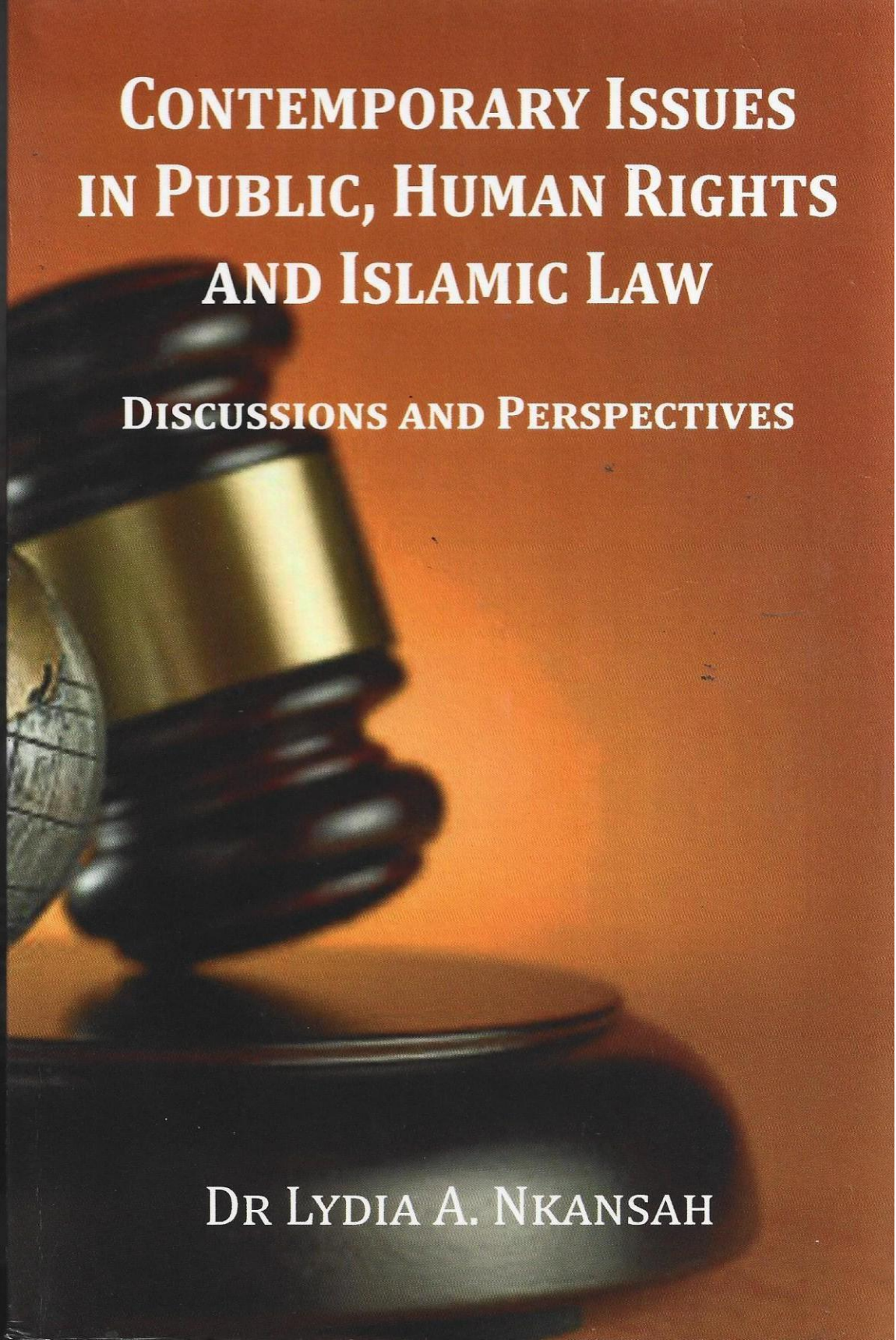




CONTEMPORARY ISSUES IN PUBLIC, HUMAN RIGHTS AND ISLAMIC LAW

DISCUSSIONS AND PERSPECTIVES

DR LYDIA A. NKANSAH

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2. Taxation: A Veritable Tool For Reducing Unemployment In A Developing Economy

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Summary of the Chapter

The main objective of this paper is to suggest ways through which taxation can be a veritable tool for the reduction of unemployment in a developing economy like Nigeria. Secondary data was used in the course of this study. The unemployed are the economically active population who are without work but available for and seeking work, including people who have lost their jobs and those who have voluntarily left work. Unlike what obtains in most developed countries, in Nigeria, there is no social security system in place to cater for the unemployed. Many have thus, resorted to engaging in activities that constitute security challenge to the country. It has been found that government can contribute to the resourcefulness and usefulness of every Nigerian through the utilization of tax in drastically reducing the rate of unemployment. The study recommends that government should embark on a comprehensive reform of corporate, property and personal income taxes to optimize the utilization of taxation as a mechanism for reducing unemployment rate.

Keywords: Utilizing Taxation, Reducing, Unemployment, Nigeria.

