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Tax and Taxation in Nigeria: The Immiserising Experience in Bayelsa State

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***Abstract*: Tax is an essential aspect of government source of revenue in Bayelsa State which has imposed charges on taxable citizens and corporate entities. Monies provided by taxation have been used by states and their functional equivalents throughout history to carry out many functions. However, Bayelsa State is one of the Nigeria's thirty-six (36) States and have eight (8) Local Government Areas of the federation that have implemented the approved tax policy. This implemented tax policy has a severe and devastating effect on the tax objects due to the fact that the essence of tax is defeated as governments' inability to utilize tax proceeds in the provision of social amenities. These social amnesties are further provided by individuals from their disposable income. It is against the above background that this study was embarked upon to provide details on the immiserising experience of Bayelsa State Taxpayers. This work has exhibited the relationship between imposition of tax, economic growth and economic activities in Bayelsa State. Our investigation has also revealed that imposition of tax can affect economic activities either positively or negatively depending on the discretion of government. Government of Bayelsa State is currently paying its Civil Servants a half month salaries due to the economic recession in the country but it is equally implementing fiscal policy – taxation , thereby affecting demand for and supply of goods and services. The standard of living of people in the state is largely dependent on their salaries as it is a purely Civil Servant State. There is high cost of Goods and Services occasioned by economic recession. We therefore recommends that Governments of Bayelsa State should exhibit interest in stimulating economic activities of the State, provide economic infrastructure such as; good roads, electricity, sanitation, security, education, health care, with its tax proceeds instead of taxpayers providing for themselves after payment of tax to the government, government should not see tax as the only means of generating revenue to stimulate economic activities in the State, rather think outside the box, Tax rate should be reviewed to accommodate the impact of half month salaries of civil servants, Tax should be made payable at times and in ways convenient to the taxpayers, taxes should be made proportionate to incomes or abilities to pay.**

***Keywords*: Tax, Taxation, Taxation scheme, Fiscal Capacity, immiserising experience.**

1. INTRODUCTION

Tax is an essential aspect of government source of revenue. Governments at all levels in any given society finance their expenditure by imposing charges on taxable citizens and corporate entities. It is also use in encouraging or discouraging certain economic decisions. A tax is a financial charge or other levy imposed upon a taxpayer by a state or the functional equivalent of a state to fund various public expenditures. A failure to pay, or evasion of or resistance to taxation, is usually punishable by law. Taxes are categorised as direct and indirect tax and may be paid in money or as its labour equivalent. Some countries impose almost no taxation at all, or a very low tax rate for a certain area of taxation. However, the major purpose of taxes is to raise revenue for public expenditures.

Money provided by taxation has been used by states and their functional equivalents throughout history to carry out many functions. Some of these include expenditures on economic infrastructure (roads, public transportation, sanitation, legal systems, public safety, education, health -care systems), military, scientific research, culture and the arts, public works, distribution, data collection and dissemination, public insurance, and the operation of government itself. The

