Comparative Analyses between Outsourcing Revenue Base and Board of Internal Revenue Collections of Internally generated Revenue in Niger State

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ABSTRACT

This study examines the differences between outsourcing Revenue collection and Board of Internal Revenue collections of internally generated revenues in Niger State. The study used secondary data obtained from Niger State Government approved budgets, ministry of finance and Board of Internal Revenue Reports for fifteen-year period (2000-2015). The trend and the result from the paired (related) t-test analysis before and after the outsourcing periods revealed that, the use of private firms in revenue generation under partial and full scale outsourcing leads to significant positive difference in revenue generation. It was concluded that there is a significant positive difference between outsourcing of revenue and state board of internal revenue collections on internally generated revenue in Niger state. The study recommends that, untapped revenue sources such as Property tax, Hotel and Restaurant consumption tax among others, which are yet to be harnessed by some Revenue Authorities should be fully outsourced.

Keywords: Taxation, Outsourcing of Revenue base, Full Outsourcing, Partial Outsourcing, Internally Generated Revenue

JEL Classification Codes: H2; H21; H24; H27

INTRODUCTION

It is argued that efficient internally generated revenue (IGR) is not about number of taxes allowed or provided for in the law, but it is all about the nature of the system put in place to collect tax revenue. As the price of crude oil in the global market move from about $115 per barrel in June 2014 to less than $30 per barrel in February 2016, government across the three tiers are experiencing fiscal crunch. Revenue accruing to Federal government and consequently amounts of grant to States, have significantly reduced due to fall in oil prices as a result of the fact that Nigeria is a mono-economy. The situation is particularly acute in States where Internally Generated Revenue (IGR) is low, although calls and efforts to improve IGR across States in Nigeria have been on for many years, different Governments at all times and across all regions of Nigeria have shown interest in improving their revenue. Some have worked more desirously with varying results while others merely discussed the need to work on it, which includes outsourcing revenue collections to private agents which is aimed at reducing ineffective tax administration, (Chukwuma, 2015). Stella (1993) opined that ineffective tax administration is a chronic problem in many developing countries and a radical solution is tax outsourcing, whereby the right to collect certain taxes is auctioned off to private sector collectors. She put forward an argument that it minimizes administrative costs and result in more efficient collection.

The past few years have witnessed greater emphasis than ever before on the need to improve or accelerate the Internally Generated Revenue by the three tiers of government in Nigeria (Federal, State and local Governments). The poor revenue accruing to government has created serious financial stress for all tiers of governments. The inflationary effects on the general price index has further increased the cost of service and infrastructure provided by the State Government against dwindling revenue and the aggregate effects of all these development has been the near-bankruptcy of most State Governments which leaves most of them living in abject poverty, every month after meeting salary payment marginally. Ministry, Departments and Agencies (MDAs) hardly get any fund allocation for even their petty operational costs while contractors are daily dragging the State Government to court or threatening to do so over unpaid bills for the job already executed. The question of initiating any meaningful capital project or even keeping the existing infrastructure properly maintained has virtually become history as no sensible contractor will take such obvious risk of financing State Government project with borrowed funds, when such Government hardly pay their Staff salaries regularly or even promising to pay half salary.

Studies conducted on States of the Federation, and Federal Capital Territory,

have argued in favour of the option of increasing accelerated Internally Generated Revenue of the participating State, while others have shown negative recommendation, for example the work of Salawudeen (1995), Kiabel and Nwakah (2009), Bamiduro (2002) and Kabiru and Sadiq (2014) among other Scholars found a significant positive difference between the amount of revenue collected by State Board of Internal Revenue Service (SBIRS) and those collected during partial outsourcing. Olabisi (2010) and Chukwuma (2015) found a negative differences on the engagement of the consultants, while Flavian (2013) and Fjeldstad, Katera and Ngalewa (2009) found no difference. The general objective of this study is to make a comparative analysis between outsourcing revenue base and Board of Internal Revenue Collections on Internally Generated Revenue (IGR) in Niger state.

