Global Journal of Political Science and Administration

Vol. 1, No. 1, pp. 16-26, September 2013

Published By European Centre for Research Training and Development UK (www.ea-journals.org)

GETTING THE MONEY AND PLUMMETING BUSINESS DEVELOPMENT: A STUDY OF THE IMPACT OF TAX REGIME ON HOSPITALITY INDUSTRY IN CALABAR, NIGERIA

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ABSTRACT: *Cross River State government operates one of the modem standards of taxation in contemporary Nigeria. It is evident that over 30% of its revenue is derived from taxation. This study examines the stability of businesses under the current tax regime with emphasis on the hospitality industry and internal transportation business. The aim is to show the extent to which the tax regime amounts to multiple and outrageous taxation and its impact on these variants of businesses in Calabar. Data collected revealed that the hospitality businesses and internal transportation businesses face multiple and high rate of taxation which has impinged negatively on the stability of these businesses. The study recommends among others the amendment of the fourth schedule to the 1999 constitution to prune it of excess items which the local government uses to perpetrate multiple and excessive taxation.*

KEYWORDS: Multiple Taxation, Hospitality industry, Internal Transportation

INTRODUCTION

Economic theorists compete fervently among themselves as to what drives economic growth. While most liberal economists argue clearly that taxation is important in the development of society (Entin, 2011), radical economists posit clearly that it impinges negatively on the growth of societies (Reed, 2008). The basic rationale, nature and consequences of taxes have been debated roundly. Taxes, it is argued, provide revenue to the three levels of government (federal, state and local) in the quest to provide essential services (public goods and services) to the people. By public goods and services we mean benefits that cannot be withheld from those who do not pay for them, and benefits that may be consumed by one person without reducing the amount of the product available for others. Examples include national defense, streetlights, and roads and highways. Public services include welfare programmes, law enforcement, and monitoring and regulating trade and the economy (www.apps.iis.gov, 2013). Taxation has become a serious instrument of state governance the world over. As pointed out by Lawgiants (2010), "government financial operations are well-nigh impossible without taxation.

In Nigeria and Cross River State in particular, taxation is a major instrument of state governance. The tax system undergoes significant changes at regular intervals with the aim of improving government revenue. While government revenue seems to improve tremendously over the years, the argument that such improvement does not translate into the provision of public goods and services even at its outrageous nature is yet to be addressed by stakeholders (government and tax payers).

Civil servants and business operators in the state complain bitterly over outrageous taxation. Hospitality and internal transport businesses in Calabar metropolis in particular tend to wear unprogressive look even at the height of tourism posture of the state. While taxation as a source of revenue for the state is well established in academic literature, no known study has documented how hospitality businesses are unjustly and criminally coerced to pay taxes in Cross River State. Since tax regimes are different for many polities, it is important to understand the complexity of the Cross River State tax regime and how it constitute multiple taxation and the danger it poses on business development in the area. There is much left to be known about the emerging trends of taxation as a source of revenue for governments of developing societies and the effects on business stability in these areas.

This study is significant in a number of ways. It will further the understanding of the danger of unordered form of taxation on business development in Cross River State as an emerging economy. Also the weaknesses of the tax regime, which makes it averse to business development, are identified by this study. Again the study contributes to taxation theory by identifying ways by which tax policies can be transparent and devoid of double taxation. On this premise, the study asks the following question: In what ways does the Cross River State tax regime contribute to unhealthy hospitality and internal transport businesses in Calabar? This and more the study would attempt to provide answers to. It is proposed here that extreme application of tax laws and multiple taxations drive hospitality and internal transport business under.

Objective of Study

The study addresses the following objectives:

1. To show the impact of multiple-taxation on public transportation and hospitality businesses in Calabar.
2. To show that excessive taxation on hospitality and internal transport businesses in Calabar exist.

