



# TAX CONSULTANCY SERVICE: PROSPECT, PROBLEM AND SETTLEMENT IN REVENUE GENERATION IN GRASSROOTS IN NIGERIA

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**Abstract:** Tax income is one of the major sources of revenue for all the three tiers of government in Nigeria. Ever since global fall in oil price, governments at all levels have been striving to increase their internally generated revenue. Tax administration has been characterized with a lot of malaises which encourage gross tax evasion and low compliance. Federal and state governments adopted the option of engaging tax agents or tax consultants in collection of taxes in their own jurisdiction. The involvement of tax consultants has yielded positively in increasing the level of compliance and reduces the rate of tax evasion and tax avoidance. With the low tax base of the last tier can tax consultants be involved in collection? In lieu of this, this paper discusses prospect, problem and settlement of tax consultancy service in revenue generation in grassroots in Nigeria. The study hinged on optimal tax theory and theory of outsourcing. Descriptive research is used. Hypotheses were formulated and tested using chi square of Statistical Packages for Social Science. It was concluded that tax consultancy has great impact on revenue generation in the grassroots. The paper recommended the use tax consultants in the grassroots to foster revenue generation at the grassroots and tax consultancy service should be given legal backing.

**Keywords:** Tax Consultancy, Tax Administration, Grassroots, Revenue Generation.

## INTRODUCTION

The increasing cost of running government coupled with unstable revenue had lead many state governments to formulate strategies to improve the internally generated revenue (Adesoji & Chike, 2013). Since there is a global fall in oil price, all tiers of government fall back to non-oil source of revenue most especially taxation. This statement was collaborated by Anyachie, Areji and Unzonwanne, 2015. The then Minister of Finance and National Economic Planning Professor Okonjo Iwenla and other concerned Nigerians especially academics had called on government at all levels to get alternative source of revenue to sustain economic development (Ofoegbu, Akwu & Oliver, 2016). Infrastructural development cannot take place without funds. Funds is directly associated with development as opined by Adesoji *et al.*, 2013. Grassroots government relied solely on allocations from the federation account and subvention from the state governments. The funds from the aforementioned sources could not meet the yearning and increasing population of the local government areas. Therefore, the last tiers of government are compelled to improve tax revenue generation to meet the infrastructural development of the grassroots. According to Pfister, 2009, tax provides a predictable and stable flow of revenue to finance the development objectives.

Efficient and effective tax system can assist the governments increase the revenue generation. There are many literatures on the tax revenue generation but few have expressed opinions on the impact of consultancy services on tax revenue generation in the grassroots. Consultancy services play a major role in improving the revenue generation in developing nations. Many states in Nigeria have employed the service of tax experts to collect taxes on their behalf. At the grassroots the Local Government Revenue Committee (LGRC) collects taxes on behalf of the government. In Lagos State for example, the desire of government to boost the tax revenue generation encouraged the government of the state to engage the service of Tax Monitoring Agents (TAMA) (Oladele, Uduma & Aderemi, 2013). Recently, Lagos State Government announced discontinuation of tax consultants and Tax monitoring agents because of various allegations leveled against the duo by the Manufacturers Association of Nigeria. (Vanguard,2016). However, Tax consultants can be involved in order to accelerate revenue generation in the grassroots.

In view of this, this study examines the prospects, problems and settlement involve in the use of tax consultancy services in revenue generation at the grassroots government. Hypothesis is formulated to test the impact of consultancy on the tax revenue generation in the grassroots in Nigeria. Hypothesis will be tested using Statistical Package for Social Science. The study therefore concludes that consultancy has significant positive influence on revenue generation Nigeria.

### **Statement of the Problem**

Grassroots government is the last link in the tiers of government in Nigeria. This is commonly called local government in Nigeria. As the government of the rural dwellers, it is expected to generate revenue to finance it social obligations to its citizens. Local government council collects taxes through Local Government Revenue Committee chairs by the Supervisory councilor for finance. It is of great concern that revenue generated through taxation is insufficient to meet the obligations. Grassroots government depends greatly on the allocation from the Federation Account. The undue influence of the state government constitutes indirectly to financial disability of the last tier of government. Handful and countable tax bases of the local government hamper its development. Various taxes collect by the government are not well administered. There are lot cases of tax evasion and avoidance. This may due to many factors which are not the bases of discussion in this study. Communal ties and familiarity can impair the collection taxes at the local government. Therefore, there is need to bring a thirty party who will collect the taxes within the council and remit accordingly to the account of the last tier. Tax collection could be outsourced to consultants at minimal consultancy fees. Consultants are various professional firms dealing tax matters.