The specific objectives are to:

i. Examine the difference between the amount of revenue collected by State Board of Internal Revenue Service and those collected by firms during period of partial outsourcing of IGR in Niger State

ii. Analyse the difference between the amount of revenue collected by State Board of Internal Revenue and those collected by firms during period of full outsourcing of some revenue base of the IGR in Niger State?

iii. Investigate the difference between the amount of revenue collected during period of full outsourcing and those collected during period of partial outsourcing of some revenue base by consulting firm on the IGR in Niger State?

HYPOTHESES:
The following hypothesis were formulated:

H_{O1}: There is no significant difference between the amount of revenue collected by State Board of Internal Revenue Service and those collected by the outsourcing firms during period of partial outsourcing of some revenue base on the IGR in Niger State

H_{O2}: There is no significant difference between the amount of revenue collected by State Board of Internal Revenue Service and those collected by the outsourcing firms during period of full outsourcing of some revenue base on the IGR in Niger State.

H_{o3}: There is no significant difference between the amount of revenue collected during period of full outsourcing and those collected during period of partial outsourcing of some revenue base by consulting firm on the IGR in Niger State.

REVIEW OF RELATED LITERATURE
Concept of Taxation

Dandago and Alabede (2001) described tax as a compulsory contribution made by individuals and organizations toward defraying the expenditure of the

Government. Olatunji (2001) is a system of imposing a compulsory levy on all income, goods, services and properties of individuals, partnership, trustee, executor and companies by the Government.

Concept of Outsourcing Revenue Collection/Base

Outsourced tax collection is commonly referred to as "tax farming which is understood as a system where in the right to collect certain taxes owed the state is auctioned off to the highest bidder (Stella, 1993). Outsourcing is an effective cost-saving strategy when used properly. Business dictionary define outsourcing as the contracting or sub-contracting of non-core activities to free up cash, personnel, time and facilities for activities in which a company holds competitive advantage. Companies having strength in other areas may contract out data processing, legal, manufacturing, marketing, payroll accounting, or other aspects of their business to concentrate on what they do best and thus, reduce average unit cost. The relevant cost and revenue in decisions relating to the operating of internal service departments or the use of external services are the differential cost between the two options, although a significant trend in the 1990s has been for companies and government bodies to concentrate on their core competences- what they are really good at (or set up to achieve) – and turn other functions over to specialist contractors (Adeniji 2014).

According to Bamiduro (2002) the implementation of Accelerated Revenue Generation programme (ARGP) using consultants in monitoring revenue generation and or work in collaboration with staff of internal revenue authority is described as partial outsourcing. Partial outsourcing involved activities of both internal revenue and revenue consultants in assessing, collecting and accounting for tax revenue.

The concept of ARGP (partial outsourcing) in revenue generation is synonymous with the involvement of consultants from private sector in generating and collecting revenue on behalf of government and is not usual to find Private Consultants being involved in a function seemingly cut out for the civil service and what is unusual is the phenomenal success re-corded by the program me (Salawudeen, 1995).

Concept of Full Outsourcing of Revenue Base

Full outsourcing of revenue collection according to Stella (1993) is where-ever the State passes on its obligation to collect taxes and levies to private firms in return for a fixed or ad-valorem fees credited to private firm as a reward, it generally implies lower administrative cost for the government by shifting the collection cost to private sector rather than utilizing government employee for the same purpose.

Theories of Outsourcing
Resource Based View (RBV)

According to Barney and Hesterly (1996), resources and capabilities can vary significantly across firms, and that these differences can be stable. If resources and capabilities of a firm are mixed and deployed in a proper way they can create competitive advantage for the firm. The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and resource organizing capabilities, shall seek for an external provider in order to overcome that weakness. Therefore the most prominent use of the theory is in the Preparation phase of the outsourcing process for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor. The theory has been also used to explain some of the key issues of the managing relationship and reconsideration phases.

