

EXCISE TAXATION IN NIGERIA

By

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grateful to: The Management of the Nigerian Tobacco Company Ltd.; the Management of the East African Portland Cement Co. Ltd.; Messrs E. S. Ibi of the Federal Ministry of Finance; K. A. Adewumi, Ibadan;

A C K N O W L E D G E M E N T S

Excise taxation is an aspect of Nigeria's mode of taxation which has remained largely neglected in academic circles in spite of its importance as the second largest source of Federal Government revenue, and its usefulness as instrument of Economic Policy.

This study is primarily intended to examine the use to which excise taxation has been put in Nigeria and how effectively it could be said to have performed the task. The work cannot be said to have exhausted all that has to be known about Nigeria's excise taxation - in fact no such claim is made - but it is hoped it would furnish a good insight into this mode of taxation in Nigeria and provide a useful base for further study.

The problems of a private researcher are too well known - suspicious and unco-operative respondents, and difficulties of getting at vital official records. These problems are particularly serious when it has to do with the touchy topic of 'tax'.

It is in the light of these that we are particularly

grateful to: The Management of the Nigerian Tobacco Company Ltd.; the Management of the West African Portland Cement Co. Ltd.; Messrs C. O. Ibie of the Federal Ministry of Finance; K. Akpanah, Chief Collector of Excise, Apapa; F. E. Imokhai; A. Akinyele; and Anene, all of the Department of Customs and Excise; and the entire staff of the Headquarters office of the Department of Customs and Excise for the valuable assistance they have rendered.

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January, 1970.

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The increasing use of excise taxation has been caused and/or aided by: (1) the adverse trend in the country's balance of payments which necessitated the taking of various

S Y N O P S I S

It is now widely accepted that the composition of government revenue in most developing countries undergo a steady structural change from major reliance on taxation of foreign trade to taxation of domestic variables as industrialisation progresses. This steady change-over has been particularly noticeable in Nigeria in respect of excise taxation whose revenue importance has increased significantly since 1964.

From 1939, when excise taxation was introduced, till 1964, this tax was only modestly and cautiously used. But since 1964, there has been an increasing use of excise taxation. It could be argued that given the stage of industrialisation Nigeria has reached and the fact that most of the factories are still likely to be high cost factories which owe their continued existence to tariff protection, such increasing use of excise taxation would appear inconsistent with the policy of encouraging local industries by enlarging the market for their products. In actual fact, there is no such contradiction as care is taken to see that local industries will have comparative advantage on the local market.

The elasticity of excise revenue in relation to the National Income is higher than unity, and it has displayed a higher

The increasing use of excise taxation has been caused largely to the fact that commodities subjected to excise exhibit and/or aided by: (1) the adverse trend in the country's characteristics of low price elasticity of demand and/or high balance of payments which necessitated the taking of various income elasticity of demand. measures to restrict importation of consumer goods so as to release enough foreign exchange for the acquisition of capital goods and, of course, the prosecution of the civil war in the country; (2) the inflationary pressure in the economy caused largely by the mode of financing government expenditure, and retained in the economy by the closure of the outlet valve of importation; and (3) the need to encourage and/or force internal savings for industrial development.

Thus, the use of excise taxation in Nigeria has been geared principally towards raising revenue for the Federal Government both to supplement revenue from other sources and to compensate for loss of import revenue which results from import restrictions. In addition, it has been used, as part of a package deal, to restrain private consumption and thus encourage private savings or withdraw consuming power from private into public hands. Furthermore, excise taxation has been employed as one of the devices for controlling inflationary pressure in the country.

A considerable measure of success has been achieved with respect to raising high and increasing revenue from excise tax.

The elasticity of excise revenue in relation to the National Income is higher than unity, and it has displayed a higher

elasticity than revenue from any other tax source. This is due largely to the fact that commodities subjected to excise exhibit characteristics of low price elasticity of demand and/or high savings and their investment seem to be influenced more by the income elasticity of demand.

The remarkable revenue performance of excise taxation owes very much to the excise revenue yield of four 'core' commodities viz: cigarettes, beer, motor spirits, and diesel which contributed more than 50% of total excise revenue. Demand for and production of these commodities have consistently increased in spite of the relatively high excise duties imposed on them.

In another respect, the revenue objective has been achieved. Thus, excise revenue from individual excisable commodity has been sufficient to compensate fully for fall in import revenue from such commodity. This has been aided largely by the fact that (1) with the exception of a few commodities, excise duty is not levied on any commodity until local production forms a substantial proportion of total supply; (2) local production of excisable commodities, armed with the threat of laying off their work, occasionally successfully stand in the way of tariff protection and in spite of increases in excise duties on some commodities. However, increases in total excise revenue has not been compensating fully for reductions in total import revenue simply because the coverage of excise is much less than the coverage of commodities subjected to import duties.

A relatively lower degree of success seems to have been achieved with respect to the other objectives. Thus, private savings and their investment seem to be influenced more by the social norm and acquisitive instinct of the people than by excise duties. By the same reason, excise has been an effective means of syphoning funds from private into public hands.

Also, the monetary and expenditure policies of the government would appear to be more effective as a means of dampening demand and thus repressing inflationary pressure. In particular, the modes of excise levy adopted (flat rates and ad valorem rates based on manufacturer's ex-factory price) are inadequate to perform the task of inflationary control effectively. A system of retail-price-based ad valorem levies would perform the task much better.

Certain factors still inhibit the use, or detract from the performance of excise tax in Nigeria. Thus, manufacturers of excisable commodities, armed with the threat of laying off their workers, occasionally successfully stand in the way of government's use of excise. Also, the modes of levy, and the administrative strategy of excise control adopted give room for dishonest practices on the part of manufacturers and collusion with tax officials to make evasion and avoidance possible.

Furthermore, excise tax is administered merely as an adjunct to the customs business of the Board of Customs and

Excise and the staff strength devoted to excise business in not being adjusted to meet the increasing scope of excise work. This makes it difficult to institute a really effective system of excise control. These shortcomings make Nigeria's excise a tax of bigness and honesty and would tend to make it difficult to use excise effectively as an instrument of economic policy unless they are removed.

In this work, the following words or expressions shall be used within the context given below:

Excise duty (tax) shall mean 'any duty other than an export duty of customs imposed on any goods manufactured in Nigeria';

Excisable good shall mean 'good of a description which is manufactured in Nigeria and is delivered for consumption in Nigeria';

Drawback shall mean 'refund of all or part of any excise duty in respect of excisable goods delivered to people or for purpose the law approves for payment of concessionary rate of duty (which might be nil)'; and

Incidence shall merely mean 'the resting point of the financial burden of the tax'.

Reference to India. (London: George Allen and Unwin Ltd., 1960), p.85. See also Douglas Posner; "Indirect Taxation and Economic development", Government Finance and Economic Development, (Papers and proceedings of the third study conference on problems of economic development organized by the organisation for Economic Co-operation and development, 1965) pp.127-139.

CHAPTER 1

INTRODUCTION

"It is common knowledge that indirect taxes play a very important role, in the finances of underdeveloped countries".¹ Explanations for this usually go thus: that indirect taxes give much less room for evasion and raise much less administrative difficulties than direct taxes and that since technical know-how in tax administration is low in underdeveloped countries, it is inevitable that great reliance must necessarily be placed on indirect taxes.

It is also usually argued that because of certain features of the underdeveloped countries - low level of income, high propensity to consume, incomplete exposure to monetary economy, and social and political limitations on the use of direct taxes - indirect taxes provide a better basis on which revenue can be raised in underdeveloped countries.

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1. Raja J. Chelliah, Fiscal Policy in Underdeveloped Countries with Special Reference to India. (London: George Allen and Unwin Ltd., 1960), p.85. See also Douglas Dosser; "Indirect Taxation and Economic development", Government Finance and Economic Development, (Papers and proceedings of the third study conference on problems of economic development organised by the organisation for Economic Co-operation and development, 1965) pp.127-139.

Import and export duties are usually the most prominent indirect tax measures used in underdeveloped countries while excise plays a relatively minor role. This is because of the characteristic openness of the economies, the low level of industrial sectors of many underdeveloped economies.

Development programmes of underdeveloped countries are usually geared largely towards increasing the pace of industrialisation to diversify the economy and make it less vulnerable to the vagaries of international trade. Thus industrial policies are geared, at the initial stages, towards the encouragement of import substitution industries.

The effect of such industrial policy is to cut down seriously on import and consequently reduce a major source of government revenue in underdeveloped countries. "As domestic production of goods previously reached by customs increases, some use of excises becomes desirable if the same pattern of tax burden is to be retained"¹ and if government revenue is not to fall too drastically.

The effect of excise taxation on the economy is, however, much more far-reaching than the effects of import taxes. Excise tax is a tax on local production and therefore its use is bound to affect cost and consequently price and volume of production as well as the pattern of investment.

1. J. F. Due, Taxation and Economic Development, (Massachusetts: M.I.T. Press, 1963) pp.158-159.

More importantly, the levying of excise duty on new industries which at the early states of industrialisation owe their existence to high tariff protection might, ceteris paribus, appear inconsistent with a policy geared towards encouragement of local industries.

Furthermore, the administration of excise tax is much more complex than the administration of customs duties. The proliferation and geographical dispersion of excise factories which result with increasing use of excise taxation would tend to make management of excise relatively more demanding than customs. And in some cases, the administrative challenges posed by excise control are identical, to, but only probably less problematic than those posed by direct tax administration. Thus the use of excise taxation in an underdeveloped country calls for caution - proper timing, appropriate selection of commodities on which excise duty will be imposed - , and adequate administrative preparedness.

Government Revenue structure in Nigeria

The Federal Government of Nigeria derives its revenue, from five principal sources - Import duties, Export duties, Excise duties, mining, and direct taxes (i.e. personal and company income taxes). As can be seen from Table 1.1, up till 1966/67 financial year, direct taxes had contributed less than 10% of the total annual revenue in any year. This percentage only rose to 14.7% in the year 1967/68. This shows that

T A B L E 1.1

REVENUE COLLECTED BY THE
FEDERAL GOVERNMENT REVENUE FROM MAJOR SOURCES
(for years ending 31st March 1957 to 1968)

Amount - £million % - of total revenue

YEAR		IMPORT	EXCISE	EXPORT	DIRECT TAXES	MINING†	OTHERS*	TOTAL
1957	Amount	33.2	4.3	13.2	6.6	1.6	11.7	70.6
	%	47.0	6.0	18.7	9.3	2.3	16.7	100
1958	Amount	34.5	4.3	12.7	6.7	1.2	11.5	70.9
	%	48.5	5.9	17.9	9.5	1.7	16.5	100
1959	Amount	35.2	4.4	16.2	6.7	0.9	13.9	77.3
	%	45.5	5.7	20.5	8.7	1.2	18.4	100
1960	Amount	41.2	5.1	16.7	6.3	1.9	17.7	88.9
	%	46.3	5.7	17.9	7.1	2.1	20.9	100
1961	Amount	54.8	5.7	14.6	7.7	2.3	26.7	111.8
	%	49.0	5.1	13.1	6.9	2.1	23.8	100
1962	Amount	57.0	6.4	13.1	8.7	9.9	21.4	114.5
	%	49.8	5.6	11.4	7.6	8.6	17.0	100
1963	Amount	60.8	7.1	11.4	7.6	9.8	19.1	115.8
	%	52.5	6.1	9.8	6.6	8.5	16.5	100
1964	Amount	63.4	9.8	14.2	7.4	6.5	23.3	124.6
	%	50.5	7.8	11.3	5.9	5.2	19.3	100
1965	Amount	83.4	13.6	14.4	8.2	10.3	19.7	149.6
	%	57.1	9.1	9.6	5.5	6.9	11.8	100
1966	Amount	74.9	21.5	15.9	11.8	15.6	21.2	160.9
	%	46.6	13.7	9.9	7.3	9.7	12.8	100
1967	Amount	54.5	36.0	14.0	16.0	18.4	30.7	169.6
	%	32.1	21.2	8.3	9.4	10.8	18.2	100
1968	Amount	53.3	24.8	14.9	22.1	17.0	18.0	150.1
	%	35.5	16.5	9.9	14.7	11.3	12.0	100

+ Includes Mining royalties, licences, fees and penalties.

* Includes: Post and Telegraphs, Interest and repayments and Miscellaneous.

Sources: (1) Accountant General of the Federation reports for the respective years from 1956/57 to 1966/67.

(2) Government Notice 1,392; Federal Official Gazette, No.73, Vol.55 of 1968.

Nigeria has always relied, to a considerable extent on indirect taxes.

CHART 1

Of the indirect tax sources, import, export and excise duties provided, up till 1965/66, more than 66.7% of total annual revenue. This percentage fell to 61.6% and 58% in fiscal years 1966/67 and 1967/68 respectively. The relative contribution of each of these changed over the years. Revenue from import duties has always been higher absolutely and relatively, than revenue from any other single source. The contribution made by import duties rose steadily from £33.2 million (i.e. 57.1% of total revenue) in 1964/65. Since then, it has been falling steadily and in 1967/68, import duties yielded £53.3 million (i.e. 31.6% of total revenue for that year).

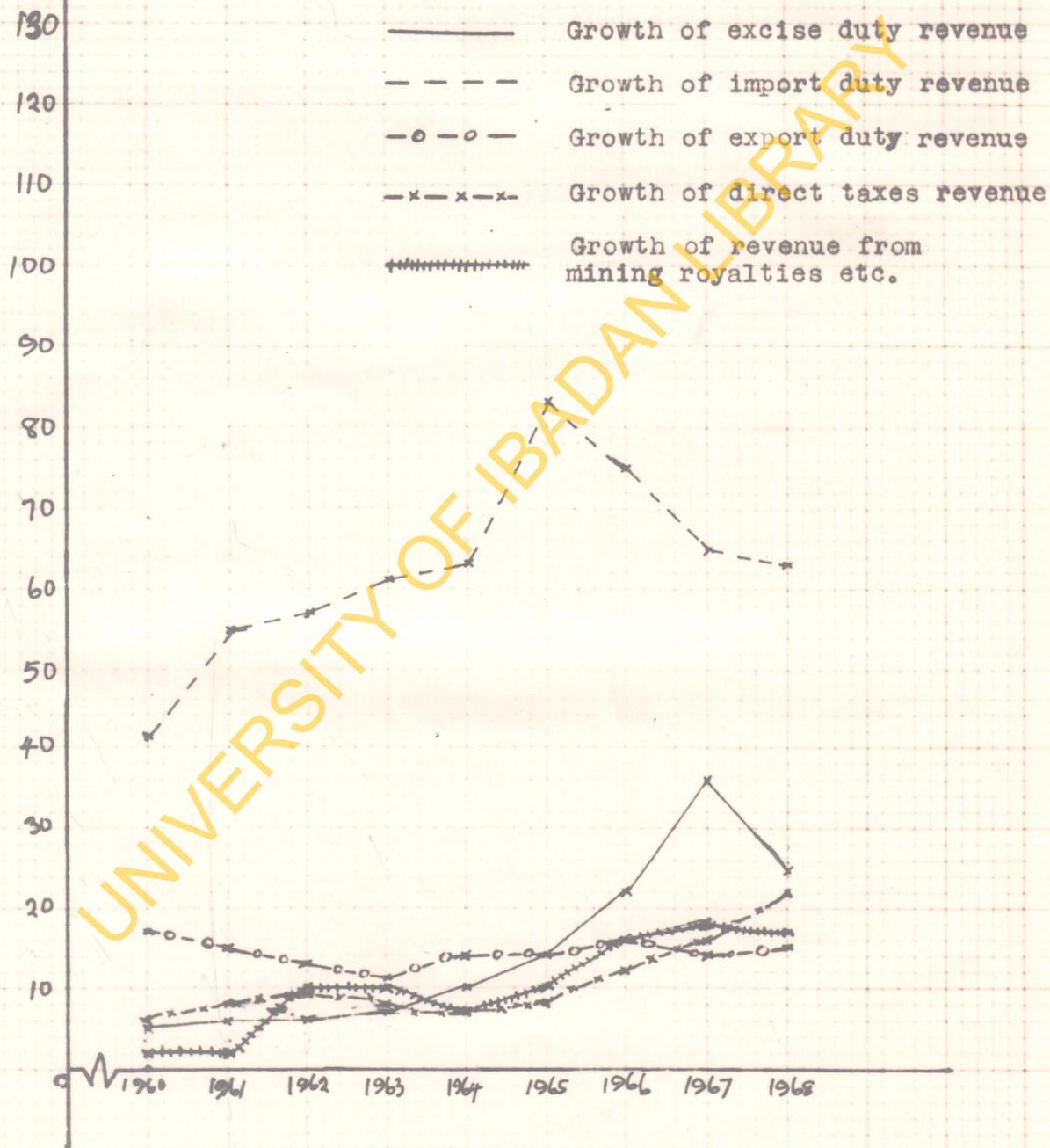
On the other hand, excise revenue has been rising steadily, absolutely and relatively. For example, in 1956/57 excise duty yielded £4.3 million (i.e. 6% of total revenue). This rose steadily to £13.6 million (i.e. 9.1%) in 1964/65 and £21.5 million (i.e. 21.2%) in 1965/66 and 1966/67 respectively. Thus except for two years (1960/61 and 1961/62) when excise made the fifth largest contribution, it had, up till 1962/63, actually made the fourth largest contribution. In 1963/64, excise made the third largest contribution and since 1964/65 it has consistently remained the second largest source of government revenue. (See Chart 1)

Thus, it is evident that excise revenue has tended to

CHART 1.

ANNUAL GROWTH OF FEDERAL GOVERNMENT REVENUE

FROM MAJOR SOURCES. 1959/60 - 1967/68.



increase at a much faster rate than revenue from other sources. And this rate of increase had tended to be remarkably high since 1963/64. The trend, at least, seems to indicate an increasing use of excise by the government.

Unfortunately, not much writing or detailed study has been done of this very important and up-coming fiscal tool with respect to Nigeria. Furthermore, most of those who have written about it have not gone more than what amounts to stating that beer, tobacco and soft drinks were subject to excise tax in Nigeria.¹

J. F. Due went a little further by pointing out that the 1960 excise on 'Candy' (confectioneries) and soap had failed.²

Adebayo Adedeji in his very recent book³ devoted about two pages to the discussion of excise taxation in Nigeria. In it, he compared the rates of increase in excise revenue between 1959/60 and 1965/66 and also compared the coverage of excise in 1958 with the coverage in 1965. He further, very briefly, stated what he considered the advantages and disadvantages of what he called "The present system of individual excises" and concluded that the system be changed to what he called "a broad-based

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1. See for example P.C.N. Okigbo; Nigerian Public Finance, (London, Longmans, Green and Co. Ltd., 1965) p.205. see also, International Bank for Reconstruction and Development, The Economic Development of Nigeria; (Baltimore: The John Hopkins Press, 1955) p.113.
 2. J. F. Due: op.cit
 3. Adebayo Adedeji, Nigerian Federal Finance, (London: Hutchinson Educational Ltd., 1969) pp.177-179.

indirect tax". Adedeji gave, as examples of his broad-based indirect tax, "a general sales tax or a value - added tax confined to the manufacturing level"¹. However, while his contribution is definitely more stimulating than anyone made before him, it cannot be said to be nearly sufficiently educative about excise taxation in Nigeria.

Aim, objective, and scope of dissertation

We have chosen as our topic for this research,

"EXCISE TAXATION IN NIGERIA"

Our aim is to examine what roles excise taxation has been made to play and how effectively it could be said to play such roles in the circumstances in Nigeria. To help put Nigeria's excise in its proper perspective we shall also examine the evolution of the tax in Nigeria and how adequate the administrative machinery for excise control is to meet the increasing scope of excise work in Nigeria and suggest reforms if necessary.

1. In our opinion, Adedeji's first suggested system of "a general sales tax confined to the manufacturing level" does not mean more than broadening the coverage, under the existing system, to include all commodities manufactured in Nigeria! Also the premise on which he thinks his second suggested system of a value added tax would be "better" than the existing system becomes unclear in light of his earlier observation that there are manufacturers who do not maintain adequate records or who may be reluctant to reveal gross revenue and/or value added. One gets an impression that, in making this suggestion, he was influenced more by the fact that the system exists in some "other countries" than by any other reason.

It is hoped that apart from being useful for the government,

These we are setting out in six chapters:

Chapter 1 is the introduction.

Chapter II deals with evolution of excise taxation in Nigeria.

It examines through the changes in excise laws, coverage and rates, the changes, over time, in government's use of excise in Nigeria.

Chapter III examines the administrative machinery with respect

to the Administrative organization, strategy of control and deployment of technical staff. It further examines the loop-

holes there are for evasion and avoidance and ends with some suggestions for reform. Chapters IV and V deal with issues of

theory, policy and performance of excise in Nigeria. In the

theoretical issues we try to stipulate conditions necessary for

excise to achieve certain economic policy goals. Then we try

to establish what roles excise could be said to have been

intended to play in Nigeria and how far excise has been successful in attaining the goals.

Chapter VI makes a brief summary of our conclusions and recommendations.

It must be stated, however, that this work does not, in any deliberate fashion, attempt to examine how equitable the tax is, the placing of the incidence of the tax and whether or not it is better or worse than any other type of tax.

It is hoped that apart from being useful for the government, it comprises of officials of the Ministries of Finance, Trade, and Economic Development and of the Board of Customs and Excise. Minutes of the committee's meetings, we were informed, are not kept.

this work would provide a useful basis on which further studies of excise taxation in Nigeria could be based.

Sources

Apart from Library research, we have had to rely, to a considerable extent, on government sources for our information and data. Thus we have relied on the Federal Official Gazettes for details of changes in excise laws and rates. Also, from various publications of the Central Bank of Nigeria, the Board of Customs and Excise, the Federal Office of Statistics, and the Ministry of Industries, as well as reports of the Accountant General, and some records of the Board of Customs and Excise we have extracted most of the data we have used.

Issues relating to excise are very much shrouded in official secrecy. Thus important issues of policy are either not recorded (for fear of leakage) or tucked away in strictly "confidential" files which, unfortunately, were not put liberally at our disposal. We have therefore had to rely, largely, on discussions with top officials of the Ministry of Finance and of the Board of Customs and Excise for information on policy issues. (We were particularly lucky to succeed in having an interview with the secretary of the National Tariff Committee¹ who has also had excise on his official schedule for over four years). In addition, we have

1. The National Tariff Committee is responsible for formulating both Customs and Excise Tariff policies of the government. It comprises of officials of the Ministries of Finance, Trade, and Economic Development and of the Board of Customs and Excise. Minutes of the committee's meetings, we were informed, are not kept.

made use of official publications and our own deductions to establish policy issues.

For the five months during which we conducted our field research, we made the Headquarters Office of the Board of Customs and Excise our base. This gave us much opportunity of seeing the working of the administration - "from inside". It afforded us the opportunity of chatting, regularly, with various officials of varying years of experience in the technical aspects of Customs and Excise administration, with a view to understanding what problems are encountered in excise control.

Furthermore, we sent questionnaires¹ to 100 excise factories. The questionnaire was designed to help establish how much the excise duty levied on their products has affected their profit and turnover. Unfortunately, the response from this source was rather poor. Only 16 replied to our questionnaire. And of these, only 3 gave some of the information we asked for. Others merely regretted they were not prepared to give the information asked for.

Unfortunately, a follow-up with personal visits to some of the factories, after we saw the response to the questionnaire was poor, did not prove useful. Some manufacturers claimed that they give information about excise only to government functionaries who are officially entitled to ask for them.

1. See Appendix

Others were suspicious¹, apparently on the ground that we might eventually take up appointment with the Board of Customs and Excise and probably use any information given against them. Moreover, in spite of assurances given that the information asked for were absolutely for research purposes, some thought they could play into the hands of their competitors should they supply the information asked for.

-
1. In fact, one manufacturer offered to employ us on a Lecturer's salary if we would give up the research and join his staff.

(a) Introducing another type of tax

The first excise law, "Ordinance to Impose Duties of Excise on Tobacco and Cigarettes" was passed in 1933. That law

CHAPTER 2EVOLUTION OF EXCISE TAXATION IN NIGERIA

Excise taxation is now the second most important source of government revenue in Nigeria (second only to import duties). Although it has only recently become so important, its history in fact dates back into the nineteen-thirties.

Stages in the development of Excise taxation in Nigeria

Since it was first introduced in 1933, three stages of evolution can be noticed in the development of excise taxation.

(a) The first stage which lasted from 1933 to 1955 marked the introduction and treatment of excise taxation as just another source of government revenue.

(b) The second stage, starting from 1957 and ending in 1963, marked renewed thinking in government circles about the administration of, and the possibility of a change in revenue pattern of the government to put more emphasis on excise taxation.

(c) The third stage, which started since 1964, marks a steadily increasing use of excise taxation by the government both for revenue purposes and as a tool of achieving other economic objectives.

(a) Introducing another type of tax

The first excise law, "Ordinance to Impose Duties of Excise on Tobacco and Cigarettes"¹ was passed in 1933. That law empowered the Governor to levy and collect excise duties on tobacco by Order in Council, signified by resolution. Management of Excise was placed under the Comptroller of Customs (who was a member of the Council) and any officer of Customs was empowered, if so directed by the Comptroller, to enforce compliance with the Ordinance². The law prescribed licence requirement for the manufacture of cigarettes or tobacco and records to be kept relating to quality and quantity of cigarettes and tobacco manufactured³. Tobacco made in the native fashion without the use of machinery was exempted from duty.