METHODOLOGY

The study adopted the expost facto design. This design can be used when a policy has been put into effect and the researcher examines what the result has been. The study area is Calabar Metropolis. Calabar is the capital of Cross River State, Nigeria, which once served as the headquarters of the Southern Protectorate of Nigeria. It is inhabited by three ethnic groups of the Efiks, Quas and Efuts.

The study examined two kinds of businesses in Calabar; the hospitality industry which covers hotels, eateries, restaurants, bars etc. and internal transport business. 25 outfits in the hospitality industry formed part of the sample distributed as follows: 10 hotels, 5 restaurants, 5 eateries and 5 bars. Three categories of internal transport system were sampled. They include taxi, bus and tricycle (Keke).

Data was collected through interview and document study. Respondents were asked to list the number and nature of taxes paid and at what interval. The interview also intended to elicit from the respondents the impact of taxation on their businesses. Data generated were analyzed qualitatively and by simple tabular expressions.

List of Taxes in Nigeria

The Joint Tax Board (JTB) publishes regularly the list of taxes approved by government for the three tiers of government in Nigeria.

1. Approved list of taxes collectible by the Federal Government. The Nigerian Tax Law approved the following taxes:
   - Companies income tax
   - Value-added tax (VAT)
   - Education tax
   - Petroleum tax
   - Withholding tax on companies
   - Stamp duties for corporate entities
   - Capital gains tax - for employees of and residents of Abuja (FCT) and corporate bodies
   - Personal income tax (PIT) from the following public institutions
     - o Personnel of Armed Forces
     - o Police personnel
     - o Abuja (FCT) residents
     - o Foreign Affairs staff
     - o Non-residents
2. Approved list of taxes collectible by state government
   - Personnel income tax on income of individuals only
   - Withholding tax for individuals only
   - Pooling, betting and lotteries tax
   - Gaming and casino taxes
   - Road taxes
   - Stamp duties fees on instruments executed by individuals only
   - Business premises registration fees for urban and rural areas
   - Development levy for individuals only
   - Street naming registration fees in the state capital only
   - Right of occupancy fees on land owned by the state government in urban areas
   - Market taxes and levies where state finance is involved
3. Approved list of taxes for collection by the local government authorities
   - Shops and kiosks rates

- Tenement rates
- On and off liquor license fees
- Slaughter slabs fees
- Marriage, birth and death registration fees
- Street naming registration fees for non-urban areas streets
- Right of occupancy fees on lands in rural areas
- Market taxes and levies excluding where the state used its finance to construct the market
- Motorpark levies
- Domestic animals license fees
- Religious places establishment permit fees
- Signboard and advertisement permit fees
- Wrong parking charges
- Vehicle radio license fees to be imposed by the local government where the vehicle is registered
- Merriment and road closure levy
- Cattle tax payable by cattle farmers only
- Customary burial-ground permit fees.
- Bicycle, truck, canoe, wheelbarrow and cart fees other than a mechanically propelled truck (Cap 21, Law of the Federation of Nigeria, 2004).

LITERATURE REVIEW

Cooley (1886) in Lawgiant (2010) explains taxation as a process or means by which the government, through its law-making body, raises income to defray the necessary expenses of government. It is a method of apportioning the cost of government among those who in some measures are privileged to enjoy its benefits and must, therefore, bear its burdens.

The notion that taxes promote growth and development has become a scholarly contentious issue. Studies have shown that taxes do not play substantial role in the economic growth in many societies including major developed and backward societies of the world. Reed (2008), studying the American case, sought to examine the effect of tax variation on growth across the United States. Relying on panel data that span between 1970 and 1998, Reed discovered that a higher degree of tax burden exist and impinges negatively on economic growth. Romer and Romer (2010) also discovered that there is much negative effect of taxes on the economy of the US. Similar, studies by Ferede and Dahlby (2012), Martens and Ravn (2012), Barro and Redlick (2011) point to the same negative effect of tax on the GDP. In their study of the impact of tax cuts on the economic growth using evidences from the Canadian Provinces, Ferede and Dahlby discovers that a reduction of corporate income tax by 1 percent point increases annual growth rate by 0.1 to 0.2points. The Conclusions of Martens and Ravn's study shows that a 1 percent point cut in the average personal income tax rate raises real GDP per capita by 1.4 percent in the first quarter and by up to 1.8 percent after three quarters. A 1 percent point cut in the average corporate income tax rate raises real GDP per capita by 0.4 percent in the first quarter and by 0.6 percent after one year (McBride, 2012). The work of