Transaction Cost Theory

This theory postulates amongst other things, that organizations exist because of market inefficiencies. Because of inefficiencies in economic markets it is more efficient to organize activities in organizations. The normal coordination role of the price mechanism is missing when the market is inefficient or non-existing. If there is no external market you can organize that specific market activity within the organization and save transaction costs. The transaction is the object of study. This is interesting to think about outsourcing and the transactions that are involved when dealing with outsourcing. The cost elements of the transaction involve information costs, the costs of setting up the agreement as well as the costs of maintaining the contract (Coase, 1992).

Relational View Theory

According to McIvor (2005) relational view develops and explains how firms gain and sustain competitive advantage within inter-organizational relationships. The concept of relational rents has been explored to explain how firms choose their future outsourcing partners and preferred type of the relationship. It has been also utilized in studying the transition, managing relationship and reconsideration phases. This makes the relational view to be the most prominent theory that has been applied in the research of outsourcing processes.

Theory of Core Competences

Prahalad and Hamel (1990) hypothesized core competencies as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams technologies. The theory has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. Learning and communication

premises of the concept made it also applicable in the managing relationship and reconsideration phases. Vendor's competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Levina & Ross, 2003).

Agency Theory

Jensen and Meckling (1995) opined that the focus of the agency theory originally was on the relationship between managers and stakeholders but had spread over the time on explaining the relationship between two inter-firm subjects. In that context we associate the agency theory to understanding the relationship between outsourcer and vendor. Sources of the agency problem, moral hazards and adverse selection (Arrow, 1985) these should be resolved by monitoring and bonding (Barney & Hesterly, 1996). Consequently, the application of the theory in the outsourcing process research was in the preparation phase, when screening for vendors and defining its own attitude towards the type of the relationship. Naturally, the managing relationship phase has been also explored, and to a very small extent the reconsideration phase. Mponguliana (2005) stated that most taxation professionals agree that some broad principles or criteria for evaluation of a tax system are basic laws and regulations. On the other hand differ on the degree or weight of these criteria. This difference in most cases is on individual personal thinking and value judgment.

Empirical Review

Kiabel and Nwakah (2009) undertook a research titled Boosting Revenue Generation by State Government in Nigeria, the main objective of the study was to carry out the role of consultant in boosting revenue generation by state governments in Nigeria. The research adopted exploratory research method and personal discussion with some staff of the relevant tax authorities in Nigeria and the findings of the study revealed that consultants have impacted positively on Internally Generated revenue of the State Government in Nigeria

Fjeldstad, Katera and Ngalewa (2009) in their study on outsourcing revenue collection to private agents examined experiences with outsourced revenue collection of some local government authorities in Tanzania. Based on evidence from four urban and three rural councils using Ratio analysis, the study found that, outsourcing offers no quick-fix to increase local government revenue or to reduce tax administration problems. While collection has increased and become more predictable in some council which have outsourced revenue collection, others have experienced substantial problems with the corruption and exceptionally high profit margins for the private agents at the expense of

accomplishing a reasonable return to the respective local government authorities.

Flavian (2013) assessed the effects of outsourcing of revenue collection on organizational performance in Tanzania. The study utilized both primary and secondary data collected through the use of questionnaire, interview and documentary records. The data were analyzed using descriptive statistics. The findings of the study revealed that, outsourcing has led to improved organizational performance through increased revenue collection and reduction in operating cost.

Kabiru and Sadiq (2014) studied on the effects of service of tax consultants on tax revenue generation in Kogi State for five year period (2004-2008). The study utilized mainly secondary data compiled from Kogi State approved budgets, Board of Internal Revenue Service, using correlation coefficient as tool of analysis, in which the trends and ratio from the data analysis before, during and after the engagement of tax consultants show upward trends/increases in the Kogi State tax revenue for the five-year period, indicating a positive correlation of the services of tax consultants with tax revenue

