP growth performance, but this did not translate into the promised improvement in living conditions. The structural weakness of the economy persisted, inflation continued to reduce the value of the naira; unemployment continued to rise; and poverty became more severe. The 'lingering problems' continued to linger, and citizens continued to complain and lament.
The situation has remained largely the same since Budget 2000. Experiences in the country confirm this, and the government, in Budget 2005, hopes to achieve better results. But unless we identify and effectively tackle the factors that account for the failure of past budgets in this country we will be moving round in a vicious circle of backwardness (Yaradua, 2005).

9.3 Explaining the Ineffectiveness of Budget, Budgeting and Budgetary Control in Government

Two sets of factors seem to explain the main ineffectiveness of the above contextual issues in the management of the national economy. They are 'missing links' in policy and ineffective execution of budgets and/or non adherence with the laid-down basic principles of budget matters:

(i) **Missing Links in Policy:**

The main issue here is the inadequacy of the provisions for the development of needed capabilities in the economy, i.e., relevant knowledge and skills for doing things. No economic model and no government can successfully transform an economy where the people lack knowledge and skills for designing and fabricating things, identifying business opportunities, and initiating and successfully running modern business enterprises. It is these factors that will enhance the expansion of economic activities needed to create jobs, raise incomes, and reduce poverty in the society.

(ii) **Ineffective Execution of Budgets**

This weakness is well known. But there is an aspect of it that has been seriously discussed. That aspect is the final phase of the budgetary process – audit and evaluation. Our governments have been notoriously ineffective in performing the activities involved in auditing and evaluating the performance of its departments in budget implementation, and it is largely because of this failure that budgetary control is ineffective in the public sector (Akpakpan, 1999).

10.0 Results and Discussions

The paper has examined the conceptual issues in budget, budgeting and phases of budgetary control in the public sector. It regards budget, planning, and forecasting as a prelude to budget formulation. While the budget formulation and implementation process were discussed, emphasis were placed on audit, monitoring, evaluation and budget reporting. This consideration has brought to the fore the following findings/results:

10.1 There exist anomalies in the budget planning and forecasting stages. Budgeting is a specialized area of learning and hence, only expert can effectively handle budgeting assignment. Before now, budgeting was regarded as a routine civil service exercise that anybody could perform. Good as it is, now that the Budget Office is being headed by an expert, this is not the case in most of the MDA's. The Planning Department and the Budget Division of MDA's should be staffed with personnel who are enumerated and have specialized skills in which budgeting feature prominently. Budgeting in the present day Nigeria should no longer be left in the hands of the generalists.

10.2 Over the years, budgeting in Nigeria has suffered from poor budget formulation and implementation, resulting in efficiency, ineffectiveness in resource use and non-attainment of desired development objectives. For instance, in their initial reactions to the presentation of the year 2005 proposals by Mr. President, legislators complained of the non-implementation of some aspects of the 2004 budget which adversely affected their constituencies. Since budgets are proposals that offer, raise the hopes of the masses, their non-implementation could be perceived as deliberate denial of the dividends of democracy.

10.3 The budgeting process has tended to be characterized by the following flaws, among others:
(i) Unrealistic revenue estimates;
(ii) Non involvement of all stakeholders;
(iii) Top-down approach;
(iv) Lack of transparency and accountability;
(v) Indiscipline reflecting the implementation of projects and programmes initially not included in the budget and leaving those included;
(vi) Weakness in the institutional framework and insufficient link of the budget with the National Development Plan;
(vii) Lapses in formulation arising from deficient techniques;
(viii) Absence of multiyear budgeting;
(ix) Poor budget implementation due to inability to comply with due process;
(x) Inadequate monitoring of budget performance and virtual absence of evaluation; and
(xi) Inadequate exercise of legislative oversight functions.

11.0 Conclusion and Recommendations

Budget, Budgeting and Budgetary controls remain the most effective tools for proper management of our public resources. It works for many countries of the world. Nigeria will not be an exception. In particular, we will have to design and effectively implement measures that will guarantee an application of best practices at all levels of government and the private sector. There must be a serious commitment and political will by our leaders to adhere to the budget discipline and ensure full implementation of approved budgets. All observations arising from poor policy formulations, execution, audit monitoring and evaluation should be timely reviewed and reported for adequate remedial actions.

Therefore, if these recommendations are holistically adopted the public will truely experience the positive impact of democratic governance when their socio-economic wellbeing are improved.

References

Adebayo, B.O. (2000). Budget Implementation and Control Presented at National Conference, National Accountant at Local Government Level, Lagos.

Agboolu, J.O. (1983). Concepts and Principles of Budgeting, Lagos: Femi Publishers.

Akpakpan, E.B. (2005). Faliure of Governments Budgets in Nigeria presented at National Workshop, Kaduna.

Akpakpan, E.B. and Umoh, P.N. (1999). Developing the Nigerian Economy for an Enduring Democracy, Lagos: CSA Productions.

Bates, J.G. (1993). Managing Value for Money in the Public Sector, London: Changeman & Hall.

Budget (2000). Approved Budget 2000: Consolidating Dividends of Democracy Presented at Workshop Organized for Public Sector Accountants, Owerri.

Ezekwesili, O.B. (2010). Budgeting and Control in Public Sector, Presented at National Conference Organized for Managers, Abuja.

FGN (1999). Annual Budget for 2011, Abuja: Ministry of Finance.

Fleishman, B.O. and T.S. Marguelse (1986). Budget Implementation and National Development, The Way Forward, presented at National Conference of Auditors, Benin.

Hyman, D.N. (1999). Public Finance: A Contemporary Application of the Theory of Policy, New York: Harcourt Brace.

Meyers, R.T. (1999). Handbook of Government Budgeting, San-Francisco: Jossey-Brass.