government's ability to raise taxes is known as fiscal capacity. Neoclassical economists have argued that taxation creates market distortion and results in economic inefficiency unless there are negative externalities associated with the activities that are taxed. They have therefore sought to identify the kind of tax system that would minimize this distortion. Governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population. A nation's tax system is often a reflection of its communal values and the values of those in current political power. To create a system of taxation, a nation must make choices regarding the distribution of the tax burden—who will pay taxes and how much they will pay—and how the taxes collected will be spent. In democratic nations where the public elects those in charge of establishing the tax system, these choices reflect the type of community that the public wishes to create. In countries where the public does not have a significant amount of influence over the system of taxation, that system may be more of a reflection on the values of those in power. Many jurisdictions tax the income of individuals and business entities, including corporations. Generally the tax is imposed on net profits from business, net gains, and other income. Computation of income subject to tax may be determined under accounting principles used in the jurisdiction, which may be modified or replaced by tax law principles in the jurisdiction. The incidence of taxation varies by system, and some systems may be viewed as progressive or regressive. Rates of tax may vary or be constant (flat) by income level. Many systems allow individuals certain personal allowances and other non business reductions to taxable income, although business deductions tend to be favoured over personal deductions. Personal income tax is often collected on a pay-as-you-earn basis, with small corrections made soon after the end of the tax year. These corrections take one of two forms: payments to the government, for taxpayers who have not paid enough during the tax year; and tax refunds from the government for those who have overpaid. Income tax systems will often have deductions available that lessen the total tax liability by reducing total taxable income. They may allow losses from one type of income to be counted against another. For example, a loss on the stock market may be deducted against taxes paid on wages. Other tax systems may isolate the loss, such that business losses can only be deducted against business tax by carrying forward the loss to later tax years. In economics, a negative income tax (abbreviated NIT) is a progressive income tax system where people earning below a certain amount receive supplemental pay from the government instead of paying taxes to the government. Most jurisdictions imposing an income tax treat capital gains as part of income subject to tax. Capital gain is generally a gain on sale of capital assets that is, those assets not held for sale in the ordinary course of business. Capital assets include personal assets in many jurisdictions. Some jurisdictions provide preferential rates of tax or only partial taxation for capital gains. Some jurisdictions impose different rates or levels of capital gains taxation based on the length of time the asset was held. Because tax rates are often much lower for capital gains than for ordinary income, there is widespread controversy and dispute about the proper definition of capital. Some tax scholars have argued that differences in the ways different kinds of capital and investment are taxed contribute to economic distortions. Corporate tax refers to income, capital, net worth, or other taxes imposed on corporations. Rates of tax and the taxable base for corporations may differ from those for individuals or other taxable persons. Recurrent property taxes may be imposed on immovable property (real property) and some classes of movable property. In addition, recurrent taxes may be imposed on net wealth of individuals or corporations. Many jurisdictions impose estate tax, gift tax or other inheritance taxes on property at death or gift transfer. Some jurisdictions impose taxes on financial or capital transactions. A property tax (or millage tax) is an *ad valorem* tax levy on the value of property that the owner of the property is required to pay to government in which the property is situated. Multiple jurisdictions may tax the same property. There are three general varieties of property: land, improvements to land (immovable man-made things, e.g. buildings) and personal property (movable things). Real estate or realty is the combination of land and improvements to land. In contrast with a tax on real estate (land and buildings), a land value tax (or LVT) is levied only on the unimproved value of the land ("land" in this instance may mean either the economic term, i.e., all natural resources, or the natural resources associated with specific areas of the Earth's surface: "lots" or "land parcels"). Proponents of land value tax argue that it is economically justified, as it will not deter production, distort market mechanisms or otherwise create deadweight losses the way other taxes do. Inheritance tax, estate tax, and death tax or duty tax are the names given to various taxes which arise on the death of an individual. In United States tax law; there is a distinction between an estate tax and an inheritance tax: the former taxes the personal representatives of the deceased, while the latter taxes the beneficiaries of the estate. However, this distinction does not apply in other jurisdictions; for example, if using this terminology UK inheritance tax would be an estate tax. An expatriation tax is a tax on individuals who renounce their citizenship or residence. The tax is often imposed based on a deemed disposition of the entire individual's property. Historically, in many countries, a contract needs to have a stamp affixed to make it valid. The charge for the stamp is either a fixed amount or a percentage of the value of the transaction. In most countries, the stamp has been abolished but stamp duty remains. Stamp duty is levied in the UK on the purchase