The object of this law was said to be "to foster and encourage the tobacco industry in Nigeria"⁴. Thus it was stated that the Governor might impose as terms of granting a licence to manufacture cigarettes "conditions in regard to promoting the cultivation of suitable tobacco....."⁵. Apart from this, there was no ostensible reason for the ordinance at the time.

1. Federal Official Gazette, Supplement L. N. 23 of 1933.

2. Ibid. S.7

3. Ibid. S.5.(1) and S.5(3).

4. Ibid. This was stated in the explanatory note following immediately after the Act.

5. Ibid. S.5(2).

(Inspiration seemed to have come from the fact that such a law was in force in Tanganyika at that time and the people who drafted the law took pains to compare the Nigerian law with that operating in Tanganyika). However, it would sound ridiculous that an excise tax had to be imposed on an industry to foster its growth. In actual fact, the government seem merely to have envisaged the establishment of a tobacco factory (the products of which are almost always obvious targets for sumptuary tax in any country) and prepared the ground for the imposition of excise tax on the products.

Although the law was passed in 1933, it was not proposed to levy any duty until the industry actually came into being. Hence the first excise levy was actually imposed in 1939¹, by resolution of the Legislative Council in respect of the Southern Province and Order of the Governor in respect of the Northern Provinces². As will be shown below, the first excise levy on cigarettes was fashioned to make cigarettes containing a higher proportion of locally grown tobacco subject to lower rates of duty than those containing higher proportion of imported tobacco. Thus an argument that the government intended to encourage the use of local tobacco would be a more plausible argument than the one adduced earlier on for introducing excise taxation in Nigeria.

1. Federal Official Gazette, Supplement. Resolution and Order No. 2 of 1939.
2. This was in accordance with the Constitutional arrangement in Nigeria then.

Thus it could be said that government sought, at this initial stages, a way of supplementing its revenue by imposing excise tax but attempted, by the rates structure adopted to encourage the use of locally produced raw materials.

It was soon discovered that the 1933 Ordinance was inadequate. In particular, it appeared to be rather general and lacking in many respects. A more detailed, more comprehensive law ("Excise Ordinance, 1941") was therefore passed in 1941. The Act set out provisions relating to powers and duties of the Comptroller and officers of the department, regulations designed to aid the collection of excise duties - (viz - regulations about warehousing of Excisable goods, removal and obligations of manufacturers to obtain licence to manufacture, keep prescribed records, and furnish required information), offences under the law and instruments of enforcing compliance with the excise law.

The Comptroller was given overall control of the management of excise taxation, and the acts of any officer or person appointed by him for the performance of any duty required by excise law, and relating to excise revenue were to be deemed the acts of the Comptroller¹. Application for licence to manufacture excisable goods were to be made to him and this he could validly refuse without ascribing a reason². He was empowered to prescribe from

1. Ibid. S.86

2. Ibid. S.40 and S.29

3. Ibid. S.16

4. Ibid. S.19(3)

5. Ibid. S.25 and S.26

time to time, forms required to be used for purposes of the excise laws¹. He could exercise discretion with the respect to, and permit accordingly, the form and manner of removal or delivery of goods in special circumstances where the excise laws might not be conveniently applicable. Express permission of the Comptroller must be got before excisable goods were warehoused and he might require the warehousekeeper to enter into bond to secure the duty payable on such goods.²

Furthermore, with respect to duties and drawbacks, unless the courts decided otherwise, the rate or amount of excise duty or drawback allowed by the Comptroller was deemed and taken to be the proper duty or drawback³. Even where the parties to a contract of sale could not agree on additions to or deductions from the contract price occasioned by a change in rates, the Comptroller was the final arbiter as to what it should be.⁴ He was empowered to distrain for duties not paid after they have fallen due and to revoke any licence or permission of the offending manufacturer to manufacture⁵. Also, he had power, exercisable only with the approval of the Governor, to mitigate or remit any penalty or forfeiture. And he could compensate any informer to the tune of £5. (The consent of the Governor was needed if more than £5 was to be paid in reward).

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1. Ibid. S.84
 2. Ibid. S.28 and S.29
 3. Ibid. S.16
 4. Ibid. S.19(3)
 5. Ibid. S.25 and S.26

In effect, the Comptroller was made responsible for virtually everything that had to be done or decided in respect of excise control. However, the Act in addition, gave him extensive powers to delegate his authority to any officer or any other person he might choose.

An officer as defined by the Act was any person employed in the department of Customs and Excise and all members of the Police Force as well as any other person acting in aid of any such person. The law recognised that actual collection of excise revenue was a duty likely to be delegated to any employee of the department. It therefore vested the officers with extensive rights and powers. An officer could patrol freely and was empowered to enter, by day or by night, any part of any factory producing, or any warehouse storing, excisable product for purposes of taking samples and taking account of materials used in production of such excisable product¹. If necessary, he could use force or even break a wall, if refused entry, to enter into such factory!

Furthermore, the officer could take samples from the premises of anybody selling excise products and pay the price for such goods taken as samples. He could also search any house, or vehicle to ascertain that goods on which excise duty had not been paid were not being harboured, or search a person if he was

1. Ibid. S.54.

informed or he suspected that the person had on him excisable goods on which excise duty had not been paid. He could also refuse to transact business with any agent of the manufacturer who did not produce written authority of the manufacturer to act on his behalf¹.

It would naturally occur to anybody that these powers given to the officers could easily be abused by any unscrupulous officer to trespass, for ill motives, or infringe on the personal liberty of anybody under the excuse of mere suspicion. However, the law imposed a penalty of dismissal and/or fine ranging from £100 to £500 for proved acts of dishonesty on the part of officers.

Certain things, were required to be done by manufacturers, designed to facilitate excise collection. Excise licence granted was to apply to a set of adjoining premises specifically stated in the licence. It could be transferred, on death to the person beneficially interested, by endorsement by the Comptroller and on payment of a fee. Manufacturers and warehousekeepers were required to keep on the premises, and make available to officers for inspection and extraction, all books and forms relating to the manufacture, storing and delivery of excisable goods². They were also required to produce for inspection, on the request of the Comptroller, invoices and other books and

1. Ibid. S.5

2. Ibid. S.47

answer questions regarding description, manufacture, quantity, selling price, consignee, designation etc, and produce evidence in support of such information¹. It was made necessary to submit to the Comptroller, an entry of premises containing a description and plan of the factory and every machine, apparatus etc. used, before starting to produce, and thereafter upon request by the Comptroller². Necessary apparatus for checking the products were to be furnished by the manufacturer. And he would incur a penalty of £200 fine if such apparatus provided were inadequate and were intended to defraud.

In many respects, this 1941 Act provided a better machinery for management of excise. The powers and rights of excise Collectors were more clearly set out. Similarly, the duties of the manufacturers were more clearly defined. Furthermore, it provided room for the setting up of an administrative machinery that would ensure effective control of excise. Most importantly, the possibility of dishonest practices on the part of tax officers was realised and punitive measures for such practices were stipulated by the Act.

To ensure effective management, the Comptroller required the free hand the law gave him. The extensive power to delegate would obviate the danger of "personalisation of the department in the person of the (Comptroller)" (to borrow

1. Ibid. S.48

2. Ibid. S.49

S. S. Surrey's phrase)¹. It would also ensure that only very important cases came up to him for decision. But the idea of having such important decisions taken by one person would appear vexatious. The decisions might be made subject to the whims and caprices of the person, who, at the moment, was the Comptroller. In the hands of an unscrupulous man, the management could become an instrument of favouritism or oppression - to the detriment of revenue and the economy. And when one thinks of the increasing advisory role such functionary would be expected to perform (especially as he was also a member of the Legislative Council) in the event of a more intensive use of this fiscal tool, the danger of having a 'sole administrator' as it were becomes more obvious.

However, but for a small (although significant) amendment made in 1952, this 1941 Ordinance continued to be in force, and the Comptroller continued to be at the helm of affairs, until 1958. But before we discuss this 1952 amendment we shall have a brief look at some regulations made in the intervening years.

In 1945, regulations were made to regulate the manufacture of tobacco to meet the requirements of the 1941 Ordinance². Also, in that year, brewing of beer was brought under excise control by revoking the Brewing Regulations of 1919 and by

1. S. S. Surrey: "Tax Administration in Underdeveloped Countries"; published in Bird and Oldham, Readings on Taxation in Underdeveloped Countries; Baltimore, John Hopkins Press, 1947 at p.518.
2. The Excise (cigarettes, cigars and other manufactured tobacco Regulations, 1945, No.24 of 1945.

making other Brewing Regulations¹ under the 1941 Ordinance.

Just as was the case with tobacco in 1933 these 1945 regulations about the brewing of beer were made in anticipation of the establishment of the Industry in Nigeria. Excise duty was not

actually imposed on beer until 1949 when the Excise (Duty on Beer) Resolution, 1949² was passed to amend the Schedule to the 1941 Ordinance to include Beer. This brought to two, the number of commodity groups subjected to excise tax in Nigeria.

Also in 1949, the authority of the Legislative Council to legislate on excise was extended to cover the whole country rather than the Southern Provinces only³.

With the change, in 1951, of the mode of levying excise duty on cigarettes from a flat rate per specific weight to a percentage of selling price per specific weight (i.e. from a specific to an ad valorem basis)⁴, it became necessary to empower the Comptroller to call for certain additional information from the manufacturers. These were information to enable him ascertain what the actual value should be in case it appeared to him that the selling price⁵ declared by the manufacturer was lower than what it should actually be. The additional information include cost of production and profits taken or to be taken by the manufacturer. This additional power was given

1. Brewing Regulations, 1945, No. 25 of 1945.

2. Excise (Duty on Beer) Resolution, 1949, No. 3 of 1949

3. Excise (Amendment) Ordinance, No. 18 of 1949. This amendment merely brought the Excise Law in conformity with the Constitutional arrangement in the country then.

4. Excise Tariff Order, No. 32 of 1951

5. Selling price was intended to be ex-factory price which would include cost of production, profit, and excise tax.

by an amendment made to the 1941 Act, in 1952¹.

However, in order to protect the interest of manufacturers and to facilitate their disclosing all necessary information, the amendment provided that ".....powers conferredon the Comptroller, in so far as they relate to questions regarding the cost of production and manufacturer's profits in respect of any excisable goods shall not be exercisable by any officer than:- (a) The Comptroller, (b) The Deputy Comptroller, (c) any officer of the Department of Customs and Excise not below the rank of Inspector and Instructor of Customs and Excise whom the Comptroller, with the approval of the Governor may authorise in that behalf"².

The amendment also made it an offence for anybody in possession of any information or evidence given by manufacturers relating to their cost of production and profit to communicate or produce it to any person "other than a person to whom he is authorised by the Governor to communicate it; or otherwise than for the purposes of the Ordinance"³. Furthermore, it empowered the Comptroller to require any manufacturer of excisable product to submit annually, or at any other time specified by him, a certificate of audit, by an accountant, approved by him who is not an employee of the manufacturer.

1. Excise (Amendment) Ordinance, No. 4 of 1952.

2. Ibid. No. 4 of 1952 S.2 (48) (2).

3. Ibid. S.2(48)(3).

This amendment was significant in two respects: (i) It was a deviation from the unbridled freedom with which the Comptroller could delegate formerly - a sort of device to assure the manufacturers of secrecy while demanding full disclosure of their activities for tax purposes. (ii) It provided a means whereby the tax office would be able to detect excise tax evasion through an analysis of the manufacturer's cost and financial accounts. However, the scope of the use to which such 'classified information' could be put was not fully appreciated. Thus it was intended only for the ascertainment of selling price in case of ad valorem levies. Furthermore, the power to ask for such information was clearly meant to be exercised only occasionally and possibly sparingly too. However, this amendment marked an important stage in the development of efficient machinery for comprehensive excise control.

(b) Renewed thinking about Excise

1957 to 1958 was a period of renewed thinking, in government circles, about Customs and Excise management¹. It was strongly felt that the existing Customs and Excise legislations (which were said to have stemmed from a United Kingdom legislation, dating back from 1840) contained provisions which were

1. In his address to the Inaugural meeting of the Board of Customs and Excise on 1st April, 1959, Chief Festus Okotie-Eboh, the Minister of Finance for the Central Government said that "two years ago (i.e. 1957) consideration was given to the possibility of amending or replacing the old Customs Law." - See Board of Customs and Excise Annual Report 1959/60, Appendix 1 at p.13.

inconsistent and out of date. There was need for a new and up-to-date machinery which would simplify the procedure of collection and effect economies in the administration. The result was the emergence, in 1958 of two Ordinances: The Customs and Excise Management Ordinance¹ and the Excise Tariff Ordinance² and the revocation of the 1941 Ordinance. Although, in tune with the relative importance (in terms of revenue yield) and scope of excise tax to custom taxes the Customs and Excise Management Ordinance gave excise the lesser attention, it nevertheless marked another significant stage in the development of excise tax management.

The Customs and Excise Management Act of 1958 transferred the control and management of Excise from a Sole Administrator- The Comptroller to Board, namely the Board of Customs and Excise set up by the Act. Subject to the general control of the Minister of Finance, the Board was charged with the duty of controlling and managing the administration of Customs and Excise laws, and of collecting and accounting for customs and excise revenues.

The Board was to comprise of a chairman, a deputy chairman, a public servant in the Ministry of Finance, two officers engaged on the administration or execution of Customs and Excise Laws, and a person, who is not a public servant,

1. Customs and Excise Management Ordinance, L.N. 55 58 of 1958
2. Excise Tariff Ordinance, L.N. 58 of 1958.

allowed only a maximum of £5). In other cases, the approval nominated by the Minister of Finance¹.

Furthermore, the Board was empowered to co-opt members for purpose of obtaining advice but such co-opted members have no right to vote. Only three members would be needed to form the Quorum at any meeting.

As under the Excise Ordinance of 1941, the Board was given completely free hand as to what extent it could delegate its powers and duties under the Ordinance. In fact, the Customs and Excise Management Act went beyond it. For example, the 1958 law did not re-enact the provision of the 1941 Ordinance (which it repealed) relating to the category of people who could exercise the power of the Comptroller to require manufacturers to supply information about their costs of production and profit. However, the Act made the law about secrecy apply to all information and documents supplied or produced in pursuance of any requirement of the Customs and Excise Laws.

There were some other areas of differences between the 1958 laws and the 1941 law. Thus, under the 1958 Acts, the Board could now pay up to £20 reward to anybody, who is not a public servant, for excise service done. (The 1941 Act

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1. The law required that at least two Nigerians must be on the Board. If, therefore the Board as constituted does not include any Nigerian or includes only one, two or more, respectively, engaged on the execution or administration of customs and excise laws should be appointed.

allowed only a maximum of £5). In other cases, the approval of the Minister (Governor under the 1941 Act) was necessary. Also, the Board was not required to arbitrate, as under the 1941 law, between contracting parties in case the object of the contract was caught, before delivery, by tariff changes. The law only requires that the party who should thereby benefit should be allowed to¹. Furthermore, excise licences were thereafter to be taken both in the first and subsequent years of production for one year at a time (each licence falling due on the 31st December each year), whereas under the 1941 ordinance, licence could be given for part of the first year of production on payment of the appropriate proportional quarterly dues.

In addition to these, certain provisions of the 1941 Act were completely left out of the 1958 Acts. Thus, the 1958 Acts did not provide for the warehousing of excisable products before payment of duty. Also, the special power, granted under the 1941 Act, to ask for information about cost of production and profits of manufacturers was not specifically allowed for by the 1958 Acts. Furthermore, punitive measures for dishonest practices by excise officers were completely left out of the 1958 Acts.

However, the 1958 Management Act increased the number of commodity groups to be subject to excise control from two to

1. Excise Tariff Ordinance 1958 S.7(1) and (2).

three. Hitherto, only tobacco and beer were manufactured under excise control. But the Management Act, in addition to these, made provision for subjecting the manufacture of spirits (and methylated spirit) to excise control. New regulations, controlling the brewing of beer and the manufacture of tobacco, were made in 1959 to bring the old regulations in line with the provisions of the 1958 Management Act.

The major importance of these 1958 Acts is seen in the substitution of the Board of Customs and Excise for the Comptroller in the Management of Excise. Apart from obviating the dangers, pointed out above, of management by a sole administrator, the Constitution of the Board ensures that the rationale of excise management would be based on experience in Customs and Excise work and other aspects of the public service, as well as, on the specialised knowledge and experience of people outside the public service. On the contrary, among others, the omission of provisions for warehousing, the absence of punitive measures for dishonest practices by tax officials and the fact that provisions for excise control were made for specific products were important short-comings of the 1958 Act. However, the experience of the few years after 1958 showed that the provisions of these Acts with respect to excise were not sufficiently forward looking.

Just two years after (i.e. in 1960), the government

decided to expand the coverage of excise to include soft drinks and confectioneries. The Management Act was however very inflexible as to bringing commodities under excise control since it only made provisions for specific products (viz: tobacco, beer and spirit). Hence it had to be amended to allow for these new products, Thus by the Customs and Excise Management (Amendment) Ordinance, 1960¹ an amendment was made to the Act, to require excise licence for the manufacture of any product (other than tobacco, beer, and spirits) on which excise duty is levied and to empower the Governor-General to make regulations to regulate the manufacture of, and collection of duty on, such goods.

Under this power, the General Excise Regulations of 1960² were made. These regulations:

- (a) made entry of premises, plant and other materials to be used in production and storage of any excisable products (other than tobacco, beer and spirits), and written permission of the Board pre-conditions to commencement of manufacture;
- (b) made it obligatory on manufacturers to facilitate the location of their factories and checking by officers of the Board;

1. Customs and Excise Management (Amendment) Ordinance, 1960; No. 18 of 1960
 2. L. N. 114 of 1960.

(c) require that manufacturers should keep registers of materials (showing flow of stock), products manufactured and operations to correlate records of the materials and products registers;

(d) stipulated the mode of calculating and securing duties due; and

(e) empowered the Board to allow excisable products to be delivered for exportation or shipment as stores without payment of duty.

It will be seen that both the amendment to the Management Act and the General excise regulation were designed to make it possible to subject any commodity to excise control. This, at least, gives an indication that the government intended to, or at least realised the possibility of, an increasing resort to excise.

Duties were imposed in April, on soft drinks and confectioneries and in December on soap. These impositions posed certain problems which had not been experienced with the two commodities which had hitherto been subjected to excise duties. The factory units in which these products were manufactured were smaller than those of beer and tobacco. And, particularly in the soap industry, there was a large number of very small scaled indigenous manufacturers whose typical factory structure (occasionally open space) and methods of production

did not make their factories amenable to excise control. Also, in some cases, the rate of excise duty imposed appeared to be rather high and unrelated to the demand structure of the products at the time. Furthermore, the very large number of factories engaged in the production of these commodities widened the administrative scope required for effective excise control much beyond what was provided. But rather than face the administrative and other problems involved, confectioneries and soap (the two products that posed the greatest problems and whose factory-type manufacturers were very loud in their protest against the tax) were de-excised in December 1960 and August 1961 respectively.

However, the inadequacies of the Board of Customs and Excise in handling complicated issues in excise administration were already highlighted. And since the government was embarking on a six-year National Development Programme (1962-68), which was geared, inter-alia towards the development of import substitution, it was obvious that more emphasis than before would have to be placed on excise. As pointed out by Chief Festus Okotie-Eboh, (then the Federal Minister of Finance) "with the changing pattern of revenue control being brought about by the spread of industries and the consequent growing importance of excise as opposed to customs duties, it has become apparent that a measure of re-organiza-

sation is required if the Board is to discharge its functions effectively"¹. Thus a United Nations expert on administration (Mr. W. Cassey) was appointed (during the 1962-63 fiscal year) to look into the problems of re-organisation.²

Meanwhile, two other amendments had been made to the excise laws. The first, which was made in 1961, fixed a general period of one year, from the time occasion arises for it, within which drawbacks could be claimed. The second and more important one was made in 1963. This one:

1. empowered the Governor General to provide for the transportation and loading as stores of spirits without payment of duty; and
2. empowered the Board, if necessary, to require any holder of excise licence to provide, at his own expense, suitable living accommodation to an excise officer, on or near his premises. In addition, the coverage of excise had been further increased by the imposition, in 1962, of excise duty on Matches.

1. See "The Modernisation Budget" (a budget speech presented to the Federal Parliament by the Minister of Finance in 1963) Government Printers, Lagos, 1963.
2. The report of Mr. W. Cassey, we were informed, was neither published nor circulated to officials of the Board of Customs and Excise. All we could gather from the older members of the staff was that his recommendations were not implemented by the Government. Unfortunately all efforts to see the report failed as it could not be traced either in the Ministry of Finance or in the Department of Customs and Excise.

Although there were increases in the number of commodities subject to excise, this period (1956-1963) can be seen more importantly as a period of administrative re-organisation, of adventurous dabbling into excise fields and of increasing realisation of the revenue potentialities and administrative complexity of excise taxation in Nigeria.

(c) Emergence into prominence

Developments in the economy were, however, destined to increase the tempo with which resort was being made to excise. Among others, the need to put a halt to the fast deterioration of the country's Balance of Payments position and the need to mobilise internal savings for financing the National Development plan called for measures that would not only reduce imports but also prevent consumption from rising as much as incomes were rising. A combination of fiscal and monetary tools of which excise was one, was put to the task. Thus, in 1964 a leap was actually taken in the use of excise taxation in Nigeria. Two rounds of expansions in March and August 1964 increased excise coverage from four to twenty-two commodity groups.

With this expansion in excise tax coverage, the problem of control mounted and it became necessary, in 1965, to amend the excise laws to provide for more effective control over the

1. The Customs and Excise Management (Amendment) Act, 1965.
2. L. N. 49 of 1965.

new Industries. Thus the 1958 Management Act was amended¹ to empower the Board to require every holder of excise licence to:

1. submit all invoices and other documents, in his possession, relating to any excisable goods bought or sold by him within twelve months preceding the date of a written request;
2. to answer questions put to him relating to such goods and;
3. to produce evidence to support such answers.

The Excise Tariff Act, 1965 was also passed. This repealed the 1958 Excise Tariff Act and reenacted its provisions with some additions which defined what the value of an excisable good is to be for excise purposes. It also empowered the Board to ask for such information as might be necessary to make proper valuation of the products. In addition, procedure in the distillation of spirits, designed to aid the checking of the manufacture of, and the collection of duty on, spirits was laid down in the Excise (control distillation) Act 1965². Nevertheless, the control of excise on certain products /viz. Soap (on which tax was again levied in March 1964), Singlets, Shirts, plasticware and footwear/posed so

1. The Customs and Excise Management (Amendment) (No.2) Act, 1965.

2. L. N. 79 of 1965.

much problems (which were very identical with those of 1960 in respect of soap and confectioneries) that they had to be de-excised in August 1965.

Some further amendments were made to the management law in 1966¹. It was provided in the amendment that before removal of any excisable goods from the premises of the manufacturer, entry of such goods must be made and delivered to the proper officer. (This was designed to make for more efficient control). Also, the power of the Board to distrain for duty if not paid at the time within which it was payable was liberalised. Thus, power of distress could now be levied only after the defaulter has failed to pay on demand. Such demand is to be made either on that person personally or by delivering it in writing to his place of abode or business². Furthermore, tighter measures were taken against the delivery of excisable goods at concessionary rates under the pretence that they are meant for certain 'privileged' people or for certain approved use when, in fact they are transferred to other people or for other uses. Finally, the amendment made offences committed under the Customs and Excise laws triable in any court having jurisdiction in Nigeria. Also in 1966

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1. Customs And Excise Management (Amendment) Decree, No. 43 of 1966.
 2. With the administrative process necessary at least two months must have to elapse, with this new provision, after the duty was due, before the levying of sanctions on tax excise tax defaulters.

the number of commodity groups subject to excise tax was further increased to 28.

Not much changes were effected in the excise laws and coverage in 1967. The number of excisable commodities increased by only one, and the management law was also amended only to allow for the warehousing of excisable commodities without payment of duty¹.

However, 1968 witnessed another tremendous increase in number of excisable commodities. Twelve new commodities were added bringing the number to 41. Also a decree was promulgated in 1968² (to take effect retrospectively from 1st January 1967), which made some amendments in the Management Act. These include:

- (a) raising excise licence fees and
- (b) allowing the appointment of Excise Agents to transact excise business on behalf of manufacturers, as was allowed under the 1958 Act with respect to customs.

The Commissioner (Minister) was empowered by the same amendment to make regulations regarding the licence fees to be furnished by Excise Agents and the form which application for such licence should take.

1. This was one of the provisions of the 1941 Ordinance not re-enacted by the 1958 Excise laws.
2. Customs and Excise Management (Amendment) Decree No. 46 of 1968.
3. Excise Duties (Amendment) Order, L.N. 33 of 1960

It can be seen from the above that the sharp upward trend in the use of excise taxation, which started in 1964 is still being maintained. Number of excisable commodities increased more than ten times in the five years from 1964 to 1968.