Minoma, S.J. (2009). Revenue Generation and Optimal Utilization of Budget Allocation, Presented at Seminar Organized for Newly Elected State Assembly Members, Awka.

NBOS (2010). Federal Government Statistical Year Book, Abuja: Federal Printers.

Nwandu, V.S. 92014). Budget Application for Effective Management of State Resources, Presented at Women Development Centre for Budget Officers, Awka.

OAGF (2009). Budgeting in Nigeria: A critique of 2009 and 2000 Approved Budgets, presented at National Seminar Organized for Accountants, Ibadan.

Obi, P.A. (2012). Due Process and Anambra State Procurement Law: Its Implications, Presented at State Conference hall, Awka.

Okonjo, N.I. (2012). Budget Execution and Control, Presented at Organized Seminar for Managers at Women Development Centre Abuja.

Onah, A.A. (2009). Budgeting and Expenditure Control in Nigeria: Impact and Problems Presented at UNN, Enugu.

Orie, S.O. (2005). An Up-Date on Financial Administration at the Local Government Level: A Search for Transparency and Accountability in Governance, Awka: Catholic Diocesan Publishers Ltd.

Osibote, O.I. (2005). Budget and Budgetary Control in the Public Sector, Presented at ANAN Conference held at Calabar.

Osisioma, B.C. (2000). Budgetary Control in the Public Sector: Implications for National Development Presented at Organized Workshops for Treasurers/Heads of Administration of LGAs, Awka.

Soludo, A.O. (2011). Budgeting and Budgeting Control in the Public Sector: A Critical Analysis Presented at Women Dev. Centre, Awka.

Starling, G. (1995). The Policies and Economics of Public Policy, Illinois: The Dorsey.

The IMF (1995). Unproductive Public Expenditures: A Pragmatic Approach to Policy Analysis, Washington, DC.

Uchendu, P.I. (1999). Budgeting and Financial Reporting for Efficient Economic Management in the Public Sector, Presented at Workshop for Accountants, Enugu.

Ukpong, I.I. and E.B. Akpakpan (1998). The Nigerian Fiscal System, Abak (Nig): Belpot Publishers.

Yaradua, U. (2005). National Budget Presentation to the National Assembly, Abuja.

Impact of Tax Reforms on Economic Growth in Nigeria

By

Rev. Okeke Moses N.
Federal Polytechnic Oko
Department of Accountancy,
Mosesnnoruga@yayoo.com
08037165644

Abstract

This study attempts to evaluate the impact of tax reforms on economic growth in Nigeria. A time series data covering a period of 30 years (1985-to-2015) were collected from secondary sources, and used for the analysis. The hypothesis was tested using Ordinary Least Square (OLS) method, while chow test was employed as a statistical tool for data analysis. The paper reveals that recent tax reforms have no significant effect on economic growth, that reforms have significantly altered the way system, and their agencies function. It therefore, recommends that government should employ viable tax reforms to stimulate tax compliance and trigger macroeconomic variables.

1.0 Introduction

There have been calls from several quarters on the need to restructure the nation's tax system. Nigeria is a monolithic economy with strong dependence on the oil sector; this dependence makes the economy to be vulnerable to external manipulation and adversely affects the planning horizons in the country. Governments impose many types of taxes in most developed countries, individuals pay income taxes when they earn money, consumption taxes when they spend it, property taxes when they own a home or land, and in some cases estate taxes when they die. In the United States, federal, state, and local governments all collect taxes. Taxes on people's income play critical roles in the revenue systems of all developed countries. From the foregoing, non-oil revenue especially tax has been the mainstay of most developed countries, in contrast to developing countries that still depend on primary products. Also, indirect taxes appear to be in vogue in developed countries, due to higher return, lower administration cost and higher compliance rate, however, most developing countries still rely on direct taxes with lower compliance rate (Oloyele, 2010).

Taxation has rightly been identified as a major tool in the strengthening of domestic resource mobilization and consequently, the search for ways and means of expanding the tax base and also strengthening tax administration has been intensified. That taxation has been one of the most important weapon available to government for marshalling financial resources is undisputable (Atta-Mills, 2002: Teidi, 2003 and Oloyede, 2010).

The Nigerian Tax system has historically suffered from challenges ranging from poor compliance, inefficient tax administration, corruption and fraud. This state of affairs which led to several reforms initiatives culminated in the enactment of the FIRS (Establishment) Act and the positioning of the FIRS as an autonomous and modern tax agency.

This study focuses on the developmental implications of the tax reforms initiated in Nigeria. The specific objectives are twofold: First, the study seeks to evaluate the economic productivity of the overall tax system. Second, the study attempts to explain the links of the tax reform measures to revenue performance and assesses ways of mobilizing additional revenue.

1.1 Objectives of the Study

The main objective of this study is to examine the impact of tax reforms on economic growth in Nigeria from 1985-2015.

Specific objectives of the study are to:

i) Evaluate the impact of Value Added Tax on economic growth in Nigeria.
ii) Examine the impact of reform-induced Company Income Tax on real gross domestic product (RGDP).
iii) Examine the impact of reform in Personal Income Tax on economic growth.
iv) Evaluate the impact the tax reform in trade taxes and growth in Nigeria
v) Investigate the impact of tax variable son economic growth in Nigeria.

1.2 Research Hypothesis

In the course of this research paper, the following hypotheses were tested:

$H0_1$: There is no significant positive impact between Value Added Tax and economic growth in Nigeria.
$H0_2$: There is no significant positive impact between Company Income Tax and economic growth in Nigeria.
$H0_3$: There exist no significant positive impact between Personal Income Tax and economic growth in Nigeria.
$H0_4$: There exist no significant positive relationship between trade taxes and economic growth in Nigeria.
$H0_5$: There is no significant positive impact between tax variables and economic growth in Nigeria.