of shares and securities, the issue of bearer instruments, and certain partnership transactions. Its modern derivatives, stamp duty reserve tax and stamp duty land tax, are respectively charged on transactions involving securities and land. Stamp duty has the effect of discouraging speculative purchases of assets by decreasing liquidity. A value added tax (VAT), also known as Goods and Services Tax (G.S.T), Single Business Tax, or Turnover Tax in some countries, applies the equivalent of a sales tax to every operation that creates value. To give an example, sheet steel is imported by a machine manufacturer. That manufacturer will pay the VAT on the purchase price, remitting that amount to the government. The manufacturer will then transform the steel into a machine, selling the machine for a higher price to a wholesale distributor. The manufacturer will collect the VAT on the higher price, but will remit to the government only the excess related to the "value added" (the price over the cost of the sheet steel). The wholesale distributor will then continue the process, charging the retail distributor the VAT on the entire price to the retailer, but remitting only the amount related to the distribution mark-up to the government. The last VAT amount is paid by the eventual retail customer who cannot recover any of the previously paid VAT. For a VAT and sales tax of identical rates, the total tax paid is the same, but it is paid at differing points in the process. Sales taxes are levied when a commodity is sold to its final consumer. Retail organizations contend that such taxes discourage retail sales. The question of whether they are generally progressive or regressive is a subject of much current debate. People with higher incomes spend a lower proportion of them, so a flat-rate sales tax will tend to be regressive. It is therefore common to exempt food, utilities and other necessities from sales taxes, since poor people spend a higher proportion of their incomes on these commodities, so such exemptions make the tax more progressive. This is the classic "You pay for what you spend" tax, as only those who spend money on non-exempt (i.e. luxury) items pay the tax. An excise duty is an indirect tax imposed upon goods during the process of their manufacture, production or distribution, and is usually proportionate to their quantity or value. These duties consisted of charges on beer, ale, cider, cherry wine and tobacco, to which list were afterwards added paper, soap, candles, malt, hops, and sweets. The basic principle of excise duties was that they were taxes on the production, manufacture or distribution of articles which could not be taxed through the customs house, and revenue derived from that source is called excise revenue proper. The fundamental conception of the term is that of a tax on articles produced or manufactured in a country. In the taxation of such articles of luxury as spirits, beer, tobacco, and cigars, it has been the practice to place a certain duty on the importation of these articles (a customs duty). Excises (or exemptions from them) are also used to modify consumption patterns of a certain area (social engineering). For example, a high excise is used to discourage alcohol consumption, relative to other goods. This may be combined with hypothecation if the proceeds are then used to pay for the costs of treating illness caused by alcohol abuse. Similar taxes may exist on tobacco, pornography, etc., and they may be collectively referred to as "sin taxes". A carbon tax is a tax on the consumption of carbon-based non-renewable fuels, such as petrol, diesel-fuel, jet fuels, and natural gas. The object is to reduce the release of carbon into the atmosphere. An import or export tariff (also called customs duty or impost) is a charge for the movement of goods through a political border. Tariffs discourage trade, and they may be used by governments to protect domestic industries. A proportion of tariff revenues are often hypothecated to pay government to maintain a navy or border police. The classic ways of cheating a tariff are smuggling or declaring a false value of goods. Tax, tariff and trade rules in modern times are usually set together because of their common impact on industrial policy, investment policy, and agricultural policy. Occupational taxes or license fees may be imposed on businesses or individuals engaged in certain businesses. Many jurisdictions impose a tax on vehicles. A poll tax, also called a *per capita tax*, or *capitation tax*, is a tax that levies a set amount per individual. It is an example of the concept of fixed tax. One of the earliest taxes mentioned in the Bible of a half-shekel per annum from each adult Jew (Ex. 30:11–16) was a form of poll tax. Poll taxes are administratively cheap because they are easy to compute and collect and difficult to cheat. Economists have considered poll taxes economically efficient because people are presumed to be in fixed supply and poll taxes therefore do not lead to economic distortions. However, poll taxes are very unpopular because poorer people pay a higher proportion of their income than richer people. In addition, the supply of people is in fact not fixed over time: on average, couples will choose to have fewer children if a poll tax is imposed. The introduction of a poll tax in medieval England was the primary cause of the 1381 Peasants' Revolt. Scotland was the first to be used to test the new poll tax in 1989 with England and Wales in 1990. The change from a progressive local taxation based on property values to a single-rate form of taxation regardless of ability to pay (the Community Charge, but more popularly referred to as the Poll Tax), led to widespread refusal to pay and to incidents of civil unrest, known colloquially as the 'Poll Tax Riots'. An *ad valorem* tax is one where the tax base is the value of a good, service, or property. Sales taxes, tariffs, property taxes, inheritance taxes, and value added taxes are different types of ad valorem tax. An ad valorem tax is typically imposed at the time of a transaction (sales tax or value added tax (VAT)) but it may be imposed on an annual basis (property tax) or in connection with another significant event (inheritance tax or tariffs). Consumption tax refers to any tax on non-investment spending, and

can be implemented by means of a sales tax, consumer value added tax, or by modifying an income tax to allow for unlimited deductions for investment or savings.

An important feature of tax systems is the percentage of the tax burden as it relates to income or consumption. The terms progressive, regressive, and proportional are used to describe the way the rate progresses from low to high, from high to low, or proportionally. The terms describe a distribution effect, which can be applied to any type of tax system (income or consumption) that meets the definition.

- A *progressive tax* is a tax imposed so that the *effective tax rate* increases as the amount to which the rate is applied increases.

- The opposite of a progressive tax is a *regressive tax*, where the effective tax rate decreases as the amount to which the rate is applied increases. This effect is commonly produced where means testing is used to withdraw tax allowances or state benefits.

- In between is a *proportional tax*, where the effective tax rate is fixed, while the amount to which the rate is applied increases.

- A *lump-sum tax* is a tax that is a fixed amount, no matter the change in circumstance of the taxed entity. This in actuality is a regressive tax as those with lower income must use higher percentage of their income than those with higher income and therefore the effect of the tax reduces as a function of income.