Also, the problems created by the rapid increase in the coverage of excise led to further amendments of the excise laws to allow for more effective control. Furthermore, not only has government been looking up to excise since 1964, to contribute more and more to government revenue, excise revenue has actually been rising at a much faster rate than before. And while, up till 1963, excise was only the 4th largest single source of government revenue, by 1966, it had become the second largest single source¹.

Expansion of Coverage

As was pointed out earlier (See Table 2.1 and Chart 2), excise duty was first imposed in 1939. It was a levy on cigarettes. In 1941, other tobacco products (cigars and snuff) other than those made in the native way, were included. Thus up till 1948, only Tobacco products were taxed. However, tax was imposed on Beer in 1949 bringing the number to two. Excisable commodity groups remained at two till 1959. In April, 1960, Lemonade and Aerated Waters² (soft drinks) and sugar confectionaries³ were subjected to duty bringing

1. See Supra p.5

2. Excise Duties (Amendment) Order, L.N. 46 of 1960

3. Excise Duties (Amendment) Order, L.N. 53 of 1960

T A B L E

2.1

CHANCES IN EXCISABLE COMMODITIES

1939 - 1948	1949-1959	1960	1961	1962-63	1964	1965	1966	1967	1968
Tobacco	Tobacco Beer	Cigarettes Beer Lemonade Confectioneries/Soap	Cigarettes Beer Lemonade Soap/	Cigarettes Beer Lemonade Matches	Same as for 1963 + Soap. Confectioneries Apparel (shirts and singlets) Biscuits Blanket Cement Corned Beef Enamelware Footwear Nails, Barbed wire etc. Paint Piece Goods Plastic ware Portable Spirit Towel & Towelling Travelling Trunks Yarn/ & Thread Pneumatic Tyre	Cigarettes Beer Lemonade Matches Soap/ & Soap Products Confectioneries Apparels/ Biscuits Blanket Cement Corned Beef Enamelware Footwear/ Nails, Barbed wire etc. Paint Piece Goods Plastic Ware/ Portable Spirit Towel & Towelling Travelling Trunks Thread Pneumatic Tyre Metal Containers Household Utensils Tanned Leather Oils Reinforcing rounds Wine & Apentifs	As for 1965 minus Soap, Apparels Footwear & Plasticware + Liquefied Petroleum gas Radiogram and Record players Tabs & Rags Snuff	As for 1966 + Roofing Sheets	As for 1967 + Butter etc Packing Con- tainers Cosmetics & Perfumery Flour, Furniture Records Jewellery Electric bulbs Ball point Pen Bicycle tyre Socks Mattresses.

/ means de-excised before the end of the Year.

+ means plus

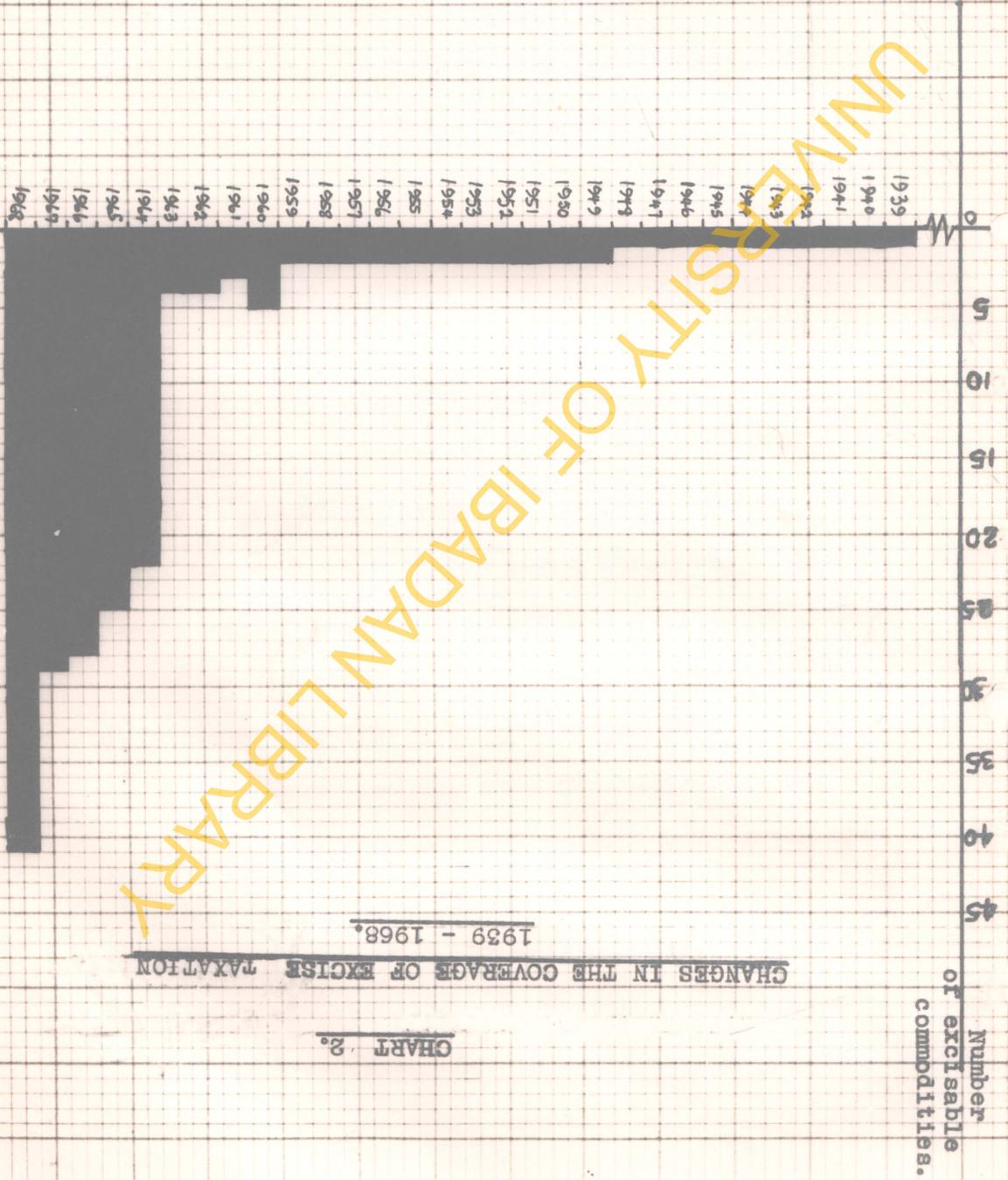
Source: Federal Official Gazette (supplement) for the respective Years.

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CHANGES IN THE COVERAGE OF EXCISE TAXATION

1939 - 1968.

CHART 2.



the number to four. In December 1960, sugar confectioneries was de-excised¹ but it was replaced immediately by soap. However, barely nine months after, soap too was de-excised². Matches was taken into the fold in April 1962³. Thus up till March 1964, only four commodity groups - Cigarettes, Beer, soft drinks and matches were being taxed.

1964 saw a breakthrough with excise. As can be seen from Table 2.1, eighteen new commodities were subjected to tax⁴. These include soap and sugar confectioneries which were de-excised in 1960 and 1961 respectively. The other new excisable commodities were: Apparels (shirts and singlets), Biscuits, Blanket, Cement, Corned Beef, Enamelware, Footwear, Nails, Barbed wire etc., Paint, Piece Goods, Plasticware, Portable Spirit, Towel and Towelling, Thread and Pneumatic tyre. It is significant that these new commodities introduced consisted not only of final consumer goods but also intermediate goods like cement, paint, nails, barbed wire etc. and piece goods. Also it is noteworthy that production of all the new commodities, except Portable spirit started before 1964. Furthermore, as a result of the adverse trend in the Balance of Payment position of the country at that

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1. Excise Duties (Amendment) Order, L.N. 193 of 1960.
 2. Excise Tariff (Amendment) (No.2) Order, L.N. 117 of 1961.
 3. Excise Duties (Amendment) Order, L.N. 26 of 1962.
 4. There were actually two rounds of expansion in coverage. In March, the number increased by 12 - L.N. 25 of 1964 and in August it was further increased by 6 - L.N. 92 of 1964.

time, the government had to take stringent measures to restrict imports and these new products were among those which were thereby given additional protection than before.

Soap, Apparels (shirts and singlets) footwear and plastic ware were de-excised in 1965¹. However, tax was imposed on six new commodities² - Metal Containers, Household Utensils, Tanned Leather, Reinforcing Rounds, Wine and Oils (including Motor Spirits and products, Diesel, Kerosene, Lubricating oil, engine oils, etc.)

Four new commodities were subjected to excise tax in 1966³. These were Radiograms, and record players, Tabs and rags, Liquefied Petroleum gas and snuff (which is actually a tobacco product). And in 1967, only Roofing sheet was added, bringing the number of excisable commodities to 29. With the outbreak of war in 1967 (to put down the rebellion in the former Eastern Region), it became necessary:

(1) to regulate very strictly private use of Nigeria's foreign exchange, and

(2) to mobilise funds internally to contribute to the war effort and reconstruction.

Thus the screw on importation was tightened further. The number of commodities which could be imported only under specific import licence was increased. Thus specific control

1. Excise Tariff (Duties) (No.2) Order, 1965 L.N. 93 of 1965
2. Excise Tariff (Duties) (No.1) Order and (No.2) Order of 1965
3. Excise Tariff (Duties and Exemptions) (No.1), (No.2) and (No.3) Orders 1966.

on imported goods extended to cover virtually all commodities manufactured locally. As a result, it became necessary for revenue purposes, among other reasons, to further expand the coverage of excise. Thus 1968 witnessed another substantial increase in the number of excisable commodities¹. Twelve new commodities - Butter (and butter substitutes), Packing container, cosmetics and perfumery, flour, furniture, records, jewellery, electric lamp, mattresses, ball point pens, bicycle tyre and socks were subjected to tax. This increased the number to 41.

Changes in rates structure:

Cigarettes: As pointed out above, the oldest excise levy was on cigarettes. The first excise duty was based on weight of 1000 cigarettes and the percentage of local tobacco used in production. As can be seen from Table 2.2, cigarettes were classified into two categories of quality and two sub-categories of raw material inputs. Thus (1) where the weight of 1000 cigarettes was less than or equal to 3 lb, duty was levied at 5/- per 1000 if the cigarettes contained less than 10% local leaf and at 2/1d per 1000 if the cigarettes contained more than 10% but less than 45% local leaf; and (2) where the weight of 1000 cigarettes was greater than 3 lb, duty was imposed at 2/- per lb on cigarettes containing

1. Excise Tariff (Amendment) Decree No.49 of 1968.

T A B L E 2.2

CHANGES IN EXCISE LEVIES ON CIGARETTES

S P E C I F I C L E V I E S

6th March, 1939	$W(1000) \leq 3\text{lbs.}$ $W(1000) > 3\text{lbs.}$	A'. 5/- per 1,000 2/- per Ib.	B'. 2/1d per 1,000 10d per Ib.	A'. Where cigarettes contain less than 10% local leaf. B'. Where cigarettes contain more than 10% but less than 45% local leaf.
4th April, 1940 28th October, 1941	$W(100) \leq 3\text{lbs.}$ 4/2d per 1,000 11/- per 1,000	$W(1000) > 3\text{lbs.}$ 1/9d per Ib. 4/6d per Ib.		
9th August, 1942 2nd August, 1943 12th March, 1949	A" 23/- per 1000 23/- per 1000 25/- per 1000	B" 32/- per 1000 44/6d per 1000 44/6d per 1000	A" Where wholesale price ex-factory exclusive of excise duties does not exceed 22/6d per 1000 B" Where wholesale price ex-factory exclusive of excise exceeds 22/6d per 1,000 provided 400 cigarettes do not exceed 1lb.; if they do, them pro rata at 400 cigarettes per lb.	
<u>AD VALOREM LEVIES</u>				
20th August, 1951 24th Feb., 1956	$W(1000) \leq 2\text{lb.}$ 30%	$W(1000) \leq 2\frac{1}{2}\text{lb.}$ 40% 40%	$W(1000) > 2\frac{1}{2}\text{lb.}$ 50% 50%	Selling Price is the price declared by the manufacturer inclusive of excise duty at which the cigarettes are sold by him <u>ex factory</u>
31st January, 1959 28th March, 1966	$W(1000) \leq 2\text{lb.}$ 30% 35%	$2\text{lb} < W(1000) \leq 2\frac{1}{2}\text{lb.}$ & $2\text{lb} < W(1000) \leq 2\frac{1}{2}\text{lbs.}$ & $W(1000) > 2\frac{1}{2}\text{lb.}$ SP (1000) \leq 70/- 40% 45%	$W(1000) > 2\frac{1}{2}\text{lb.}$ SP (1000) $>$ 70/- 48% 53%	$W(1000) > 2\frac{1}{2}\text{lb.}$ & $SP(1000) > 125/-$ 50% 55%
1st June, 1966	$W(1000) \leq 1\text{lb.}$ & $SP(1000) \leq 25/-$ 20% + 6d	$W(1000) \leq 2\frac{1}{2}\text{lbs.}$ & $25/- \leq SP(1000) \leq 50/-$ 30% + 9d	$W(1000) \leq 2\frac{1}{2}\text{lbs.}$ & $50/- \leq SP(1000) \leq 125/-$ 40% + 1/-	$W(1000) > 2\frac{1}{2}\text{lb.}$ & $SP(1000) > 125/-$ 50% + 1/6d
20th October, 1967 29th April, 1968	5% surcharge added to each category 5% surcharge discontinued but 3d surcharge per packet of 20 cigarettes added.			Selling price is "The price declared by the manufacturer inclusive of Excise Duty at which cigarettes are ordinarily sold <u>retail</u> ."

EXPLANATORY NOTE

W(1000) means "Weight of 1000 cigarettes"
 SP(1000) means "Selling Price of 1000 cigarettes"

SOURCES: Federal Official Gazettes (Supplement) for the respective years.

less than 10% local leaf and at 10d per lb on those containing more than 10% but less than 45% local leaf.

This rate structure clearly showed the intention of government to encourage as much as possible, the use of locally grown tobacco as well as introduce progressivity in the rates. It will be seen that even the heavier cigarettes (which, of course, are the higher quality ones) containing a higher percentage of local tobacco attracted lower duty than poorer quality cigarettes containing a higher percentage of imported tobacco.

However, this classification by 'origin of leaf' used was removed in April 1940 (barely 11 months after the first levy) leaving only the weight classification. Furthermore, duties were changed to $4/2$ per 1000 on cigarettes weighing not more than 3 lb per 1000 and $1/9$ per lb on those weighing more than 3 lb per 1000.¹ While this was equivalent to a slight reduction in the case of cigarettes containing more than 90% imported tobacco leaf, it was an increase of about 100% in the case of those containing less than 90% of imported tobacco leaf. However, these new rates lasted only 19

1. While these rates changes would be rightly seen as motivated by a desire to raise higher revenue from cigarettes, the change in mode of classification would be seen as a means of simplifying the administration of the tax on cigarettes. However, since unmanufactured tobacco imported were subject to import duty, local tobacco used in the manufacture of cigarettes was still protected.

months as, in October 1941, duties were increased generally by over 150% to 11/- per 1000 and 4/6 per lb respectively.

In 1942, the mode of classification was changed again.¹ Instead of weight per 1000, it now had to be price per 1000. Thus where ex-factory price exclusive of excise duties did not exceed 22/6 per 1000 duty was imposed at 23/- per 1000 and where the price exceeded 22/6 per 1000 duty was imposed at 32/- per 1000.² Because of the change in the mode of classification, it is difficult to say whether or not this was an increase over the former rates. However, the mode of classification remained like this till 1951 but there were two partial increases in rates. The first increase was in 1943 when duty on cigarettes costing more than 22/6 per 1000 was increased to 44/6 from 32/-. The second came in 1949 when the duty on the cheaper cigarettes was increased to 25/- per 1000 (from 23/-). The adoption, in 1942, of price as the basis of classification for excise purposes is seen to be important in the sense that manufacturers would thereby be required to declare their prices for purposes of calculating duties payable.

Thus, the change-over in 1951 from flat rate basis of 'excise levy to ad valorem' rate would not be difficult.

1. Excise (Increase of duties) Order-in-Council No. 23 of 1942.
2. A proviso was added that where the weight of 400 cigarettes was greater than 1 lb every pound would be deemed to be equal to 400 cigarettes and duty would be levied accordingly.

then 70/- per 1000 and those that cost more than 70/- per 1000. In that year, classification by weight per 1000 was restored. The former retained the 40% ad valorem duty while and duty was levied on 'ad valorem' basis. Cigarettes not weighing more than 2½ lb per 1000 were taxed at 40% ad valorem while those weighing more than 2½ lb per 1000 were taxed 50% ad valorem.¹ Selling price was defined as the price declared by the manufacturer, inclusive of excise duty, at which the cigarettes were sold by him ex-factory. If, however, it appeared to the Comptroller that the price so declared was lower than it should be, then he could impute a price, (for purposes of calculating the actual excise duty due) which would be equal to the manufacturer's cost of production plus profit (taken or to be taken) plus excise duty.

The duty on cigarettes was made more progressive with quality when in 1956, cigarettes weighing not more than 2½ lb weight and price was re-classification was adopted in respect of all the cigarettes. Thus (a) Cigarettes weighing not more than 2 lb per 1000 and cigarettes weighing more than 2 lb but not more than 2½ lb per 1000. The former category was taxed at 30% ad valorem while the latter retained the former rate of 40% ad valorem.

Price basis of classification was re-introduced in 1959 with respect to cigarettes weighing more than 2 lb but not more than 2½ lb per 1000. Thus, this category of cigarettes was sub-divided into two - viz: those that cost not more

1. Excise Tariff Order, No. 32 of 1951.

than 70/- per 1000 and those that cost more than 70/- per 1000. The former retained the 40% ad valorem duty while duty was increased on the latter to 48% ad valorem. Thus there were four classes of cigarettes - those weighing not more than 2 lb per 1000, those weighing more than 2 lb but not more than 2½ lb per thousand and (a) costing not more than 70/- per 1000 and (b) costing more than 70/- per 1000; and those weighing more than 2½ lb per 1000. These were taxed at 30%, 40%, 48% and 50% respectively. This rate structure remained so till March 1966. At the end of that month, the rates were increased to 35%, 45%, 53% and 55% respectively.¹

Only two months after these increases, however, the whole tax structure on cigarettes was changed.² A combined weight and price base of classification was adopted in respect of all the categories of cigarettes. Thus (a) Cigarettes weighing less than 1 lb and costing not more than 25/- per 1000 were taxed at 20% ad valorem plus six pence per thousand; (b) those weighing not more than 2½ lb per 1000 and costing more than 25/- but not more than 50/- per 1000 were taxed at 30% plus 9d per 1000; (c) those weighing not more than 2½ lb and costing more than 50/- but not more than 125/- per

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1. Excise Tariff (Duties and Exemptions) (No.1) Order, L.N. 24 of 1966.
 2. Excise Tariff (Duties and Exemptions) (No.2) Order, L.N. 47 of 1966.

1000 were taxed at 40% plus 1/- per 1000; and (d) those weighing more than 2½ lb and costing more than 125/- per 1000 were taxed at 50% plus 1/6 per 1000.

Needless to say, this is a complicated and sophisticated structure which makes the tax on cigarettes progressive with quality. But, more remarkable about this change is the re-definition of selling price to mean retail price¹ rather than manufacturer's ex-factory price which it had been. But for the reconstruction surcharge of 5% levied in 1967, which was replaced in 1968 by a surcharge of 3d per packet of 20 cigarettes, there has not been any alteration in the classification or rates of excise duty on cigarettes since 1966.

It can be seen from the above that not only have the changes in rates structure been fairly frequent, they have been steadily re-modelled to reduce the tax liability on the low quality and cheap cigarettes, thus making the tax on cigarettes progressive with quality and price. Furthermore, the adoption of the retail price as the basis of levy marks a significant stage in the development of excise taxation in Nigeria.

1. Excise Tariff (Duties and Exemptions) (No.4) Order, L.N. 110 of 1966 defined selling price as "the price declared by the manufacturer to be the price inclusive of excise duty at which cigarettes of the same brand, weight, quality and description are ordinarily sold retail."

Beer

Excise duty was first imposed on beer, in 1949, and at a proportional rate based on the strength of beer.¹ From Table 2.3, it can be seen that the base of calculation was "gallon of wort of specific gravity of 1055°", and this was subjected to a duty of 1/3d per gallon. For any difference in gravity, the duty was to be calculated proportionally. The rate of duty was increased to 1/9d per gallon in 1953 and 2/9d per gallon in 1956. These were increases of 40% and 120% respectively over the original rate.

In 1959, the unit of calculation was changed to Gallon of Wort of gravity not more than 1040°, and duty was increased to a flat rate of 4/- per gallon. Additional degrees of gravity were taxed at 1d per degree of gravity. The flat rate was raised in 1960 to 5/6 per gallon, in 1962 to 6/8 and in 1964 (August) to 7/- per gallon. Thus by 1964 excise duty on beer, had gone up by about 6 times the first levy and was 175% of the 1959 levy. But for the 5% surcharge of 1967 which was removed in 1968 and replaced by a surcharge of 3/- per gallon, the rate of duty has remained as it was in 1964.

Matches (See Table 2.4) Matches was first subjected to duty in April 1962² at a flat rate of 6/9 per gross boxes of not

1. Excise (Duty on Beer) Resolution, No.3 of 1949.
2. Excise Duties (Amendment) Order, L.N.26 of 1962.

T A B L E 2.3

CHANGES IN LEVIES ON BEER

CHANGES IN EXCISE LEVIES ON MATCHES

Gallon of Wort of Difference in gravity
gravity 10550

YEAR	MODE OF			
1949		1/3		Proportionally
1953		1/9		Proportionally
1956	Contents of 1 box 20 match sticks	2/9	144 boxes	Proportionally
1964				
1966		<u>Gallon of Wort of</u>		<u>Additional</u>
1967		<u>gravity less than or equal</u>		<u>degree of gravity</u>
1968	<u>BOOKLET:</u>	<u>to 1040°</u>		
1959	Contents of 1 box 20 sticks	4/-	144 booklet	½d
1960	Others in proportion 20	5/6		½d
1962	sticks	6/8		½d
1964 (3rd Aug)		7/-		½d
	Contents of 1 box 40 sticks		144 boxes	6/-
1967 (October)	of 1	5% surcharge added		
1968 (April)		5% surcharge removed and		9/-
	contents of 1	3/- per gallon surcharge		
		added.		12/-

SOURCE: Federal Official Gazettes (Supplement) for the respective Years.

* x = number of match sticks per box
 - Plus 5% reconstruction surcharge

SOURCE: Federal Official Gazettes (Supplement) for the respective Years.

T A B L E 2.4

CHANGES IN EXCISE LEVIES ON MATCHES

YEAR	MODE OF LEVY	UNIT	EXCISE DUTY
1962	Contents of 1 box 80 match sticks 4 booklets of 20 = 1 box	144 boxes	6/9d
1964	- do -	- do -	12/-
1966	Proportionately	- do -	12/- x $\frac{x}{80}$
1967 +	- do -	- do -	12/-
1968 +	<u>BOOKLET:</u> Contents of 1 booklet 20 sticks Others in proportion to 20 sticks	144 booklets	3/-
	<u>BOXES:</u> Contents of 1 box 40 sticks 40 Sticks contents of 1 box 60 sticks 60 Sticks contents of 1 box 80 sticks Contents of 1 box 80 in proportion to 40 sticks.	144 boxes - do - - do -	6/- 9/- 12/-

* x = number of match sticks per box

+ Plus 5% reconstruction surcharge

SOURCE: Federal Official Gazettes (Supplement) for the respective Years.

more than 80 sticks of match per box¹. This rate and mode of levy was sustained till August 1964² when the rate was increased to 12/- per gross boxed of not more than 80 sticks of match per box. In March 1966³, the mode of levy was changed to make the duty payable proportional to the number of match-sticks per box. Thus since the duty per gross boxes of 80 match sticks per box was still 12/-, duty payable on a gross box of 60 match sticks would, for example be $\frac{60}{80} \times 12/- = 9/-$.

With this mode of levy, it was discovered that tax was being evaded by underdeclaring the number of match-sticks per box.⁴ To obviate this the mode of levy was changed in 1968⁵. Thus, matches were classified into five groups on the basis of number of stick per match box, and each group was taxed per gross boxes. Thus (1) where a booklet contains not more than twenty matches, duty was imposed at 3/- per gross boxes. Where a booklet contains more than 20 matches, duty is to be calculated in proportion to twenty. (2) Where a box of matches contains not more than 40 matches, duty was imposed at 6/- per gross boxes. (3) Where a box contains more than 40 matches but not more than 60 matches, duty was

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1. Four booklets of twenty matches were taken to be equal to 1 box for purpose of calculating duty payable.
 2. L. N. 92 of 1964.
 3. L. N. 24 of 1966.
 4. Official: Board of Customs and Excise.
 5. L. N. 49 of 1968.

imposed at 9/- per gross boxes. (4) Where a box contains more than 60 matches but not more than 80 matches, duty was imposed at 12/- per gross box. (5) If 1 box contains more than 80 matches, duty is calculated in proportion to 40 sticks.