1. Introduction

The rate of unemployment in the country is currently 18.8%⁷² of the total population of 196 million. This means more than 36 million Nigerians are unemployed and one in every 6 Nigerians is without gainful employment. This is most unacceptable, precipitated on the potential of taxation and its predictable impact in the country. The desire to uplift one's society is the first goal of every patriotic citizen. Tax payment is a demonstration of such a desire. The payment of tax is a civic duty and an imposed contribution by government on her subjects and companies to enable her finance or run public utilities and perform other social responsibilities. Taxes therefore, constitute the principal sources of government revenue. Taxation has been described as a compulsory levy imposed on a subject or upon his property by the government having authority over him or his property.⁷³ Inherent in this definition are two important elements. The first is that the levy must be compulsory and not voluntary or subject to the receipt or conferment of any benefit on the payer. The second issue is that it is an imposition by government. Thus, the need to finance and sustain government and its machinery in the discharge of its responsibilities has been traditional connotation of taxation.⁷⁴

In another development, taxation is said to be an instrument employed by the government for generating public funds. It is a required payment imposed by the government on the income, profit or wealth of individuals, group of persons, and corporate organizations.⁷⁵ The main purpose of tax is to enable government to finance its activities so as to achieve national and state economic and social goals⁷⁶. Therefore, taxes

⁷² National Bureau of Statistics, Labour Force Statistics Vol. 1: Unemployment and Under Unemployment Report

⁷³ Christopher Sunday Ola, *Income Tax Law and Practice in Nigeria* (Heinemann Educational Books, Ibadan 1998).

⁷⁴ *ibid*

⁷⁵ Anyanduba J.O, Partnership Taxation in Nigeria, Institute of Chartered Accountants of Nigeria (ICAN) Student Journal Vol.9 (2) 15-17.

⁷⁶ Grace N Ofoegbu, David O Akwu & Oliver O, Empirical Analysis of Effect of Tax Revenue on Economic Development of Nigeria, *International Journal of Asian Social Science* (IJASS) Vol.6(10) 604.

can be used as an instrument for achieving industrial and institutional development, which will in turn serve as a major reduction in unemployment rate in Nigeria. The primary responsibility of every government all over the world is to ensure security, freedom and welfare of its citizens.⁷⁷

To effectively carry out its primary function and other subsidiary functions such as creating jobs for the citizenry, governments need adequate funding. Unfortunately, government responsibilities continue to increase over time especially in developing countries such as Nigeria, as a result of growing population and technological advancement⁷⁸. Many countries of the world depend mainly on taxation for generating required income to meet their financial needs.⁷⁹ The tax provides a predictable and stable flow of revenue to finance development objectives. Effective and efficient tax system can assist the government generate enough revenue to take care of its estimated expenditure, meet the needs of the people, generate employment for the people and even effectively participate in the world economy.⁸⁰ It therefore means effective and efficient utilization of tax and its generated revenue can be positively impactful in economic development, job creation industrial expansion and much more. Taxation is recognized as a very important tool for national development and growth in most countries of the world, such can be the case in Nigeria as well.

Based on the above, the paper discusses the nexus between taxation (direct and indirect tax) and development. That is, how taxation advances development in any society, since economic development and growth facilitation is one of the main objectives of taxation in its very nature. It gives brief history and causes of unemployment. The paper equally examines the current taxation structure in Nigeria vis-à-vis how the tax structure has contributed in the increase of unemployment rate. The paper explains the consequential impact of unemployment on the

⁷⁷ *ibid*

⁷⁸ *ibid*.

⁷⁹ Kusi N.K, Tax Reform and Revenue Productivity in Nairobi, Kenya. The African Economic Research Consortium cited in Ofoegbu, Akwu & Oliver (n 6).

⁸⁰ Richard M Bird. & Eric M Zolt, Introduction to Tax Policy Design and Development cited in Ofoegbu, Akwu & Oliver (n 6).

Nigerian economy and security and it finally examines how taxation can serve as a tool to lower the malaise of unemployment in Nigeria.

2. Brief History and Causes of Unemployment

Unemployment, simply put, describes the condition of people who are without jobs. The International Labour Organization (ILO) defines unemployment as numbers of the economically active population who are without work, but available for and seeking work⁸¹ including people who have lost their jobs and those who have voluntarily left work. Various forms of unemployment have been identified and these include cyclical, structural, regional, classical, seasonal, frictional and voluntary unemployment. Unemployment⁸² therefore, is an economic condition when an individual or individuals seeking jobs cannot manage to get themselves economically employed. The level of unemployment in every nation differs with prevalent economic conditions and other market forces.

Meanwhile, the history of unemployment is the history of industrialization. It was not considered an issue in rural areas, despite the “disguised unemployment” of rural labourers having little to do, especially in conditions of over population. The high unemployment rate currently experienced by the Nigerian economy reflects both cyclical⁸³ conditions and deep-rooted weaknesses in labour market institutions and fiscal policies. Unemployment has increased substantially since 2007, reflecting the weakening of economic activities in Nigeria. Unemployment negatively impacts on government’s ability to generate income and also tends to reduce economic activity.⁸⁴

⁸¹ International Labour Organization Unemployment Rate (2018).