Governments may charge user fees, tolls, or other types of assessments in exchange of particular goods, services, or use of property. These are generally not considered taxes, as long as they are levied as payment for a direct benefit to the individual paying. Such fees include:

- Tolls: a fee charged to travel via a road, bridge, tunnel, canal, waterway or other transportation facilities. Historically tolls have been used to pay for public bridge, road and tunnel projects. They have also been used in privately constructed transport links. The toll is likely to be a fixed charge, possibly graduated for vehicle type, or for distance on long routes.

- User fees, such as those charged for use of parks or other government owned facilities.

- Ruling fees charged by governmental agencies to make determinations in particular situations.

A list of approved taxes and levies for collection by the three tiers of government are :

(A) Taxes collectible by the Federal Government (1) Companies income tax; (2) Withholding tax on companies; (3) Petroleum Profit Tax; (4) Value-added tax (VAT); (5) Education tax; (6) Capital gains tax – Abuja residents and corporate bodies; (7) Stamp duties involving a corporate entity; (8) Personal income tax in respect of: – Armed forces personnel; – Police personnel; – Residents of Abuja FCT; – External Affairs officers; and – Non-residents.

(B) Taxes/Levies Collectible by State Governments (1) Personal income tax: – Pay-As-You-Earn (PAYE); – Direct (self and government) assessment; – Withholding tax (individuals only); (2) Capital gains tax; (3) Stamp duties (instruments executed by individuals); (4) Pools betting, lotteries, gaming and casino taxes; (5) Road taxes; (6) Business premises registration and renewal levy; – urban areas (as defined by each state): *maximum of N 10,000 for registration and N5 ,000 for the renewal per annum – rural areas – registration N2,000 per annum – renewal N 1,000 per annum (7) Development levy (individuals only) not more than N100 per annum on all taxable individuals; (8) Naming of street registration fee in state capitals (9) Right of occupancy fees in state capitals; (10) Rates in markets where state finances are involved.

(C) Taxes/Levies Collectible by Local Governments (1) Shops and kiosks rates; (2) Tenement rates; (3) On and off liquor licence; (4) Slaughter slab fees; (5) Marriage, birth and death registration fees; (6) Naming of street registration fee (excluding state capitals): (7) Right of occupancy fees (excluding state capitals); (8) Market/motor park fees (excluding market where state finance are involved); (9) Domestic animal licence; (10) Bicycle, truck, canoe, wheelbarrow and cart fees; (11) Cattle tax; (12) Merriment and road closure fees; (13) Radio/television (other than radio/ TV transmitter) licences and vehicle radio licence (to be imposed by the local government in which the car is registered); (14) Wrong parking charges; (15) Public convenience, sewage and refuse disposal fees; (16) Customary, burial ground and religious places permits; and (17) Signboard/advertisement permit.

However, Bayelsa State is one of the Nigeria's thirty-six (36) States and have eight (8) Local Government Areas of the federation that have implemented the approved tax policy. This implemented tax policy has a severe and devastating effect on the tax objects due to the fact that the essence of tax is defeated as governments' inability to utilize tax proceeds in the provision of social amenities. These social amnesties are further provided by individuals from their disposable income. It is against the above background that this study was embarked upon to provide details on the immiserising experience of Bayelsa State Taxpayers.

DEFINITION OF TERMS:

A. TAXATION: According to Akekere, Ajie and Ewubare (2008) ''Taxation is the art or process of being taxed. It can also be defined as the transfer of resources from the private to the public sector in order to accomplish some of the nation's economic and social goals''.

Chellian, cited by Ajie et al(2008) defined taxation as a tool for restraining and curtailing too much consumption; increasing incentive to save and invest; mitigating economic inequalities and transferring resources from the hands of the public to the hands of the state to make it possible for public investment.''

Truly, taxation is the means in which government at all levels finance their expenditure through the imposition of compulsory charges on citizens and corporate entities.

B. Taxation scheme simply means a complete set of tax options, rules and conditions.

II. THEORIES OF TAXATION

Several theories of taxation exist in public economics. Governments at all levels (national, regional and local) need to raise revenue from a variety of sources to finance public-sector expenditures.

