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Optimal Taxation In Africa: How Relevant Is Warren Buffet Model?

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ABSTRACT: Initially taxation was not a compulsory levy but a contribution for a common goal to be achieved but now it is a compulsory levy imposed on citizenry for the collective development of the country. Optimal taxation deals with variety of tax rates the government will employ and also what type of taxes should be imposed on the citizenry whether it is income tax or commodity tax. Apart from determining the tax rate by the government and the type of taxes, optimal taxation also deals with the trends of the tax system of the country. Base on the peculiar externalities of a developing continent which makes Warren Buffet model irrelevant in achieving optimal taxation in Africa. Such externalities are corruption, inflation "godfatherizm" .This study emphasized optimality in taxation in Africa through the reduction of tax rate, apart from tax incentive in the tax structures to mitigates tax evasion and tax avoidance. The methodology employed for this study is content analysis, explorative research study from relevant literatures For optimal taxation in Africa especially Nigeria been a developing country tax rate of 30% corporate tax is high, and 7% individual tax, 5% VAT or sales tax. To attract more foreign investors into the economy, Qatar tax rate should be adopted which have 10% tax rate on corporate tax, 0% on income tax which will have a positive effect on both formal and informal sectors of the country. With this system of tax rate small scale industry will be willing to pay their tax with hiding their asset for tax deductibility. 10% on corporate tax will boost more small scale industries and strengthens the profitability of large firms in Nigeria

Key Words: Taxation, Tax rates, Optimality in taxation in Africa, Warren Buffet model.