This study tends to look at the structure of exchange rate between 1985 – 2015 years period. The study seeks to cover this period because the period consists of periods of stable and unstable economic development.

The variables considered in the study are Real Gross Domestic Product (RGDP), Value-Added Tax (VAT), Company Income Tax (CIT), Personal Income Tax (PIT) and Trade Tax (TT). The study is restricted to the period 1985 – 2015. The study is constrained by the dearth of available databases. A lot of the data set were either not available, or where available but inconsistent. This is because variables are often expressed in varying denominations. Since the analysis covers a large scope in terms of the number of years, gathering background information about the variables was extremely difficult. Such difficulties were adequately catered for in the course of the research.

There cannot be a better time to work on the critical problems of tax administration in the 21st century than now especially with the growing tax consciousness among the various governments in Nigeria. This research would contribute to the existing literature by focusing on tax administration in Nigeria with a view to identifying the critical problems that are confronting the tax system so that appropriate measures could be taken to tackle them. The work will be of immense benefit to students of tax policy, tax administration and taxation generally as it will provide them insight into the various challenges of tax administration. The findings and recommendations provided in the study will aside from helping to redefine the tax system, also give tax practitioners the much needed background for better performance.

This study is organised into five chapters of which chapter one is the introductory chapter with a general outlook of the work. Chapter two focuses on the theoretical framework and review of literature, chapter three is focused on the research methodology, while chapter four is concerned with the presentation of data and analysis of the regression results. Finally, chapter five summarises and concludes the work and some recommendations and suggestions also made.

2.0 REVIEW OF RELATED LITERATURE

2.1 Conceptual Clarification

2.1.1 The Concept of Tax

Taxation has been given various definitions by different authors. Some of these definitions are as follows:
Stein (1991) defines tax as a means by which the government raises revenue to meet its expenditure. It may also be used as a means of influencing or controlling the economy. Osita (2004) defines tax as the compulsory levy by government through the various agencies in the income, capital consumption of its subjects. Onaolapo (1988) defines taxation generally as hew process or machinery by which communication or group of persons are made to contributes part of their income in some agreed quantum or method for the purpose of the administration and development at the society as a whole. Agyei (1983) defines taxation as transfer of resource from the private sector in order to accomplish some of the nation’s economic and social goal.

Anyanwu (1997) defined taxation as a compulsory transfer or payment (or occasionallyof goods and services) from private individuals, institutions or groups to the government. Taxation is simply a pecuniary burden placed on individuals, so as to support the government. The ultimate essence of taxation is the provision of adequate revenue for the government to carry out its statutory obligations for the economic well-being of the society (Appah, 2004) The government needs resources to finance its traditional functions. These functions include the stabilization of the economy, maintenance of government machinery, responsibility to external economics, and provision of basic infrastructures (Anyanwu, 1997; Abiola and Asiweh (2012).

Taxation is basically the process of collecting taxes within a particular location. In this regard, tax has been defined as - a monetary charge imposed by the government on person‘s entities transactions or properties to yield revenue. “It has also been defined as the enforced proportional contributions from persons and property, levied by the state by virtue of its sovereignty for the support of government for all public needs”. (Olakanmi, 2012) This definition is deductive in that, it limits the purpose of taxation to the support of Government.

Therefore, it is clear from the above definition that a tax is not a voluntary donation but a compulsory pecuniary burden imposed on persons, property and services for the support of government expenditure. Normally tax should be certain and orderly and are usually imposed by statute. But going by the provision of FIRS Act, ―tax includes any duty, levy, or revenue accruable to the government in full or in part under this Act, the laws listed in the first schedule to this Act or any other enactment or law (FIRS, 2007).

Tax may also be defined as a pecuniary burden laid upon individual or property to support government expenditure. A tax is not a voluntary payment or donation, but an enforced and compulsory contribution, exacted pursuant to legislative authority and is any contribution imposed by government, whether under the name of duty, custom excise levy or other name. (FIRS, 2012)

From the above, tax is a compulsory levy imposed by the government on its citizens in order to provide public services and ensure their social and economic wellbeing or is a compulsory payment for which the government is not mandated to render commensurate services to taxpayer. Tax may be direct or indirect and may be imposed on individual basis, entities, assets and transactional basis.

2.2 Theoretical Framework

2.1.2 Optimal Taxation and Reform

The optional taxation approach emphasizes that to analyze the impact of tax reform its administration costs and its effect on social welfare must be evaluated. The analysis of optimal commodity taxation began with Ramsey (1927), but the subject expanded in the 1970s, following the Diamond-Mirrlees papers of 1971. The subject of optimal income taxation was created by Mirrlees (1971).

In the case of distribution, one should look for the sources of inequality (for example, land endowments or earned incomes) and should concentrate taxation there. In the case of externalities, one should attempt to tax or to subsidize directly the good or activity that produces the externality (Stein, 1988a). These efficiency results only require social welfare to be an increasing function of the individual welfare. In cases where equity and efficiency must be balanced, as in the design of direct and indirect taxes on consumers, the tax rates will depend on the exact form of the social welfare function (Newbery, 1988).

Newbery and Stein (1988) have analysed tax reform in a normative framework provided by the theory of optimal taxation. The analysis attempts to account for the impact of tax reform on tax-induced losses in the efficiency of resource allocation and on vertical equity norms. The former dimension of the reform is captured by the responsiveness of taxpayers to tax-induced relative price changes, and the latter on the particular specifications of a social welfare function. Optimal tax reforms in this context tend to be those that minimize efficiency costs (excess burden) of taxation and pay attention to income inequality. An interesting feature of these reforms is that they seldom endorse a uniform pattern of tax rates. The Ramsey rule, for example, calls for a highly differentiated structure of taxation by varying the tax rate inversely with the elasticity of demand and supply.