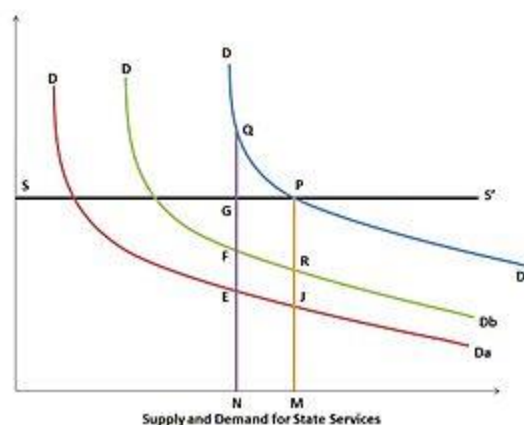
Adam Smith in *The Wealth of Nations* (1776) wrote:

"Such things as defending the country and maintaining the institutions of good government are of general benefit to the public. Thus, it is reasonable that the population as a whole should contribute to the tax costs. It is also reasonable to demand certain other things of a tax system – for example, that the amounts of tax individuals pay should bear some relationship to their abilities to pay. Good taxes meet four major criteria. They are (1) proportionate to incomes or abilities to pay (2) certain rather than arbitrary (3) payable at times and in ways convenient to the taxpayers and (4) cheap to administer and collect."

In modern public-finance literature, there have been two main issues: who can pay and who can benefit (Benefit principle). Influential theories have been the ability theory presented by Arthur Cecil Pigou and the benefit theory developed by Erik Lindahl. There is a later version of the benefit theory known as the "voluntary exchange" theory.

Under the benefit theory, tax levels are automatically determined, because taxpayers pay proportionately for the government benefits they receive. In other words, the individuals who benefit the most from public services pay the most taxes. Here, two models adopting the benefit approach are discussed: the Lindahl model and the Bowen model.

Lindahl's model



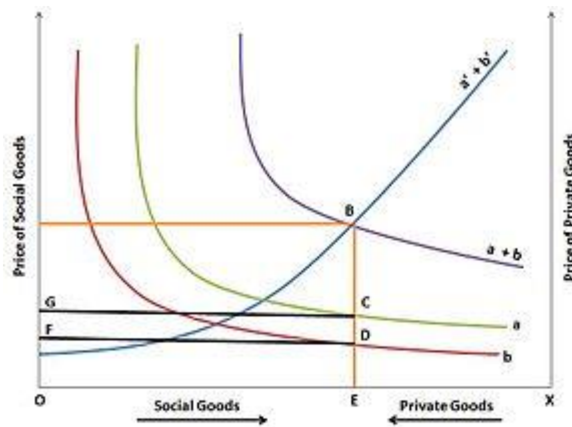
Lindahl's model

Lindahl tries to solve three problems:

- Extent of state activity
- Allocation of the total expenditure among various goods and services
- Allocation of tax burden

In the Lindahl model, if SS is the supply curve of state services it is assumed that production of social goods is linear and homogenous. DDa is the demand curve of taxpayer A, and DDb is the demand curve of taxpayer B. The vertical summation of the two demand curves results in the community's total demand schedule for state services. A and B pay different proportions of the cost of the services. When ON is the amount of state services produced, A contributes NE and B contributes NF; the cost of supply is NG. Since the state is non-profit, it increases its supply to OM. At this level, A contributes MJ and B contributes MR (the total cost of supply). Equilibrium is reached at point P on a voluntary-exchange basis.

Bowen's model



Bowen's model

Bowen's model has more operational significance, since it demonstrates that when social goods are produced under conditions of increasing costs, the opportunity cost of private goods is foregone. For example, if there is one social good and two taxpayers (A and B), their demand for social goods is represented by a and b; therefore, a+b is the total demand for social goods. The supply curve is shown by a'+b', indicating that goods are produced under conditions of increasing cost. The production cost of social goods is the value of foregone private goods; this means that a'+b' is also the demand curve of private goods. The intersection of the cost and demand curves at B determines how a given national income should (according to taxpayers' desires) be divided between social and private goods; hence, there should be OE social goods and EX private goods. Simultaneously, the tax shares of A and B are determined by their individual demand schedules. The total tax requirement is the area (ABEO) out of which A is willing to pay GCEO and B is willing to pay FDEO.

Advantages and limitations:

The advantage of the benefit theory is the direct correlation between revenue and expenditure in a budget. It approximates market behaviour in the allocation procedures of the public sector. Although simple in its application, the benefit theory has difficulties:

- It limits the scope of government activities
- Government can neither support the poor nor take steps to stabilize the economy
- Applicable only when beneficiaries can be observed directly (impossible for most public services)
- Taxation in accord with the benefit principle would leave distribution of real incomes unchanged

Ability-to-pay approach:

The ability-to-pay approach treats government revenue and expenditures separately. Taxes are based on taxpayers' ability to pay; there is no *quid pro quo*. Taxes paid are seen as a sacrifice by taxpayers, which raise the issues of what the sacrifice of each taxpayer should be and how it should be measured:

- *Equal sacrifice:* The total loss of utility as a result of taxation should be equal for all taxpayers (the rich will be taxed more heavily than the poor)
- *Equal proportional sacrifice:* The proportional loss of utility as a result of taxation should be equal for all taxpayers
- *Equal marginal sacrifice:* The instantaneous loss of utility (as measured by the derivative of the utility function) as a result of taxation should be equal for all taxpayers. This therefore will entail the least aggregate sacrifice (the total sacrifice will be the least).