INTRODUCTION

Taxation is viewed as a compulsory levy imposed on people within a given location with the sole purpose of creating a continuous source of revenue to foster urgent development through the provision of physical and social infrastructure. It also deals with the compulsory levy on the people within a geographic location for the proper provision and maintenance of good governance and social and economic development (Uche 2014). The origin of taxation is the era of Adam and Eve was not a compulsory levy imposed on a group of people toward the achievement of a certain objective or development. Taxation during that time was a contribution of common goal to be achieve which there is no information asymmetry, and the people were contributing with trust and honesty. Taxation as today is opined by Raedy, Seidman & Shackelford (2011) as beyond the contribution of some group of people with a common purpose but a charge which they must pay unless it is a criminal and civil offence which is levied on the people or properties to yield revenue is now use for the benefit of the general public for the provision of basic social amenities and maintenance of governance. Taxes are imposed on personal income (consisting of salaries, business profits, interest income, dividends, royalties, etc.) it is levy imposed by the government that affect foreigners also residing in that particular county. Optimal taxation deals with variety of tax rates the government will employ and also what type of taxes should be imposed on the citizenry whether it is income tax or commodity tax. Apart from determining the tax rate by the government and the type of taxes, optimal taxation also deals with the trends of the tax system of the country. Its employs a set of models that captures on particular tax system which advice the government on the type or classes of tax for the tax authority based on the government needs for revenue and provision of infrastructures It is ideal to have an efficient revenue system in order to foster a robust and a sustainable social economic development. Models employed for optimal taxation for choosing which set of taxes to embark on to generate more revenue for the government also project the reaction to the set of taxes of individuals and organizations situated in that country. Also models predicts the satisfactory level or the displeasure level of the citizenry on the way they are taxed which enlightened the tax authorities to typically rule out lump sum taxes which have no or little effect economically. The choices of priority of the citizenry are diverse and also organization have some specific technology to employ to goods and organization also is not an island where those not interaction with other stakeholders. Optimal taxation deals with evaluation of various taxes and a means of reducing tax deductibility interest and easing out multiplicity of tax burden of the system created by the various tax authorities in Nigeria while raising more revenue for the government in provision of basic amenities. There are various models which dwells more on upright equity rather than the beneficial equity. Under the static model opined by Frank Ramsey states that to arrive at optimality of taxation, government while trying to raise revenue for sustaining the country in terms of providing basic amenities, they should not over tax, which reduces economic distortion. This model is unfair to the tax system in which focus on reducing tax rates to suit the citizenry by excluding taxes on their monthly income and also flat rate on goods and services. This model opined that uniform tax rate on commodity are hardly optimal because it assumes the perfectly elasticity of supply curves by shifting the effect on the final consumers. Apart from Ramsey model for optimal taxation, Corlett and Hague (1953) opined that to derive at optimality in taxation, demand and leisure play a vital role in the deriving of ideal tax rate for that various goods. Tax rate for commodities defers and to get the optimal tax rate, the goods should be classified either on complements to working or to leisure. The scholars opined that if it is for leisure the ideal tax rate should be high rather than if it is for working because leisure itself cannot be taxed. The demand for a particular goods does not influence the price of another different goods because their demands are unrelated. The static model encapsulate that tax deductibility rate should be oppositely proportional to the elasticity of their demand. This model is not convenience for the rich in Africa especially for the rich which the scholar opined higher tax rate on luxury commodities been purchase lavishly by the rich because setting high prices on luxury goods because huge price differences creates little economic distortions in the quantity demanded because of its inelasticity in nature. In Nigeria, people tends to purchase more of luxury goods because they want to belong to some certain class. The model is made to create optimality in taxation when the rich pay more taxes because it is assumed that poor income earners spend more on groceries, sales tax is been exempted from groceries in order to create an unbiased tax system. From the static model arriving at optimal taxation not only deal with the tax rates but the ideal design of income taxes, direct taxes on income from labor rather than focusing on capital or savings. The model is of two classifications which are the marginal and the demogrant tax rate. Under the marginal tax rate has a efficiency cost by distorting the labor supply decision in which government can generate revenue from tax deductibility and still redistribute income across the income groups which depends on the revenue the government intend to raise, the choice of the people for redistribution of income, the level of income influences the marginal tax rate. The nonlinear tax system reduces the economic distortions when the government is trying to raise revenue. The benefit of these marginal tax rate is that it foster the citizenry to work more without subjecting tax to additional income been earned. Designing optimal taxation in Nigeria, the tax authorities should look at how tax interact with the imperfections of the market especially external factor that can influence the ideal tax rate or ideal tax policies. Taxes deductibility on such externalities will help to control the imperfection of the market and inefficiency of the economy (Keen & Lockwood 2010). Taxes can be employed as a corrective measure to minimize the economic ineptitude caused by externalities. Such externalities like environmental pollution can be reduce when taxes are been imposed or any activities that is not environmental friendly to the community or country. The government can generate more revenue beyond taxing equity holders when they impose heavy taxes on activities that is causing pain to the society or those organizations that are polluting the environment. This optimal tax model can be employ to put sanity into the imperfections of the market caused by externalities in which the ideal tax balances the environmental and social damage embedded with social benefit of protecting present and future lives of the citizenry. Even though the government can employ the use of tax for corrective measure of the economic inefficiency, tax itself cannot be employ to totally eliminate these externalities (Moore, 2004). The value model looks beyond the market share but the company's value warren buffet believes in investing in business in which he is knowledgeable of its value beyond the fall or crash in the company's shares. In the investor makes a smart investment by investing on low price of shares sometimes of strong but not well known companies to make profits. The concept of value has evolved from focusing more on tangible The problem of this model is its relevancy which is questionable in even developing counties like Nigeria is that investors needs to patiently wait from the short fluctuation to the long time the investor will profit and reward from his investment. Due to the political inconsistencies and social economic instabilities investors do not trust the market to wait for so long to get their returns from their investments. Value investing makes an investors to capitalize on the power of compounding to foster their profits and though there is less violability in which the investor is not making stock purchase today to sell tomorrow but buys for long term returns, it still have an element of risk and it is not good for risk seekers investors who want to invest and make their profit. These kind of investors are common in developing countries like Nigeria who are solely in the market to make quick returns because they have less trust the economy or the capital market. These are cash-and carry investors who are not interested in the long term returns from their investment but quickly wants to make their money and go back to their country, they are not like risk adverse investors who can invest in short fluctuation in the stock price of good company and wait for long term returns. Both investors are exposed to the externalities of the developing country of inflation, instability of government policies, social cultural distortions.