⁸² P.S.O & Osemengbe O, Causes, Effects and Solutions to Youth Unemployment Problems in Nigeria, *Journal Emerging Trends in Economics and Management Science* (JETEMS) Vol. 4(4) 389-399. Unemployment types – Economics online <www.economicsonline.co.uk/unepl...> accessed 10 September 2018.

⁸³ Cyclical unemployment exists when individuals lose their jobs as a result of a downturn in aggregate demand.

⁸⁴ Egbulonu K.G & Amadi K.W, *International Journal of Innovative Finance and Economic Research* Vol. 4 (3)1-7.

Over the years, the Nigerian government has adopted various fiscal policy measures to reduce the problem of unemployment, but still, the problem has been on the increase. These fiscal policies are best described as taxation and spending policies that the government pursues in an effort to influence the overall state of the economy. Fiscal policy is the means by which a government adjusts its level of spending in order to monitor and influence a nation's economy⁸⁵. According to Reen⁸⁶ fiscal policy based on the theories of British economist John Maynard Keynes, can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending. This influence in turn, curbs inflation, maintains a healthy value of money and increases employment.

In explaining the causes of unemployment in Nigeria, Uddin and Osemengbe⁸⁷ identified rapid population growth and overpopulation, low standard of education, corruption, bad leadership, unattractiveness of farming and craze for white collar job, rural urban migration, lack of steady and sustainable power supply etc as the causes of unemployment in Nigeria. Added to these causes are the inadequate utilization of the tax revenue generated and mis-spending by the government. These will be discussed one after the other.

Rapid Population Growth and Over Population

Nigeria's population density has particularly grown faster than projections. The high population growth rate has resulted in the exponential growth of the labour force, which is far outstripping the supply of jobs. The accelerated growth of population on Nigeria's unemployment problem is multifaceted. It affects the supply side through a high and rapid increase in the labour force relative to the absorptive capacity of the economy⁸⁸. Also, overpopulation as a result

⁸⁵ *ibid.*

⁸⁶ Reen H, What is Fiscal Policy (2009), Bond International Monetary Fund on-line – www.inf.org accessed 10 September 2018.

⁸⁷ Uddin & Osemengbe (n 12).

⁸⁸ Bhebhe T.B, Bhebhe R. K. & Bhebhe B.S., 'An Investigation in to the Causes of Unemployment Among Youths In the City of Harare' *Global Journal of Arts, Humanities and Social Sciences* 4(2) 93.

of migration to cities where people believe they can get employment to the disadvantage of other cities, which have vacant positions but nobody to fill them.

Low Standard of Educational System

The level of education has also been viewed as one of the biggest contributors to unemployment. Vastly educated youths with degrees become international citizens who can use their qualifications across borders and they can easily land a formal job locally or abroad.⁸⁹ However, the poor standard of education in Nigeria has resulted in the convocation of subnormal graduates, which makes it difficult for Nigerians to match job requirements, both locally and abroad. More so, the course outline of most tertiary institutions in Nigeria lack entrepreneurial contents that would have enabled graduates to become job creators rather than job predators⁹⁰.

The rapid expansion of the educational system which directly leads to increase in the supply of educated manpower above the corresponding demand for them, equally contributes to the problem of unemployment in Nigeria. There has been the problem of suitable employment for the varieties of graduates who are turned out by higher institutions every year⁹¹. Ordinarily, this should not have been a problem, but the reality is that the Nigerian economy is too weak to absorb this large number of graduates.

Corruption and Bad Leadership

Corruption, which has permeated the entire social structure of Nigeria, has robbed the country of developing a vibrant economic base. Funds meant for developmental projects have been misappropriated, diverted, or embezzled and stashed away in foreign banks, while some incompetent and corrupt politicians, bureaucrats and administrators in the

⁸⁹ Ofoegbu, Akwu & Oliver (n.16).

⁹⁰ *ibid* 399.

⁹¹ *ibid*

public enterprises have liquidated profitable organizations. Thus, crippling the economy and exacerbating unemployment which creates abject poverty, hunger and frustration⁹². In addition, visionless leaders in government, who are unable to see and plan for the future of citizens, create unproductive nations that cannot employ its people.

Unattractiveness of Farming and Craze for White Collar Jobs

Agriculture in Nigeria has remained unattractive to young people because of failure of government to mechanize the sector. Another problem is that society relegates farmers to the background and rates them as failures. This makes people in rural areas who are majorly farmers run to the cities, to struggle for nonexistent white-collar jobs in overpopulated cities.⁹³ This cause of unemployment can equally be related to tax failure, particularly the ineffective utilization of tax generated revenue in providing needed amenities and incentives to encourage rural farmers in more intensive and commercial agricultural practice.