Specific Levies (Excluding levies on Beer and Matches)

Up till 1963, all the excise levies (except the levies on cigarettes and Soap) were specific levies. Thus Beer, Matches, Sugar, Confectioneries and Lemonade and Aerated Waters were taxed on flat rates basis. Since we have discussed changes in levies on Beer and Matches above, they will be excluded in what follows under this heading.

As can be seen from Table 2.5 in 1960 duties were imposed on sugar confectioneries at 4d per lb and on Lemonade and Aerated Waters (soft drinks) at 1/4d per gallon. For some of the reasons adduced above, sugar confectioneries was de-excised in December 1960. However, excise duty on soft drinks remained at 1/4d per gallon till 1963. In March 1964 the duty was reduced by half - bringing it to 8d per gallon. It was further reduced to 6d per gallon¹ in 1965. However, the reconstruction surcharge imposed on it in 1968 was 2/- per gallon.

1. This reduction was said to have been necessary because of the import duty on sugar had been increased. See Festus Okotie-Eboh, Budget Speech delivered to Parliament, 1965.

TABLE 2.5

SPECIFIC LEVIES EXCLUDING LEVIES ON BEER AND MATCHES.

COMMODITY	UNIT	1960	1961	1962	1963	1964		1965	1966	1967 [ⓐ]	1968 [ⓑ]
		£ s d	£ s d	£ s d	£ s d	March	August	£ s d	£ s d	£ s d	£ s d
1. Confectioneries (Sugar)	lb.	= = 4	Removed	-	-	-	= = 3	= = 3	= = 1 ⁺	= = 1	= = 2
2. Lemonade and Aerated Waters	Gallon	= 1 4	= 1 4	= 1 4	= 1 4	= = 8	= = 8	= = 6	= = 6	= = 6	= = 6 ^{ⓐⓑ}
3. Cement	Ton					= 15	= 15	= 15	= 15	= 15	= 1 = =
4. Footwear:	Leather	Pair				= 2	= 3	= 3	-	-	-
	Plastic	Pair				= 6	= 1	= 3	-	-	-
	Rubber and canvas	Pair				= 6	= 1	= 1	-	-	-
5. Piece Goods:	Interlock Fabrics and other knitted fabrics	lb.				= = 3	= 2	= 2 6	= 2 6	= 2 6	= 2 6
	Cotton Fabrics	sq. yd.				= = 2	= = 2	= = 2	= = 2	= = 2	= = 2
	Others	sq. yd.				= = 6	= = 6	= = 6	= = 6	= = 6	= = 6
6. Spirits, (Portable)	Gallon					7 = =	7 = =	= 2 6 ^x	= 2 6	= 2 6 ^x	= 2 6 ^x
7. Apparels:	Shirts	Each					= = 9	= = 9	-	-	-
	Singlets	Each					= = 6	= = 6	-	-	-
8. Nails, Barbed Wire, etc.	lb.						= = ½	= = ½	= = ½	= = ½	= = ½
9. Paints	lb.						= = 2	= = 2	= = 1	= = 1	= = 1
10. Oils:	Gas or Diesel	Gallon						= 1 9 ^{ⓐⓑ}	= 1 9 ^{ⓐⓑ}	= 1 9	= 1 9
	Illuminating (Kerosene)	Gallon						= 1 =	= 1 =	= 1 =	= 1 =
	Lubricating	Gallon						= 1 =	= 1 =	= 1 =	= 1 =
	Motor spirit & products	Gallon						= 1 9	= 1 9	= 1 9	= 1 9
11. Wine (still) and Appetifs	Gallon						1 12 =	1 12 =	1 12 =	1 12 =	1 12 =
12. Snuff	lb.							2 = =	2 = =	2 = =	2 = =
13. Flour, (of cereals)	Ton										1 5 =

ⓐ By Decree 43 of 1967, a reconstruction surcharge of 5% was imposed on all excisable products and this was re-affirmed by Decree 19 of 1968 except with respect to Lemonade and Aerated waters
 ⓑ Plus 2/- reconstruction surcharge.
 ⓐⓑ Concessionary duties were levied (a) in case of Interlock Fabrics at 3d. per lb. for approved manufacturers, and (b) in case of Gas and Diesel oils at 4d. per gallon in 1965 and 8d. per gallon in 1966 for Government Corporations.

+ The duty on confectioneries was reduced in June
 ++ These were completely removed by L.N. 93 of 1965.
 x Unit of recording was changed in 1965 to 1% of alcohol per gallon.

SOURCES: Federal Official Gazettes (Supplement) for the respective years.

Sugar confectioneries which was de-excised in 1960 was subjected to tax in August 1964. This time, duty was imposed at 3d per lb as opposed to the 4d per lb imposed in 1960. The duty was further reduced in 1966 to 1d per pound but was again increased to 2d per lb in 1968.

Duty was imposed on Portable Spirits in 1964 at £7 per gallon. (This was $\frac{2}{3}$ of the import duty on imported spirits). But as was the case with soft drinks and sugar confectioneries, excise duty on portable spirits was reduced in 1965. The mode of calculation was changed to 'percentage of alcohol per gallon'. Thus one percent of alcohol was taxed at 2/6d per gallon. Hence the tax was made proportional to the alcoholic strength of spirits. The alcoholic strength of spirits (Brandy, Whisky, Rum, Schnapps, Gin and Vodka) ranges between 38% and 43%. Thus the duty at the reduced rate ranged between £4. 15/- per gallon to £5. 7s. 6d per gallon. Similarly, excise duty which was imposed in August 1964 on paints at 2d per gallon was reduced to 1d in 1966.

Of the commodities subjected to excise tax in 1964, Footwear, piece goods and apparels are also of special interest. In March 1964, Leather shoes, plastic shoes and rubber and canvas shoes were taxed at flat rates of 2/- per pair, 6d per pair and 6d per pair respectively. In August, the tax on leather shoes was increased to 3/- per pair while tax on each

of the other two types was increased to 1/- per pair. However, in March 1965, only the tax on plastic shoes was increased to 3/- per pair, thus bringing it to the same level with the tax on leather shoes.¹ Sharp protests from manufacturers followed this increase. In official circles, the increase could not be strongly defended either, and only a feeling that a reduction so soon after the increase would smack of tactical defeat made the increased rate stay till August 1965 when excise duties on footwear were removed.

Piece goods were also subjected to excise tax in March 1964. They were classified into three groups for excise tax purposes: viz (1) Interlock fabrics and other knitted fabrics which were taxed at 3d per lb (2) Cotton fabrics which were taxed at 2d per square yard and (3) Other fabrics which were taxed at 6d per square yard. The taxes on the second and third categories have remained unchanged since then. But the tax on Interlock fabrics was increased to 2/- per lb in November 1965. At the same time excise tax was imposed on singlets (for which Interlock fabrics is an input) at 6d each. (Shirts were also subjected to excise duty at 9d each).

Approved manufacturers who use interlock fabrics as input

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1. This was done to achieve a certain policy goal which we shall discuss later.

were allowed a concessionary rate of 3d per lb.¹

In March 1965, the tax on interlock fabrics was increased to 2/6d per lb while the tax on singlets and shirts, and the concessionary rate on interlock fabrics remained unchanged. However, duty on singlets and shirts were removed in August 1965 and of course, this also removes any concession on Interlock fabrics.

Rates of duty on the other commodities which up till 1968 were subject to specific duties were constant (except for cement in respect of which there was an increase in duty in 1968). Excise duty was imposed on cement in March 1964 at 15/- per ton. This rate remained unchanged until 1968 when it was increased to £1 per ton. Other commodities include: Nail, Barbed wire etc. which were subjected to duty at ½d per lb in August 1964, Oils on which duties were imposed in 1965 at rates ranging from 1/- per gallon to 1/9d per gallon; Still Wine and aperitifs which were subjected to duty at £1. 12/- per gallon in 1965; and Flour (of cereals) on which duty was imposed in 1968 at £1. 5/- per ton.

1. Approval to pay such concessionary rate would normally be granted only after the manufacturer had registered and obtained an excise licence. See A. O. Phillips, "Nigerian Industrial Tax Incentives: Import Duties Relief and the Approved User Scheme". The Nigerian Journal of Economic and Social Studies; Vol. 9, No. 3; November 1967 p.324. See also infra. pp. 98-99-99.

TABLE 2.6

AD VALOREM LEVIES EXCLUDING LEVY ON CIGARETTES

COMMODITIES	1960	1961	1 9 6 4		1965	1966	1967 ^z	1968 ^z	
			March	August					
1. Soap: Soap	10% (Dec.)	Removed	5%	5%	Removed	-	-	10%	
Products		(Sept)			5%	5%	5%		5%
Detergents		-			-	5%	5%		5%
2. Biscuits			5%	5%	5%	5%	10%	10%	
3. Blanket			5%	5%	5%	5%	5%	10%	
4. Corned Beef			5%	5%	5%	5%	5%	10%	
5. Enamelware			5%	5%	5%	5%	5%	10%	
6. Plasticware			5%	5%	Removed	-	-	-	
7. Yarn				Removed	-	-	-	-	
Thread			10%	10%	10%	10%	10%	10%	
8. Towel & Towelling				5%	10%	10%	10%	15%	
9. Travelling Trunks and Bags.			s.r.	s.r.	10%	10%	10%	15%	
10. Tyre: (a) 4" ≤ Width ≤ 12"			10%	10%	10%	10%	10%	15%	
(b) Tubes and flaps			10%	10%	10%	10%	10%	15%	
11. Containers (Metal)					10%	10%	10%	15%	
12. Household Utensils (Aluminium)					5%	5%	5%	5%	
13. Oils: Essential					33½%	33½%	33½%	33½%	
Others ⁺					33½% ⁺⁺	33½% ⁺⁺	33½% ⁺⁺	33½% ⁺⁺	
14. Leather (Tanned)					10%	10%	10%	10%	
15. Reinforcing Rounds					20%	20% [Ⓞ]	20% [Ⓞ]	20% [Ⓞ]	
16. Petroleum Gas (Liquefied)						33½%	33½%	33½%	
17. Radiogram & Record Player						5%	5%	5%	
18. Tabs and Rags						20%	20%	20%	
19. Roofing Sheets							5%	5%	
20. Apparel: Socks								10%	
21. Butter & Butter substitutes								10%	
22. Containers (Packing)								10%	
23. Cosmetics and Perfumery								10%	
24. Furniture: Wooden								10%	
Metal								10%	
25. Gramophone records								5%	
26. Jewellery (Imitation)								10%	
27. Lamp (Electric filament or discharge)								5%	
28. Mattresses, cushions and Pillows								10%	
29. Pen, Ball point								10%	
30. Bicycle tyre and tube								10% ⁺⁺	

+ Other oils excluding Gas or Diesel oil, illuminating (Kerosene) oil, Lubricating oil and Motor spirits and products. (All these exceptions carry specific duties. See Table E.5)

++ A minimum payable is fixed for (a) Other oils - 1/6d per gallon; (b) Pen, Ball Point - 1d. ea s.r. Levied at a specific rate.

Ⓞ Reinforcing made from local scrap metals were exempted. (See L. N. 47 of 1966)

^z General : By Decree 43 of 1967 a reconstruction surcharge of 5% was levied on all excisable products. This was re-affirmed in 1968 by Decree 19 of 1968. The surcharge has the effect of increasing the rate by $\frac{5}{100} \times \text{rate}$. Therefore where rate is normally 5% ad valorem, surcharge = $\frac{5}{100} \times 5 = 0.25$ ad valorem. Therefore effective rate is 5.25% ad valorem.

Sources: Federal Official Gazettes (Supplement) for the respective years.

ordinarily sold by him ex-factory"¹.

Of the six new commodities subjected to excise tax in 1965, five of them were taxed on ad valorem basis. These include household utensil which was taxed at 5% ad valorem, Metal Containers and Tanned Leather on which tax was imposed at 10% each, Reinforcing rounds which was taxed at 20% and Essential and other oils (excepting those enumerated earlier under specific levies) on which 33 $\frac{1}{3}$ % ad valorem tax was imposed. A minimum fixed rate of 1/6d per gallon was also imposed with respect to other oils.

In addition to these, the tax on Travelling Trunks and bags was changed from a fixed rate of 1/- each to an ad valorem rate of 10%. Furthermore, the Tax on Towel and Towelling was increased from 5% to 10%. However, in August 1965, excise duties on Soap and plasticware were removed. As a result of these changes, while the number of commodities taxed at 5% remained at 6, those taxed at 10% increased to 6.

In 1966, all the three new products on which excise tax was imposed were taxed at ad valorem rates. Thus, Liquefied Petroleum gas, Tabs and Rags, and Radiograms and Record players were taxed at 33 $\frac{1}{3}$ %, 20% and 5% respectively.

1. Alternatively, if it appears to the Board that the price so declared is less than the cost of manufacture of the goods and all profits taken or to be taken in respect of the goods, duty would be levied on a sum which, in the opinion of the Board is equal to such cost with such profits.

There were no changes in the rates on the other commodities

There were only two changes in 1967 - (1) the rate of duty on biscuits was increased from 5% to 10% ad valorem and (2) the only new commodity - roofing sheets - on which excise duty was imposed, was taxed at 5% ad valorem. Thus, by 1967, 7 commodities were taxed at 5%, 7 at 10%, 2 at 20% and 2 at 33 $\frac{1}{3}$ % ad valorem.

In 1968, however, there were tremendous changes in the taxes. Apart from the fact that eleven of the twelve commodities on which excise tax were newly imposed, were taxed at ad valorem rates, duties on 8 commodities were increased. Thus, Butter (and butter substitutes), Packing Containers, Cosmetics and perfumery, Wooden and Metal Furniture, Imitation Jewellery, Mattresses etc. Ball Point pen¹, Bicycle Tyre and Tube and socks were taxed at 10% ad valorem while Gramophone records and Electric bulbs were taxed at 5%. With regard to increases in duty, excise duties on Soap products and detergent, Blanket, Corned Beef and Enamelware increased from 5% to 10%. Similarly, duties on Towel and Towelling, Travelling trunks and bags, Pneumatic tyres and tubes and Metal Containers were increased from 10% to 15% ad valorem. There were no changes with respect to the other commodities.

As a result of these changes, number of commodities

1. A minimum amount of 1d each was set in respect of Ball Point Pen.

subject to 5% tax fell to 5 while the number taxed at 10% rose to 17. 4 commodities were taxed at 15% and the number taxed at 20% and 33 $\frac{1}{3}$ % respectively remained at two each.

Thus although rates of tax were fairly constant up till 1967, there had been substantial rise in rates in 1968. This, together with the various reconstruction surcharges that have been imposed on all excisable commodities since the latter part of 1967, shows an increasing resort by government to excise for revenue.

Summary

Although excise tax was first imposed in Nigeria in 1939 (i.e. 30 years ago), its use by the government has, for a very long time (up till 1963) been very limited to a very few (at most four) commodities. Developments in the economy which necessitated restrictions of imports also called for increasing resort by the government to excise for revenue.

Thus, since 1964, there has been continuous expansion of the coverage of excise. In addition, although tax rates tended to be largely constant between 1964 and 1967 on the new additions of excisable commodities, there were remarkable increases in the rates in 1968. Also, since 1964 there has been more emphasis on ad valorem basis of excise levies than flat rates. The ad valorem levies are based on manufacturer's ex-factory prices. But a remarkable stage has been reached by

the successful use of retail price as the base of ad valorem levy on cigarettes.

Furthermore, the very rapid increase in the use of excise since 1964 has been influenced to a large extent, by the government's effort in 1964 to protect the Balance of Payments position and by the finance policies that has been made necessary by the outbreak of civil war in the country.

Lawyers get too pre-occupied with what laws they want enacted, what revenue yield to expect, what amendments or additions they want to the existing structure, without really bothering much about what adequate adjustments should be made in the administrative set up to cope with the changes they are effecting.

The worth of a tax law lies in the possibility of its being translated into reality by ensuring compliance. This possibility will depend to a considerable extent on how efficient the administration is. What administrative set up will be deemed adequate should be determined, not only against the background of a particular country, but also depends on the nature of the particular tax.

The question of compliance turns on how well tax payers understand the law (i.e. how clear the law is), how much they resent the tax, and to what extent the administrative machinery is

CHAPTER 3ADMINISTRATION

One of the very important 'principles of taxation' to which, unfortunately, very little attention is usually given is efficiency in administration of tax. All too often one finds that policy makers get too pre-occupied with what tax laws they want enacted, what revenue yield to expect, or what amendments or additions they want to the existing tax structure, without really bothering much about what adequate adjustments should be made in the administrative set up to cope with the changes they are effecting.

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The question of compliance turns on how well tax payers understand the law (i.e. how clear the law is), how much they resent the tax, and to what extent the administrative machinery is

competent to enforce the law. For a tax administration to be efficient therefore, particular attention must be given to the questions of certainly as to what, when and who to pay, and how adequate the administrative organisation is for the task.

Otherwise, much room will be left for evasion and avoidance which might defeat the purpose of the tax. It is to these factors we shall largely address ourselves in the examination of excise tax administration in Nigeria.

1. CERTAINTY A well drafted law facilitates administration.

While it is within the premise of a legal draughtsman to say how a law should be drafted, certain guidelines can be prescribed. It is absolutely essential that tax law should be written and set out in a way potential tax-payers will clearly understand. Having in mind that people liable to pay tax are in a large measure not versed in law and might not be able to afford the services of a legal practitioner, or an accountant, a tax loaded with technical legal jargon can only cause confusion. It is vital therefore that the law should set out, in clear terms, the rights and obligations of tax payers, and, of course, the penalties they incur for non-compliance. It should, in particular, leave no doubt as to what, when and who to pay.

2. See 'Notice by Board of Customs and Excise', No. 29 of 1967, part VI 3. 27(b), Federal Official Gazette (extraordinary) Vol. 54, No. 95 of 1967 at P. 1655.

In certain cases, the Board allows some factories to pay duty on their deliveries rather than production for a month. Such indulgence does not in any way overrule the obligation to pay at the rate obtaining at the time of manufacture. Therefore where goods produced before the change in tariff remained in stock for some time after the change, the principle of 'first in, first out' is applied in calculating the duty payable.

That this principle should be applied was established in 1965 when the duty on portable spirits was reduced from £7 per gallon to 2/6d per 1% of alcohol (an equivalent of about £5 per gallon). After the reduction, the manufacturers, who enjoy the indulgence of paying excise duty on their deliveries, proceeded to pay duty on the stock they had before the change in duty at the new rate. The Board called attention to this irregularity and the manufacturers were made to pay the accumulated difference between what was due at the old rate and what was actually paid in respect of this stock.

Therefore one can say at least tentatively, that the law provides adequate machinery for the ascertainment of when excise is due and what amount is due. And where the Board exercises a discretion - as to when actual payment is to be made - the machinery adopted is such as to leave no doubt in the minds of the payers as to when to pay.

Who to pay

Excise duty is required to be paid by all manufacturers of excised products. All such manufacturers are expected to operate only under excise licence issued by the Board of Customs and Excise, build their premises to a particular specification to facilitate excise control and have them entered with the Board. And it is a criminal offence to start or continue to manufacture any product after it has been subjected to excise without first satisfying these requirements.

However, in respect of some commodities, certain categories of products are exempted. For example the law specifically exempts tobacco manufactured in the native way from the excise levies on tobacco products. Similarly, native liquor is specifically exempted from the beer and wine levies. These exemptions apply only to the commodities indicated, and no other. And there is nowhere in the excise law where any manufacturer of excisable commodity is specifically exempted from payment of excise duty on any other ground.

However, it could be argued that the use of the word 'factory' in section 5 of the General Excise Regulations, 1960¹ tends to give

1. L.N. 114 of 1960

1. This is discussed further below. See *infra* pp. 97-101.

an impression that the law intends that factory units in which less than ten people are employed should be exempted from payment of excise. Such argument could only be based on the ground that another government Act, the Factories Ordinance 1955, defines 'Factory' as "any premises in which or within the close or cutilage or precincts of which ten or more persons are employed for, or incidental to the making of any articlebeing premise within which the work is carried on by way of trade". It should be pointed out, however, that since no reference was made to the Factories Ordinance in the 1960 excise regulations, the mere use of the word factory cannot be taken as a strong evidence of an intention of the government to limit liability for excise only to factories employing ten or more people. It is therefore certain that, apart from the exemptions mentioned above with respect to tobacco and beer, the law intends all manufacturers of excisable commodities to pay excise duty¹.

Adequacy of knowledge of the tax

While the onus of finding out what the law is, is on any manufacturer of excisable goods, the law should be adequately brought to his notice in the simplest form possible. As can be seen in chapter 11, there have been many amendments to the excise laws and

1. This is discussed further below. See infra pp. 97-101

tariff since 1958. Notification of such changes in the law, over the years (and in the tariff since 1965) has been done by the publication of only the individual amendments in the Gazette.

As excise taxation is still in a developing stage in Nigeria, the necessity to make frequent adjustments to the main laws and tariff to adapt them to changing conditions cannot be disputed. And it is not reasonable to suggest that the whole law should be republished on each occasion there is an amendment. But the fact that no periodical attempt is made to re-publish the whole law, as amended, inspite of several amendments, might tend to obscure important changes in the law. It would seem reasonable therefore to suggest that all the laws relating to excise and the comprehensive tariff, as amended, should be re-published every year or at least once in two years (as is now being done with imports tariff).

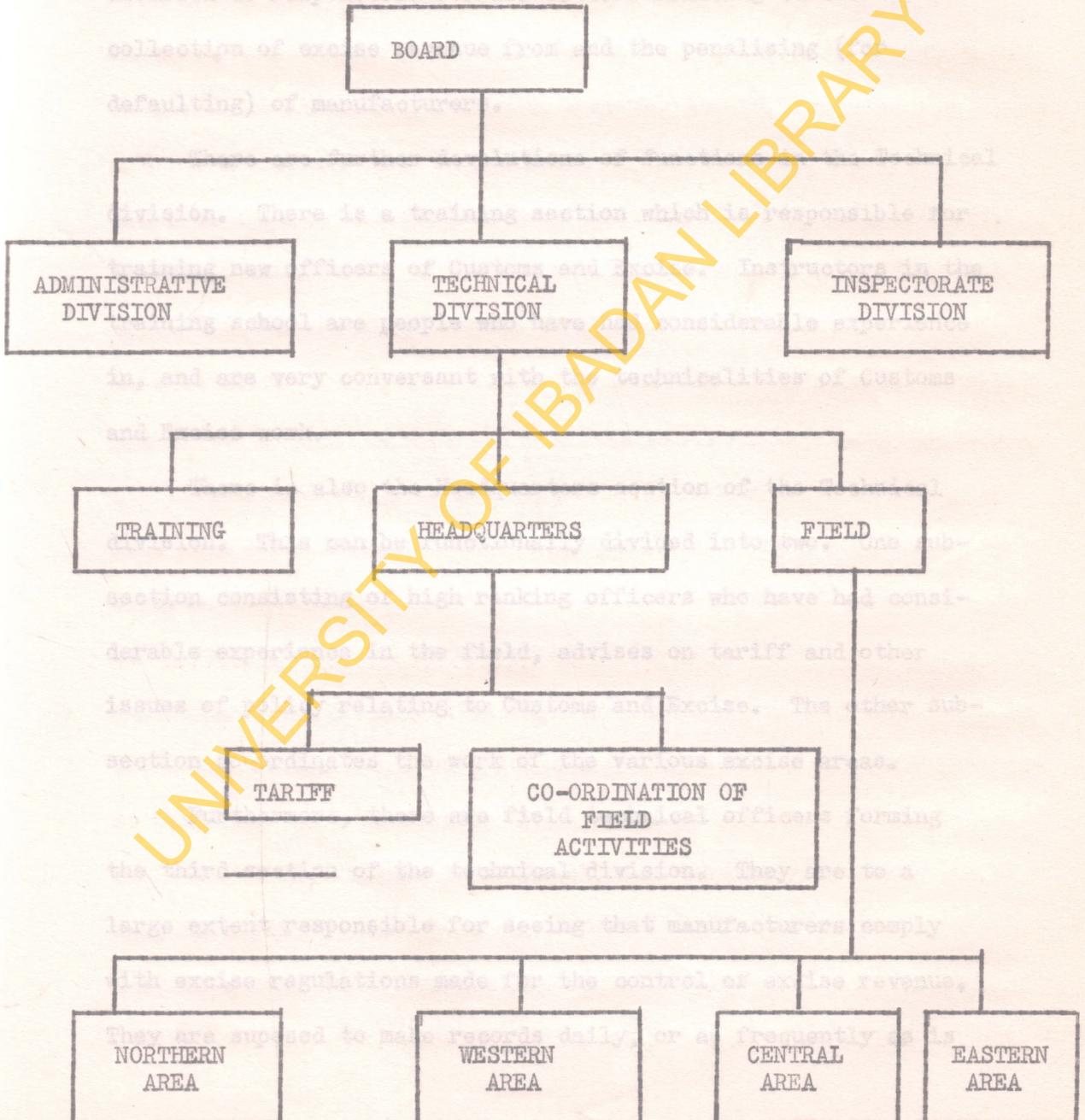
2. ADMINISTRATIVE ORGANIZATION

The overall responsibility for the management of excise is in the hands of the Board of Customs and Excise. The internal arrangement of the Board demarcates three areas of responsibility viz Administrative, Technical and Legal, and Inspectorate Divisions. This is shown in Chart 3 below.