STATEMENT OF THE PROBLEM

Taxation which is an important source of government generating additional revenue across the globe can be termed as compulsory levy on individual's income and companies' profit as well as goods and services. Payment of tax which is supposed to be a civic duty expected by taxable citizens and companies is been avoided and evaded. Sub optimality in the tax system have created gaps in the revenue generation through tax deductibility in developing country like Nigeria, despite the diverse tax reforms supported out by successive government to increase tax income over the years, prior statistical evidence has proven that the contribution of income taxes to the government's total income remained consistently low and is relatively decreasing (Alabede, Zainol & Kamil, 2011). Tax evasion is a cancer that eats up tax compliance globally due to sub optimality in the tax system and rates. Tax evasion is an illegal act punishable under the law in which individuals, or companies completely avoid the payment of tax by hiding his or tax records or distorting is records to reduce his or her tax deductibility. It is a failure of the tax payer to obey with the tax obligation by underreporting income in which reduces the deployment of revenue that the government will employ to advance in urgent areas of social and environmental development. Tax avoidance and evasion is not excluded in the developed countries, noncompliance of tax is prevalent not only in the developing countries but also in the developed worlds, Alm and Torgler (2006) and Chan, Chau and Leung (2013) opined that the US internal revenue service estimated a shortfall in their revenue due to the issue of noncompliance in the payment of tax deductibility of about 458 billion US dollars within one year. The HMC revenue and custom (HMRC) in United Kingdom also estimated a deficit of 36 billion and also the Chinese state administration of taxation estimated a shortfall of 19.8billion US dollars. Scholars in the developed country have investigated that about 15.39 billion were loss through noncompliance in tax payment in China. Over the years tax incentives is a common instrument used by emerging economies for a long time for providing tax solutions of low turnout of tax payers resulting in low tax base, inconsistency of tax laws, predictability of government policies, unstable political system, inequalities in the tax system, deficient balance between direct and indirect taxation, and inadequate links between the tax policy of the country and tax administration, fostering foreign direct investment and strengthening their gross domestic product of the country. It is a tool from tax reform strategy as a corrective instrument of the inefficiency in the tax system and achieving competitive tax rates (OECD, 2001). Tax environment in many developing countries differs in important ways from those in Europe and the US. In developing countries, taxpayers usually do not see paying taxes as a contribution towards building common public goods, but rather as a burden imposed on them by government (Asaminew, 2010). Moreover, tax authorities often show little trust in taxpayers and seem to believe that deterrent actions can solve all problems related to tax non-compliance. Therefore, taxation environments in developing countries often feature so-called "cops and robbers" relationships between taxpayers and the tax Asaminew, 2010). A study conducted by Sydney (2016) in Kenya revealed that some of the challenges facing tax compliance in Kenya is the cumbersome and complex tax system and codes which are not understood by the tax payers. This is evident with not only the uneven taxes, but also in the unfair taxes; a thin tax platform with significantly high tax rates, tax rate dispersion with respect of trade done by an entity and low compliance efforts by individuals. Additional challenges are in regards to the administration of the tax policies include treatment of human and financial capital in similar circumstances differently leaving a skewed system which favors those with the ability to defeat the tax enforcement and administration system. Nigeria economy is acknowledged as the largest in Africa with a Gross Domestic Product size of $510 billion (N81 trillion) as at 2013 (Bickerstech, 2016). Almost double the size of South African's economy, and Egyptian's economy, and 18 times the size of Ghanaian economy and Ivory Coast's economy. After its rebasing in April 2014, Nigeria GDP remained the largest in Africa with an estimated value of $510billion (Adeoti & Taiwo, 2015. Ogunride, 2016). Nevertheless, Nigeria has the least contribution of tax to GDP (6.1%) against 26.9%, 15.8%, 20.8%, 15.3% and 49% for South Africa, Egypt, Ghana, Ivory Coast and Zimbabwe respectively (Fowler, 2016). Further, the over 60% drop in oil price and over 80% decline in oil revenue in Nigeria have resulted in a steep fall in the country's earnings. With the economic downturn, tax administrators are challenged to optimality in taxation. Reduction of tax rates, provision of tax holidays, investment allowance, timing difference and tax credit have been inconclusively opined in the tax structure to reduce tax avoidance and evasion and to make taxpayers happy in the fulfillment of their civil responsibility (Holland, Vann, 1998).