Barro and Redlick concludes also that a 1 percent reduction in average marginal tax rate increases the per capita GDP by about 0.5% the following year.

All taxes do not carry equal negative weight on the economy. Some are more devastating than others. The work of Arnold, Brys, Heady, Johansson, Schwelnus and Vartia submit that corporate taxes carry more devastating effect, closely followed by personal income taxes, then consumption taxes and property tax. In justifying their claim, they aver that corporate taxes reduce investment and productivity growth just as increase in personal income tax reduces productivity growth. Similarly, Gemmell, Kneller and Sanz (2011) observed that income and profit taxes, which they refer to as distortionary taxes are most damaging to economic growth in the long run. This is closely followed by consumption taxes. Lee and Gordon (2005) also conclude that corporate taxes are damaging to economic growth.

Some studies, on the other hand, do not see taxes to be damaging to economic growth. Mendoza, Milegi-Ferretti and Asea (1997), Easterly and Rebelo (1993), Katz, Mahler and Franz (1983) share this view. Mendoza and Milegi-Ferreti argue that effective consumption taxes increase investment but that the tax burden has no effect on investment. Katz, Mahler and Franz agree that taxes deplete savings but have no damaging effect on investment or growth.

It is very clear that no wide divide exists on the effect of taxation on growth or investment. Greater number of scholarly arguments supports the fact that outrageous and insensitive tax policy could be very damaging to any economy. It is clear that none of these studies examine the units of taxation and how the contribute to the unhealthy tax burden on businesses. This study fills that gap in literature and contributes to knowledge at the level of scholarship.

RESULTS AND DISCUSSION

This study is anchored on the premise that outrageous multiple taxations have a devastating effect on business stability. I assessed the validity of this statement on two kinds of businesses in Calabar, Nigeria. These businesses include hospitality industry and internal transportation business. The choice of these two for analysis is informed by the strategic position they occupy in an emerging tourism state.

Twenty-five business outfits were sampled for analysis in the hospitality industry, distributed as follows: ten hotels, five fast-food joints, five restaurants and five bars. Hotels are mandated to pay the following taxes as presented on the table below.

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Table 1: Showing the types of taxes paid by hotels

S/N		
1	Tourism Development Levy	5% of every income
2	Municipal tax	5% of every income
3	IRS (BIR tax)	5% of every income
4	Corporate tax	5% of every income
5	Value-added tax (VAT)	5% of every income
6	Liquor/spirit	3% of every income
7	Signpost/advert	₦15,000 per annum for LG and N150,000 for SG
8	Business premises	₦50,000 per annum
9	Operational permits	Discretionary
10	Food and safety tax	₦40,000 per annum
11	Fire service	₦60,000 per annum
12	Fumigation	₦20,000 per annum
13	Sanitation tax	₦10,000 per annum

Source: Fieldwork, 2013.

The table above shows that hotels pay an average of 35% of their income as tax to the governments of Nigeria, Cross River and the local government. Hotel operators consider this outrageous. The tax policy does not take into consideration other demands needed to keep the business alive.