### **Objective of the Study**

The paper examines the consultancy services' prospects, problem and settlements on the tax revenue generation in grassroots in Nigeria with specific interest in Local government councils within the Oke Ogun metropolis. This could be achieved through the following specific objective:

- To determine the impact of consultancy on tax revenue generation in local government council.
- To ascertain the impact of consultancy on tax compliance within the axis.
- To determine the problem of consultancy in the tax revenue collection in local government councils
- To know the necessity for consultants to be involved in tax collection.
- To determine reaction of the grassroots staff on consultancy
- To determine the impact of tax consultants in curbing tax avoidance and evasion.

### **Research Question**

- Does consultancy service have positive impact on tax revenue generation in local government councils?
- Does the local government council use consultants to collect taxes?
- Is tax consultancy service really needed in the local government council in Nigeria?
- Does consultancy service increase the tax revenue of the local government council in Nigeria?
- Can consultancy services lead to loss of job at the grassroots?
- Does consultancy service significantly influence tax compliance in grassroots?
- Does tax consultants' involvement in tax collection curb the rate of tax avoidance and evasion in local government councils?
- Can involvement of tax consultants lead to corruption?

### **Statement of Hypotheses**

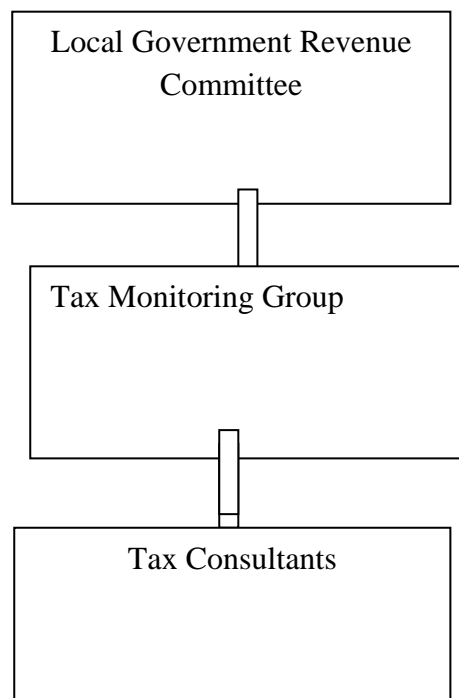
The following hypotheses would test:

H<sub>01</sub>: Use of consultants in tax revenue collection does not significantly influence tax compliance.

H<sub>02</sub>: Consultancy has no significant influence on tax revenue generation in the local government council in Nigeria.

### **Concept of Tax Consultancy Service**

Tax consultancy is part of tax reform policy instrument that can be used to generate revenue (Ayuba and Desmond, 2015). Tax consultancy is the process of outsourcing the function of revenue collection to the tax practitioners. Tax consultancy has not gained academic attention except a paper presented by Adekanola (1996) who pushed for the legalization of the use of tax consultants. The concept of tax practitioner has gained tremendous contributions in academics than tax consultancy. The term tax practitioner could be used for all persons involved in the practice of taxation such tax agents, tax advisors, tax officials, tax consultants and tax accountants. The tax consultants can be seen to act on behalf of government in collecting taxes from tax payers. There is always principal-agent relationship. But in order to ensure adequate remittance, there is need for government to establish a monitoring agency that will regulate the activities of the consultants. Tax monitoring agency will act as a middleman between the government (Local Government Revenue Committee) and the tax consultants.



**Source: Survey, 2017**

Tax monitoring group may be co-opted from the Revenue Committee. In order to ensure effectiveness, the group could be selected from directorate of finance and supply of the local government who will then be responsible to revenue committee.