METHODOLOGY

The study utilized time series data sourced from Niger State Board of Internal Revenue Service. The time series data were for a period of 15 years collected by choosing five-year period each (1989-1993) for pre partial outsourcing (SBIR collections) and (2003-2007) during partial outsourcing (ARGP) and 2010-2014 for full outsourcing. Longitudinal Survey research design was adopted for the study. The population of the study consists of the nineteen (19) revenue bases (Heads and Sub-heads) that are collectable by the State Board of Internal Revenue (SBIR) and other revenue generating agencies (RGA) which make up the sources that are contributing to IGR. All the revenue bases were used in the study. Archival method of data collection was adopted for the study and the source of data was mainly from secondary sources which includes annual revenue generation from outsourcing revenue bases and SBIR between 1989-2007 that is five years of pre-partial outsourced period (1989-1993), five years during partial outsourcing (2003-2007) Hence, the data include total annual SBIR collections and total revenue from outsourced revenue of the revenue bases during partial outsourcing.

In order to make a comparative analyses between partial and full outsourcing of revenue base and internally generated revenue in Niger State, Paired (Related) Sample t-test was used with the aid of Statistical package for social sciences (SPSS). The study measured and analysed the pre and post difference in partial and full outsourcing on internally generated revenue, revenue from partial and full outsourcing was use as proxy for total revenue generated during the periods of partial and full outsourcing, while internally generated revenue was proxied

by total revenue generated internally within the period. 5% level of significance was used for the purpose of analysis and test of hypothesis.

n = number of years

$D^2 = X_1-X_2$

D = Pre – Post

Model Specifications

$$t = \frac{\text{mean of difference}}{\frac{s}{\sqrt{n}}}$$

Where,

$$s = \sqrt{\left(\frac{\sum D^2 - (\sum D)^2/n}{n-1}\right)}$$

RESULTS AND DISCUSSION

Test of Normality for State Board of Internal Revenue Collections, Partial Outsourcing Revenue Base

Table 1 Tests of Normality

Kolmogorov-Smirnov[a]			Shapiro-Wilk		
Statistic	df	Sig.	Statistic	Df	Sig.
.220	5	.200[*]	.938	5	.654
.239	5	.200[*]	.868	5	.258

*. This is a lower bound of the true significance

Authors' Computation (2016) Using SPSS Version 20

a. Lilliefors Significance Correction
On the basis of the results above, W ranges from 0.868 and 0.938. This is an indication of normality, though the distribution may not have been perfectly normal.

State Board of Internal Revenue Collection and Partial Outsourcing of Revenue Base Hypothesis 1

Table 2: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Post	7.8559	5	0.6662	0.2979
	Pre	7.3336	5	0.7080	0.3166

Authors' Computation (2016) Using SPSS Version 20

Authors' Computation (2016) Using SPSS Version 20

Table 3: Paired Samples Test

		Paired Differences					T	Df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Post Pre	0.52224	0.09921	0.4437	0.39906	0.64542	11.771	4	.000

Sources: Authors' Computation (2016) Using SPSS Version 20

The mean value of Revenue Collected by State Board of Internal Revenue proxied by actual revenue collected and those collected during the period of partial outsourcing of revenue base, are 7.3336 and 7.8559 for Pre & Post outsourcing respectively. This indicates an increase of about 7% in revenue base during the period of partial outsourcing of revenue by the Board. This indicates that the Board was more effective in revenue generation during the partial outsourcing period considering the high revenue recorded in the annual reports. The standard deviation shows that the risk in revenue collection in the post SBIR decreases (given the standard deviation of 0.7080 to 0.6662 for pre and post SBIRC period respectively). The level of significance of 0.000 is less than the t-value of 0.05. Thus, we reject the Null hypothesis and accept the alternative hypothesis that there is significant difference between the amount of revenue collected by SBIR and those collected by the outsourcing firms during period of partial outsourcing of some revenue base on the IGR in Niger State which is in agreement with the findings of Salawudeen (1995), Bamiduro (2002), Kiabel and Nwokah (2009) and Kabiru and Sadiq (2014), who also found that, there is a significant positive difference between the amount of revenue collection by SBIR and those collected by outsourcing firms during period of partial outsourcing. State Board of Internal Revenue Collection and Full Outsourcing of Revenue Base (Hypothesis 2)