2.3 Empirical Studies

Several empirical studies have been conducted on the impact of taxes on economic growth. The empirical studies of Anyanwu (1997), Engen and Skinner (1996), Tosun and Abizadeh (2005) and Arnold (2011) provided different explanations of taxes on economic growth. Engen and Skinner (1996) in their study of taxation and economic growth of U.S. economy, large sample of countries and use of evidence from micro level studies of labour supply, investment demand, and productivity growth. Their result suggests modest effects on the order of 0.2 to 0.3 percentage points' differences in growth rates in response to a major reform. They stated that such small effects can have a large cumulative impact on living standards. Tosun and Abizadeh (2005) in their study of economic growth of tax changes in OECD countries from 1980 to 1999 reveal that economic growth measured by GDP per capita has a significant effect on the tax mix of GDP per capita. It is shown that while the shares of personal and property taxes have responded positively on economic growth, shares of the payroll and goods and services taxes have shown a relative decline. Arnold (2011) in their study found that short term recovery requires increase in demand while long run growth requires increase in supply. As short term concessions can be hard to reverse, this implies that policies to alleviate this crisis could compromise long run growth.

The tax system in Nigeria is made up of the tax policy, the tax laws and the tax administration. All of these are expected to work together in order to achieve the economic goal of the nation. According to the Presidential Committee on National tax policy (2008), the central objective of the Nigerian tax system is to contribute to the well-being of all Nigerians directly through improved policy formulation and indirectly through appropriate utilization of tax revenue generated for the benefit of the people. In generating revenue to achieve this goal, the tax system is expected to minimize distortion in the economy (Presidential Committee on National tax policy, 2008).

James and Abiola (2012) on the study of the impact of tax administration on government revenue in a development economy with a case study of Nigeria economy, applied descriptive statistics method to analyse 93 usable response, the study found out among other things that increasing tax revenue is a function of effective enforcement strategy. The research study further recommended that the government should review and restructure the nation's tax policy and administrative system.

In a bid to empirically investigate the impact of tax reform on Nigeria's economic growth, Okafor, (2012) employed the use of ordinary least square, where economic growth was proxied by the Gross Domestic Product (GDP) and tax reform proxied by the various income tax-petroleum profit tax (PPT), value-added tax (VAT), custom and excise duties (CED) and company income tax (CIT). The regression result showed goodness of fit and all the income taxes have positive coefficients showing that tax reform can stimulate economic growth.

In an empirical work titled, "Value-added Tax and Economic Growth of Nigeria", Adereti,. In a closely related approach Ogbonna and Appah (2012) using time series analysis and employing the scope (1981-2007) empirically investigated the impact of tax reform on economic growth in Nigeria. Because the time series variables were non-stationary at levels, they employ the methodology of co-integration and error correction modeling. The use of Augmented Dickey fuller showed that the variables were stationary after first difference. The partial stock adjustment model was used in estimating the ECM. The results showed that changes in all the income taxes have positive coefficient. This implies that tax reform will stimulate economic growth. The use of Granger causality showed that all the income tax granger causes the GDP.

3.0 METHODOLOGY

3.0 Introduction

3.1 Research Design

This study adopts the ex-post factor method of research. This is because data needed for analysis already exists than cross-sectional data being used. Data relating to revenues from different tax components and GDP will be collected for the years 1985 – 2015. The study uses the Ordinary Least Square Estimation Technique to examine the relationship between taxation and the Nigerian Economy which will be measured using its Gross Domestic Product (GDP).

3.2 Sources of Data

The source of data used in this study is the Secondary sources. Secondary sources refer to the publications of other agencies or bodies that collected data for purposes different from which the researcher intend to use it for. The sources consist of published documents such as annual reports and accounts, journals, magazines and periodicals.

This source is important because it gives future researchers the opportunities to replicate the research work. However, most authorities warn that "the data collected from this source must be used with caution, because it may not give the exact kind of information needed". Therefore, the data may need to be refined after they are generated to suit the researcher's need, since it was initially collected for different purposes by others. The advantages of using secondary data are that it saves time and money.

For the purpose of this study, time series data were used. The data covers a period of 30 years (1985-2015). The data were sourced from secondary sources such as publications of the Central Bank of Nigeria (CBN) like the statistical bulletin, Bullions, occasional papers, Economic and Financial Review and Annual Reports. Also, the IMF data base will be used as a data source. Other sources of data that will be used are journal research papers and academic works directly related to the study.

3.3 Method of Data Analysis

We tested the above using the Ordinary Least Square (OLS) method. Hence the multiple regression technique is used to estimate the parameters the objectives being to minimize the error term with a view of finding the regression equation that explains the data. This is preferred for its unbiasness, consistency, efficiency and simplicity.

Thus, the ordinary least square method is used to collect and measure the impact of the tax reforms on economic growth in Nigeria. The dependent variable is real gross domestic product, while Company Income Tax (CIT), Personal Income Tax (PIT), Trade Tax (TT) and Value Added Tax (VAT) are the explanatory variables.

The statistical criteria for evaluating the parameter estimates of the regression models is the Chow Test, named after Gregory Chow. This test enables us to establish whether or not there is structural change in economic growth since the tax reforms. The period under the study spans from 1980 to 2015. Under the analysis, the period was divided into two distinct periods: pre-reform era (1980-2000) and post-reform era (2001-2015).

3.4 Specification of Models

The identified relationship between tax policy and economic growth can be investigated in a number of ways.

However, a number of recent studies have adopted the use of an endogenous growth model to stimulate the impact of a fundamental tax reforms on economic growth. As Ogbonna and Ebimobowei (2012) remarked, all these studies conclude that reducing the distorting effects of current tax structure – being a representative of the fiscal structure – of a modern economy, it can be shown that income growth can affect different taxes differently.