The administrative section deals largely with recruitment and other staff matters, accounts and statistics while the Inspectorate

C H A R T 3

ORGANIZATION CHART FOR EXCISE ADMINISTRATION



Section, comprising principally of Law and Economics graduates, constitutes a watchdog on the operations of officials - particularly of the Technical division. The Technical and Legal division is responsible for all matters relating to the collection of excise revenue from and the penalising (for defaulting) of manufacturers.

There are further devolutions of functions in the Technical division. There is a training section which is responsible for training new officers of Customs and Excise. Instructors in the training school are people who have had considerable experience in, and are very conversant with the technicalities of Customs and Excise work.

There is also the Headquarters section of the Technical division. This can be functionally divided into two. One subsection consisting of high ranking officers who have had considerable experience in the field, advises on tariff and other issues of policy relating to Customs and Excise. The other subsection co-ordinates the work of the various excise areas.

Furthermore, there are field technical officers forming the third section of the technical division. They are to a large extent responsible for seeing that manufacturers comply with excise regulations made for the control of excise revenue. They are supposed to make records daily, or as frequently as is

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practicable, of the production of manufacturers as well as check consistently through stocks and other records they might think necessary to ascertain the correctness of recorded figures. These records are used in checking the correctness of the returns of manufacturers. Officers of this section have the most frequent contact with manufacturers. The section, therefore, forms the core of excise control and the level of efficiency attained here will, to a large extent, determine the overall level of efficiency in excise management. It is therefore relevant to explore a little further into the structure and deployment of personnel in this section.

The structure and deployment of technical personnel

Column 11 of Table 3.1 shows the requirements for employment into various cadres in the hierarchy of excise tax administration in Nigeria. It can be seen that the highest point at which anybody can get on excise staff is at the level of Collector. Though graduates are employed, further training is still undertaken. Graduates of Law and Economics form the bulk of personnel at this level.

Entry into higher posts is by promotion based on experience. Responsibility at and above the cadre of Collector centres largely around supervision and policy formulation.

TABLE 3.1

HIERARCHY OF TECHNICAL PERSONNEL

I	II
C A D R E	H O W A P P O I N T E D
Comptroller	By promotion from grade of Chief Collector
Chief Collector	By promotion from grade of Principal Collector
Principal Collector	By promotion from grade of Collector
Collector	(1) Direct employment of holder of appropriate University Degree (or its equivalent) plus, at least, 1 year training in the training school and on the job, OR (2) Promotion from Grade of Assistant Collector Grade I
Assistant Collector Grade I	(1) Direct appointment of holder of qualification above West African School Certificate plus at least three Years training in the training school and on the job; OR (2) Promotion from grade of Assistant Collector Grade II
Assistant Collector Grade II	Direct appointment of holder of West African School Certificate plus at least three years training in the training school and on the job

(4) Below the level of Collector, considerable premium is placed on specialised training for the job. Thus the period of training is as long as three years. During the training the trainees are made to become familiar with processes of manufacturing certain excisable commodities (like beer, cigarettes, matches and spirits) as well as taken through special courses in accounting and arithmetic (properly adapted to suit excise work)¹. The intensity of this training is necessary because it is the Assistant Collectors who are actually responsible for checking and recording production and stock positions of manufacturers.

For purposes of performing the Field functions, Nigeria is divided into four excise areas (coinciding with the administrative division for Custom control) viz -

- (1) Northern area, extending from the northernmost part of the old Northern Region and extending south of Rivers Niger and Benue;
- (2) Central area which coincides with the Mid-West State;
- (3) Eastern area consisting of the old Eastern Region and extending north to River Benue, and

1. By March 1964 "the position had been reached where every new entrant into the Department of Customs and Excise received one form of training or another before assuming duty" - Chief Festus Okotie-Eboh; "National Budget 1964".

(4) Western area including the old Western Region and Lagos Territory, extending north to River Niger and east to the Mid-West State border.

As can be seen in Table 3.2 the total number of excise factories in the country was 132 in 1966, 132 in 1967 and 267 in 1968. Of these, Western area alone had 68, 70 and 185 respectively¹. Thus Western area had 51.5%, 53% and 70% of total excise factories in the respective years. This shows a high concentration of excise factories in the Western area. Its feature can consequently be taken to be reasonably representative of all. We shall therefore limit our examination of deployment of technical personnel to the Western Area.

There were, in 1968, altogether 185 excise factories in the Western area. These were largely concentrated in two areas: Apapa and Ikeja. These two areas had 80 and 69 excise factories respectively. Apapa area, in our classification, covers Lagos area, Apapa and Ebute-Metta while Ikeja area covers areas around Palm Groove, Ikeja and Yaba. The remaining thirty six are distributed over a very wide geographical area with one at Ikorodu, two at Ewekoro, three at Abeokuta, four at Ijebu, twenty at Ibadan, two at Ilorin and one each at Ogbomoso, Ilesha, Ikare and Owo.

1. Board of Customs and Excise.

T A B L E 3.2

CHANGES IN NO. OF EXCISE FACTORIES
1966 - 1968

Year	Western Area	Northern Area	Eastern Area	Central Area	Total
1966	68	25	36	3	132
1967	70	26	32	4	132
1968	185	77	-	5	267

Source: Board of Customs and Excise

And the two at Ilorin are large factories - Matches and cigarettes factories. In Ibadan, about eight of the twenty factories are located within four miles radius of the biggest factory - the tobacco factory. Of the 185 factories, metal and wooden furniture alone claim 58. This is not surprising since these are factories which require very small capital to set up and one finds many indigenous craftsmen entering the industry. This number, however, accounts for less than one-sixth of the total number of furniture factories in Lagos, Abeokuta and Ibadan in which there are excise furniture factories. While there are few fairly large furniture factories which bring in fairly large revenue, the typical factory pays very little revenue.

As a rule, certain factories have excise officers permanently attached to them. These are beer, cigarettes, spirits and matches. In the Western area, there are 3 beer factories, two cigarette factories, one portable spirits factory and three matches factories. In addition, some big factories in which production processes are very complicated have excise officers attached to them. Thus factories like Dunlop and Nigerian Textile Mills have permanent officers attached to them. This means that eleven out of 16 Assistant Collectors in the Western Area in 1968 were permanently attached to various factories in the Western Area. Officers permanently attached are usually of the rank of Assistant Collectors.

Excise has always been administered as an adjunct of customs business to officers of the highest rank has always been dictated by and sub-ordinate to their customs business.

And each officer permanently attached to a factory is usually given additional responsibility for some small factories in the neighbourhood. Bearing in mind that much of these officers' time is likely to be taken up by the big firms (to which, as can be seen above, most of them are permanently attached) it is obvious that daily visit to all the factories would just be impossible. Thus most of the factories are visited only occasionally. (This means that in most cases the Board has to depend largely on the returns made by manufacturers).

Supervision and co-ordination in the Western Area is placed in the hands of three Collectors of Excise, one Principal Collector of Excise and two Chief Collectors¹. The Chief Collectors have both customs and excise duties to perform. Their allocation of areas of authority is governed by the position of Ports². One is responsible for Lagos area excluding Ikeja, while

1. Up till 1968, there was only one Chief Collector for all Customs and Excise business in the Western Area. For the first four months of 1969, the number increased to two - one for Customs and the other for excise business. As from May 20, 1969, however the number further increased to three - one for Customs business only, and the remaining two for Customs and Excise business in two newly created sub-divisions of the Western Area.

2. Excise has always been administered as an adjunct of customs business in Nigeria. Thus, allocation of excise business to officers of the highest rank has always been dictated by and sub-ordinate to their customs business.

the other is responsible for Ikeja Area plus the rest of the Western Area¹.

This supervisory and co-ordinating set-up is, however more of an ideal framework than one which the Board feels strongly committed to fill or retain at all times. In fact, there has been no time since 1968 when the staff position at this level has met the requirements of the framework. Officers of the rank of Collectors and above are juggled between customs and excise duties where the authorities feel there is more need for them - a practice which might not augur well for consistency at this level of control. The recent changes at the top (see footnote 1, page above) only reflect at best, a recognition of the increasing scope of excise business. However, the adequacy of staff can only properly be examined in light of the strategy of control that is, or should be adopted in light of circumstances.

Control Strategy

The volume of work that would be required to be done by the technical personnel will depend, to a considerable extent, on the strategy of control adopted. Two approaches are possible

- (a) The Board might rely, to a large extent, on the integrity and honesty of the taxpayers to make correct returns of

1. See: "Administrative changes, Board of Customs and Excise", Daily Times of Nigeria, May 20, 1969 p. 2.

their production and tax liability. In which case it will only restrict its control activities to close scrutiny of randomly selected factories or fairly infrequent visits to the factories to undertake very detailed examination of their records. Detected evasion and avoidance could then be met by heavy punishment and the odium of public exposure of offenders to deter others. In that case, the volume of work required to be done by the technical personnel would be fairly light and staff requirement would therefore be correspondingly low. As has been shown above, this would appear to be the strategy adopted with respect to most of the factories.

(b) The second approach is 'consistent and comprehensive control' involving at least daily checks of factories' productions, flow of materials, and flow of finished goods. The law about stationing officer permanently with excise factories, if necessary, seems to have this approach in view. This approach definitely involves a greater amount of work and consequently requires larger staff strength.

As we have shown above, officers are permanently attached to some factories in which production processes are very complicated and on whose products high excise revenue is collected. It would seem therefore that these two strategies are adopted in excise management in Nigeria. The consistent and comprehensive control is directed towards the big factories while the less

comprehensive approach is directed towards the smaller ones. In order to evaluate this administrative set-up properly, it will be useful to examine briefly, the problems of evasion and avoidance that arise under the legal and administrative framework.

Problems of Evasion and Avoidance

The problems of evasion and avoidance divides naturally into two parts:

- (1) A feeling of resentment towards the tax and
- (2) Loopholes provided by the legal and administrative framework for evasion and avoidance.

Resentment

The problem of evasion arises out of the fact that people naturally resent payment of tax. The higher the degree of resentment people have to a tax the greater their attempts at evasion and avoidance would be. And the more adversely a tax affects the taxpayer, the greater the payer's resentment would be. (In the particular case of excise, the taxpayer - i.e. the manufacturer - could be said to be adversely affected if his sale, and consequently his profit is thereby reduced).

Throughout the history of excise in Nigeria, it has been the clear intention of the government that they should be shifted fully to the consumers. Thus the Excise Tariff Ordinance, 1958 stipulates that, unless there is agreement to the contrary, the seller

(manufacturer) may, in case of goods which were caught up by tariff change before delivery, adjust the contract price by the full amount of the change in duty he has to pay on them. In which case, the manufacturer is supposed to be a mere collecting agent, neither gaining nor losing by the levy.¹

The fact that it is unlikely that the manufacturer's position turns out to be that of a neutral agent raises the question of how much the tax would affect him and therefore how much he would resent it. The extent to which he would resent the tax would therefore depend on the compliance cost, the possibility of shifting the tax, and his relative tax position vis-a-vis other producers of the same commodity.

The Nigerian Excise Law requires that the manufacturer should:

- (a) build his factory and keep his records in certain ways that would facilitate excise control;
- (b) provide, if required to do so by the Board, living accommodation and/or properly furnished office on his premises for the tax official;
- (c) provide measures by which his products could be gauged by the tax official; and

1. But as we will show in Chapter IV, he can theoretically gain or lose depending on the conditions of supply and demand for his product.

(d) register with the Board at a prescribed fee.

To meet these requirements would obviously involve the manufacturer in greater expenses than would otherwise have been necessary to meet the normal production costs.

This additional expenses might not mean much to large establishments since it would probably be a very insignificant proportion of their costs. It would obviously be different in the case of small establishments. Costs of complying might, in the latter case, result in substantial increase in cost of operation.

Similarly, although the excise tax levied is supposed to be passed on to consumers, at the time of payment it represents an increase in the cost of the manufacturer. And the extent to which it is possible to shift the tax (and, of course, the compliance cost) depends on the forces of the market for his commodity. To the extent that these additional costs cannot be shifted, his profit will be affected and to this extent a feeling of resentment will be generated.

Furthermore, inefficiency in administration or deficiency in the law whereby similar manufacturers do not pay similar amount of tax will tend to accentuate the resentment. This is because of the shift (against those who pay more and in favour of those who pay relatively less) which would result in the cost

ratio (and possibly relative share of the market) of the producers.¹

Bearing in mind therefore that the possibility exists of a measure of resentment of the tax by the manufacturers, it is to be expected also that they would seize any opportunity afforded by an weakness in the law and/or administrative set-up to evade and avoid the tax. It is relevant therefore to take a fairly close look at the loopholes provided in the laws and administration of Nigeria's excise.

(ii) Loopholes for Evasion and Avoidance

1. Rate Structure Although the law is clear on rates and base of calculation, there is loophole for avoidance in respect of duties levied on ad valorem basis on goods

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1. For example, as indicated by J. F. Due in his book "Taxation and Economic Development" op. cit. p. 97 the Nigerian excise levy in 1960, on soap manufactured in 'factory-type' establishments resulted in a substantial shift in consumption to home made soap. This, it would be expected, drew sharp complaints from the factory-type manufacturers. A similar situation could also develop in the furniture industry where there is a host of manufacturers on whose products excise duty is not paid. To a considerable extent, the products of these factories are sufficiently good to be able to compete effectively with the products of the furniture excise factories. And since the excise tax would tend to move the cost ratio against the latter, the sales of the former could very easily undermine the sales of the latter and thus accentuate the latter's resentment to the tax.

2. See supra, p. 22 footnote

other than cigarettes. Selling price in cases of commodities other than cigarettes is defined as price declared by the manufacture as his ex-factory price, including profits but excluding duty payable.¹

Suppose manufacturers A and B produce a commodity subjected to an ad valorem excise duty. A maintains an outlet company C which is a distinct legal persona, to which all its products are sold at price £a per unit. A declares this £a per unit for excise purposes whereas the outlet company C sells it at £b per unit where £b per unit is the market price and £a is smaller than £b. Manufacturer B sells at £b per unit which he also declares for excise purposes. Obviously, manufacturer A will be paying less tax per unit than manufacturer B.

Unfortunately, even if, in accordance with the proviso provided to the definition of the manufacturer's price², the Board decides to impute a price which it thinks truly represents the cost plus profit of manufacturer A, it will not be able to go much higher than A's declared price. This is because it would not be possible to add to the profit

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1. See supra; pp. 58-59.
 2. See supra; p.59 footnote 1

any retail on the market¹ (just as is done now with cigarettes).

2. The working of the administrative set-up Certain aspects of the working of the administrative set-up also give loopholes for evasion. These include, inter alia, (a) the control system and (b) the administrative conditions for getting factories licenced.

(a) The control system The weakness of the control system derives from the fact that too much room is left for corrupt practices² and that it places too much reliance on the honesty of small-sized businesses.

As mentioned earlier, in accordance with the law, tax officials are stationed permanently with some big and high revenue yielding factories. While this might be necessary to ensure consistent and adequate control, it might be self-defeating if not tactfully implemented. This follows

from the fact that the possibility cannot be ruled out of having corruption in the form of bribery and influence among tax officials. (See S. Surray: Tax Administration in Underdeveloped Countries; third and fourth editions, pp. 319. And an indication that corruption

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1. This point is discussed in some detail below.
 2. Infra; pp. 89-90

any tax official being corrupt or corruptible¹. Thus, given enough time, a corrupt officer, can, for monetary reward from the manufacturer, get into the practice of colluding with the taxpayer to make evasion possible.

The administrative system gives much room for this type of corrupt practice. Officers permanently stationed with any factory are seldom transferred unless anything suspicious is discovered about them. Thus, very often, there is usually more than enough time for officers to get a little too involved in the administration of the factories they are assigned to, and for the willing minds to get manipulated into divided loyalties. A bribe of a few hundred pounds to save thousands of pounds annually will be an attractive idea to any company which sees a soft spot in the officer stationed with it.

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1. As pointed out by S.S. Surrey, "even countries with good personnel policies and traditions of fine administration have seen corruption in the form of bribery and influence emerge in unexpected places". See S.S. Surrey; "Tax Administration in Underdeveloped Countries"; Bird and Oldman, op cit p. 519. And an indication that corruption exists among the staff of the Department of Customs and Excise is given by the recent resolution of the department "that the few elements who are prone to corruption and abuse of office should be purged". (See "Public statement issued at the end of the 1969 Seminar of the Department of Customs and Excise", Daily Times of Nigeria, July 26, 1969, p.9).

It could be argued that (1) liberal salaries and bright prospect of advancement, (2) severe punishment for all the parties (the tax official or his agent and the manufacturer) involved in the act of corruption,¹ or (3) periodical investigation of the net worth of tax officials as suggested by S.S. Surrey² might deter officials from corrupt practices. While one might agree that these might be necessary, they are definitely not sufficient. The most important thing is that the administrative system should not make it possible for the parties to get away with acts of dishonesty easily.

Matters are worsened by the fact that once the sort of collusive practices, mentioned above, between the tax official and the manufacturer develops, both of them would always take care that their records agree. It would thus become very difficult for the supervisory and inspectorate staff to discover any trait of evasion during their routine checks.

It would seem much better therefore that instead of the present practice of keeping a stationed officer at a place till a malpractice is discovered about him, a system of regular inter-factory transfers should be adopted. This will further check as well as reveal any collusion quickly. And bearing in mind that

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1. This sort of provision was made in the 1941 Excise Ordinance but unfortunately was not provided for in the 1958 Act.
 2. Ibid.

every officer is given the same training in excise work as the others, this system of inter-factory transfer should not lead to a fall in efficiency. Unfortunately,

Furthermore, the very little attention paid to small factories gives much room for dishonest practises. As mentioned earlier, most of these small factories are visited only infrequently by the field staff of the technical division. The best they could do on such occasional visits would definitely not be more than go through the records of the manufacturer to ascertain what his production has been. Any dishonest manufacturer would therefore be able to evade tax for as long as possible by simply under-playing the scale of his operation in his records. For example, a survey by officials of the Department of Customs and Excise in 1965 revealed widespread practices of fraudulent entries rampant especially in medium and small sized factories producing footwear and singlets.¹ And this practice cannot be ruled out now in case of the furniture industry where the typical size of the factory is small and so is not subjected to very rigid control.

1. The proprietors of some of these factories were described in official circles as "unscrupulous men who had no name or business integrity to protect".

1. H.S. Surrey, Bird and Oldham, op.cit. p. 509

As mentioned earlier, a necessary complement of this system is adequate and public punishment of defaulters to prevent recurrence as well as to deter others. Unfortunately, in several ways, the department of Customs and Excise has been lax in applying adequate sanctions to ensure promptitude and honesty in compliance and to deter potential defaulters.

One way in which this laxity is revealed is the practice of compromising detected cases of fraudulent entries and other attempts to evade or avoid tax with offenders instead of publicly applying the sanction. Such compromise often results in the offenders being granted the indulgence of paying up the amount involved over a period of time! This practice shows anything but an intention to deter others. While the procedure of tax control should, as much as possible, "furnish internal methods of settlement" (of controversies between the taxpayer and the tax administrator) "within the administrative system",¹ it is unthinkable that established cases of fraud should be compromised rather than promptly subjected to external methods of judicial consideration. Honesty should be publicly and firmly demanded. This is particularly necessary where the strategy of control places much reliance on the honesty of the taxpayer.

1. S.S. Surrey, Bird and Oldman, op.cit. p. 509

It is realised that occasionally, the amount involved in these discovered fraudulent practices might be sufficiently large to leave the manufacturers with no option other than to fold up if forced to pay all at a time. Pressing them to this stage might therefore result in some adverse effects on the economy - like causing the labour employed in these factories to be laid off¹ or giving an impression of intolerance for small businesses. But this is not enough reason to justify a compromise bearing in mind that the situation would not have arisen if the manufacturers had not been fraudulent initially.

It would probably be relevant, to emphasise the point of laxity in enforcing the tax, to have a brief look at the extent to which 'tax delinquency' has existed. As can be seen from Table 3.3, for the first six months of 1967, a monthly average of 14.7% of monthly revenue collected was in default. This percentage rose to an average of 22.2% in the first six months of 1968. This shows that the rate of tax delinquency is increasing.

Part of the amount shown to be in arrears included amounts which have been accumulated for over two months (the minimum period after which, as we have shown earlier, sanction should be levied) without any sanction having been levied. Furthermore, as can be

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1. This would be particularly averse to the government's policy of encouraging absorption of indigenous labour into the industrial sector. See: *Infra*, pp . 147-149

TABLE 3.3

ARREARS OF EXCISE TAX REVENUE
1967 & 1968

M O N T H	1 9 6 7			1 9 6 8		
	Total Revenue Collected	ARREARS*		Total ⁺⁺ Revenue Collected	ARREARS*	
		Amount £'000	% of Total Revenue		Amount £'000	% of Total Revenue
January	3,403	423	12.4	1,411	593	42.0
February	2,933	399	13.6	1,718	332	19.3
March	3,470	651	18.8	1,390	219	15.8
April	3,152	442	14.0	1,642	258	15.7
May	2,885	542	18.8	1,541	369	23.9
June	2,452	211	8.6	2,423	397	16.3

Sources: + Central Bank of Nigeria, Figures supplied to the Bank by the Board of Customs and Excise

* Board of Customs and Excise

T A B L E 3.3

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Sources: + Central Bank of Nigeria, Figures supplied to the Bank by the Board of Customs and Excise

* Board of Customs and Excise

seen from Table 3.4 (which shows the amounts of excise duties owed by some companies producing excisable products on the point of liquidation) arrears of excise duties are occasionally allowed to accumulate to amounts which exceed the bond/cash security and total value of the assets of the company. In fact, up till March 1967, unrecovered duties still owed in respect of singlets was £8,657 in the Western and Eastern Areas, and, in respect of footwear, was £19,000 in the Northern Area. These products were de-excised as far back as August 1965. One would expect that the necessary penalty should have been imposed long before 1967.

The facts of the recent case of the "Board of Customs and Excise versus Techno-flex Company Ltd."¹ also show this delay, by the department of Customs and Excise to reprimand tax delinquency. In that case, Techno-flex Company Ltd. was, allegedly, consistently evading payment of excise duty. The allegation was not investigated until January 1967 (about 15 months after the product of the company - plastic footwear - was de-excised!). But the case did not actually come up in court until July 1969 (about 2½ years after the investigation!!).

1. See: "Company sued for £24,000 - Customs claim excise duty"; Daily Times of Nigeria, Saturday 26th July 1969

TABLE 3.4

ARREARS OWED BY COMPANIES IN VOLUNTARY LIQUIDATION

FACTORIES	ACCUMULATED ARREARS £	AMOUNT REALISED FROM SALE £	UNRECOVERED ARREARS £
Polymera Industries Limited	9,565	681	8,884
Jabr. Brothers	4,333	4,954	-
Utrilon (Nigeria) Limited	499	499	-
West African Industrial Ventures	1,476	507	969
Hira Industries	236	120	116

Source: Board of Customs and Excise. See: *infra* p. 101-107

This laxity in imposing sanction on excise tax evaders (and other excise tax defaulters) is definitely inconsistent with the strategy of control (adopted with respect to majority of the excise factories) which places much reliance on the honesty of taxpayers. A more consistent and comprehensive system of control, whereby records of production of all the excise factories would be taken daily¹, would work better. It would, for example, reduce the chances of evasion and thus leave less for legal sanctions to accomplish. Also, taxpayers compliance should be more firmly demanded by prompt and open imposition of sanctions on evaders so as not to give an impression that the tax is not being effectively enforced. Furthermore, a system of regular inter-factory transfers should be adopted as a built-in device to check evasion made possible by dishonest collusion between taxpayer and tax official.

b. Administrative conditions for licencing

As we have pointed out earlier, the law engages all factories producing excisable goods (except those specified in the case of tobacco and beer) should be liable for the payment of

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1. The problems of relating administrative cost to revenue yield (especially on small establishments) under such a system of control is discussed later. See: Infra p.

Industries would not issue a licence to any manufacturer of excisable commodity to obtain his inputs at concessionary rates

PP 105-107

excise tax. But the Board, ostensibly for administrative reasons adopted, in 1960, the factories Act definition of 'factory' to require that liability for payment of excise duty on soap would be limited only to factories employing ten or more persons in manual labour. Since soap was de-excised in 1961, there has not been any such criterion specifically laid down to set a limit to factories which should be liable for or exempted from excise duties.

However, apart from manufacturers who voluntarily register for excise licence, the system whereby factories manufacturing excisable commodities get included in the excise tax list is such that might make it possible for some factories to escape payment of excise duty. This system (which we were able to establish is adopted from our discussions with top officials of the Ministry of Finance and the Board of Customs and Excise), relies very much on what a top official of the Ministry of Finance described as the strategy of "giving the carrot and then applying the stick".