Mathematically, the conditions are as follows:

- Equal absolute sacrifice=$U(Y)-U(Y-T)$, where y=income and t=tax amount
- Equal proportional sacrifice=$(U(Y)-U(Y-T))/U(Y)$, where $U(Y)$=total utility from y
- Equal marginal sacrifice=$(dU(Y-T))/(d(Y-T)$

The following are the theories of taxation in relation to their application and their respective criticisms.

Benefit Theory**:** According to this theory, the state should levy taxes on individuals according to benefit conferred on them. This mean that, the more benefits a person derives from the activities of the state, the more he should pay to the government. This theory seeks to ensure that each individual's tax obligations are as far as possible based on the benefits that he or she receives from the enjoyment of public services. However, this theory faces various critics such as:

Firstly, if the state maintains a certain connection between the benefits conferred and the benefits derived, it will be against the basic principle of the tax. A tax, as known, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct *quid pro quo* in the case of a tax.

Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens. It is not possible to estimate the benefit enjoyed by a particular individual every year.

Thirdly, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. Thus, if we get more from the poor by way of taxes, it is against the principle of justice.

The sacrifice theory**:** This theory attempts to determine the burden that rests upon an individual in virtue of his payment of taxes and how much of his or her income remains for purpose of his own subsistence. According to this theory payment of tax is a sacrifice that an individual makes towards the support of the government. The measure of such sacrifice is found in the giving up of enjoyments, which is, giving up a portion of individuals' means (income) of satisfying wants (consumption). Practically the sacrifice theory demands that individuals should only pay tax on that portion of income that is spent on luxuries, the sacrifice should only be in respect **of** individuals' means over and above subsistence.

Ability to pay theory: This theory was developed due to inadequacies in benefit and sacrifice theories of taxation. This is the most popular and commonly accepted principle of equity or justice in taxation, that is, citizens of a country should pay taxes to the government. It seems that if the taxes are levied on this principle as stated above, then the justice can be achieved. In Tanzania this principle is well applicable by virtue of on which tax is charged on basis of each person's income from business, employment or investment. However, there are still some difficulties putting this theory in practice. The trouble arises with the definition of ability to pay. Thus, the main viewpoints have been advanced in connection with the ability to pay which are as follow:

Ownership of Property: Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea is out rightly rejected on the ground that, if a person earns a large income but does not spend on buying any property, he will then escape taxation. On other hand, another person earning income buys property; he will be subjected to taxation. So, the question here may arise, is this not absurd and unjustifiable that a person earning large income is exempted from taxes and another person with low income is taxed?

Tax on the basis of Expenditure: Some economists assert that ability to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure the higher should be the tax and vice versa. The point of view seems unsound and unfair in every respect; for example, a person having a large family to support has to spend more than a person having small family. Therefore, if we make expenditure as a test of one's ability to pay, the former person who is already burdened with many dependents will have to pay more taxes than the latter who has a small family. So this is unjustifiable.

Income as the basics: Most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is a greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why, in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability of a person to pay. Apart from those three major theories of taxation, there are some other additional theories of taxation, these are.

The cost of service theory: Some economists were of the view that, if the state charges actual cost of the service rendered from the people, it will satisfy the idea of equity/justice in taxation. The cost of service principle can no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine, such as, postal, railway services and supply of electricity. However, most of the expenditure incurred by the state cannot be fixed for each individual as it cannot be exactly be determined. For instance, how can we measure the cost of service of the police, armed forces and judiciary to different individual? Also, the theory is rejected because there is no quid pro quo in a tax.

Proportionate theory/principle: J. S Mill and other classical economists were of the opinion that if taxes are levied in proportion to the incomes of the individuals, it will extract equal sacrifice. The modern economists, however, differ with this view. They assert that when income increase, the marginal utility of income decreases. The equality of sacrifice can only be achieved if the persons with higher rates and those with low income at lower rates. They favour progressive system of taxation, in all modern tax systems.