LITERATURE REVIEW

Tax administration in Nigeria

An efficient tax system should be able to create a tax condition that will enable strong sustainability of economic development. Revenue system should not be only to generate revenue for the government but should create a condition for supporting a strong state and citizen relationship that underpins the government should upheld transparency of tax deductibility, revenue generated, and accountability for such funds which foster a rapid development of the country (OECD 2009: OECD, 2010). However the revenue system in underdeveloped and developing countries is below standard and does not encourage economic development due to mismanagement of revenue generated fostering negative attitudes towards payment of tax by evasion and avoidance. Tax evasion have been a major headache to tax administration and in order to curtain this cancer eating up revenue generation and foster tax compliance, the ministry of finance and Federal Inland Revenue services have made provision of Voluntary Asset and Income Declaration Scheme(VAIDS) which these opportunity is created to be capitalized by taxpayer to truthfully declare their hidden asset and income and be forgiven of their outstanding interest and penalties with the assurance that they will not face criminal charges or subjected to tax investigations. This have a significance influence by broadening the tax base by making tax evaders to voluntary declare their hidden income and assets which will elevate the country's GDP ratio from 6% to 27% like some other Africa countries like South Africa, Ghana (Aryeetey and Ahene, 2004; Oyedele 2009). The citizenry are happy with the provision of convenience asses to good and affordable health care and educational facilities that makes their citizenries more productive in learning and solving problems without thinking about what they will eat tomorrow or how will they fend for their families, they have social safety to encourage them to take more risk, be innovative in critical thinking (Braithwaite, 2007: Cottarelli, 2011, Eckardt & Schickinger, 2012), warren buffet model is only applicable in such developed countries and not in developing countries where there is little encouragement of labor innovativeness and mobility. Optimal taxation in developing countries goes beyond the Warren buffet model to emphasize that there should be a balance between users pay and efficient utilization of more revenue generated for the government towards developing and sustaining small and medium scale enterprises (Hausmann, Hialgo, Bustos, 2012) . In this study much emphasizes will be on the small and medium scale enterprise because there are the bed rock on any meaningful economic development of any country. In the value investing model been opined by Warren Buffet which is a distinct time free flow of cash model according to Rajaratnam et (2014) which takes care of the bond holders by first for any loss and makes provision for additional spreading of the payment of tax deductibility. This model supposed to take care of the structural credit risk model but looking at the nature of Nigeria which is a developing country the instability in the exchange rate is also one of the externalities that influences the structural credit risk model in which companies who mix their portfolio with debt may not be able to pay because of the fluctuation of the exchange rate. Credit spread model is only suitable for a stable economy where there are no fluctuation in the economy due to inflation. The risk of debt in a developing country is prone to higher bankruptcy cost in which the company heavily geared will not be able to pay back the interest from the debt due to inflationary trends. Company in Nigeria source for debt as a mixture to their capital structure in in order to boost their productive capacity and to have competitive edge without factoring there are in a country where the economic situation is not stable but to pay back the interest from those debt becomes a major issue which most times threatens their going concernfor those who are over geared, who have more debt than equity. Optimal taxation with the combination of debt of capital asset pricing model grapple with the easy computation of optimal capital structure because it is it does not capture the internal expression for corporate yields from debt, Merton structural form of model and Leland approach was opined to have some challenges of fostering bankruptcy risk of rising debt to achieve optimal capital structure, and it does not capture the under prediction of credit spread. Even though Warren buffet model captures credit spread but the stochastic elements of the prediction of credit spread from a developing countries like Nigeria which is distinct from other developing countries in Africa. Warren buffet model does not capture the prediction of externalities of the prediction of credit spread from Nigeria factors of economic and political uncertainties and inconsistences of regulatory and revenue policies. Themodel captures how under prediction of credit spreads affects optimal capital structure by compensating the bond holders for losses and creates additional spread on how the organization will pay their tax deductibility interest, the model does not capture the credit spread distortions that may arise from an under developed countries or developing countries like Nigeria. Such distortion also affect the sustainability of the organization day to day operations in making profit and paying off interest from debt which are volatility in the exchange rate, political system and the environment. a business cannot meet its debt obligation under a sudden unrest in the environment no matter the spread of credit risk because environmental unrest will distort those spreads and even threatens the going concern of such business (Uche, 2014). Spreading of credit risk is important in order to hedge bankruptcy but the stochastic element must be captured in order to also hedge economic distortion of the organization (Aiyagari, 1994; Peter, 1998). It is a long time strategy of hedging risk from debt interest, in which the company invest indifferent stocks, the problem with diversification is that if it is of the same class of asset or industry that the debt loan is been invested, the company will be more exposed to the same industrial risk which may be more volatile to some externalities like change of taste, technological trends, innovativeness the movement of uncorrelated assets is advisable to diversify investment to hedge volatility of portfolio because those diverse asset of different sectors is expected to show nonlinear relationship between their returns over the period of rime, one asset is expected to move inversely with the other classes of assets (Albanesi, 2006). In a developing country like Nigeria the long run imperfect correlation of diverse assets may properly hedge risk because of short term period of acute market, political and policy stress then to make those asset to suddenly correlate because of the element of risk they have. The death of diversification.