Rural-Urban Migration

Rural-urban migration is the movement of people from the countryside or villages to cities or towns. Rural-urban migration is a reaction to some of the prevailing conditions in the rural areas. The factors that cause rural-urban migration, basically due to the lack of sufficient and productive investment of tax revenue in rural areas, are lack of social amenities, lack of employment opportunities, need for higher education and so on. Migration from rural to urban areas in turn leads to escalation of unemployment, due to the mad rush for limited job space in urban areas⁹⁴.

⁹² 10 Ways to reduce Unemployment in Nigeria. <<http://infoguidenigeria.com/reduced-unemployment>> accessed 12 September, 2018

⁹³ ibid

⁹⁴ Rural –Urban Migration: Causes, Consequences and Solutions <www.Nigerianinfopedia.com>... accessed 12 September 2018.

Lack of Steady and Sustainable Power Supply

The energy crisis which has engulfed Nigeria as a whole has been enormous and has largely contributed to the rate of poverty and unemployment by paralyzing industrial and commercial activities in the country. Apart from the huge income loss, it has also resulted in health hazards (breathing and auditory problems etc) due to the exposure to noise and carbon emission caused by constant use of "backyard generators" in different house-holds and business enterprises. It affects virtually all facet of the Nigerian system, particularly the cost of production for companies and small scale business owners⁹⁵.

Furthermore, due to the collapse of major infrastructures including electricity supply and good road network that is supposed to be taken care of by the government, small and medium scale businesses, which provide employment opportunities for jobless people, are fast eroding. Artisans such as furniture makers, welders, aluminum window fitters, tailors etc who cannot afford power generators are today out of work⁹⁶.

Companies and industries like textile industries, steel companies and the Nigerian railways have folded up until its recent resuscitation. Private firms that provide employment opportunities for Nigerians have shifted base to other West African countries like Ghana, Cote D'ivoire and Togo. Many manufacturers are experiencing low turnovers in their businesses as they have to contend with incessant power failure, thus having to rely on generating sets which increases their cost of production.

3. The Current Taxation Structure in Nigeria

Tax policy sets out the guidelines, the principles and the objectives to be accomplished through the mechanism of taxation^{97,28} The current tax system in Nigeria is a product of various policy changes geared at a

⁹⁵ Impact of Power Supply on Small and Medium Industries in Nigeria< [http://project.com.ng/economics > im...](http://project.com.ng/economics/im...) >accessed 14 September 2018.

⁹⁶ Niyi Adegoke, Youth Unemployment and Security Challenges in Nigeria', *Asian Journal of Humanities and Social Studies* (2015) Vol.3 (1) <<http://ajournalonline.com/index.php/AJHSS/article/view/2245>> accessed 14 September 2014

⁹⁷ Ifueko Omoigui Okauru (n 2).

more effective and efficient way of tax collection and administration. Such policy includes the introduction of the Taxpayers' Identification Number (TIN), which became effective since February, 2008, an automated tax system that enhances the tracking of an individual taxpayer's positions and challenges; the launching of an e-payment system which promotes smooth payment procedures and reduces the incidence of tax tout; the introduction of luxury taxes and ongoing process to review incentives such as pioneer status; and the Voluntary Assets and Income Declaration Scheme (VAIDS) which the Federal Government is using to encourage taxable individual and corporate personalities to voluntarily subscribe to payment of tax.

Tax legislation in Nigeria comprises the Personal Income Tax Act (PITA), Companies Income Tax Act (CITA), Value Added Tax Act (VATA), Capital Gains Tax Act (CGTA), Petroleum Profit Tax Act (PPTA), Stamp Duty Act (SDA) and others. While tax administrators refers to the tax authorities responsible for enforcing the tax policies and tax legislations and ensuring that taxable individuals, companies and services pay adequate taxes.

The Current Tax Structure and its Contribution to Unemployment in Nigeria

The current tax structure in Nigeria has unprecedentedly impacted on the rate of unemployment in the country. The tax structure, particularly through tax legislations (as a result of their complexities) and tax administrators (due to their inadequacies in administration) have deeply contributed to poor tax generated revenue and thereby repress valuable capital investments geared towards job creation. More so, the non-existence of positive tax policies towards economic growth and job creation has led to the rate of unemployment prevalent in the country today, in so far as taxation has influence on the economy⁹⁸. Some defects in the prevalent tax structure which have impacted negatively on unemployment in the country are hereby discussed.

⁹⁸ Zee H. H. Taxation and Unemployment (1996) IMF Working Paper, WP/96/45

Inadequate Tax Administration

Tax Administration involves the carrying out of the tax laws through the activities of the authorities assigned with the obligation of assessing, collecting and accounting for tax revenue. It has to do with implementing tax policy which includes complying with tax rules by taxpayers⁹⁹. The abysmal level of tax administration in Nigeria has greatly influenced the impact of the Nigerian tax system on unemployment in the country. Poor tax administration has denied the Nigerian government of huge revenue yearly needed to fund capital investments and infrastructures to create employments in the country. It has been discovered that there is a positive and significant relationship between tax revenue and economic development¹⁰⁰ indicating that taxation can positively or negatively influence the economy, depending on how well it is utilized. And this in turn influences unemployment in the country. The country is denied of much needed resources to create social and economic infrastructures to alleviate the rate of unemployment as a result of the failure of tax administrators to get eligible taxpayers within the tax net.