### **Theoretical Framework**

The study is hinged on optimal taxation theory and theory of outsourcing. The theoretical underpinning of tax reform is found in the theory of optimal taxation. The work of Newbery and Stern (1987) has been described by Thirsk (1997) as perhaps the best illustration of the modern theory of tax reform. The modern theory of tax reform analyzes tax reform within the normative framework provided by the theory of optimal taxation. Given a government revenue objective, an optimal tax reform seeks to maximize an explicit social welfare function that balances vertical equity gains against tax-induced losses in the efficiency of resource allocation. Tax reform revolves around a notion of movement away from a given state of tax structure, administration or both. Theoretical exposition of optimal taxation normally begins with a set of fundamental assumptions. One of these assumptions is that production takes place in firms under competitive conditions; with profits distributed to consumers. The other fundamental assumptions are that there are no externalities, and that the price-taking consumers maximize utility (Ayuba et al.). Yet another assumption that is of importance relates to the tax instrument under consideration. In case it is commodity tax, it is assumed that all goods can be taxed while under income tax, it is assumed that income can be observed perfectly. During the theory posited that a tax system should be chosen to maximize a social welfare function. Ramsey (1927) suggested that optimal theory posited that the tax planner should raise amount of tax revenue through taxes on commodities only. He furthered that social

planner should be given free hand to determine the appropriate tax scheme to generate revenue through taxation; the problem of optimal taxation theory will be solved. Optimality could be achieved through tax consultancy. Consultants could be used to derive optimal revenue generation through taxation. Core competence theory of outsourcing was developed by Pinnington and Woolcok (1995). The theory was first applied to growth of Information technology vendor creating a new firm relationship for information system. Willcock and Choi (1995) adopted the theory to fashion out factors around which IT outsourcing decisions could be based. The theory could be used as a framework for making outsourcing decisions (Anold, 2000). Local Government Revenue Committee could outsource its functions to tax consultants to enhance optimality in tax revenue generation.

### **Empirical Review**

Several studies have been carried out on the tax revenue generation and impact on economy development in Nigeria. Olajide (2015), studied on revenue generation as a major source of income for the state government: an empirical analysis of two Parastatals using descriptive research design for the study. Hypotheses were formulated and tested using chi square statistical technique through SPSS method at 5% level of significance. It was found that there is a significant relationship between revenue and performance of the Parastatals and that poor revenue generation by local government in Nigeria affects the spread of development in the country. Adesoji and Chike (2013) carried out a study on the effect of internal revenue generation on infrastructural development, a study of Lagos state internal revenue service. Non experimental research based on survey was adopted using the workers in the internal revenue service in Lagos as the population. A total of fifty staff was sampled. Simple percentage was employed to analyze the data. It was found that Lagos state is ahead of other states in the provision of basic infrastructures and this would lead to tax compliance by the people. Enahoro and Olabisi (2012) studied on tax administration and revenue generation of Lagos state government, Nigeria. Survey research was used using sample size of one hundred twenty-five respondents drawn from five local governments in Lagos state. The data were gathered through questionnaires and were analyzed using simple percentage and kendall's measure of concordance at 0.05 level of significance, it was found that tax administration had significant relationship with the revenue generated in the state. Ojong, Ogar and Afikpo (2016) carried out a study on the impact of tax revenue on economic growth with evidence from Nigeria. Exploratory and ex- post facto research design was used. The study adopted secondary source of data. Regression analysis was used to show the relationship between non-oil revenue and the national growth. It was found that there is a significant relationship between non-oil revenue and the national growth. Oladele, Uduma and Aderemi (2013) studied revenue generation and engagement of tax consultants in Lagos state, Nigeria continuous tax evasion and irregularities. Related literatures were reviewed. The study concluded that tax evasion and avoidance is imminent. Use of tax consultants in Lagos state yield positive result but their activities must be monitored; commissions on collective should be paid promptly.

### **Prospects of Tax Consultancy Service in Revenue Generation**

Tax consultancy service has tremendous roles in boosting revenue generation in Nigeria. Various scholars who have carried out studies on the revenue generation through consultants adequate gave justification for the subject matter. Some of the prospects of using tax consultancy service are:

Antidote to Tax Evasion and Avoidance:

- Using tax consultants with effective monitoring of the collection serve as the antidote to high rate of tax evasion and avoidance. Professional judgement exercises by the consultant would bring more evaders into tax net.