The concept of Value investing

The model looks beyond the market share but the company's value warren buffet believes in investing in business in which he is knowledgeable of its value beyond the fall or crash in the company's shares. The concept of value has evolved from focusing more on tangible asset In adopting any models, local political context need to be properly understood, the value investing which is established by Benjamin Graham and David Dodd the model have a high proponents of Warren Buffet stressing that buying cheap stock less than its intrinsic value Scholars have critic this model opining that growth stock is better preferred than value stock, growth stock looks at capital or stock appreciating, companies who have or show above average growth. Warren Buffet opined that that there is no theoretical difference between growth and value investing. In developing counties like Nigeria even though investors seeks growth at a reasonable price there is still a big difference in the area of taste of the investors. There are those who believe that anything that is of the high side is of high quality and have the capacity of lasting, while some people believe in showing off, that they have a stake in that company because the stock is of high price.

Theoretical review

The theory of optimal taxation provided a theoretical background for this study The theory of optimal taxation focus on maximizing societal welfare, tax system should focus on how the social welfare will be improved, equal provision of utilities by the social planner. According to Ramsey (1927) commodities that poses inelasticity should be imposed more tax than elastic goods in which not be imposed much tax due to the reactions of customers or consumers of that product, which will lead to the low demand of that goods and services. According to Wintrobe (2001), Okonkwo (2014) tax system should be based more on leisure goods because of its inelasticity in nature and elastic goods in nature should be granted some incentives which will boost the demand of that product or services. should be mandated that audit committee meetings should be at least thrice quarterly and discuss financial reporting quality with the external auditor because inactive audit committee are unlikely to monitor management effectively The goal of optimal taxation is to have a suitable and good tax system, according to Werning (2007) optimal taxation can only be achievable when the government does not only focus on taxing inelastic goods or is not only tax constraint on leisure goods but also consider tax scheme of income derived from other sources even gotten from non-economic personal traits, then the problem of optimal taxation will not lock like mission impossible.