III. TAXATION IN NIGERIA

Tax which is a compulsory levy imposed by the government of a country on individuals and corporate entities irrespective of return of service expected from that government. The administration of tax is vested in various tax authorities depending on the type of tax under consideration. In Nigeria, there are two authorities namely; Federal Board of Inland Revenue, and State Inland Revenue Board. The Local Government authorities in states also have specific tax functions. There are various Acts in respect of each type of tax under consideration which are; Company Income Tax Act Cap. C21, LFN 2004: This imposes tax on the incomes of companies other than corporation soles and companies engaged in petroleum operations (upstream operations). Education Tax Act, Cap. E4, LFN 2004 which levies education tax on the assessable profits of companies registered in Nigeria. Capital Gains Tax, Cap. C1, LFN 2004: this act imposes tax on capital gains arising from disposal of chargeable assets. Petroleum Profit Tax Act, Cap. P13, LFN 2004 levies tax on the profits of companies engaged in oil exploration. Personal Income Tax Act, Cap. P8, LFN 2004: it imposes tax on the incomes of productive individuals and corporation soles. Value Added Tax Act, Cap. V1, LFN 2004 imposes tax on the supply of goods and services made by incorporated companies and other business organisations. Stamp Duties Act, Cap. S8, LFN 2004 charges duties on specified instruments listed in the Acts. Section 86 of the Personal Income Tax Act establishes the joint tax board composition: Executive Chairman of the Federal Inland Revenue Service as Chairman. The secretary, who shall be ex-officio appointed by the federal civil service Commission; and the Legal Adviser of FIRS acts as the legal Adviser to the JTB. The JBT is charged with the responsibilities to promote uniformity both in application of personal income Act and in the incidence of tax, imposes its decision on matters of procedures and interpretation of Personal Income Tax on any State for the purpose of conforming with agreed procedures or interpretation, to advice Federal Government in respect of double taxation arrangement, to exercise the powers or duties conferred on it by the PITA and other Acts, to advise Government on request, in respect of double taxation arrangement with other countries.

IV. BAYELSA STATE TAX REVENUE

STYLIZED FACTS OF TAX:

BAYELSA STATE GOVERNMENT REVENUE BY TYPE (1997 – 2007)

Year	Grant from Fed. Govt. (N)	VAT (N)	Direct Tax (N)	Fines, Fees, licences (N)	Other Income (N)	Total (N)
1997	1562890829		12807674	47287682	42455785	1665441970
1998	1579993486	379805205	12904290	13172136	175491746	2173366863
1999	2861691430	464910213	177397302	25015887	109405573	3638420405
2000	18852046795	561256799	240237006	53342992	215242361	19922125953
2001	26350048912	822191199	297807868	30050731	336553226	27836651936

Year	Statutory Allocation (N)	VAT (N)	13% Derivation (N)	Direct Tax (N)	Excess Crude (N)	Fines, Fees, Licences (N)	Other Income (N)	Total (N)
2002	6470808263	976172818	17164828133	295441309	1460356425	18205809	1648591563	28034404400
2003	8230104976	1272141493	26553888105	500454668	2206062657	45376862	1150131876	37958210737
2004	12124441765	1504064783	47396469502	820781517	2000236599	56499185	4376853791	68299347162
2005	12759594583	1708404970	73114652892	1430032489	22754838903	39694341	613459036	112420677169.89
2006	14965290493	2702728312	78097216522	2623513296	29003044921	105767255	1497908782	128995469581
2007	16206041418	2831595820	57689057644	2339585791	31876410662	26708590	589452331	111558852256

Source: Office of the Accountant General.

LOCAL GOVERNMENT AREA REVENUE BY TYPE (2006)

LOCAL GOVT. AREA	Statutory Allocation (N)	Vat(n)	13% Derivation (N)	Direct Tax (N)	Excess Derivation (N)	Fines, Fees & Licences (N)	Other Income (N)	Total (N)
Brass	912682197.5	109772967.6		1280200	194992179.6	1874000	1050000	1221651537.64
Ekeremor	807595374	99309483				1800000	2150000	910854857
Kolokuma/ opokuma	518212618.4	80003754.17			98188547.59	442640.01	22837355	719684914.89
Nembe	546580000						64870000	611450000
Ogbia	360433958	111831942		39258	110245421	51245	2512152	585113976
Sagbama	710240096	98182095			165386512	7263931	480000	981562634
Southern-ijaw								
Yenagoa	291893643				20822166	21086309	108000000	541802118
Total	**4147637887**	**499100241.8**		**1319458**	**589634826.2**	**32518125.01**	**201899507**	**825371915.9**