More so, many within the tax net inconsistently and dishonestly pay their tax. This is basically the result of tax evasion and tax avoidance. So much is lost to tax evasion and tax avoidance in Nigeria¹⁰¹. The inability of tax authorities to capture necessary taxpayers within the tax net has robbed the Nigerian government of fund required to create jobs, support ailing companies, and fund economic and progressive policies.

It is so disappointing that a country like Nigeria, having higher population than countries like Egypt and South Africa and a corporate tax rate of 30%, lack insipidly behind these countries in terms of income tax generated revenue. Nigeria has an estimated population of

⁹⁹ Ifueko Omoigui Okauru (n 2).

¹⁰⁰ Ofoegbu, Akwu & Oliver (n 6).

¹⁰¹ The Vice President of Nigeria, Professor Yemi Osinbajo himself acknowledged sometimes in 2017 at the end of the Executive Council of the Federation Meeting that the Federal Government of Nigeria lost about \$1 trillion in 2016 alone to tax evasion and tax avoidance by Multinationals only.

more than 196 million persons¹⁰² while Egypt¹⁰³ and South Africa³⁵ with a population of 99.6 million person and 57.5 million persons respectively.

Egypt is reported to have gained EGP 464.4 billion (\$25.96 billion) as total tax revenues in 2016/2017 (Egypt Today, 2018). The South African government through the South African Revenue Service (SARS) announced that it collected an amount of R1216.6 billion (\$79.43 billion) in the financial year 2017/2018. Meanwhile, the Nigerian government through the Federal Inland Revenue Service (FIRS) generated N4.01 trillion (\$11.07 billion) in the year 2017. This revelation ridicules the deficiency in our tax administration in comparison with the potency of the Nigerian market in relation to tax. This abysmal difference in tax generated revenue between Nigeria and the other two African countries only indicates that there is a tax potential untapped and unutilized in the country¹⁰⁴.

Taking a sample of 25 million Nigerians of the 196 million, to pay an average income tax of N10, 000 monthly (which is ridiculously low in expectation), the country should derive a sum of ₦250 billion monthly from personal income tax payers alone, and an estimated ₦3 trillion per year. Sadly, the total revenue generated by States in the year 2017 is pegged at ₦931.23 billion, including tax and non-tax generated revenue¹⁰⁵. Since States are ordinarily empowered by law to charge personal income tax on individuals' residents within their jurisdiction, the cumulative revenue generated from tax alone by the whole states of the federation should indicate and even exceed the estimated figure above, and enable capital investments and job creation. This strongly identifies the deficiency in the administration of tax in the country.

¹⁰² Nigeria Population <www.worldometers.info/world-population/nigeria-population> accessed 14 September 2018.

¹⁰³ Egypt Population <www.worldometers.info/world-population/egypt-population> accessed 14 September 2018.

¹⁰⁴ Egypt Tax Revenue <https://www.ceicdata.com/en/indicator/egypt/tax-revenue>, accessed 14 September, 2018.

¹⁰⁵ Economy of Nigeria-wikipedia<<https://en.m.wikipedia.org>>, accessed 14 September, 2018.

Lack of Adequate Tax Assistance to Struggling Companies

The lack of adequate tax assistance to ailing companies, industries and organizations in the country has greatly impacted on her rate of unemployment. There are over 800 collapsed industries in Nigeria and over 37 factories and closed shops in 2009. About half of the operating firms were classified as “ailing,” a situation that later posed a greater threat to the survival of manufacturing in the country¹⁰⁶. At least 800 companies were reported to have shut down in Nigeria between 2009 and 2011, due to the harsh operating business environment¹⁰⁷.

The absence of adequate support through the tax system has led to the dissolution of these companies and the consequential loss of jobs which increases unemployment. This tax assistance should have been by way of tax reliefs, tax holidays and tax credits by the government to such ailing companies. Tax holiday is a benefit enjoyed by most virgin businesses, with the rationale of allowing them to get strong and create jobs. The same rationale should have been utilized in extending such benefits to companies and industries that are moribund. However, this has not been so utilized and it has led to the collapse of several industries, organizations and companies and resulted in the unimpressive increase in unemployment in the country. In 2010, the US government proposed a tax break that would allow businesses in the United States to write off 100 percent of their new capital investments. The tax break saw businesses save \$200 billion over two years, allowing companies to have more cash on hand to run business and sustain stability.³⁸ Sadly, there has been no such tax policy in Nigeria.

Mismanagement of Tax Generated Revenue

The ineffective and imprudent use of huge amounts generated through tax yearly in providing infrastructures to enhance economic growth and job creation is a substantial cause of unemployment in Nigeria. Such

¹⁰⁶ <www.worldometers.info/world-population/south-africa-population> accessed 14 September 2018.