Another area of concern is the fast food and restaurant business. Respondents' information revealed a multiple tax subhead. Below are the types of taxes paid by operators of fast food and restaurants in Calabar

Table 2: Type of taxes paid by fast food and restaurants

S/N	Type of lax	Value of tax
1	Corporate tax	5% of gross income
2	Value-added tax (VAT)	5% of gross income
3	Tourism development tax (TDL)	5% of gross income
4	Urban development levy	Discretionary assessment
5	Municipal tax	5% of gross income
6	BIR	5% of gross income
7	Operational permit	Discretionary assessment
8	Development levy	N100 per individual
9	Development rate	Discretionary assessment
10	Pollution rate	N50,000 per annum
11	Sanitation tax	N20,000 per annum

12	Sign post/advert	N150,000 state govt. N10,000 local govt.
13	Health certificate	Discretionary assessment by both state and local govt.
14	Fire service	N60,000 per annum
15	Business premises	N10,000 registration N5,000 renewal annually
16	Hygiene tax	Discretionary assessment
17	Fumigation	N10,000 per annum
18	NTDC (Nig. Tourism Development Corporation)	N20,000 per annum
19	Emblems	N20,000 per annum
20	Parking permits	N50,000 annually
21	ITF	3% of staff salary annually

Source: Fieldwork, 2013

The table above shows that a typical fast food and restaurant business and bars are taxed within 21 subheads. Some amount to double or multiple taxation while some, are introductions not recognized by law. For instance, operational permits are collectible only from kiosks and shops. But bigger outfits after paying for business premises are also forced to pay for operational permits. Double taxation also manifests in the signpost/advert tax. This tax subhead by law belongs to the local government, but the state is also collecting tax on that subhead in an outrageous rate. Emblems also are motor-park taxes but agents find their way to business outfits other than the motor park business to enforce the payment on emblems that have no relationship with their business identity. Very worrisome is the identity and similarity of some tax subheads. For example, subheads such as sanitation, pollution, hygiene and health certificate seems to show no clear distinction as they all address the concern of clean environment. These are the vents through which multiple taxations manifest.

In the area of internal transportation business, three distinct units were examined. They include taxi, bus and tricycle (keke). Taxes and charges paid are expressed on the table below.

Table 3: Showing types of taxes paid by internal transport operators

S/N	Type of Tax	Value
	Taxi	
1	Registration	N11,000 per annum
2	Dept. of Public Transportation (DOPT) levy	N100 daily
3	Local government tax	N150 daily
	Bus	
1	Registration	N20,000 annually
2	DOPT	N100 daily
3	Local Government tax	N150 daily
4	Loading fee	N100 for every turn daily
5	Badges/emblems	N5,000 annually
	Tricycle	
1	Registration	N30,000 annually
2	Levy	N700 daily

Source: fieldwork, 2013

The table above captures the nature of taxes operators of internal public transportation business pay daily and annually. Simple analysis shows that a taxi driver pays an average of N98,500 annually as tax to the government if he operates for 350 days out of the 365 days in a year. On the other hand, a bus driver pays about N287,500 annually if he loads an average of five times every day at N30 each of fourteen passengers. For the tricycle operators, each is likely to pay about N275,000 per annum.

These charges are high and outrageous. When we take into consideration the cost of maintaining the vehicles and fuelling which are often bought at black market rates (unofficial prices), it becomes very clear that the operators might be working for the government. In fact one of the respondents who operates a public bus transport broke into tears during the interview as he complained bitterly that he hardly goes home at the end of the day with one thousand five hundred naira (less than ten dollars), yet it is expected that he maintains his vehicle from that amount, pays his rents from there, train the children and feed them from there. He attributed the dilapidated nature of public transport vehicles to the poor revenue arising from excessive taxation. The respondents also submitted that so many of their colleagues have withdrawn from the business because they cannot stand the pressure of outrageous taxation.

The data presented in this study reveals that hospitality business and internal transportation business suffer multiple taxations in an outrageous manner. It also discovered that these businesses suffer high rate of taxation arising from the fact that there are many discretionary assessments with no specific percentage. In other words, business operators are at the mercy of tax operators who have the final power to determine what your tax is on those subheads. Because the government needs higher revenue, it assesses operators higher on those subheads where the law does not specify fixed percentages.