To demonstrate the transmission effects of tax Policy changes on economic growth and in line with Tosun and Abizadeh (2005), assume that there are two tax structures (tax A and tax B) that enhance income growth. Consequently, the share of these taxes in total tax revenues can be written as:

$t^{\alpha} = t^{\alpha}\ A(Y)/T$ - - - - - - (1)

$t^{\beta} = t^{\beta}\ A(Y)/T$ - - - - - - (2)

Where: $t^{\alpha} = t^{\beta}$ represent the share of taxes A and B on the level of income (Y); A,B are bases of tax A and B; t^{α}, t^{β} are the average tax rates for tax A and tax B; are functions of the level of income. Since: ta and tb sum up to unity (i.e : $t^{\alpha} + t^{\beta} = 1$), it means that the total tax revenue (T) equal to $t^{\alpha}\ A(Y) + t^{\beta}\ B(Y)$.

Consequently, it could be seen that both tax shares will depend on the tax rates, tax bases and income, which can be written as:

$T = f\ [(t^{\alpha}, t^{\beta}, A(Y), B(Y)]$ ………………………………………………………….. 3

Recall that for a given tax rates, change in tax share will depend on the relative change in the tax bases. As a result, income growth will change the tax structure when it affects the bases of different taxes. Although, tax rates can changed exogenously through major tax reforms, it can also change endogenously.

A new growth theory which provides a theoretical framework for analyzing economic growth that is determined by system governing (or within) a production processes rather than by forces outside of economic system.

Our data were divided into two periods: pre-reform era (1985-2000) and post-reform era (2001-2015). To estimate the impact of tax reforms on economic growth, we specify the models below:

3.4.1 Model 1

$$RGDP_{1980\text{-}2015} = \alpha_0 + \alpha_1 CIT_{1985\text{-}2015} + \alpha_2 PIT_{1985\text{-}2015} + \alpha_3 TT_{1985\text{-}2015} + \alpha_4 TT_{1985\text{-}2015} + \mu_t \quad (1)$$

Where

RGDP = Real Gross Domestic Product (1985-2015)

CIT = Company Income Tax (1985-2015)

PIT = Personal Income Tax (1985-2015),

TT = Trade Tax (1985-2015)

VAT = Value Added Tax (1985-2015)

μ_t = error term

3.4.2 Model 2

$$RGDP_{1985\text{-}2000} = \beta_0 + \beta_1 CIT_{1985\text{-}2000} + \beta_2 PIT_{1985\text{-}2000} + \beta_3 TT_{1985\text{-}2000} + \beta_4 TT_{1985\text{-}2000} + \pi_t \quad (1)$$

Where

RGDP = Real Gross Domestic Product (1985-2000)

CIT = Company Income Tax (1985-2000)

PIT = Personal Income Tax (1985-2000),

TT = Trade Tax (1985-2000)

VAT = Value Added Tax (1985-2000)

π_t = error term

3.4.3 Model 3

$$RGDP_{2001\text{-}2015} = \Omega_0 + \Omega_1 CIT_{2001\text{-}2015} + \Omega_2 PIT_{2001\text{-}2015} + \Omega_3 TT_{2001\text{-}2015} + \Omega_4 TT_{2001\text{-}2015} + \infty_t \quad (1)$$

Where

RGDP = Real Gross Domestic Product (2001-2015)

CIT = Company Income Tax (2001-2015)

PIT = Personal Income Tax (2001-2015),

TT = Trade Tax (2001-2015)

VAT = Value Added Tax (2001-2015)

∞_t = error term

3.5 Procedure for Testing of Hypotheses

3.5.1 Broad Statement of the Hypothesis

Null Hypothesis

H_0 = Tax reforms has no impact on economic growth in Nigeria

H_0 = Tax Reforms = 0

Alternative Hypothesis

H_0 = Tax reforms has impact on economic growth in Nigeria

H_0 = Tax Reforms $\neq$ 0

3.5.2 Assumptions of the Chow Test

The assumptions underlying the Chow test are two folds:

(a) $U_{1t} \sim N\ (0, \sigma^2)$ and $U_{2t} \sim N\ (0, \sigma^2)$, that is the error terms are normally distributed with the same (homoscedastic) variance σ^- and
(b) U_{1t} and U_{2t} are independently distributed.

3.5.3 Procedures of the Chow Test

Step I

Combining all the observations, we estimate Model 1 and obtain its residual sum of squares (RSS), say, S_1 with degree of freedom, df = (n_1 + n_2 –k), where k = number of parameters estimated and n_1 and n_2 are the observations.

Step II

Estimate models 2 and 3 individually and obtain the RSS, say, S2 and S3, with df = (n1 – k) and (n2 – k), respectively. Add these two RSS, S4 = S2 + S3 with df = (n1 + n2 -2k)

Step III

Obtain S5 = S1 –S4

Step IV

Given the assumptions of the Chow test, it can be shown that

$$F^* = \frac{S_5/k}{S_4/(n_1 + n_2 - 2k)}$$

3.6 Choosing the Desired Level of Significance

The research thesis adopted a 5% level of significance. This implies that we allow 5% error of every 100% decision taken.

3.7 Decision Rule

This will be used to test whether or not the explanatory variables usually exert any significant influence on the dependent variables. If the F computed exceeds the critical F value at the chosen level of significance (5%), we reject the hypothesis that the regression models 1 and 2 are the same. In other words, we reject the hypothesis of structural stability.