Under the system, reliance is placed on the various concessionary rates of import and/or excise duties (the carrot) to induce manufactures of excisable products to register for excise licence. Thus, under the Approved User Scheme, the Ministry of Industries would not issue a licence to any manufacturer of excisable commodity to obtain his inputs at concessionary rates

of import and/or excise duty (where applicable) unless he possesses a current excise licence.¹ Also, by Schedule 2 to the Excise Tariff Act, 1965,² goods to be used "in the manufacture of other excisable product" are exempted from duty. It is clear from this that only manufacturers of such final products who are registered with the Board of Customs and Excise would be able to enjoy this facility. The strategy therefore is that any manufacturer who seeks to enjoy these concessions would first have to register with the Board.

In addition to this, some liaison exists between the Ministry of Finance and the Ministry of Industries whereby it becomes possible for the latter to find out manufacturers of excisable products and thus get them to register with the Board. Any information which the Ministry of Industries can give will, however, be in respect of only factories in which ten or more people are employed since the Ministry compiles list of factories of this size only. Unfortunately, even in this respect, the Ministry of

1. See: A. O. Phillips; op.cit p. 324

2. Op cit; See sub-item 2 of item 7.

2. If for example, the amount of (import and/or excise) duty that the manufacturer has to pay on the inputs required to make a unit of the final output is greater than the excise duty he would otherwise be required to pay on that unit of final output, he would prefer paying duty on the input to paying excise duty on the final output.

Industries cannot claim that its information is up-to-date¹.

Obviously, these means of getting excise factories on the tax list would be sufficient to take care of industries where the typical size of the factory is large. But in case of industries where the typical size of the factory is small, and in which there is a preponderance of indigenous craftsmen operating in a small factory units, (e.g. soap, singlets, footwear, furniture, mattresses and leather bag industries) the means would be inadequate. This inadequacy arises out of the fact that many of the producers in these industries neither register with the Ministry of Industries nor seek concessions either (a) because they are ignorant of such concessions, or (b) because they would be worse off if they have to pay excise tax on the finished product than on the input², or (c) because they want to avoid the prying eyes of the tax official.

1. The Ministry of Industries itself recognises the shortcomings of its methods of compiling list of manufacturers and cautioned in the 1967 Industrial Directory that "there is no formal method by which changes in company status are communicated to the Ministry" and that "it is possible that some information is not up-to-date or that companies exist which have been overlooked. See: Industrial Directory, 4th Edition 1967; published for the Federal Ministry of Industries, (Lagos, National Press Ltd.) p.1.

2. If for example, the amount of (import and/or excise) duty that the manufacturer has to pay on the inputs required to make a unit of the final output is greater than the excise duty he would otherwise be required to pay on that unit of final output, he would prefer paying duty on the input to paying excise duty on the final output.

The result is that is a common feature of these industries that many of the factories remain outside the tax net. This is evidenced by the fact that (in Lagos and Ibadan for example), a considerable number of furniture factories, (which are even situated along the highways) are not operating under excise licence. And almost invariably, these factories produce furniture of very high quality, and, in many cases, on as large a scale (of employment and/or output) as some of the factories operating under excise licence.

SUMMARY AND CONCLUSIONS:

From the fore-going, one arrives at the inevitable conclusion that the administration of excise in Nigeria makes the tax look very much like a tax of "honesty and bigness". This conclusion stems from the adoption of manufacturer's ex-factory price as base of ad valorem levies, the system by which manufacturers of taxed commodities are included on the tax list, and the strategy of control adopted.

We have shown above that basing ad valorem levies on manufacturer's ex-factory price gives much room for tax avoidance. And we have suggested that the mode of levy should be changed to a combined flat and ad valorem rates structure or be based on retailer's selling price as is being done now with cigarettes. However, the succesful application of the latter mode of levy

will depend very much on the possibility of a resale price maintenance in the Nigerian market. At the moment, many manufacturers in Nigeria neither undertake the retailing of their products nor control the prices at which their products are sold retail. However, the considerable measure of success in resale price maintenance noticeable with respect to cigarettes (a success which is very largely attributable to wide advertisement of price and effective control of price policy at wholesaling stage) would give the impression that it would succeed with other products if the manufacturers co-operate.

It has also been shown above that the method whereby factories get included in the excise tax list gives room for many factories being left outside the excise tax net. This problem is not experienced with respect to products normally manufactured only in big factories but it appears to be a common feature with respect to products which can be manufactured in factory units of varying size by any standard of measurement. And in some cases, especially where the size of the factory is typically small, this non-compliance is so much and so open as to give an impression that the tax is not being effectively enforced.¹

1. Ans as pointed by J. F. Due, "Nothing destroy taxpayer morale so quickly as the belief that taxes are not effectively enforced". See "Requirements of a tax structure in a Development Economy." Bird and Oldman; op. cit. p. 36

In light of the characteristics of these small factories one wonders if a better system could be evolved to force them to comply. The proprietors of many of these factories, for lack of sufficient capital, operate in sheds and open spaces, and cannot definitely afford to build a factory to the specification required by the excise law for excise control. The outputs of many of them are very small to justify the cost of collection. The principle of economy of collection would therefore justify the exemption of such factories. This raises the problem of setting a criterion on which basis a dividing line could be drawn.

The dividing line could be based on a definite standard of measurement - capital employed, units of production, or labour employed. Although none of these criteria would provide a fool-proof basis against evasion and avoidance, adopting either of them will at least ensure consistency. With respect to capital employed and units of production bases, much will still depend on the honesty of the taxpayers and it might be difficult to disprove dishonest declaration of capital employed or average (daily/monthly/yearly) quantity produced.

Setting the dividing line on the basis of number of people employed provides approximately the most definite and consistent criterion. It should be realised however, that labour requirements

for production of commodities depend on the prevailing methods of production in the particular industries. The minimum labour requirement should therefore be set for each product having regard for the peculiarities of the prevailing method of production in the industry. This criterion can be supplemented by a concessionary rate structure on the taxed inputs which ensures that the import and/or excise duty required to be paid on the commodity inputs per unit of final output is at least equal to the excise duty that would have been due on the unit of final output. Furthermore, in addition to the close liason with the Ministry of Industries, the Board should regularly undertake a surveillance of the industries to ensure that the excise tax list includes all the manufacturers that should, according to the criterion set, pay the tax.

As to strategy of control, we have shown above:

- (1) that where officers are stationed permanently with a factory, the practice of keeping an officer for too long in a place gives room for collusion between the tax officer and the manufacturer to perpetrate dishonest acts; and
- (2) that the light control extended to smaller factories places too much emphasis on the honesty of the manufacturers while this honesty is not being vigorously

and firmly demanded through prompt application of deterrent legal sanction to discovered cases of fraud and evasion.

Furthermore, we have suggested that a system of regular inter-factory transfer of stationed officers should be adopted. Also, the more consistent and comprehensive system of control whereby tax officers would take daily records of production should be extended to all excise factories. In that case, the present staff strength of the technical division would appear grossly inadequate¹. It would be necessary to revise it on a clearly defined basis.

One such basis could be an appropriately worked out ratio of total amount of work involved to the optimum capacity of each grade of officer. For example, in estimating the total amount of work involved (at factory level) each excise factory could be weighted appropriately having regard to the length of time taken in manufacture, frequency of production, and possibility and necessity of ascertaining the quantity of product at intermediate stages of production.

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1. In fact there is a general opinion at the top cadres of the technical division that staff strength is not being adjusted to meet the rapidly increasing scope of excise work adequately.

If the pattern and flow of production is such as will necessitate frequent checks by excise officers, or if it is necessary to instal additional checks at intermediate stages of production, then high weights should be attached. In other cases, relatively lower weights could be attached. The summation of all the weights could be taken as an estimate of the total amount of work involved.

The optimum capacity of personnel could be estimated as the amount of work an official can take on having regard to the adequacy of his education and further training for the job, and the limitation imposed by the geographical dispersion of excise factories.¹ The required number of field staff for effective control at the factory level could therefore be determined by dividing the total amount of work by the optimum capacity of an official. Such an estimate could also be made with respect to staff requirement at the various other stages of excise control outside the factory level.

Alternatively, one can say that, *ceteris paribus*, maximum efficiency of administration will be attained at the point where the rate of increase in compliance as a result of increase in

1. The limitation imposed by the geographical dispersion of excise factories can be reduced by providing transport facilities to the extent that it would be economically efficient to substitute them for more hands on the job.

staff is equal to zero. If increase in staff is measured in terms of cost of increasing the physical number and capacity of personnel, this optimum will be reached where marginal revenue collected is equal to the marginal cost of administration.

While administration cannot be expected to attain this infinitesimal degree of perfection, it can be brought as close to it as possible. Excise administration in Nigeria, as it now is, is far from such an optimum level of efficiency.

As mentioned in Chapter 3, the Nigerian excise tax law envisages that the tax would be shifted forward to the consumers. However, the possibility of its being shifted depends largely on the market forces, that is, on conditions of demand and supply.

1. There is a host of literature on the explanation of effects of excise taxation offered by the price theory. As pointed out by Richard A. Musgrave, "There is scarcely any tax which offers so inviting a background for price theory as sale (and one might add - tax)." [See R. A. Musgrave, Theory of Public Finance, International Students' edition, (New York: McGraw-Hill Company, 1959), p.287. Other important writers on the subject include, *inter alia*, Alfred Marshall, Principles of Economics, 8th edition, (London: Macmillan and Company, 1961) pp. 343 - 344; R. A. Musgrave, *Ibid.*, pp. 267 - 268; J. M. Henderson and R. E. Quandt, Microeconomic Theory: A Mathematical Approach, (New York: McGraw-Hill Book Company, 1959) pp. 174 - 175; J. F. Due, Government Finance, 3rd edition (Chicago: Richard Irwin, 1963) pp. 263 - 277; A. R. Drost, Public Finance, (London: Wildenfeld and Nicholson, 1960) pp. 52-59; Oswald Browne and George L. Parry; "Effects of 1965 Excise Tax Reductions on Prices", National Tax Journal, Vol. XI, No. 3, 1965, pp. 235 - 249, and Charles McBurn: "Commodity Tax Incidence in Open Economy", National Tax Journal, Vol. XVII, No. 2, 1964, pp. 187 - 204.

CHAPTER 4

POLICY AND PERFORMANCE OF EXCISE

I. ISSUES OF THEORY

Handled properly, excise taxation can be a powerful instrument of economic policy. Its efficacy lies in its effect on price ratios and pattern of production. The effect of excise tax on prices and output turns on the widely discussed question of tax shifting¹.

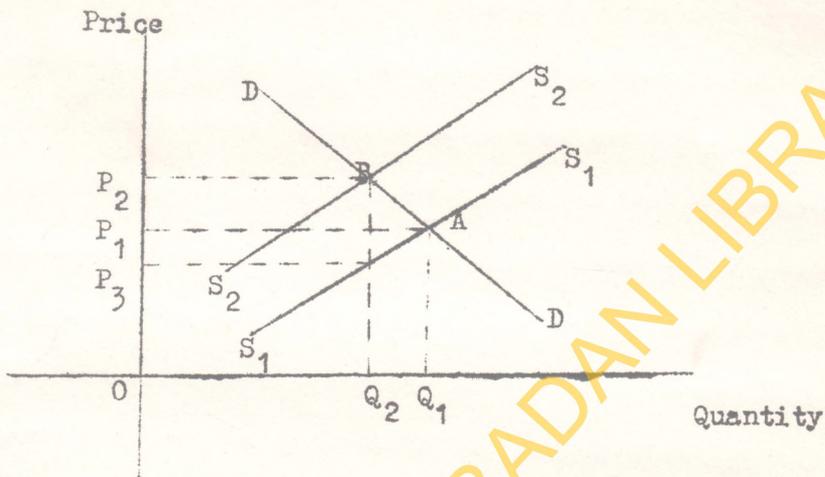
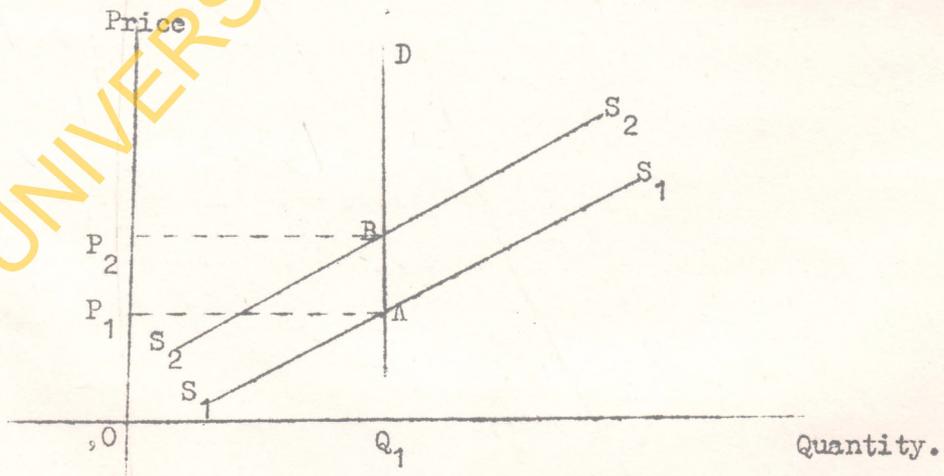
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1. There is a host of literature on the explanation of effects of excise taxation offered by the price theory. As pointed out by Richard A. Musgrave: "There is scarcely any tax which offers so inviting a playground for price theory as sale (and one might add - excise) tax." [See R. A. Musgrave, Theory of Public Finance, International Students' edition, (New York: McGraw-Hill Book Company, 1959) p.287. Other important writers on the subject include, *inter alia*, Alfred Marshall, Principles of Economics, 8th edition, (London: Macmillan and Company, 1961) pp. 343 - 344; R. A. Musgrave, Ibid., pp. 287 - 307; J. M. Henderson and R. E. Quandt, Microeconomic Theory a Mathematical Approach, (New York: McGraw-Hill Book Company, 1958) pp. 174 - 175; J. F. Due, Government Finance, 3rd edition (Illinois: Richard Irwin, 1963) pp. 263 - 277; A. R. Prest, Public Finance, (London: Waidenfeld and Nicholson, 1960) pp. 52-59; Oswald Brownlee and George L. Perry; "Effects of 1965 Excise Tax Reductions on Prices", National Tax Journal, Vol. XX No.3, 1965, pp. 235 - 249, and Charles McLure: "Commodity Tax Incidence in Open Economies", National Tax Journal, Vol. XVII, No. 2, 1964, pp. 187 - 204.

To illustrate this, let us assume that point A in Figure 1 below represents a pre-tax market equilibrium position for a commodity. DD represents the demand curve while S_1S_1 represents the supply curve. And OP_1 and OQ_1 represents the pre-tax equilibrium price and quantity respectively. Since excise tax is an addition to the producer's cost, an imposition of a flat rate excise tax will shift the supply curve from S_1S_1 to S_2S_2 where S_1S_1 is parallel to S_2S_2 and the vertical distance between them represents the amount of tax per unit.

By interaction of supply and demand, a new equilibrium position will be established at B. Thus price increases to OP_2 and quantity falls to OQ_2 . The amount of tax per unit is P_3P_2 . However, of this amount, only P_1P_2 is shifted forward to consumers while P_3P_1 is shifted backwards to suppliers of factors of production.

How much of the tax is thereby shifted forward depends on the relative elasticities of demand and supply. If demand for the product is perfectly inelastic price will rise by the full amount of the tax. This situation is shown in figure 2, where DD represents a perfectly inelastic demand curve for the product. Points A and B respectively, represent the pre-tax and post-tax equilibrium positions. The corresponding equilibrium prices are OP_1 and OP_2 the difference of which is equal to the amount of tax.

FIGURE 1FIGURE 2

Both pre-tax and post-tax equilibrium quantities, however remain the same.

On the other hand, if demand for the product is perfectly elastic, the increase in price that will result from the imposition of excise tax will tend to zero. This is demonstrated by figure 3 below. It will be seen that at both equilibrium positions, A and B, price remains unchanged but post-tax equilibrium quantity fell to OQ_2 from the pre-tax equilibrium quantity OQ_1 . Between these two extremes the proportion by which price will rise will vary inversely as the elasticity of demand. Figure 4 shows the effects of two demand elasticities between these extremes on the shifting of excise tax. S_1S_1 and S_2S_2 represent pre-tax and post-tax supply curves respectively. D_1D_1 represents a curve of low elasticity of demand, while D_2D_2 represents a curve of highly elastic demand. For both of them A represents the pre-tax equilibrium position. B and C represent the post-tax equilibrium positions in case of low elasticity of demand and high elasticity of demand respectively. It will be seen that in the case of low elasticity of demand price rose by P_1P_h , while in the other case, it rose by only P_1P_e . Quantity fell by only Q_hQ_1 in the former case, while in the later it fell by as much as Q_eQ_1 .

Similarly, the process of market adjustment to tax and the

FIGURE 3

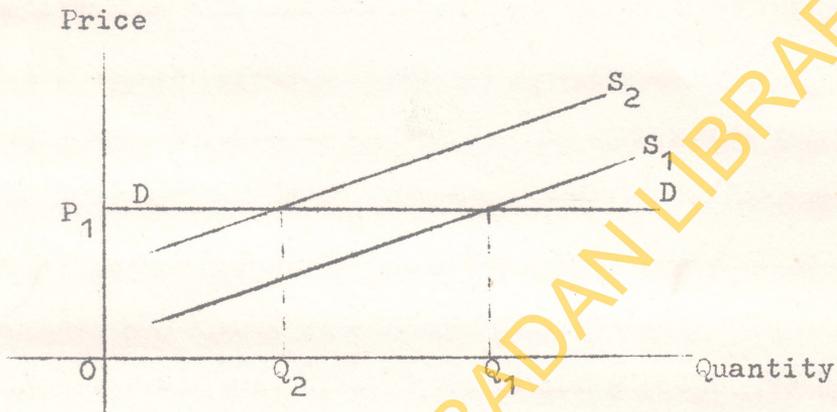
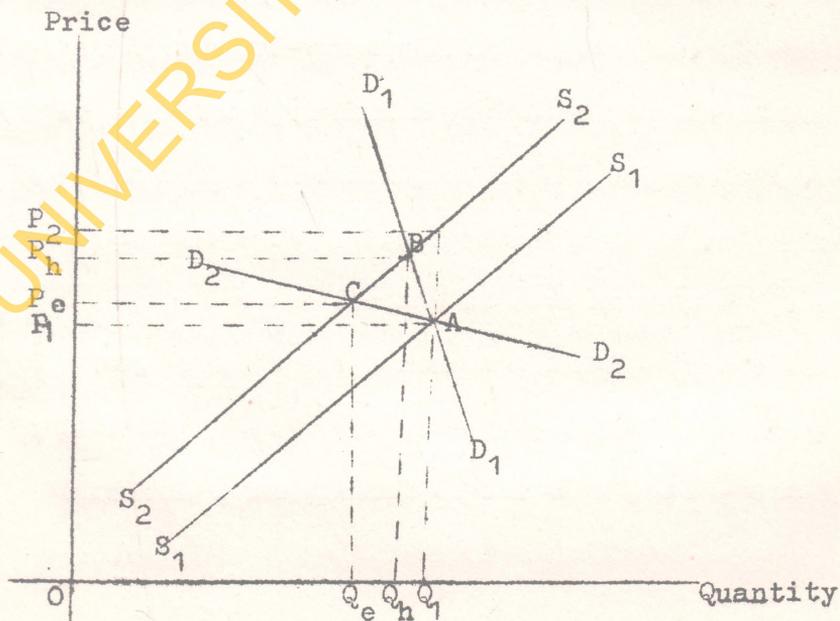


FIGURE 4



eventual positioning of the post-tax equilibrium will be influenced by the elasticity of supply. Figure 5, below shows two supply elasticity curves for a commodity. Supply curve S_1S_1 is less elastic than supply curve G_1G_1 . Pre-tax equilibrium position with respect to either supply condition and demand curve DD was at A. With an excise levy of P_1P_2 the supply curves shift to S_2S_2 and G_2G_2 respectively. Post-tax equilibrium is established at B where supply elasticity is low and at C where supply elasticity is high. At B, price has gone up by only P_1P_s while at C it has gone up by P_1P_g (where $P_1P_g > P_1P_s$). This means the amount of tax which will be shifted forward will vary directly as the elasticity of supply.

Although it is not very obvious from the diagramatic representations, it can be shown that as a result of the joint influence of elasticities of supply and demand, the ratio of price change to the tax will be the ratio of elasticity of supply to the sum of elasticities of supply and demand, i.e.

$$\frac{dp}{dg} = \frac{E}{E + n} \text{ where } P = \text{price, } g = \text{amount of tax, } E = \text{elasticity of}$$

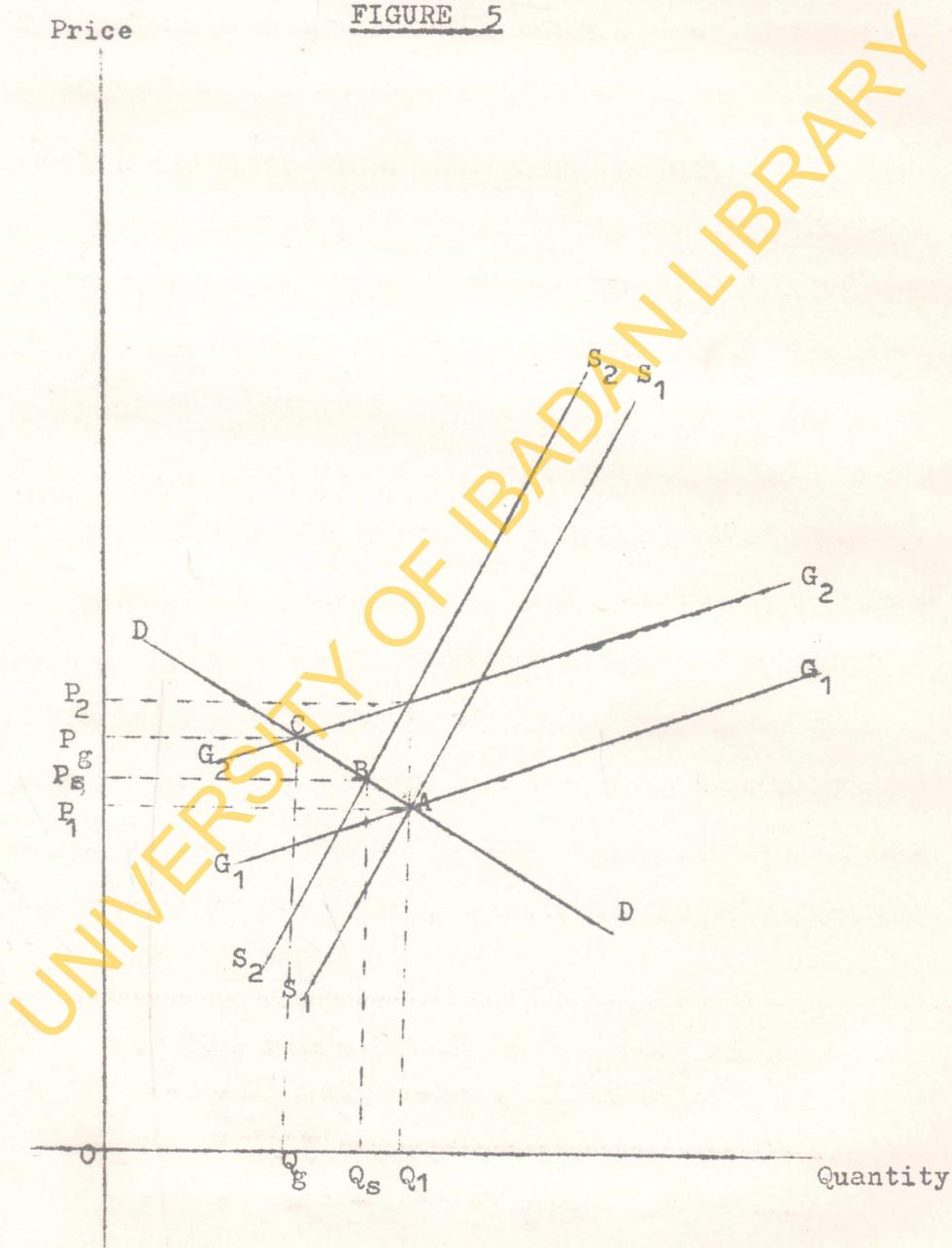
1. Using linear demand function $Q_d = a - bP_o$ and supply function

$$Q_s = -c + BP_o, \text{ at pre-tax equilibrium position:}$$

$$P_e = P_o = \frac{a + c}{B + b} \dots\dots\dots(i), \text{ and}$$

$$Q_e = Q_d = Q_s = a - b\left(\frac{a + c}{B + b}\right) = -c + B\left(\frac{a + c}{B + b}\right) \dots(ii)$$

FIGURE 5



supply and n = elasticity of demand. Change in equilibrium quantity can be expressed as $\frac{dQ_e}{dg} = E\left(\frac{E}{E+n} - 1\right) = -\frac{En}{E+n}$.

This means that as elasticities of either or both supply and demand tend to zero change in quantity tends to zero.

where P = price, Q = quantity, b = change in quantity demanded as a result of change in price, B = Change in quantity supplied as a result of change in price, and a and c are constants denoting the intercepts of demand and supply curves with the ordinate. Subscript 0 denotes pre-tax, while $_1$ (below) denotes post-tax. Although b and B are not elasticities of demand and supply, the respective elasticities will move in the same direction with them.