The tax system in Cross River State is not completely at variant with the provision of the tax law except in few cases where multiple-taxation occurs. The problem lies in the extreme application of tax laws without recourse to the nature and operational conditions of business outfits in the state. Most businesses operate at a breakeven level and some at a loss because tax eats into their profit margin. The population of the state is not economically effective. By effective economic population, I mean the human elements that possess reasonable income to address their economic needs. The state is dominated by civil servants which, incomes are heavily taxed by the government. The implication is that the population has limited resources to address their needs. This translates to low business patronage in the state and a reduction in investment. Heavy taxation not only diminishes disposable income, it threatens and discourages savings especially for the very heavily taxed and poorly paid civil servants of the state.

Taxation must wear high element of reasonability if it should remain relevant to the tax payer. Outrageous and multiple-taxation are irresponsible when the paying public is economically miserable. Multiple taxations is common in the Nigerian tax environment and it occurs where the tax, fee or rate is levied on the same person in respect of the same liability by more than one state or local government council. Sanni (2012) explains the manifestation of this practice to mean the various unlawful compulsory payments being collected by the local and state governments without appropriate legal backing through intimidation and harassment of the payers. Collection of it is characterized by the use of stickers, mounting of roadblocks, use of revenue agents/consultants including motor-park touts and area boys.

This practice is common in the Calabar South area of the city. Businesses in this area face daily harassment by people who parade themselves as revenue agents of the government. Refusal to comply often meets with beating or confiscation of one's valuable property that would never be seen again. Multiplicity of taxes, argued Sanni (2012: 230), "makes investment climate tempestuous as investors are not sure the extent to which their incomes would be taxed." So many businesses close shop because of this practice.

The investment climate in the area of hospitality and public transport business is mucky. Taxation and low patronage is discouraging investment in these two important aspects of the tourism industry. This corroborates McBride (2012) argument that taxes on the factors of production i.e. capital and labour, are particularly disruptive of wealth creation. Taxes reduce the incentive to invest and to build capital. Koester and Kormendi (1989) also submit that increases in marginal tax rates reduce economic activity and retards growth.

CONCLUSION AND RECOMMENDATION

Studies have shown that taxes deplete business and discourage investment especially in backward societies where the governments hardly translate tax revenues to public goods and services.

The study principally examined the effect of taxation on the stability of businesses in Calabar with particular emphasis on the hospitality business and internal transportation. Drawing largely from the type of taxes paid by these businesses and the condition in which they are made to pay, the study concludes clearly that these businesses are subjected to multiple taxation and higher tax rate. This among others accounts for why these businesses are not doing well in modern Calabar. It is typical of Nigeria as Andreika (2010) joins other scholars to observe that its fiscal regime is characterized by unnecessary, complex, distortionary, and largely inequitable taxation laws.

An emerging tourism state is expected to be careful with its tax regime. An exercise in heavy taxation drives potential investors away. This condition also leaves the government with limited business to generate revenue from. Encouragement of investors often leads to why most governments give tax holidays or reduce their tax rates.

The findings of this study have some basic implications. Business operators are likely to be aware of what constitutes multiple-taxation in the tax list and may possibly begin to challenge them in courts of competent jurisdiction. Government may, on the basis of this new knowledge review its tax policy to rid it of elements that makes it irresponsible.

The items upon which businesses are taxed are many and clumsy. I recommend a reduction in the number of items. This would certainly address the issue of multiple taxation which this study discovered. This can be done by amending the fourth schedule to the 1999 constitution, which gave local government powers to control and regulate many items it has turned to tax subheads. The study also recommends that every tax item should carry specific percentage of payment so as to avoid outrageous assessment of business outfits.

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Vol. 1, No. 1, pp. 16-26, September 2013

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