3.8 Statistical Tests

Student t- statistics: This measures the original ratio of an estimated coefficient to its standard error, it is used to test the hypothesis that a coefficient is equal to zero. The decision rule is that a variable is statistically significant if the value of t- calculated (t- cal) is greater than the value of t – obtained in a statistical table (t-tab). In other words, if the null hypothesis (H_0) is accepted, their parameters are not significantly different from zero (Ho, $\beta o = \beta_1 = 0$). We will therefore reject the alternative hypothesis (H_1).

F – Statistics: This measures or shows the fitness of the mode. It reveals that all the slope coefficients are simultaneously significant and different from zero. The decision rule is that at a particular level of significance (5%). If the value of the F- observed is greater than F- Critical, the model is F_t, thus the null hypothesis is rejected and the alternative hypothesis accepted.

Coefficient of Determination: This is denoted by R^2. It measures the proportion or percentage of the total variation in the dependent variable that is explained by variation in the independent variable. This will be obtained with the computation of the F- statistic to ascertain the validity of R^2.

Durbin Watson (DW): The DW test shows the presence of serial correlation between the error terms. As a rule of thumb, if the value of d* is less than 2, there is evidence of positive serial correlation. Consequently, we reject the hypothesis of zero auto correlation of the error terms. If d* is greater than 2 (d*>2), there is evidence of negative auto – correlation of the error terms. If d* equals 2(d*=2), presence of zero autocorrelation of the error terms.

3.8.1 ADF Tests

Whistler, White, Wong and Bates (2001) observe that for a time series Y_t, two forms of ADF test exists. These are based on t – test of significance of the coefficient associated with the lagged value of the series (Y_{t-1}) in any of the following two forms of ADF regression equations:

$$\Delta Y_t = \propto_0 + \propto_1 Y_{t-1} + \sum_{j=1}^{p} Y_j \ \Delta Y_{t-j} + e_t ------ (4.4)$$

$$\Delta Y_t = \propto_0 + \propto_1 Y_{t-1} + \propto_2 t + \sum_{j=1}^{p} Y_j \ \Delta Y_{t-j} + e_t --- (4.5)$$

Where $\sum_t$ for t = 1…., N is assumed to be Gaussian white noise. Equation (4.4) is with constant, no trend while equation (3) is with both constant and trends. The number of Lagged term p is chosen to ensure the errors and uncorrelated. If, $\alpha_1 = 0$, the time series is non-stationary, so that standard asymptotic analysis cannot be used to obtain the distribution of the test statistics (Whistler et al, 2001). In this study, the two forms of ADF tests were carried out, using the unit root test procedure in Eviews 8.0.

Having ascertained that all the series in the economic model are non-stationary in their level, but stationary in their first difference, it became obvious that least square technique would not be appropriate for the estimation of the economic model. Thus, bearing in mind the need to accommodate the interdependence of relationships between most economic variables, the economic model was re-conceptualized as a vector autoregressive system (4), allowing for the possibility of co-integration among the endogenous variables.

$$\Delta Y_t = \beta x_t + \sum_{i=1}^{4} \theta_i \ \Delta Y_{t-1} + \pi Y_{t-1} + e_t ------ (4.6)$$

Where;

X is vector of deterministic variables, constant (c) and / or trend;

Y is vector of endogenous variables

β, θ and π are matrices of coefficients to be estimated, while

e is vector of stochastic residuals.

Terms in B give the influence of the associated deterministic variables, while θ represent short-term elasticity of response. And, where evidence of r<5 co - integrating relations exists, by Granger causality theorem, $\pi = \beta^1$; in which case B is the co-integrating vector (containing the long-run elasticity) while elements of are the adjustment parameters in the vector error correction model.

3.9 Justification of Research Methods Used and Techniques

In this research, both the historical and descriptive research methods were adopted due to the nature of the study. Historical research is relevant because it provides basis for appreciating the past, evaluating the present and predicting the future. And the descriptive method is used in other to assess specific phenomenon before generalization.

The technique employed for the analysis of data in this study is regression. Regression is employed in the study to forecast relationship between variables and estimate the influence of each explanatory variable to the dependent variable.

4.0 DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 The Empirical Results

4.1.1 Unit Root Test

The Augmented Dickey Fuller (ADF) was adopted to test for stationarity. The results of the ADF test are shown in table 4.1. A test of the time series properties of the data shows that all but one of the variables has unit roots.

Table 4.1: Unit Root Test Result

Variables	At level	1st difference	Order of integration
CIT	-2.095045	-5,566871*	1 (1)
IT	-2.287962	-5.146254*	1 (1)
PIT	-1.829094	-11.22740*	1 (1)
VAT	-2.360261	-4.654385*	I(1)
RGDP	-1.463149	-2.686449**	I(1)

*, **, *** significant at 1%, 5% and 10% level respectively.

Source: output of EVIEWS 8.0 Econometric software

The result presented in Table 4.1 shows that none of the variables is stationary at its ordinary level. In the table, the ADF test is used to test for the presence of unit roots in the variables. The results indicate the presence of a single unit root in all the variables. That is, none of the variables is integrated of order zero, but they are all integrated of order one, I(1).

The findings above suggest that the variables are 1 (1) variables, as confirmed by a test on the difference of the variables. This is carried out to assess the possibility of co-integration in the data and to ensure consistency in the econometric modelling.