With imposition of excise tax g (where g is the amount of tax per unit), demand function remains the same while supply function becomes:

$$Q_s = c - Bg + BP_1.$$

Equilibrium is established again where:

$$P_{e1} = P_1 = \frac{a + c + Bg}{B + b} \dots\dots\dots(iii) \text{ and}$$

$$Q_{e1} = Q_{d1} = Q_{s1} = -c - Bg + B\left(\frac{a + c + Bg}{B + b}\right) \dots\dots\dots(iv)$$

Differentiating P_e with respect to g we have:

$$\frac{dP_e}{dg} = \frac{B}{B + b} \equiv \frac{E}{E + n}.$$

1. From equation (iv) above,

$$Q_{e1} = -c + Bg + B\left(\frac{a + c + Bg}{B + b}\right)$$

Differentiating Q_e with respect to g we have:

$$\begin{aligned} \frac{dQ_e}{dg} &= -B + \frac{B^2}{B + b} \\ &= B\left(\frac{B}{B + b} - 1\right) \equiv E\left(\frac{E}{E + n} - 1\right) \end{aligned}$$

$$\text{OR} \quad -\frac{Bb}{B + b} \equiv \frac{En}{E + n}.$$

The ratio of change in price to the excise tax represents the extent to which the tax has been shifted forward while the difference between unity and this ratio represents the extent to which it has been shifted backward¹. The easier it is for manufacturers to shift excise tax forward to consumers in the short-run, the more neutral the effect of the tax will be on production. The incidence of that part of the tax which cannot be shifted on to consumers falls first on the manufacturers. This results in reduction in marginal returns to capital invested and will tend to make capital move into field where it can earn higher returns. Demand for factors employed in the production of the taxed commodity falls. This will force down their prices thus enabling the manufacturers to shift the incidence further backwards to suppliers of factors of production.

Shifting of incidence may, however, be done other than by price changes. Joseph Guerin² suggested, for example, that depending on "the shape of the cost function for the basic

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1. This is taken to include the part absorbed by the manufacturer from profit.
 2. Joseph Guerin: "Excise Taxation and quality of production", Public Finance, Vol.XV, No. 1, 1960, pp. 21 - 29.

commodity" and "the degree of responsiveness of consumers to change in quality", the manufacturer "might be able to make better adjustment to tax by varying" (if it is possible) the quality of the commodity. Element of forward shifting is seen in the fact that consumers now receive lower value for their money. And since debasement of quality may involve reduction of factor inputs, it will tend to lower demand for factors of production and consequently their prices.

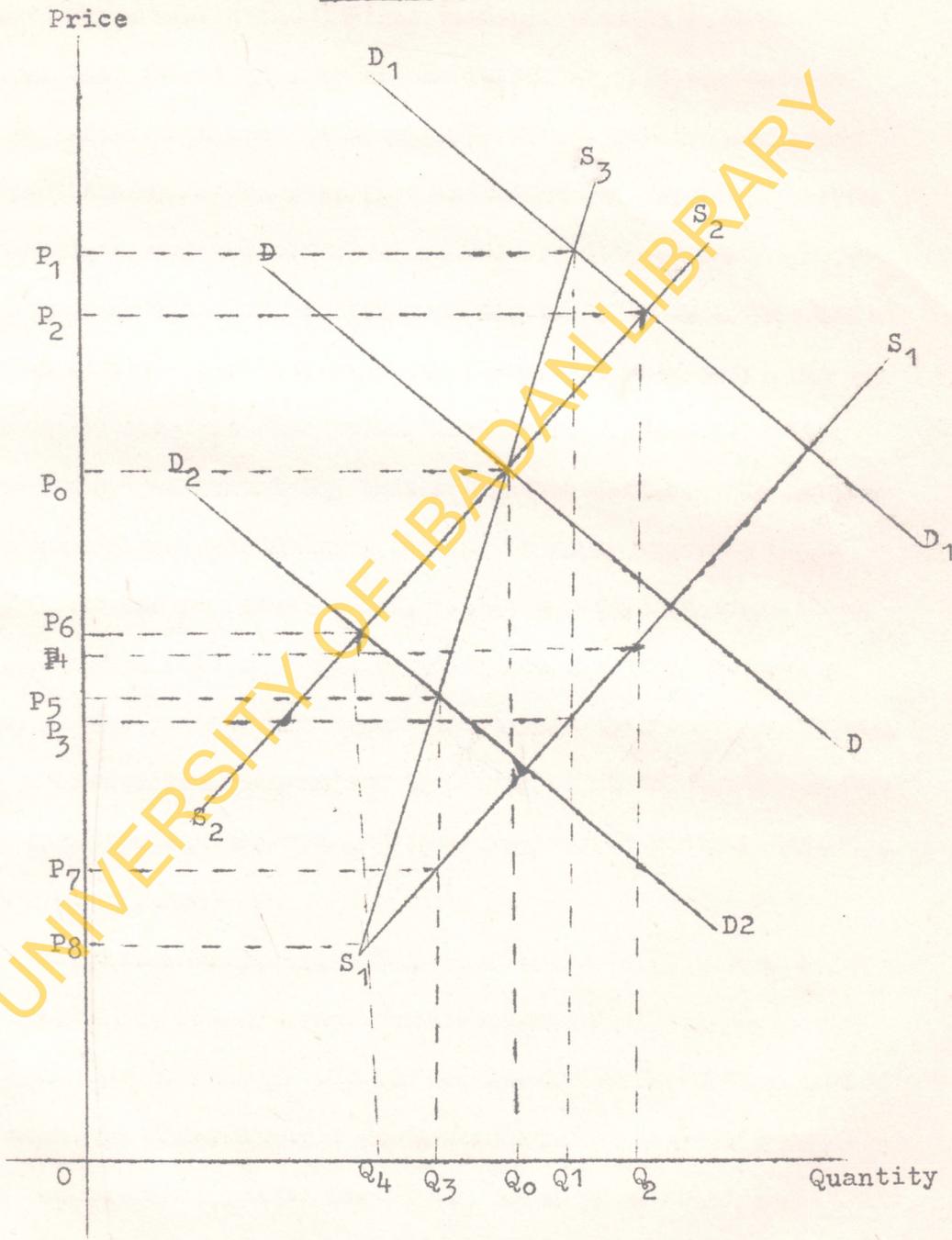
From the foregoing, certain tentative conclusions of broad policy significance can be drawn. Since $\frac{dP}{dg} = \frac{E}{E+n}$, and $\frac{dQ}{dg} = \frac{-En}{E+n}$ it can be seen that with any given supply condition, a low elasticity of demand (i.e. $n \rightarrow 0$) will enable substantial proportion of the tax to be shifted forward while reduction in production may be very slight and tend to zero. It can be concluded therefore that for purpose of raising revenue without affecting production adversely excise should be levied only on commodities of low elasticity of demand. It follows logically that excise taxation will not be a suitable tool to divert resources away from production of such commodities. On the other hand, levying excise tax on commodities having high elasticity of demand will reduce quantity demanded considerably and would be a good means of diverting resources away from the production of such commodities but not for raising high and sustained amounts of revenue.

Modes of Levy. Our discussion of issues of theory has so far been based on specific rate mode of levy. In actual fact, excise tax could be levied on a specific rate basis, an ad valorem basis, or a value - added bases. A uniform rate of tax imposed on value added at every stage of production up to the final output will be analogous to an ad valorem levy based on manufacturers price. (And if extended to the retail end, it will be analogous to an ad valorem levy based on retail price).

As stated earlier, a specific rate levy causes a shift in the supply curve such that the post-tax supply curve is parallel to the pre-tax supply curve. Tax per unit remains constant regardless of changes in price. However, an ad valorem levy makes the supply curve rotate on its base thus making the absolute amount of tax payable per unit vary directly as the price of the commodity. These are shown below in figure 6 where S_1S_1 represents the pre-tax supply curve, and S_2S_2 represents the post specific - rate - tax supply curve, and S_1S_3 represents the post - ad valorem - tax supply curve.

Given the demand curve DD, post -tax equilibrium with both the specific rate and ad valorem rate levies will be at A. At that point, price is OP_0 and quantity is OQ_0 in either case, and equal amount of tax revenue per unit is collected. However, if, as a result of any exogenous factor, there is a change in

FIGURE 6



demand which results in the shifting of the demand curve to the right, price, in the ad valorem case rises to OP_1 while in the specific rate case it only rises to OP_2 . The tax paid in the ad valorem case (i.e. P_3P_1) is higher than that paid per unit in the specific rate case (i.e. P_4P_2). On the other hand, post-tax equilibrium quantity is less in the ad valorem case than in the specific rate case (i.e. $OQ_1 < OQ_2$).

Thus as price rises, tax per unit tends to be higher under ad valorem mode of levy than under a specific rate levy. On the other hand, specific rate levies tend to restrain consumption less when prices are rising than ad valorem levies. The reverse holds when prices are falling (as can be seen by moving DD to the left to the position of D_2D_2). As a result of these characteristic flexibility in tax per unit and quantity consumed as price changes, ad valorem levies would play the role of automatic economic stabilisers and would therefore be useful (and in particular more useful than specific rate levies) in controlling inflationary pressure.

Needless to say, the issues involved go much beyond these and they have to be viewed against the background of the particular economy being discussed. Demand for local manufactures is not determined by price alone. Changes in imports and the general level and distribution of income also have to be considered. If

not taken into consideration, these changes might vitiate the expected performance of excise tax based only on the foregoing theoretical analysis. It will be useful therefore to look at some of these other factors.

Tariff Protection and Excise Duties

Analysts of excise taxation very often treat the topic within the context (declared or implied) of a closed economy¹ - or at least under an assumption that imports play very small role in the total supply of the taxed commodity. The assumption will be justifiable only if protective tariff effectively shuts out imports, or if the local production cost condition makes it difficult for imports to compete effectively in the local market. The second proviso - about relative costs of import and local manufacture - cannot be said to hold in most underdeveloped countries just striving to industrialise. Nigeria is not an exception. In 1965, for example, ratio of the C.I.F. value of towels to local cost of production ranged between 40% and 55%. Similarly, even though only a very small amount of industrial activity was involved in the production of reinforcing rounds from imported steel rods, C.I.F. value of imported reinforcing rounds ranged only between

Source: Official, Ministry of Finance

1. See, Charles McLure: Op.Cit., p. 187

2. Annual Abstract of Statistics, (Lagos: Federal Office
3. Values given by the two cement manufacturers who replied to our questionnaire.

70.4% and 72.8% of local cost of production¹. Also, average C.I.F. values of imported cement between 1962 and 1965 was about £7.1 per ton², while local cost of production is about £10 per ton³.

One finds, therefore, that instead of imports striving to compete with local manufactures, it is the latter which strives to find its feet in a local market where imports had already been entrenched or have a comparative cost advantage. Tariff protections are intended to correct this cost disadvantage on the local market. If the policy is to encourage local manufactures, the role of imports have to be considered in formulating excise policies. Any protective tariff which effects substantial reduction in imports increases demand for the local manufacture. If elasticity of supply of local manufacture is low, tariff protection will merely lead to demand excess which will exert an upward pull on prices and hence make forward shifting possible.

Effects of Changes in Income

Apart from the effect of import restrictions, another pressure is exerted on demand by changes in income. The influence

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1. Source: Official, Ministry of Finance
 2. Annual Abstract of Statistics, (Lagos: Federal Office of Statistics, 1966).
 3. Values given by the two cement manufacturers who replied to our questionnaire.

of any change in income on demand will depend on the income elasticity of demand for the commodity. There are two theoretical limits - where income elasticity of demand is equal to zero and where income elasticity of demand tends to infinity. Between the limits, there are conditions of low income elasticity of demand (where a change in income results in a less than proportionate change in quantity demanded), and of high income elasticity of demand (where a change in income results in a more than proportionate increase in quantity demanded).

The income elasticity of demand for any product is significant for purposes of formulating excise policy in the following respects. If excise tax is levied on commodities of low income elasticity of demand, excise revenue from it will increase at a lower rate than increase in income. On the contrary, if income elasticity of demand is high, and production responds well to increase in demand, excise revenue from such commodity will rise at a higher rate than the rate of increase in income.

It can be prescribed, therefore, that for the purpose of raising high and increasing revenue, tax should be levied on commodities with high income elasticity of demand.

Also of significance is the possibility of demand excess resulting from the joint influence of import restriction and a rapidly growing money income. This tends to generate into

inflationary pressure. Excise taxation can then be appropriately used as part of a package deal to mop up the excess demand¹. On this ground, the tax could be levied on consumer goods which, for revenue objective only, would have been deemed unsuitable.

Excess demand is usually reflected in the prices of commodities. Excise tax designed to mop up this excess should, therefore, be imposed on an ad valorem basis.

Manufacturers' Excise Tax and Retail Prices

The analysis of the effect of excise tax on the price of the taxed commodity usually implicitly assumes a one-stage distribution network - from the producer straight to the final consumer - so that there will be no divergence between the price at which the producer sells and what the consumer pays. However, there is always the possibility that there will be various intermediaries between the producer and the consumer, thus making it possible for the manufacturers' price to diverge widely from

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1. The deflationary effect of excise taxation lies in its ability to transfer money from private hands into the coffers of government. As adequately put by Earl R. Rolph, (see his "A proposed revision of excise-tax theory", Journal of Political Economy, Vol. LX, Apr. 1952, pp. 102 - 117), "any tax which has a yield, by removing cash from private hands, leaves private groups with smaller balances in amounts just equal to the increase in the government's balance." It does not matter in what direction the tax is shifted - there is still deflationary effect even where the tax has been shifted backwards

prices paid by consumers. This possibility rests on the channel of distribution (that is, how many stages are involved in the distribution) and the pricing policy of the distributors.

If the pricing policy of all the wholesalers and retailers is to add on a specific amount of money per unit as their profit margin, retail price will not rise more than the amount (or the proportion) of the tax by which the manufacturers' price has gone up. Similarly, if the manufacturer fixes the retail price and is able to enforce it, there will be no danger of the retail price rising more than what the manufacturer adds on.

Where, however, retail price is not controlled, and the middleman add on a mark-up of a specified percentage of their cost as profit margin, the tax will be pyramided. The magnitude of such pyramiding will, however, depend not only on the percentage mark-up but also on the number of stages along the channel of distribution.

(wholly or in part) to resource owner. The crucial point is that income and therefore purchasing power is reduced.

Needless to say, the capability of excise in controlling inflation does not go beyond this. Much depends also on the monetary and expenditure policies of government for the achievement of the goal.

For example, suppose the manufacturer's price for a commodity, pre-tax, is 20/- per unit and that both the wholesaler and retailer of the commodity add on 5/- margin of profit respectively. It means that the wholesaler's price will be 25/- and the retailer's price will be 30/- per unit. Now suppose a tax of 10/- per unit or 50% ad valorem is imposed on the commodity. In either case, the manufacturer's price goes up to 30/-. Therefore wholesaler's and retailer's prices become 35/- and 40/- respectively.

Alternatively if the wholesaler's pricing policy is no mark price up by 25% and the retailer by 20% then their pre-tax prices would have been $\frac{125}{100} \times 20 = 25/-$ and $\frac{120}{100} \times 25 = 30/-$ respectively. Post-tax, their prices would have become $\frac{125}{100} \times 30 = 37/6d.$ and $\frac{120}{100} \times \frac{75}{2} = 45/-$ respectively.

In either case it can be seen that under the former system of pricing where the wholesalers and retailers allow absolute amount of 5/- each as profit margin, their prices went up, after tax, only by the amount of the tax. But under the latter pricing system, where the wholesaler allows a profit margin of 25% and the retailer, a margin of 20%, prices went up after tax by 12s. 6d. and 15/- respectively. Either of these is higher than the actual manufacturer's excise tax of 10/- per unit. In this case the tax is pyramided.

The amount by which prices rise above the actual amount shifted forward by the manufacturer can rightly be regarded as a 'profiteering' margin. As pointed out by J. F. Due¹, pyramiding will have no place in face of perfect competition. This idea is supported by the findings of H. Johnson² in his studies based on the 1954 Manufacturers' excise tax reductions in the United States, that pyramiding tends to be more rife where the bulk of the trade is concentrated in the hands of a very few firms.

Retail price based on excise duty

The closer to the retail end the point of levy is, the less the possibility of the tax being pyramided. A retail price basis of excise duties will eliminate the problem of pyramiding altogether. Furthermore, with this mode of levy, the actual amount of tax will vary directly as the retail prices. The amount of tax rises as retail prices rises and falls as retail price falls. Thus, the flexibility requirement mentioned earlier in respect of mopping off of excess demand will be fully satisfied.

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1. J. F. Due: Government Finance, op cit., p. 274.
 2. Harry Johnson: "Tax Pyramiding and the Manufacturer's Excise Tax Reduction of 1954," National Tax Journal Vol. XVII, No.3, September 1964, p. 299; and "Excise Tax reductions: A stimulant to Economic Growth", National Tax Journal, Vol.XVIII, No.2 1965, pp. 202 - 208 (see especially p. 207).

Summary of Policy Prescriptions

From the foregoing, the following policy prescriptions can be made. First, for the purpose of raising high and stable revenue, as far as possible, only commodities of low price elasticity of demand and low supply elasticity should be taxed. Such a policy would, moreover have the effect of minimising any subsequent distortions in resource allocation. Secondly, the objective of attaining a higher rate of increase of excise revenue would be assisted by imposing excise on commodities having high income elasticity of demand. Thirdly, it is possible that the government wants to influence resource allocation. In that case, excise taxation would be useful only if the commodities have high elasticity of demand and supply. Fourthly, if the aim is to contain inflationary pressure, as well as minimise the distortionary effect of pricing policies of distributors, then the coverage of the tax should be extended to as many consumer goods as possible, the mode of levy should be ad valorem, and it should be based on retail prices.

It is clear from the above that the actual excise tax policy will depend on the policy objectives of the government. The most that can be said here is that there may be inter-country differences (depending on individual country's stage of development and the peculiar problems of each country's economy)

and that in all probability, the government would have many rather than one objective. Against the background of the foregoing discussions, we will now attempt to evaluate Nigeria's excise tax policy.

II POLICY OBJECTIVES

As far as we are able to ascertain from official records, our discussions with government officials, and our deductions from the evolution and overall structure of Nigeria's excise, the policy goals to which excise has been directed in Nigeria falls into two broad categories: (a) Revenue objectives, and (b) Economic Control and Development objectives.

A. REVENUE OBJECTIVES

The primary and major objective of excise tax in Nigeria is to raise revenue for the government. This is supported by the fact that majority of the commodities selected for excise are of either low price elasticity of demand or high income elasticity of demand, or both. These characteristics have been shown in our discussion of theoretical issues as necessary conditions for the derivation of high, stable, and increasing revenue from excise. Furthermore, looking at the coverage of the tax, one sees that it is such as would ensure progressively higher liability by household as household incomes rise. This is because the higher the household incomes rise the more the

taxed commodities are likely to feature in their pattern of consumption. As a result government revenue will increasingly benefit from increases in the National Income.

However, two aspects of this revenue objective are noticeable. At the initial stages, the aim was to use it to supplement government revenue from other sources - largely import and export duties. However, it later, in addition, increasingly came to compensate for loss of revenue from import duties.

1. Supplementary role The original aim of government was to levy tax on commodities which it felt were not "basic necessities of life."¹ For a very long time, therefore, only cigarettes and tobacco, and beer were subjected to excise tax.

In singling out tobacco, cigarettes and beer in this manner, the government was assisted by a vital permissive factor - that the price elasticity of demand for each of these products is likely to be low. Excise duty levied on them is

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1. In moving the first of his 1949/50 budget, Hon. A.W.L. Savage, then Financial Secretary of the Nigeria Legislative Council, explained "it was essential," in finding how best to raise additional £900,000 for recurrent expenditure "to avoid any taxation which would tend to increase the cost of basic necessity of life." As a result, one half of the whole amount was to be raised by increasing both import and excise duties on tobacco and cigarettes.

This sort of reason is usually advanced to support the so-called sumptuary taxes. We shall not contest whether

therefore, likely to be highly productive of revenue, in addition to the fact that it is likely to have little adverse effect on production.

Similar considerations must have influenced the government when it decided to make laws controlling the production of spirits and matches, to facilitate collection of excise revenue on them, long before the industries came into existence in Nigeria - just in the same way cigarettes and beer were treated. For the fact that spirits is not a basic necessity, income elasticity of demand for it is likely to be high. Matches, on the other hand, is consumed by all households, hence, (being a necessity), price elasticity of demand for it is likely to be low. Furthermore, because each of these products is manufactured in large factory units, and excise tax is imposed at the manufacturing stage, it would be easy to collect excise revenue on them at a lower administrative cost.

One could conclude, therefore, that the actual policy of government during the initial years was to supplement revenue by subjecting products of low price elasticity or high income elasticity of demand to excise where such excise revenue could

commodities such as cigarettes and tobacco (and even beer) do or do not constitute basic necessities, or the right or wrong of importing social norm or religious doctrinairism for the justification of punitive levy. This point was adequately discussed by J. F. Due in his Government Finance, op. cit. pp. 312 - 313.

easily be collected¹.

2. Compensating role

However, as government was increasingly compelled to restrict imports in order to save foreign exchange and protect local industries, it adopted a policy of taxing the local manufacturers which are thereby protected "in order to off-set part of the adverse effects on government revenue from import duties."² For example, in 1964, when it was thought necessary to give the local beer industries a higher degree of protection, import duty on beer was increased from 9/6d. per gallon to 15/- per gallon (an increase of about 68%), whilst the government at the same time imposed a compensatory increase of 4d per gallon in excise duty. (This was an increase of only 5%) Import duty on matches was increased by 18/- per gross box while excise duty went up by 5/3d. Similarly (in March and August, 1964), a two-stage increase raised import duty on cement from 30/- per ton or 20% ad valorem to 100/- per ton or 75% ad valorem. A compensatory excise levy of 15/- per ton was imposed in March 1964

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1. This is further borne out by the fact that even though soap is likely to have a low price elasticity of demand, rather than face the administrative difficulties of imposing excise tax on it in 1960, the government de-excised the product after only nine months. See supra, pp. 30-31
2. See Central Bank Annual Report, 1965, p.12.

In evaluating the compensatory role¹, two important issues have to be considered: (1) the extent to which the restrictive import duty succeeds in shutting out imports, and (2) the pre-tax level of production and the extent to which reduction in quantity imported leads to an increase in local production.

1. The extent to which restrictive import duty succeeds in shutting out imports will affect revenue in two ways: (a) revenue will tend to increase by the product of the pre-tax quantity imported and the change in tax; and (b) it will tend to fall by the product of the fall in quantity imported and the increased tax. If the former is greater than the latter, then import revenue will rise, inspite of the increase in import duty. In that case, the role of any excise levy (or increase) on local production will be supplementary only. On the other hand, if the latter is greater than the former, import revenue will fall as a result of the increase in import duty. In which case, the role of excise will be compensatory - to the extent of the fall in import revenue.

1. We would like to emphasise the compensatory role of excise is limited only to the extent that import revenue has fallen as a result of the additional import duty levied. Full compensation is attained when the ratio of increase in excise revenue to fall in import revenue is equal to unity. Where the ratio is greater than unity, the excess of increase in excise revenue over the fall in import revenue should rightly be regarded in terms of supplementary role. It is possible, however that an increase in excise duty on commodity may actually lead to a fall in excise revenue at the same time that import revenue has fallen. In that case, excise would be playing neither a compensatory nor a supplementary role.

Thus, the change in import revenue from any product will depend on the elasticity of demand for the product and the change in import duty. If elasticity of demand for the imports is low and the increase in import duty is high such that the proportional fall in quantity demanded is less than the proportional increase in import duty, import revenue will rise rather than fall inspite of increase in import duty. On the other hand, if the elasticity of demand for the imports is so high that proportional fall in quantity demanded is higher than the proportional increase in import duty, then import revenue would fall as a result of the increase in import duty¹.

1. Expressed mathematically, we can say

$$R = tf(q) \dots\dots\dots (i)$$

where R = Import revenue, t = import duty, and q = quantity of import demanded.

$$\therefore R' = tf'(q) + t'f(q) \dots\dots\dots (ii)$$

Since, ceteris paribus, quantity of the imported commodity demanded is a decreasing function of price and price is an increasing function of the import duty imposed, it follows that quantity demanded will be a decreasing function of the tax. Therefore, since we assume an increase in import duty here, $f'q$ will be negative (i.e. there would be a fall in the quantity demanded) and will vary directly as the elasticity of demand for the imported commodity. (Thus, if the elasticity of demand is high the reduction in quantity will be high and vice versa for low elasticity of demand).

Divide (ii) by (i), we have $\frac{R'}{R} = \frac{f'(q)}{f(q)} + \frac{t'}{t}$. Thus if

$\frac{f'(q)}{f(q)} < \frac{t'}{t}$, $\frac{R'}{R}$ will be positive (i.e. there will be an

increase in import revenue. On the other hand, if

$\frac{f'(q)}{f(q)} > \frac{t'}{t}$, $\frac{R'}{R}$ will be negative (i.e., there will be a fall

in import revenue.