¹⁰⁷ Adesina S.O. Unemployment and Security Challenges in Nigeria. *International Journal of Humanities and Social Sciences* (2013) Vol. 4 (7) 5.

revenue generated through tax should have been utilized in providing needed amenities to encourage investors and enable existing companies to improve on productivity and profitability. Between year 2000 and 2015, Nigeria generated the sums of ₦455.3 billion, ₦586.6 billion, ₦433.9 billion, ₦703.1 billion, ₦1.1 trillion, ₦1.7 trillion, ₦1.86 trillion, ₦1.84 trillion, ₦2.97 trillion, ₦2.19 trillion, ₦2.83 trillion, ₦4.62 trillion, ₦5.01 trillion, ₦4.80 trillion, ₦4.71 trillion and ₦3.74 trillion respectively (FIRS, 2016). While in 2016 and 2017, the government earned ₦3.3 trillion and ₦4.01 trillion from tax respectively. This means the country has earned a cumulative of more than ₦42 trillion from tax from year 2000 and 2017¹⁰⁸. This is quite enormous revenue. But the problem is these revenue generated over these periods cannot be readily accounted for in terms of their investment in infrastructural projects and capital structures that boost job creation.

Mismanagement of tax revenue has scared many honest taxpayers away from performing their civic responsibility of paying tax. In many parts of Nigeria, citizens are opposed to the payment of any form of taxes and rates on the ground that government had been unfair in the provision of amenities for which tax is primarily collected¹⁰⁹. The consequential impact of this is that the government lacks revenue to provide structures needed to facilitate employment.

4. The Consequential Impact of Unemployment

Unemployment is a stunting situation that impacts negatively on the country in diverse facets. In Nigeria, the condition of unemployment has deleteriously influenced the economy, security and much more. The unemployment episode has continued to pose many challenges to the survival of the Nigerian nation in the same dose in which it impacts¹¹⁰.

¹⁰⁸ How Nigeria generate an all time high tax revenue in 2018 <https://nairametrics.com>, see also FIRS Makes|3.3trillion in 2016, shreds of earlier reports of revenue made <https://en.m.wikipedia.org/wiki> accessed 14 September 2018

¹⁰⁹ Nwankwo C.A. Impact of Unemployment on Nigeria Economic Development: A Study of Selected Local Government Area in Anambra State, Nigeria. *European Journal of Business and Management* (2014) Vol. 6(35) 5.

¹¹⁰ *ibid.*

In assessing the impact of unemployment on the national polity, security and economy are most affected.

Security

The definition of security has changed from the traditional military ways of protecting the state against internal and external aggression. Unemployment feeds insecurity with the necessary manpower to perpetrate its misdeeds. For example, lack of employment opportunities has contributed to youths involved in urban conflict and militancy that confront the Nigeria state. The increased rate of sectional violence, crime and terrorism are connected with unemployment¹¹¹.

Unemployment is generally caused by improper orientation of the youths, absence of policy on social welfare, societal attitude towards vocational and technical education and inadequate training and teaching facilities. These have manifested in the alarming rate of armed robbery, kidnapping and hostage taking, arson etc. All these have impact on the security situation in the country and business and investments, social-political process and governance.

Economy

Unemployment is much significant on economic growth. As earlier discussed, taxation is one of the primary fiscal policy tools the government has at its disposal to reduce unemployment in Nigeria. High taxes mean consumers have less disposable income, which results in less consumption. When consumers buy less, less revenue accrues to businesses making them less likely to hire new workers or may even result to laying off workers to reduce cost. Cutting taxes is a common practice which the government uses to induce economic growth and reduce unemployment. Tax cuts can put more money into the hand of

¹¹¹ Adegoke N. Youth Employment and Security Challenges in Nigeria, *Asian Journal of Humanities and Social Studies* (2015) <<http://ajournalonline.com/index.php/AJHSS/articles/view/2245>>_accessed 14 September 2018

consumers, which can lead to increased revenue for business and expansion and hiring¹¹².

5. Taxation as Tool to Lower Unemployment in Nigeria

Taxation (both direct and indirect tax), particularly labour taxation has come to the fore in policy discussions as one of the major determinants of the significant increase in unemployment¹¹³ in recent years all around the world. This hints that address unemployment will require addressing basic and fundamental issues in taxation. More so, for the Nigerian nation to adequately address the issue of unemployment within its borders, salient structural and administrative patterns must be ploughed. These include:

Progressive Tax System

Having understood that government need more revenue in order to meet the enormous present and future national needs, we need to raise more revenues in a way that is progressive, and a sure means to achieve this is through a progressive tax system.

This model requires that the government should impose higher taxes on wealth and lower taxes on earnings. The Nigerian tax system currently practices a fixed or proportional tax rate for property disposal, corporate and income taxes. The tax rate on disposal of property (asset) in Nigeria is 10 percent, regardless of the value of the asset being disposed of. For corporate and personal income taxes, the tax rates are 30 percent and 24 percent respectively.