4.1.2 Econometric Results

The table below shows the regression results of the specified empirical model;

Table 4.2: Regression Result

Dependent Variable: D(RGDP)

Method: Least Squares

Date: 03/08/16 Time: 22:57

Sample (adjusted): 1986 2015

Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	819137.1	238450.2	3.435254	0.0021
D(CIT)	-66.42287	245.3502	-0.270727	0.7888
D(IT)	-6.947652	114.8957	-0.060469	0.9523
D(PIT)	18.03540	85.88877	0.209986	0.8354
D(VAT)	72.36921	177.5138	0.407682	0.6870
R-squared	0.716659			
Adjusted R-squared	0.700675			
F-statistic	53.10588			
Durbin-Watson stat	2.632696			

Source: Econometric Analysis 2016

Results obtained as shown in Table 4.2 indicate the impacts of tax reforms of company income tax, trade tax, personal income tax and value added tax on economic growth. The estimated econometric model above revealed that dependent variable Real Gross Domestic Product (RGDP) has an autonomous value 819137.1 Reforms in Personal Income Tax (PIT) and Value Added Tax (VAT) have positive impacts on Real Gross Domestic Product (RGDP). A unit change increase in PIT will result in over 18.04 units increase in RGDP. In the same vein, a unit change in VAT will lead to a 72.4 increase in RGDP.

On the other hand, Company Income Tax (CIT) and Trade Tax (IT) exert negative influences on Real Gross Domestic Product (RGDP). A unit change in each of these variables will result in a decrease (66.42 and 6.95 respectively) in RGDP.

This result indicates that each component of the explanatory variables had variant impact on the dependent variable: personal income tax and value added tax contributed positively to RGDP, while company income tax and trade tax retard RGDP in Nigeria for the period under consideration (1985-2015).

The coefficient of determination (R^2) is 0.72 and when it was adjusted for the degree of freedom, the adjusted coefficient of determinant ($R^{\wedge 2}$) is 0.70 was derived. This means that about 72% of the total systematic mean variation of the dependent variable is explained by the explanatory variables. The remaining percent is explained by other elements not included in the model, but taken care of by the error term, hence the regression model is a good fit.

At 5% significant level, the regression passed the overall significance test (F-test). This is an indication that none of the estimated coefficient is equal to zero and that there is a linear relationship between the dependent variable and the explanatory variables. The Durbin-Watson statistics of 2.63 suggests a mild presence of autocorrelation with no serious consequences.

The t-values obtained show that all macroeconomic variables employed (company income tax, trade tax, personal income tax and value added tax) are statistically insignificant under the 5% and 10% levels of significance. This shows that in spite of the reforms in the tax system, their impacts have been insignificant or not properly felt. There is thus, need to return to the drawing board to proffer policies in the tax system that will enhance economic growth.

4.1.3 Test of Hypotheses

In testing whether tax reform have impact on economic growth or not., we adopt the Chow Test. We adopted 1999 as the breakpoint, since the reforms were majorly enforced in 2000. The result below was obtained.

Table 4.3 Chow Test

Chow Breakpoint Test: 1999

Null Hypothesis: No breaks at specified breakpoints

Varying regressors: All equation variables

Equation Sample: 1986 2015

F-statistic	2.946266	Prob. F(5,20)	0.0375
Log likelihood ratio	16.55730	Prob. Chi-Square(5)	0.0054
Wald Statistic	14.73133	Prob. Chi-Square(5)	0.0116

Source: Econometric Analysis 2016

From the table above, the F-Statistic of 2.9462 was obtained. Using 5% significance level, we obtained a critical value of 11.2496. Since Calculated F is less than Tabulated F, we conclude that the tax reforms have not significantly triggered economic growth in Nigeria.

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This study has been carried out with the main objective of investigating into the relationship between tax policy (reforms) and economic growth in Nigeria. Using time-series data from 1985 to 2015, the study finds statistical evidence that long-run relationship exists between economic growth and tax components. To capture these effects, the Chow test was carried out. The results obtained show that the reforms have not adequately enhanced economic growth in Nigeria and contravene the hypothesis that improvement in tax bases are necessary conditions for enhance economic growth and development in Nigeria.

This goes to show that tax reforms have significantly altered the way the system and their agencies function resulting in improved impacts on economic growth. The reform process has indeed, charted a road map to drive the Nigerian economy to international relevance, as it is to provide adequate revenue for the government to undertake socially desirable expenditure that will translate to economic growth in real output and per capita basis.

However, the desired revenue cannot be generated from the tax reform processes in Nigeria except government review obsolete laws and rates to align with current macroeconomic target for the promotion of fiscal responsibility and sustainability; a corrupt-free and efficient administrative machinery with personnel who are well trained, well-equipped and motivated would enable Nigeria to make appreciable progress in revenue generation; there should be harmony in the objectives of tax reforms with other industrial and macro-economic objectives; and above all accountability and transparency on the part of government officials in the management of tax revenues for the benefit of the citizens and Nigeria in general.

5.2 Conclusion

The study reveals that expansion of government expenditures amid low revenue growth in the period leading to 1983 led to serious fiscal imbalances in the Nigerian economy. This development created the need for a larger share of the private sector's resources to be ceded to the government as taxes to finance the increased expenditures. Since 1983, therefore, the tax system of Nigeria has undergone a fundamental reform, aimed at improving revenue generation and maximizing the efficiency of collection. Tax reform has thus been used as an instrument for raising the revenue productivity of the tax system.

Nigeria's tax system is characterized by unnecessarily complex, distortionary and largely inequitable taxation laws that have limited application in the informal sector that dominates the economy. Among the other problems relating to taxation can be added the low yield of revenue, disregard for the true principle of federalism, endemic institutional and management concerns at sub-national levels, weak tax assessment, corrupt processes, and the prevalence of multiplicity of taxes. The tax authorities include the need not only to build, but also to utilize institutional and human capacity, funding and logistics as well as finding solutions for tax evasion, fraud and mismanagement of collected revenue, improving voluntary compliance, and quick adjudication on legal matters. For the tax system to be efficient and effective, the tax authorities must produce officials that are well-paid, well-motivated, properly organized, adequately equipped, well-disciplined and professionally inclined. The system needs to adhere to simple, clear and unambiguous tax laws; assessment and collection procedures must be straightforward, transparent and client-friendly. Nigeria must train special tax judges and establish special tax tribunals; ensure that tax compliance costs are minimal; and to adopt the attitude of 'the taxpayer being the king'.