Source: Local Government Councils

LOCAL GOVERNMENT AREA REVENUE BY TYPE (2007)

LOCAL GOVT. AREA	Statutory Allocation (N)	VAT (N)	13% Derivation (N)	Direct Tax (N)	Excess Derivation (N)	Fines, Fees & Licences (N)	Other Income (N)	Total (N)
Brass	888667296.8	142752222.8		1367000	173813908.02	1974400	1087200	1209662028.56
Ekeremor	859548477	128415277				4280000	5840000	998083754
Kolokuma /opokuma	540255256.5	101964355.2			103672148	611199.96	8750696.7	755253656.4
Nembe	599170000	124530000			155800000		11280000	890780000
Ogbia	465711519	138812156		41218	125214258	55245	2851288	722689684
Sagbama	750023743	12694113			157508765	8362236	461076	1043301923
Southern-ijaw								
Yenagoa	888667296.8	142752223.8		1367000	173813908	1974400	1087200	1209662028.56
Total	**4992043589.1**	**791920347.8**		**2775218**	**889822987.02**	**17257480.96**	**31357460.7**	**6829433074.52**

Source: Local Government Councils

V. IMISSERISING EXPERIENCE OF TAXATION IN BAYELSA STATE

The imposition of taxes have some impact on the economy due to the fact that tax imposition can affect both the size and composition of a nation's GDP to the point of reducing the nation's economic welfare. The GDP growth is dependent upon the productive effort of a society and the investment of resources. Symbolically put, **GDP = f (E, I)**

GDP is stated to be a function or dependent on the productive effort (E) of a society and the level of society's investment (I). The E and I determine the level and growth of the GDP and these two variables too. The productive effort of society (E) depends on the ability of a society to expand effort (Ae) and their desire or willingness to expand (De). The level of investment (I) in a society depends on the ability of the society to invest (Ai) and their desire to invest (Di). The above equation can be written as;

E = f (Ae, De)

I = f (Ai, Di)

Given that the above equation can affect the abilities (Ae, Ai) and the desires (De, Di) of the society, the imposition of an income tax for example, can change the size of a society's GDP.

This is because the imposition of an income tax could affect the ability of a society to expend productive effort (Ae) (Akekere, Ajie and Ewubare 2008). Similarly, the implementation of Personal Income Tax (PITA) in Bayelsa State have cause a negative effort on the demand and supply of goods and services which in turn affect the Internally Generated Revenue capacity of the State due to the above equation we earlier stated. We have mentioned that the fiscal capacity of government at all levels is important as money provided by taxation has been used by states and their functional equivalents throughout history to carry out many functions. Some of these include expenditures on economic infrastructure (roads, public transportation, sanitation, legal systems, public safety, education, health care systems, and electricity), military, scientific research, culture and the arts, public works, distribution, data collection and dissemination, public insurance, and the operation of government itself. However, the case of Bayelsa State is the contrary as taxpayers virtually provide for themselves, having paid tax, sanitation, security, education, health care, electricity and some other expenditure which government should have provided. Hence, payment of tax becomes illusive. Currently, the economy of Nigeria is experiencing economic recession where there is heavy depletion of disposable income to encourage productive activities.

VI. CONCLUSIONS AND RECOMMENDATION

Based on the findings above, this paper proposes and recommends that;

1. Governments of Bayelsa State should exhibit interest in stimulating economic activities of the State.

2. Government should provide economic infrastructure such as; good roads, electricity, sanitation, security, education, health care, with its tax proceeds instead of taxpayers providing for themselves after payment of tax to the government.

3. Government should not see tax as the only means of generating revenue to stimulate economic activities in the State, rather think outside the box.

4. Tax rate should be reviewed to accommodate the impact of half month salaries of civil servants.

5. Tax should be made payable at times and in ways convenient to the taxpayers.

6. Taxes should be made proportionate to incomes or abilities to pay.

CONCLUSIONS:

Fiscal policy is such an important instrument of government in manipulating economic activities of an economy. Governments at all levels, considers tax as an instrument to generate revenue for its expenditure. This work has exhibited the relationship between imposition of tax, economic growth and economic activities in Bayelsa State. Our investigation has also revealed that imposition of tax can affect economic activities either positively or negatively depending on the discretion of government. Government of Bayelsa State is currently paying its Civil Servants a half month salaries due to the economic recession in the country but it is equally implementing fiscal policy – taxation , thereby affecting demand for and supply of goods and services.

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