- Staff Training Avenue:

The introduction of tax consultants can equally serve as an avenue to train the tax officials. There would be more exchange of professional ideas on matter relating to tax collection. Oladele et al. opine that consultants initiate positive changes in the lives of staff.

- Debt Recovery:

One of the measures to recover tax debt is through consultancy. Several debts that have been withheld by the tax payers would be exposed by the tax consultants.

- Proper Keeping of Tax records:

Register of the taxpayers that have not been well kept by the relevant tax authority will be updated by the consultants. The study on Lagos State Inland Revenue service has shown that adequate records of the tax payers were not kept, but the appointment of the consultants brought about proper registration and update of the tax payers were well-kept for monitoring the taxes withheld (Oladele et al.).

- Accountability:

Use of consultants with proper monitoring of the collection will enhance accountability for all the taxes collected on behalf of government. This will put an end to cases of non-remittance of the taxes collect on behalf of government by the fraudulent tax officials.

- Voluntary compliance:

Tax consultants will be able to sensitize the tax payers and this will lead to voluntary compliance. Tax payers would be better informed on the tax policy and some of the incentives claimable.

- Increased Internally Generated Revenue:

Use of tax consultants would increase the internally generated revenue. Oladele et al. found that tax consultants boosted the internally generated revenue in spite of the lapses in the tax administration in Lagos.

### **Problems of Tax Consultancy Service in Grassroots**

- Disagreement:

One of the problems of the tax consultancy service is the disagreement between the consultant and the government. Disagreement may come as a result of consultancy fee or non-remittance of taxes collected on behalf of the consultant

- Resistance:

There are parties involved in revenue generation which include: tax authority, taxpayer and the tax consultant. Tax officials may resist consultancy service because they may think that it will lead to loss of jobs and tax payers as well may resist because they may think that introduction of consultancy may lead to exploitation.

- Illiteracy:

There is no doubt that high rate of illiteracy may pose a challenge to use consultants in the grassroots. Low level of literacy at the grassroots even encourages low tax compliance. Grassroots citizens are yet to be educated on the tax legislations.

- Fraud if there is no proper monitoring:

Use of consultancy service may lead to fraud if the consultants are not properly monitored. High rate of exploitation could be checkmate if there is a monitoring agency.

- Infrastructural Development:

There is a positive relationship between infrastructural development and revenue generation. High rate infrastructural development in Lagos state favored its high rate of revenue generation. Adesoji et al. opine that infrastructural development has great effect on the Internally Generated Revenue in Lagos.

- Tax legislation:

There is no legislation enabling the use of tax consultants in the grassroots. The service of the tax consultants in the grass must be legalized to make the service acceptable to both the tax payers and officials.

- Low tax base:

Tax collectible by the Local Government Revenue Committee is too minute that may not warrant the service of consultants. Few taxes collectible can be collected by the teaming employees of the local government.

## **Solutions**

### **Proper Documentation of Agreement:**

Government and tax consultants should document their agreement in order to avoid dispute. Agreement as to consultancy fee, remittance of money collected and area of coverage especially where more than one consultant is involved.

### **Legalization of Use of Tax Consultants:**

There should be enabling legislation backing the use of consultants to collect tax on behalf of government. The legislation should prescribe the qualifications, disqualifications, consultancy fees and limitations to curb the exploitation. This should be promulgated in order not to compromise the principles of good tax system (Adekanola, 1996).

### **Massive Awareness:**

Tax consultancy should be given wide publicity in the rural areas through tax hall meetings and radio jingles to educate the rural dwellers the importance of tax consultants and their major role in the local government council. The grassroots servants should be more informed that their duties would be hijacked by the tax consultants.

#### Monitoring Agency:

A commission should be established by each local government to monitor the activity of the tax consultants in the area. Effective monitoring will enhance prompt remittance of the money collected by the consultants.

#### Increase tax base of the Local Government:

More incomes should be brought to tax net under the local government administration to increase the revenue generation at the grassroots.