Table 4: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Post	8.9113	5	0.22573	1.0095
	Pre	7.3336	5	0.7080	0.3166

Authors' Computation (2016) Using SPSS Version 20

Table 5: Paired Samples Test

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Post Pre	1.57762	0.18168	0.08125	1.35203	1.80321	19.416	4	.000

Authors' Computation (2016) Using SPSS Version 20

The mean value of Revenue Collected by State Board of Internal Revenue proxy by actual revenue collected and those collected during the period of full outsourcing of revenue base, are 7.3336 and 8.9113 for Pre & Post outsourcing respectively. This indicates an increase of about 21% in revenue base during the period of full outsourcing of revenue by the Board. This indicates that the Board was more effective in revenue generation during the full outsourcing period considering the high revenue recorded in the annual reports. The standard deviation shows that the risk in revenue collection in the post SBIR increases (given the standard deviation of 0.7080 to 0.22573 for pre and post SBIRC period respectively). The level of significance of 0.000 is less than the t-value of 0.05. Thus, we reject the Null hypothesis and accept the alternative hypothesis that there is significant difference between the amount of revenue collected by SBIR and those collected by the outsourcing firms during period of full outsourcing of some revenue base on the IGR in Niger State. The results of the study is in agreement with the findings of Fjeldstad, Katera and Ngalewa (2009) and Flavian (2013)

Full Outsourcing of Revenue Base and Partial Outsourcing of Revenue Base Hypothesis 3

Table 6: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Post	8.9113	5	0.22573	1.0095
	Pre	7.8559	5	0.6662	0.02979

Authors' Computation (2016) Using SPSS Version 20

Table 7: Paired Samples Test

	Paired Differences					T	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Post Pre	1.05538	0.20586	0.09206	0.79977	11.31099	11.464	4	.000

Sources: Researcher's Computation, 2016 Using SPSS Version 20

The mean value of Revenue Collected during the period of partial and full outsourcing of revenue base proxy by actual revenue collected and those collected are 7.8559 and 8.9113 for Pre & Post outsourcing respectively. This indicates an increase of about 13% in revenue base during the period of full outsourcing of revenue by the Board. This indicates that the Board was more effective in revenue generation during the full outsourcing period considering the high revenue recorded in the annual reports. The standard deviation shows that the risk in revenue collection in the post partial outsourcing increases (given the standard deviation of 0.6662 to 0.22573 for pre and post partial outsourcing period respectively). The level of significance of 0.000 is less than the t-value of 0.05. Thus, we reject the Null hypothesis and accept the alternative hypothesis that there is significant difference between the amount of revenue collected by outsourcing firms during the period of full outsourcing and those collected by the outsourcing firms during period of partial outsourcing on the IGR in Niger State.

CONCLUSION AND RECOMMENDATIONS

The conclusion therefore is that, most of the revenue base which were partially and fully outsourced can be more effectively and efficiently handled by private firms because the trends of revenue generated shows an increase of 7% and 21 respectively during period of partial and full outsourcing over collections during periods when Board of Internal Revenue was collecting by itself from the same sources of tax.

The following recommendations is therefore made on the basis of the findings of the study.

1. That untapped revenue sources such as property tax, Hotel and Restaurant consumption tax among others, which are considered by Revenue Authorities to be problematic and/or costly to collect should be partially or fully outsourced.

2. More also that subsequent outsourcing initiative should not be done by the state executive council as Revenue Authorities are in best position to identify and initiate such exercises through identifying critical success factors (CSF) that require the input of experts and appropriately engage them at interval to improve or accelerate internally generated revenue.

3. That all Revenue Authorities should use SWOT Analysis in order to analyze the internal resources of the entity, and try to identify strong points and weak points of Revenue generation and also analyze the external environment, and try to identify opportunities and threats to Revenue Administration.

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