In optimizing the utilization of taxation as a mechanism for reducing unemployment rate in Nigeria, a comprehensive reform of property, corporate and personal income taxes is needed. Our capital gains should be made progressive rather than the flat rate we practice presently, so that high valued properties yield more revenue into government coffers sequel to each transaction. A progressive tax system

¹¹² Reen H. (n 16).

¹¹³ Akeju K.F & Olanipekun D.B, Unemployment and Economic Growth in Nigeria, *Journal of Economic and Sustainable Development* (2014) Vol. 5 (4) 5.

in our income taxes will mean more revenue. It should aim at raising more revenue from the rich to fund social and physical infrastructure in a way that support economic growth and empowers the tiered governments to create jobs for the unemployed¹¹⁴. Nigeria should raise more and higher tax revenue to finance large spending needs for social and economic infrastructure that will open spaces and fields to job creation. This can only be achieved by taxing the rich (those with more) more and taxing the poor (those with less) less. With higher tax progressivity, the government collects more tax from high earners and less tax from low earners¹¹⁵.

A progressive tax system will, firstly, achieve fair income equality and wealth distribution between the high and low income earners, thereby ensuring that low income earners maintain economic strength. More tax progressiveness could impact volatility over time by reducing income inequality. Progressive income taxation tends to affect income inequality by equalizing the after tax income distribution, and this could help to stabilize domestic demand and thus reduce financial and economic volatility.¹¹⁶ Our tax system should reduce, not exacerbate, market-driven inequality. Those with the highest incomes should face the highest tax rates¹¹⁷.⁴⁷ Since low income earners are only required to a pay minimal margin of their income as tax, they retain sufficient purchasing power for necessities and as such achieve satisfaction in their subsisting jobs. This ensures that low income earners are able to maintain some financial strength without being induced to seek more high yielding jobs, thereby leading to competition for employment and unemployment.

¹¹⁴ Organization for Economic Corporation and Development (OECD). Economic Surveys: India OECD 2017.

¹¹⁵ Hans Holter, Dirk Krueger & Serhiy Stepanchuk, 'Tax Progressivity and the Government's Ability to Collect Additional Tax Revenue' (2015) VOX CEPR Policy Portal <<https://voxeu.org/article/tax-progressivity-and-tax-revenue/>> accessed 14 September 2018.

¹¹⁶ Christian Weller & Manita Rao, Can Progressive Taxation Contribute to Economic Development? Political Economic Research Institute (2008 Working Paper Series Number 176

¹¹⁷ Jared Bernstein 'We're Going to Need More Tax Revenue: Here's How to Raise it' (2018) <<http://prospect.org/article/going-need/more-tax-revenue-heres-how-raise-it/>> accessed 14 September 2018.

It will equally achieve higher tax revenue for the government without pushing the poverty line downwards. The poor are taxed at a minimal and bearable rate, only as a participatory contribution in national economic development, thereby ensuring that they are not economically stretched or stressed into poverty. This means, they retain sufficient economic power even after paying taxes.

With a progressive property, corporate and personal income tax rate, the government will certainly generate more revenue through tax. On a projection of ₦250 billion monthly from income taxes alone, (which is still ridiculously low in comparison with potential), the federal government should generate an estimated ₦3 trillion (\$8.21 billion) per year just from income taxes. An investment of this amount in a potent but fallow infrastructural project like the Ajaokuta steel company will definitely yield results in job creation. The steel company has been projected by the Federal Government itself to be capable of providing 500,000 upstream and downstream jobs when operational. The company has been quoted to need a sum of \$1.4 billion, which is just a fraction of the estimated \$8.21 billion capable of being generated per year from personal income tax¹¹⁸. This estimate indicates the potency of tax, more so a progressive tax system in job creation.

Reduction in Labour Tax

We need to reduce tax wedge on labour in order to alleviate unemployment problems and further stimulate job creation, and improve general economic framework. Employers of labour in Nigeria are required to pay income taxes on their personal income and most times, simultaneously, though incidental, on their corporate income which leads to double taxation. Employers are therefore left to mull over the liquidation of the mandatory tax burden subsequent to payment of employees salary before contemplating their take home profit from their ventures. These tax burdens limits employers financial power and thereby discourages them from hiring. They also reduce the incentives

¹¹⁸ Ajakuta Steel Company to Create 500,000 Employment (2017) <[www.vanguardngr.com/2017/05/ajakuta- steel.-company create 500,000 employment.](http://www.vanguardngr.com/2017/05/ajakuta-steel-company-create-500000-employment/)>accessed 30 august 2018.

for the unemployed to look for job, because employers, if they eventually decide to hire, are less willing to pay fittingly for the job.

Tax Holiday to Companies

One of the focal reasons for unemployment in Nigeria is the dissolution or death of companies, industries, factories and organizations as a result of financial distress. This stems from financial distress and incapacity of these companies. The tax system could have been efficiently utilized in aiding these creators of employment from going moribund. Dissolution of companies leads to retrenchment of workers which culminates into unemployment.