Gaps to the study

Alinghan and Sandmo (1972), Onoja, and Iwarere opined that optimal taxation to reduce tax evasion is by the traditional model of penalties and tax audit. Scholars have opined on audit threat that may mitigate the traditional model of auditing which may be at short run or long run. Apart from threat, the traditional model is expensive, the misalignment of incentives in developing economies. They also opined that for tax audit to be effective, there must be incentives to foster monitoring processes and also to aid honesty of tax officials in the audit processes (Mookherjee, 1997, Purohit, 2007, Khan, Khwaja and Olken 2010). This study emphasized optimality in taxation in Africa through the reduction of tax rate, apart from tax incentive in the tax structures to mitigates tax evasion and tax avoidance. Gaining optimality in taxation in Nigeria, Ohaka and John (2015) researched on the operational constraints of tax structure in River State towards the informal sectors and opined that the main issue is the wideness of the informal sector and the bordering of the tax authorities' capacity. Their study opined that special training programs should be thoroughly be organized for tax authorities and districts engaged with the informal sectors, this study does not only talk about special training of the tax authorities in the informal sectors but also the formal sector in Nigeria and also incentives, reduction in the tax rates in Nigeria that will mitigate tax evasion and optimality in the tax system Aryee (2007) and Ohaka et al (2015) stated on how the tax base of both the informal and formal sector in a developing country by stating various tax which are vehicle income tax (VIT) on commercial vehicles and Tax stamp which is meant for generating income taxes for small traders, this results in multiple taxation. This study tends to mitigate multiple taxation in nigeria to reach optimality in tax system and to reduce tax evasion and tax avoidance. Izendomi (2010) alarmed the number of taxes among the three tiers of government amounting to 100 different taxes, charges, and in some cases taxed for the same event or asset which erupted by lack of harmonization of tax policies of local, state and federal government. Multiple taxation involved as a result of decrease in the revenue from the federation account that the State in the late 1980's did not have functional Board of internal revenue (BIR) which led to farming out tax administration to private consultants in such a manner of reviewing. For example business premises levy and development levy were charged on certain corporate bodies randomly without legal basis the rates and fees payable for different services which were too high According to Abiola (2012) stated that multiple form of taxation is a tiresome and confusing form of tax system which is an opposite of simple tax system. This form of tax system creates enormous work and opportunities for the tax consultants and tax advisers and embrace a busy type of tax administrations. Multiple taxation refers to various government agencies imposing two or more taxes on the tax base for example payment of value added tax (VAT) and sales tax simultaneously (Nihal & Mombert, 2011: Abiola, 2012). There is need to balance the gap between economic and compliance and also administrative cost of generating additional revenue for the government. (Carnahan, 2015) Balancing the economic cost or economic efficiency of different tax levied on its citizenry, the scholar opined that the degree or the reaction of the people to tax changes, the less tax changes the way people behave the more economical effective it is and the less tax evasion will occur.

Optimal Tax rates of countries that attract foreign Zinvestors

Country	Corporate tax	Individual	VAT or Sales tax
Qatar	10%	0%	0% (0% on
Omah	15%	0%	5%
Brunei	20%	0%	0%
Saudi Arabia	20%	0% (foreigners) Zakat 2.5% on capital assets (natives)	20% or 8% or 0% (reduced rates are for certain goods)
American Samoa	15-44%	4%	6%
Paraguay	10%	8%	10%
Macedonia	10%	10% (flat rate)	18% or 5%
Isle of Man	0-10%	10%	20%, 5% on home renovations

Source: *Researcher's study 2018*

Recommendations

For optimal taxation in Africa especially Nigeria been a developing country tax rate of 30% corporate tax is high, and 7% individual tax, 5% VAT or sales tax. To attract more foreign investors into the economy, Qatar tax rate should be adopted which have 10% tax rate on corporate tax, 0% on income tax which will have a positive effect on both formal and informal sectors of the country. With this system of tax rate small scale industry will be willing to pay their tax with hiding their asset for tax deductibility. 10% on corporate tax will boost more small scale industries and strengthens the profitability of large firms in Nigeria. Also Qatar's 0% on Value added tax (VAT) compare to Nigeria's 5% VAT places decrease in the economic strain on lower income taxpayers and also lessen to the bureaucratic burdens for businesses. Omah tax system is suitable to attract foreign investors into the economy in which their corporate tax is 15% and income tax is 0% while their VAT is the same with Nigeria's VAT rate of 5%. With the reduction of corporate tax rate, this will have a positive significant effect on small and medium scale industry which are germane of any serious government. The conducive business environment through the country's tax policy will strengthens small scale businesses to grow the economy and increase tax based Bruneicorporate tax rate is 20% which is 10% lower than the Nigeria corporate tax rate. With the motive of supporting small scale business, reduction in the corporate tax rate boost the going concern of both formal and informal sector of corporations.in which profits made will not be eroded through paying of tax. The less tax changes the way people behave, the more economical effective it is and the less tax evasion will occur. Reduction in tax will aid the new enacted sheme of voluntary Asset declaration scheme (VAIDS) in which tax files of the company asset secretly kept with the intention of underpaying tax deductibility will be voluntary given to the tax authority for tax audit .Conductive tax rates attract foreign investors in which the country tax deductibility will not erode the profitability. The tax system of Brunei individual tax and VAT is 0%, lesser tax payment is also a good tax structure to control profit erosion from Nigeria to other countries that are paying lesser corporate tax, VAT and individual tax rate instead of the flat rate of 30% opined in the research work of Rajaratnam et al (2016) Optimal marginal tax rate should depends on the distribution of ability Tax system should impose higher tax rate on those who earn higher income in Nigeria like our senators and not those who earn low incomes because taxing the rich or high earned income does not raise their marginal tax rates but their average tax rate. The tax regime should be advice to consider the paying ability of the various citizenry to create a balance between efficiency and unbiased marginal tax rate schedules.