5.3 Recommendations

In the light of the finding the following recommendations were made; although these recommendations are not conclusion, but are supplement to the already suggested measures by the federal and state government.

1. Nigeria's economic history of volatile revenue flows has shown that it is time for the country to undertake serious efforts to diversify its revenue structure. The diversification experience of Indonesia to safeguard its economy against oil-related volatility could be relevant for Nigeria, and calls for exploiting the potential of such broad-based revenue sources as income tax and VAT. For stability and sustainability, the revenue structure should be largely domestically driven and should principally be derived from value-added production activities rather than from the current service-oriented operations.

2. VAT, one of the most dependable revenue sources in Nigeria today, has the potential to become the main source if it is properly harnessed. This can be achieved only if the Federal Inland Revenue Services is autonomous, void of the unnecessary encumbrances and bureaucratic bottlenecks it is currently faced with. To be able to function effectively, the FIRS should be ratified by law and supported with adequate resources; their tools and techniques should be modernized.
3. In line with the current globalization trend, government should provide various tax incentives to attract investors. This is all the more expedient, given the government's commitment to attract foreign investors as well as to increase saving and investment.
4. Tax administration can achieve good results only if the following conditions are met: simple tax rules and procedures, low tax burden, convenience to taxpayers.

REFERENCES

Abiola, J. & Asiweh, M. (2012). Impact of Tax Administration on Government Revenue in a Developing Economy – A Case Study of Nigeria. International Journal of Business and Social Science vol. 3 No. 8.

Adefila J.J. (2008). Research Methodology in Behavioural Science, KAduna: Apani Publication.

Agyei, A.K. (1983). *Principle Of Personal Income Taxation In Nigeria*. Nigeria*:* West African book publisher's Ltd.

Anyanwu, J.C (1997). Nigeria Public Finance. Joanne Educational Publishers, Onitsha

Appah, E. & J.K. Oyandonghan (2011). The challenges of tax mobilization and management in the Nigerian economy, Business Administration. Manage, 6 (2): 128-136.

Appah, E. (2004). Principles and Practice of Nigerian Taxation, Ezevin Mint Printers and Publishers, Port Harcourt.

Appah, E. (2004). Principles and Practice of Nigerian Taxation, Ezevin Mint Printers and Publishers, Port Harcourt

Arnold, J.M., 2011. Tax policy for economic recovery and growth. Econ. J., 121: 59-80.

Atta – Mills, J.E. (2002), "Improving Resources and Organizational Structures of Tax Administration" Available @ http: //www. Unpani.un.org/intrados/groups/public /documents/UN/UNPAN006399.Pdf. Assesses on 12/12/10.

Engen, E. & Skinner, J. (1996). Taxation and Economic Growth. National Tax J., 49 (4): 617- 642.

Federal Inland Revenue Service (Establishment) Act, 2007. "Tax administration (self-assessment) Regulations, 2011

FIRS, (2012) Toward a Modern Tax Agency, Thisday Newspaper, August 8, p. 37

Kiabel, B.D. and N.G. Nwokah, 2009. Boosting revenue generation by state governments in Nigeria: The tax Consultants option revisited. Eur. J. Soc. Sci., 8(4): 532-539.

Mirrlees, J.A. 1971."An Exploration in the Theory of Optimum Income Taxation". *Review of Economic Studies*, vol. 38, no. 114, April: 175-208.

Newbery, D. 1988. "Taxation and Development". In D. Newbery and N. Stern (eds), The *Theory of Taxation for Developing Countries*. Washington, D.C: The World Bank.

Newbery, D. and N. Stern (eds).1988. *The Theory of Taxation for Developing Countries*. Washington, D.C: The World Bank.

Ogbonna G.N and Appah Ebimobowei (2012). "Impact of Tax Reforms and Economic Growth of Nigeria: A Time Series Analysis". *Current Research Journal of Social Sciences 4(1) pg 62-68.*

Okafor, R. G. (2012). Tax Revenue Generation and Nigerian Economic Development. *European Journal of Business and Management*, 4(9): 49-57

Ola, C.S. (2001): Income Tax Law and Practice in Nigeria. Heinemann Educational Books (Nigeria) Plc, Ibadan

Olakanmi, J. (2012) *Compendium of Tax Laws*, 3rd Edition, Law Lords Publications

Oloyede, I.O. (2010), "Repositioning the Nigeria‟s Tax System: Suggested Policy Measures"Available@http://www.Unilorin.edu.ng/UniforinPublication /Iooloyede/ Repositioning % 20 the % 20 Nation. Doc. Assessed on 15/12/2010

Onaolapo, I.O. (1988). *Business Taxation (4th Edition*). Halty Court: Bittee Wailt Heinenain Ltd

Osita, A. (2004).*Taxation & tax management in Nigeria meridian* Associates *Enugu Economic development.* Enugu

Somorin, T. (2010) "Tax Reforms – Efforts of Nigeria", A Paper Presented at the Workshop on the Reforms of Tax Policy, Tangier, Morocco, retrieved November, November 29 2011 from www.cafrad.org/workship/tanger29.11.11/Fiscal. Somorin.11.pdf

Stein, N. 1988a."*The Theory of Optimal Commodity and Income Taxation:* An Introduction". In D. Newbery and N. Stein (eds), *The Theory of Taxation for Developing Countries*. Washington, D.C: The World Bank.

Tosun, M.S. and S. Abizadeh, 2005. Economic growth and tax components: An analysis of tax change in OECD. Appl. Econ., 37: 2251-2263.

Tosun, M.S. and S. Abizadeh, 2005. Economic growth and tax components: An analysis of tax change in OECD. Appl. Econ., 37: 2251-2263