This suggested model requires the government and relevant tax authorities to be tax neutral in relation to employers of labour which are in financial distress. It is expected to be revenue-neutral during such period and thus provide an avenue for full resuscitation of companies, industries, factories and organizations in financial distress. Creating a business-friendly tax environment is crucial to promoting investment to creating more jobs. It is expected that this model will encourage the continued existence of companies in Nigeria during and subsequent to their financial struggles so as to avoid the winding-up of these companies which inevitably leads to retrenchment of workers and then unemployment. In 2016, Bank of America Plaza, Georgia, United States of America received a \$1.8 million discount in tax. The incentive was much impactful in aiding the 55-story tower recruit business tenants as it struggled with low occupancy rates while recovering from foreclosure in 2012.

This helped the company build up some financial muscles¹¹⁹. Equally, Coca-Cola is reported to have benefited \$894,435 in incentives in 2016 in Georgia, United States, primarily to support the company's investment in Freestyle fountain machines. According to the company's

¹¹⁹ Mark Niese, 'New Disclosures Show Atlanta Companies that Profit from Tax Breaks' The Atlanta Journal-Constitution <www.myajc.com/nnews/local-govt--politics/new-disclosures-show-atlanta-companies-that-profit-from-tax-breaks/> access 14 September 2018.

spokesman, Ben Sheidler, these abatements enabled The Coca-Cola Company facility to add more than 100 jobs at the site where the machines are manufactured¹²⁰.

It is also expected that tax holiday will motivate companies and their shareholders to repatriate overseas profit back to the country in form of investments. Many Nigerian companies are believed to stock-up huge profits in offshore territories in order to avoid paying the 30 percent corporate tax rate which only becomes payable upon repatriation into the country. However, where there is tax holiday, these companies could bring back their huge hidden profit into the country, and invest it in existing or new businesses and thereby create jobs.

In 2004, the United States through the American Jobs Creation Act of 2004, granted tax holidays to American companies, allowing repatriation of foreign profits to the United States at a 5.25 percent, rather than the existing 35 percent corporate tax rate¹²¹. Through this initiative, \$362 billion was injected into the United States economy. This can pragmatically be implemented in Nigeria. It is expected that such repatriated profit, either invested by the company in Nigeria or distributed among company shareholders who in turn will invest it in businesses here in Nigeria, will boost the Nigerian economy and open space for employment.

Tax Credit for Employers

Tax credit for employers of labour (i.e. companies, organizations, industries, etc) can also be progressively utilized in the Nigerian tax system in reducing unemployment.

At the moment, the United States government, through its Internal Revenue Service (IRS), provides a tax credit called Work Opportunity Tax Credit for employers within the United States. This tax credit provides tax benefits to employers that provide employment for qualified individuals within a target group, particularly persons with disability and veterans. This initiative by the United States government

¹²⁰ *ibid*

¹²¹ Mark Sullivan, *Corporate Tax Reform: Taxing Profits in the 21st Century* 2011. 83.

was provoked by the need to curb the rising level of unemployment among the identified group.

The postulation we are making here is that, the initiative that allows tax credit to companies involved in research and development under the Companies Income Tax Act to encourage research and developmental works can also be extended to companies based on the number of persons in their employ. This is exclusive of the deductions available for expenses incurred in payment of salary.

A smack of this initiative in the Nigerian tax system will aid a lot in addressing and depressing the rate of unemployment in the country. It is equal to the Nigerian government saying 'put Nigerians to work and we reward your efforts in tax'. A suggested implementable idea in this area is that employers may be given tax bonuses or credits based on the number of people in their employ, or based on the number of individuals recruited for each taxing year. This no doubt will positively influence the reduction in unemployment rate in the country¹²².

6. Conclusion and Recommendations

These recommended models and reforms in the Nigerian tax system will ensure that the Nigerian government maximizes the optimization of the tax system in addressing several economic issues in the country, particularly the challenge of unemployment. The government will generate more revenue through tax to create more jobs and satisfy government capital expenditures, improve the financial status of employers of labour and assist employers of labour in times of financial struggles to stay alive and discourage retrenchment of employees. These recommended models, if maximally and effectively implemented, are expected to reduce the rate of unemployment in Nigeria while directly and indirectly improving the economic efficiency of the country to create more jobs.

¹²² Tax Benefits for Business who have Employees with Disabilities <www.isrs.gov/business/small-business-self-employed/tax-benefits-for-business-who-have-employees-with-disabilities accessed 14 September 2018.>

Recommendations

In the light of all the issues discussed above, the following recommendations are made;

- Government should intensify the fight against corruption in the tax system. This has been a major malady to the sustainable growth and development of the country. Eradicating corruption in the tax system through tax policies will go a long way to improve the economic performance in order to achieve rapid and sustainable development.
- Strong implementations of viable fiscal and tax policies in order to expand the employment base. Government should also provide modern equipments through tax generated revenue and recruit Nigerian youths massively into the agricultural sector in a way that all states of the federation produce one agricultural commodity or the other. This would not only reduce unemployment but feed the country as well and expand tax base for the government.
- Tax initiatives like tax holiday, should be given to financially distressed companies and Work Opportunity Tax Credit can also be introduced in Nigeria like that of United States.