The optimal extent of redistribution rises with wage inequality

In a developing country like Nigeria there are economic inequalities as there are more widening gap in the distribution of ability to pay tax deductibility. The rich are getting richer and the middle class system is fading off. Optimality is gotten when the excess from the rich is been given to the poor citizens through high taxes instead of the rich venturing on lavish and wasteful projects.

Optimal tax should be based on personal characteristics as well as income

There should be fostering of gathering of information of the citizenry ability to pay, it should not be solely based on the present income individuals earns but also the indictor of his or her income earning potentials in his income. Gathering the potentials of income earning like the number of degrees, age, color and IQ and personal characters will foster the income based system of taxation.This will also help to provide support to those who are vulnerable to poverty, the demographic groups of the disabled and the elderly in Nigeria.

Optimality in taxation by not taxing capital income
Capital income should not be tax because it is a tax for the future consumption, it is a tax on the future output on production which is a tax on the old capital and a continuous imposing tax on future consumption. The rule of the thumb is that less tax on a broader tax base reduces distortions

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Appendix

PART 1
Taxes to be collected by the Federal Government
1. Companies income tax
2. Withholding tax on companies, residents of the Federal Capital Territory, Abuja and non-resident individuals
3. Petroleum profits tax
4. Value added tax
5. Education tax
6. Capital gains tax on residents of the federal capital territory, Abuja, bodies corporate and non resident individuals
7. Stamp duties on bodies corporate and residents of the federal capital territory Abuja.
8. Personal income tax in respect of –
   a) Members of the armed forces of the federation
   b) Members of the Nigeria police force
   c) Residents of the federal capital territory, Abuja and
   d) Staff of the ministry of foreign affairs and non-resident individuals.

PART II
Taxes and levies to be collected by the State Government
1. Personal income tax in respect of—
   a) Pay-as-you-earn (PAYE); and
   b) Direct taxation (self-assessment)
2. Withholding tax (individuals only)
3. Capital gains tax (individuals only)
4. Stamp duties on instruments executed by individuals
5. Pools betting and lotteries, gaming and casino taxes
6. Road taxes
7. Business premises registration fee in respect of-
   a) Urban areas as defined by each state, maximum of –
      I. ₦10,000 for registration and
      II. ₦5,000 per annum for renewal of registration; and
   b) Rural areas –
      I. ₦2000 for registration and
      II. ₦1000 per annum for renewal of registration.
8. Development levy (individuals only) not more than ₦100 per annum on all taxable individuals.
9. Naming of street registration fees in state capital
10. Right of occupancy fees on land owned by the State Government in urban areas of the state.
11. Market taxes and levies where state finance is involved.

PART III
Taxes and levies to be collected by the local government.
1. Shops and, kiosks rates.
2. Tenement rates
3. On and off liquor licence fees.
4. Slaughter slab fees
5. Marriage, birth and death registration fees
6. Naming of street registration fee, excluding any street in the state capital.
7. Right of occupancy fees on lands in rural areas, excluding those collectable by the federal and state government.
8. Market taxes and levies excluding any market where state finance is involved
9. Motor park levies
10. Domestic animal licence fees
11. Bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanically propelled truck
12. Cattle tax payable by cattle farmers only
13. Merriment and road closure levy
14. Radio and television licence fees (other than radio and television transmitter)
15. Vehicles radio licence fees (to be imposed by the local government of the state in which the car is registered).
16. Wrong parking charges
17. Public convenience, sewage and refuse disposal fees
18. Customary burial ground permit fees
19. Religious places establishment permit fees
20. Signboard and advertisement permit fees.

AUTHORS PROFILE

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