### Methodology

Survey research is used for the study. Population of the study used was all senior staff of the directorates of finance of all the local government councils in the Oke Ogun Axis. The sample size of 75 was drawn using quota sampling technique. There are ten local government councils in the Oke Ogun metropolis within Oyo North Senatorial District. Closed ended questionnaire is designed using Likert summated rating scale like strongly agreed 5, agreed 4, undecided 3, disagreed 2 and strongly disagreed 1. Fifteen questionnaires will be distributed to each local government council to gather information from the target respondents. Senior cadre staff is targeted to get realistic and practical information on the subject matter. The data will be analyzed using SPSS.

### Test of Normality

Normality of the data is tested using Kolmogorov Smirnov and Shapiro Wilk. The test shows that the data is not normal; therefore, it is non parametric data.

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Consultancy service significantly influence tax compliance	.397	74	.000	.739	74	.000
Use of consultants in tax collection improve the overall revenue generation	.292	74	.000	.816	74	.000

a. Lilliefors Significance Correction



### Data Presentation and Analysis

Seventy-five questionnaires were distributed to the selected local government councils within the Oke Ogun axis. Seventy-four questionnaires were filled and returned by the respondents; therefore, the researchers based the analysis on the total of number of seventy-four questionnaires received. Since the data is non parametric; therefore, the researchers used simple percentage and chi square to analyze the data from the Statistical Packages for Social Science (SPSS.20).

#### Consultancy service significantly influence tax compliance

	Observed N	Expected N	Residual	Percent	Cum. Percent
Strongly Agreed	14	18.5	-4.5	18.9	18.9
Agreed	44	18.5	25.5	59.5	78.4
Disagreed	8	18.5	-10.5	10.8	89.2
Strongly Disagreed	8	18.5	-10.5	10.8	100.0
Total	74				

The above test showed that tax consultancy service significantly influenced tax compliance in the grassroots. 44 respondents believed that tax consultancy would influence tax compliance in the local government.

#### Use of consultants in tax collection improve the overall revenue generation

	Observed N	Expected N	Residual	Percent	Cum. Percent
Strongly Agreed	22	18.5	3.5	29.7	29.7
Agreed	27	18.5	8.5	36.5	66.2
Disagreed	20	18.5	1.5	27.0	93.2
Strongly Disagreed	5	18.5	-13.5	6.8	100.0
Total	74				

From the observed table it was agreed by 27 respondents that the use of consultants in tax collection of taxes improve the overall revenue generation in the grassroots.

**Test Statistics**

	Consultancy service significantly influence tax compliance	Use of consultants in tax collection improve the overall revenue generation
Chi-Square	48.162 <sup>a</sup>	14.541 <sup>a</sup>
df	3	3
Asymp. Sig.	.000	.002

## Findings

14 respondents which constitute 18.9% of the respondents strongly agreed and 44 respondents which constitute 59.5% of the respondents agreed that tax consultancy service significantly influence tax compliance. Cumulatively, 78.4% agreed that use tax consultants will improve tax compliance at the grassroots. The overall tax revenue could be improved through the use tax consultants in collection of taxes within the jurisdiction of the local government council. From the analysis above 22 (29.7%) respondents strongly agreed and 27(36.5%) respondents agreed that consultancy service will enhance revenue generation at the grass root. Cumulatively 66.2% of the respondent believed that grassroots revenue will improve if the consultants were involved in revenue collection at the grassroots.

## Conclusion

Grassroots governance had seriously been hampered by the low tax base and other external influences. Taxes collectible by the local government councils were not harnessed. There are a lot cases of tax evasion and avoidance at the grass roots. Many are yet to be bought to the tax net of the last tier of government. Undue influences of the state governments also contribute to the low pace of development at the last government constituencies. In order to bring more prospective tax payers to tax net of the local government councils, there is need for engagement of tax consultants in collections of taxes collectibles by the grassroots government.

## Recommendation

- Local government revenue base should be increased in order to boost grassroots revenue.
- Consultants should be involved in revenue generation at the grassroots.
- Provision should be made in the constitution to empower consultants to carry out their functions within the armpit of law.
- Monitoring agency should be established to monitor the activities of consultants.
- Legal and document agreement should be made by both local government councils and would be consultants or experts.

- Consultancy fees should be agreed upon and properly documented.
- There should be clear jurisdictions of local government revenue committee, monitoring agency and tax consultants to avoid duplication of duties.

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