2. Given that import restriction results in a fall in import revenue, the extent to which excise revenue compensates or over-compensates for loss in import revenue will be influenced by: the pre-tax level of production, the extent to which the reduction in quantity imported (and other factors) leads to an increase in local production, and the rate (or increase in the rate) of excise duty imposed. With a given rate of (or increase in) excise duty, if local production forms a substantial part of total supply, excise revenue collected on the pre-tax level of production might be sufficient to compensate fully for reduction in import revenue. In that case, revenue collected in respect of any increase in production will only be playing a supplementary role. Even when government cannot fully recoup loss of import revenue on the pre-tax level of production, it might be able to do so on total post-tax production if production adjusts adequately to change in import.

However, if the proportion of total supply produced locally is very small and elasticity of local supply is low (especially if unutilized productive capacity is low and capacity cannot be increased) excise might only partially compensate for fall in import revenue unless the excise duty imposed is very high¹.

1. In that case, a policy of full compensation would not be advisable since the high excise duty required would considerably reduce the protective margin of the import tariff - unless elasticity of demand for the local production is very low and tends to zero and/or the import restriction takes the form of physical control (either total ban or importation under specific licence).

From table 4.2 it can be seen that the relative importance of import in the total annual supply of five selected commodities has been steadily decreasing. In 1961, import accounted for 0.6 of total supply of beer. By 1963, it has dropped to as low as 0.2 and in 1968, it was much less than 0.1. The steady fall can be accounted for, partly by the increases in import duty (from 7/2d. per gallon of wort of gravity 1040° to 9/6d. in 1962 and 15/- in 1964), and partly by the considerable growth of the industry between 1962 and 1964. Within that period, the number of factories brewing beer grew from 2 to 6¹, thus, increasing productive capacity considerably and accelerating import substitution.

It can be seen from table 4.3 that increases in excise revenue from beer have played both supplementary and fully compensating roles over the period examined except in 1964/65 and 1965/66. In 1964/65, the increase in excise was fully supplementary because import revenue increased rather than fell. But in 1965/66 the increase ^{in excise} revenue was only partly compensating.

This was because increase in production in 1965/66 was only 478,000 gallons, even though quantity imported dropped by about 1.2 million gallons, during the same year.

Similarly, from table 4.4, it can be seen that excise revenue from motor spirit (in the pre-civil war years) has not only been

1. See Industrial Directory, 1967 op. cit. p.8

TABLE 4.1

LOCAL PRODUCTION AND IMPORT OF SELECTED COMMODITIES
1961 - 1968

YEAR	BEER N'million gallons		CEMENT N'000 tons		ROOFING SHEETS N'000 tons		PAINT N'000 gals		COTTON TEXTILES N'million Yards	
	Produ- ction	Import	Produ- ction	Import	Produ- ction	Import	Produ- ction	Import	Produ- ction	Import
1961	5.04+	7.76	358	446	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1962	5.73+	5.02	476	335	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1963	10.74+	1.92	518	300	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1964	12.13+	1.64	653	178	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1965	12.61	0.43	967	171	25.8	3.9	897	284	103.4	209.8
1966	13.90	0.36	986	151	50.7	1.9	1,080	230	176.8	146.0
*1967	13.34	0.25	722	134	40.5	1.3	1,023	237	233.1	182.6
*1968	15.60	0.25	565	90	36.5	1.0	920	216	218.8	127.9

n.a. means Not available

+ Computed from excise revenue figures

* Exclude figures from the Eastern States from July 1967

SOURCES: Economic Indicators, Vol.4, No.12, December 1968, Federal
Office of Statistics, Lagos

Annual Abstract of Statistics, Nigeria, 1965, Federal
Office of Statistics, Lagos.

CHANGES IN REVENUE FROM
 1962-1968

TABLE 4.2

5 million

IMPORTED PROPORTION OF TOTAL SUPPLY OF SOME EXCISABLE PRODUCTS

YEAR	BEER % of Total Supply	CEMENT % of Total Supply	ROOFING SHEETS % of Total Supply	PAINT % of Total Supply	COTTON TEXTILES % of Total Supply
1961	60.6	55.47			
1962	46.7	41.31			
1963	15.2	36.67			
1964	11.9	21.42			
1965	3.3	15.03	13.09	25.05	66.99
1966	2.5	13.28	3.53	17.56	45.23
1967	1.8	15.65	3.20	18.81	43.93
1968	1.6	13.74	5.08	19.01	36.89

SOURCE: Computed from Table 4.1

TABLE 4.3

CHANGES IN REVENUE FROM IMPORT AND EXCISE DUTIES ON BEER
1962 to 1969

	£'million						
	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69
Excise	0.523	1.670	0.610	0.284	0.368	-0.238	0.305
* Import	-0.174	-1.488	+0.034	-0.606	-0.037	-0.176	-0.027
Supplemen- tary Margin	0.349	0.182	0.610	-0.322	0.331	0.233	0.233

SOURCES: Accountant General of the Federation's Reports, 1963-1967
Federal Official Gazettes, No.50, Vol.55, of 1968 and
No.39, Vol. 56, of 1969.

* Import revenues were obtained by multiplying import
figures by the relevant import duty.

TABLE 4.4

CHANGES IN IMPORT AND EXCISE REVENUE
FROM MOTOR SPIRIT AND DIESEL OIL 1965 - 1967

Rs. million

	MOTOR SPIRIT		DIESEL OIL	
	1965/66	1966/67	1965/66	1966/67
Excise	1.806	6.899	2.180	4.255
Import	-1.150	-5.920	-1.301	-4.801
Supplementary Margin	0.656	1.179	0.879	-0.546

SOURCE: Accountant-General of the Federation's Reports for Years Ending 1966 and 1967.

compensating fully for fall in import revenue but has been playing a supplementary role as well. In case of diesel oil, fall in import revenue was more than compensated for by excise in 1965/66 but in 1966/67 loss in import revenue was not fully compensated for by increase in excise revenue. This partial compensation was accounted for largely by drawbacks granted, some of which would have accrued on the previous year. example, when and cotton tax Data are not available in a form that would make it possible to clearly distinguish between the compensatory and supplementary roles other products might have been playing. But from table 4.2, one can see that in 1964, when cement was subjected to excise duty at 15/- per ton, local production was 78.6% of total supply. The lower limit of import duty on cement was increased from £1 10/- first to £2 10/- (an increase of $66\frac{2}{3}\%$) and later to £5 (a further increase of 100%) pper ton. Altogether during that year, quantity imported fell from 300,000 tons to 178,000 tons (a fall of only $37\frac{1}{3}\%$). (See table 4.1). It would be seen from these figures that the rate of increase in import duty on cement was so much higher than the rate of reduction in the quantity of imported cement. From this it can be concluded that import revenue would fall only slightly or not at all, and this would imply that the increase in excise revenue would be largely supplementary. Also, judging from the fact that in 1965 quantity produced locally increased by

about 50% (314,000 tons) while quantity imported fell by only about 4% (7,000 tons)¹, the increase in excise revenue in that year would also be higher than fall in import revenue.

The same trend can be discerned from tables 4.1 and 4.2 with respect to other commodities. Excise duties were levied at points where substantial proportion of total supply of the commodities were being produced locally. For example, when paint and cotton textiles were subjected to excise tax in 1964, local supplies were 75% and 33%² respectively of total supplies. Similarly, when the tax was levied on roofing sheets in 1967, local supply was 96.8% of total supply. Furthermore, increase in local production has progressed at very high rates. For example, production of paint grew at an annual compound rate of 35% between 1964 and 1966.³ It could be inferred therefore that the increases of excise revenue from each of the commodities would have been more than enough to compensate for loss of import revenue on them.

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1. It should be pointed out, however, that a substantial part of cement imported from 1965 has been of the special type used on the Kainji Dam Project. Since this would be imported duty free the percentage change in dutiable quantity imported would very likely be lower than what the table shows.
 2. The fact that consumers still had to rely on imports for high quality types of cotton textiles accounted for the high percentage import component of cotton textiles. See Central Bank Annual Report, 1965, p.25
 3. Ibid., 1966, p. 27.

It would appear therefore that excise revenue from individual excisable commodity has been meeting the revenue objective of the government. Not only has excise revenue been compensating for loss of import revenue on each commodity, in some cases, contribution of excise to revenue has actually been more than enough to compensate fully for loss of import revenue. This has been made possible largely by the facts that (i) except with respect to a few commodities (cigarettes, beer, matches, portable spirits and other spirits and diesel) excise is imposed at points where the local supply constitutes, at least, more than half of total supply and (ii) local production has been increasing much faster than the fall in import.

B. ECONOMIC CONTROL AND DEVELOPMENT OBJECTIVES

"The basic long-term aim of (Nigeria's) industrial policy (has been) to promote the expansion and diversification of the economy in order to ensure a balanced growth and to enhance the country's balance of payments positions."¹ To this end, various incentives² have been granted to encourage the establishment of various industries in Nigeria as well as remove cost disadvantage

1. "Statement on Industrial Policy," Sessional Paper, No. 6 of 1964 (Lagos: Federal Ministry of Information, Printing Division), p. 1.
2. Ibid., pp. 2 - 6. See also "Incentives to Industrial Development", Nigeria Handbook of Commerce and Industries, Fifth Edition, 1962, (Lagos: Federal Ministry of Information), pp. 52 - 55.

that would make it difficult for them to compete with imports on the local markets.

One of such incentives is import restriction either by way of high import tariff or more direct control such as quota system or even outright prohibition. The impact of excise on the development process is influenced by the existence of such devices. Bearing in mind that, as a result of excess demand created by import restriction and rising monetary income, prices of local manufactures would tend to rise (at least in the short run, and might even remain high unless production increases adequately), an imposition of excise under the circumstance would tend to increase price further¹. This would, on the face of it, tend to run counter to the objective of expanding the domestic market as a means of stimulating local enterprise. Local enterprise would be stimulated, inter alia, by two factors - increasing effective demand for the local manufactures and protection from competition from imports.

With respect to protection from competition from imports, it can hardly be held that Nigeria's excise harbours serious contradictions. It would not, if the rates of the protective import duty and excise duty imposed might be such as would give the local manufactures a comparative cost advantage on the local market.

1. Raja J. Chelliah was apparently influenced by this fact when he argued against a policy of making protected local manufactures pay the price of protection by being subjected to excise tax. See, Raja J. Chelliah: Op.Cit., p. 418.

For example, if pre-tax C.I.F. value of import were £8 per unit and local cost of production were £9 5/6, an imposition of import duty of £4 per unit and excise duty of 15/- per unit would raise the post-tax prices of import and local manufactures to £12 and £10 respectively. Thus, the post-tax values of import and local manufactures are such as would give the local manufactures a comparative cost advantage inspite of the excise duty imposed. As has been shown in our discussion of the compensatory role of excise¹, when excise duties are being imposed or increased on any commodity, import duties are also usually increased at a higher rate than the rate of excise imposed. Similarly, the need to protect the country's balance of payments position has become so serious (particularly since the outbreak of the civil war) that the importation of virtually all commodities produced locally is either completely banned or rigidly controlled by import licences. Thus the protection given to local industries against competition from imports are still preserved inspite of imposition of excise duties.

Nevertheless, an imposition of excise tax leads to an increase in price, which might reduce the demand for the taxed commodity. This might be said to place an important constraint on the extent to which it would otherwise have been possible to expand

1. See Supra, p. 1323.

production. However, whether this is desirable or not should be judged in the light of the production pattern of the economy and the economic aspirations of the country.

As pointed out by P.C. Asiodu¹, "The route which Nigeria has adopted to industrialisation has been to start with import substitution", and thus industrial activities have been geared largely towards the production of consumer goods. The next stage of development would normally be geared largely towards the production of intermediate and capital goods. There is a limit to which consumption liberalisation should be permitted if this sort of development strategy is not to be self-defeating². (It might become self-defeating in the sense that (1) an unlimited expansion of production of consumer goods would involve increasing demand for intermediate and capital goods required in the production of these consumer goods - thus transferring from one source of foreign exchange drainage to another; and (2) if consumption is liberalised too much it might become difficult to muster enough savings to move into the next stage of development.)

1. P.C. Asiodu: "Industrial Development"; A paper presented to the Conference on National Reconstruction and Development in Nigeria, March 24 - 29, 1969, p.6.

2. I. O. Dina: "Fiscal Measures", A paper presented to the Conference on National Reconstruction and Development in Nigeria, March 24 - 29, p. 28.

2. A. A. Ayida, "Development Objectives", Conference of National Reconstruction and Development, March 24 - 29, 1969, p

Furthermore, a policy can be most adequately evaluated only against the background of the economy. In her bid to accelerate economic progress, Nigeria has not been free of the dangers of inflation and it has always been the policy of the government to "prevent inflationary price rises"¹ and maintain "a reasonable measure of stability through the use of appropriate instruments of policy."² Also, as a result of the disappointing role of foreign capital in financing the country's development projects, the government came to face the stark fact that much more reliance than was planned would have to be placed on the mobilisation of savings from local sources.

And, most importantly, one has to take into consideration, the fact that the country's industrial policy (in pursuance of which tariff protection and other incentives are granted) is not without priorities. "The efforts of the governments of the Republic aredirected mainly towards those industries which (a) will utilise locally produced materials; (b) employ Nigerian labour; (c) provide opportunity for Nigerians to acquire technical skill and managerial experience; (d) reduce Nigeria's dependence on imports of essential goods; and (e) increase the value of

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1. See "National Development Plan 1962-68", Handbook of Commerce and Industries, Op. cit., p. 52. See also Federation of Nigeria National Development Plan 1962-68. (Lagos: the Federal Ministry of Economic Development) p. 356
 2. A. A. Ayida, "Development Objectives", Conference of National Reconstruction and Development, March 24 - 29, 1969, p

(Nigeria's) primary products through local processing¹."

It is relevant to point out here, in light of the above, one factor which has occasionally hindered the use of excise in Nigeria. Nigeria is still at the early stages of industrialisation. One finds that, with the exception of a very few industries where we have many small so called indigenous craftsmen, production of most of the excisable commodities is undertaken by just a few companies (in some cases by just a company).

By the mere reason that these producers are few, and because of the rising level of unemployment and the pre-occupation of the government with a policy of accelerated industrialisation, these manufacturers are in a strong position with the government. And occasionally, armed with the threat of laying off their workers, they constitute a formidable pressure group against government's import and excise tax policies. At almost every turn, they have to be consulted, and very often the government has had to bend to their views as to how, and how much (if at all), tax should be levied on their products!

A few examples of occasions when they have thus successfully stood against government's tax policies are given below:

- (1) The government had to remove excise taxes on soap and sugar confectioneries in 1960 shortly after they were levied following

1. Statement on Industrial Policy, Ibid.

heavy pressure and threat of laying off workers from factory type manufactures.

(2) In spite of government's belief that because the local firms producing towel in 1965 would not be able to meet local demand adequately, some import liberalisation was needed, it was forced to increase import duty on towels to give the local firms greater protection.

(3) Vigorous protests, backed by closure of factories and laying off of workers by plastic shoes manufacturers following the increase in excise duty in 1965 was one of the major reasons why excise duty was removed on footwear that year.

(4) Threat by the manufacturers of reinforcing rounds in 1965 to stop producing reinforcing rounds and lay off about 200 workers if the government did not either reduce the 20% ad valorem levy to 10% or increase the 33 $\frac{1}{3}$ % import duty to 50% forced the government to accede to the latter. Under such circumstances as this, a positive use of excise as a tool of economic control becomes difficult.

It is in light of these considerations one should view the role excise taxation was made to play in the economic development of the country. And in the next few pages we shall examine how far it has been possible under the circumstances to use excise to achieve economic development goals.

EXCISE AS A TOOL FOR STIMULATING ECONOMIC DEVELOPMENT

The attempts of the government to use excise taxation to stimulate economic development can be seen from these angles:

- (1) Attempt to encourage saving by attempting to restrict private expenditure;
- (2) Attempt to tailor the pattern of private investments; and
- (3) Attempt to increase the linkage effects of industries by encouraging the use of locally produced inputs.

Savings

Looking at the coverage of excise in Nigeria, one sees that items which feature mostly in the household budget of the very low-income households are, to a considerable extent, excluded. Whilst this category of households might be caught by their consumption of items like matches, piece goods, and bread (for which flour is an input), food items of mass consumption (like rice, yams, yam flour and unprocessed meat) which feature most prominently in their budget are excluded. As incomes rise, however, more and more of these excisable commodities come to feature in household consumptions, and, in larger quantities. The coverage of excise, therefore, is such as to ensure progressively higher liability by households as household incomes rise.

This is significant in two respects. Firstly, one can say, theoretically, that it will tend to encourage private saving by restricting adjustment into higher standard of living as income

level rises. There are doubts, of course, about the ability of government. Public saving is thereby substituted for private tax on consumption to encourage private voluntary savings¹.

Social conventions and family commitments (immediate and/or extended) exert much more influence on private savings in Nigeria than tax². It has been shown that in spite of the considerable increases in import and excise duties on consumer goods in 1964, "aggregate loan to the household sector rose by 60.6% over the level of the proceeding year - (reflecting) a determination to maintain or even expand consumption, despite higher prices³".

Secondly, even where consumption is not thereby restrained, adjustment into higher standard of living would increase the range and quantity of commodities consumed which are subject to excise duties. As a result, more resources would be released to

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1. See, for example, Richard Goode, "Taxation of Savings and Consumption in Underdeveloped Countries", National Tax Journal, Vol. XIV, No.4, December 1961, pp. 307-311. The article is also published in Bird and Oldman, op.cit., [Relevant section can be seen at pp.233 (last paragraph) to 236]. See also, Michael A. Wellemsen, "The effect Upon the Rate of Private Savings of a Change from a Personal Income Tax to a Personal Expenditure Tax" National Tax Journal, Vol. XVI, No.1 March 1961, pp. 98-103.
 2. A. A. Ayida, in his "Development Objectives", op.cit., p. 13 ascribes the low rate of capital accumulation and savings to the growing acquisitive and materialistic instinct of the Nigerian community.
 3. See Central Bank, Annual Report, 1964, p.35. A seeming contradiction of this view was given in the Bank's "Review of Monetary and Fiscal Policies" in 1965 (see Central Bank, Annual Report, 1965, p.13). "The Contractive Effect of the

government. Public saving is thereby substituted for private savings.

In so far as the tax succeeds in restraining personal expenditure from rising as much as increase in personal income, some saving would have been made. Where the saving is made privately, however, the type of investment to which it is put is also of interest to the government, and this leads us to the second developmental goal to which excise policy could be said to have been directed - namely, influencing the pattern of investment.

Influencing the Pattern of Private Investment

As pointed out by Raja J. Chelliah¹, "Potential economic surplus.... can be used for 'unproductive consumption', or for 'unproductive investment' or for productive investment'. From the point of view of economic development productive investment is to be preferred to unproductive investment. Unproductive investment can be defined as such investment which once undertaken

the Monetary and Fiscal Measures on Demand" was said to be indicated by the "accelerated growth in aggregate private voluntary savings over the year. Time and savings deposits with commercial banks increased by 23.2% compared with 21.4% in 1964." One would, however, see the restraint on loans and advances for financing consumption (see, *ibid.*, p.10) as wielding a more dominant influence on consumption restriction than the excise tariffs.

1. Raja J. Chelliah, Fiscal Policy in Underdeveloped Countries with special reference to India, (London: George Allen and Unwin, Ltd., 1960), p.65. Chelliah defined 'Potential economic surplus as "the difference between the output that could be produced with the help of employable productive resources, and what might be regarded as essential consumption".

does not lead to further production, or does not directly generate any backwash effect on the economy. Investment in dwelling houses would fall into this category.

Two of the most important factors which influence investment in houses in Nigeria are that: (i) ownership of a building is a symbol of status in Nigeria and (ii) with the fairly high rental value of houses in urban areas, investment in buildings appears to be a surer, quicker and safer way of earning high and stable income than many other types of investments with which many Nigerians are familiar. One sees taxation of products like cement and roofing sheets (which are inputs for erection of houses) as an attempt by government to discourage this type of 'unproductive' investment.

Encouraging the use of Locally Produced Inputs

Excise tariff measures have also been used by the government to improve the linkage effects of certain industries. To this end, it has, on certain occasions, levied discriminatory duties on products using substantial amount of imported inputs while the same products, or close substitutes, produced from locally produced inputs have been subjected to relatively much lower duties.

For example, under the tobacco excise levy of 1939, cigarettes containing higher percentage of locally produced tobacco were subjected to a duty of 2/1d. per thousand or 10d. per lb., while those containing lower percentage attracted a duty of 5/-

per 1,000 or 2/- per lb. This was meant to encourage the use of local tobacco. A similar justification was advanced for the high increase in excise duty on plastic shoes from 6d. per pair to 3/- per pair between April 1964 and March 1965, while the duty on rubber shoes was only increased from 6d. to 1/- per pair. It was argued that rubber shoes are produced entirely from rubber (which is produced locally) while plastic shoes contain a substantial per centage of imported plastic input¹.

The success of such discriminatory application of excise tool lies in its ability to raise, on one hand, the ratio of the price of the highly taxed commodity to that of the lightly taxed commodity, and, on the other hand, in its ability to alter the ratio of costs of production in favour of the lightly taxed commodity. If it succeed in changing the price ratio against the heavily taxed commodity, it is expected that demand for the highly taxed commodity will fall off while demand for the other will increase as a result of the lightly taxed commodity being substituted for the heavily taxed one. If the rate of substitution is sufficiently large, it will tend to force an increase in the price of the lightly taxed commodity. This is because demand for the lightly taxed commodity will now tend to outstrip supply in the

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1. The rubber industry in Nigeria was said then to be in a depressed state and there was need to encourage the local utilization of its products.

In view of this theoretical possibility, it is probably not short-run. It would thus, become more profitable to produce the lightly taxed commodity and this will tend to divert investment away from the heavily taxed commodity into the production of the lightly taxed one.

The ease of attaining this goal will also depend on the profit/cost ratios of firms producing the two products. If the profit/cost ratio of firms producing the heavily taxed commodity is very much higher than that of firms producing the other commodity, the former might be able to absorb much of the tax difference so that there might be no change in price ratio (and hence demand) after all. Furthermore, the purpose might be defeated if the same firms manufacture both commodities or if the firms manufacturing the heavily taxed commodity also manufacture several

other commodities. As J. F. Due pointed out, it is possible when a firm is producing many articles for it to recoup the tax levied on the highly taxed commodity by increasing the price of another¹. (This will be particularly so if the demand for the lower taxed commodity is less elastic than that of the highly taxed commodity.)

1. J. F. Due: *Government Finance*, *op.cit.*, p.272. Also F. O. Woodward and Harvey G. Siegelman pointed out in their article "Effects of the 1965 Federal Excise Tax Reductions Upon the Prices of Automobile Replacement Parts - A Case Study in Tax Shifting and Pyramiding", *National Tax Journal*, Vol. XX, No. 3, 1967, pp. 250-257, that "firms which have a great preponderance of items.... often behave in a manner which would indicate that the tax is treated as a fixed cost and spread throughout all items".

In view of this theoretical possibility, it is probably not an accident that the five footwear factories which folded up in 1965 and 1966 were producing only plastic shoes while the others, which did not, produced various other plastic products such as plastic bags, tubes, combs, plates, toys, etc., or other types of shoes such as leather, canvas and rubber footwears. Thus, the discriminatory excise levy, in effect, merely diverted trade in favour of multi-product firms which could absorb it on other products rather than effectively encourage a substitution of rubber shoes for plastic shoes. The futility of using discriminatory excise levy to achieve this goal under the circumstance, was soon realised, and just as was done with tobacco only a year after the attempt, the job was passed on to import duty on plastic.

It can be seen therefore that although the extensive use of excise would, having regard to the stage of economic development in Nigeria, appear contradictory to the country's policy of accelerating industrialisation, Nigeria's excise and import tariffs are so structured, that the protection necessary to stimulate local enterprise are still guaranteed in spite of the excise levies. But the increasing use of excise is such as would tend to raise the price of local manufactures and thus tend to reduce the demand for them - a factor which might limit the expansion of the supply of locally produced commodities.

However, the increasing use of excise is justifiable in light of the country's need to mobilise domestic savings for economic development. Too much consumption liberalisation could not be allowed. Unfortunately, excise does not appear to be a strong instrument to restrain consumption and thus foster private savings. Nevertheless, it would be a good instrument mobilising what otherwise ought to have gone for private savings into public hands.

Furthermore, because of the materialistic instinct and the accepted social norm of the Nigerian community and the relative risklessness and profitability of investment in private buildings for commercial purposes vis-a-vis other popularly known types of investment, excise would be a weak instrument for influencing the pattern of private investment in Nigeria against this type of "unproductive investment". With respect to encouraging the use of locally produced inputs, experience seems to have shown that it is more convenient in Nigeria to levy discriminatory taxes on inputs than on the final product.

EXCISE AS TOOL OF INFLATIONARY CONTROL

It has been shown earlier that the joint effect of import restriction and rising level of income is to create excess demand if production of consumer goods does not adjust adequately to increasing demand. This generates an inflationary pressure.

3. See Table 1, "Consolidated Revenues and Expenditure of the Governments", *Ibid.*, p. 12.

As pointed out by Richard Goode, "one of the platitudes of literature of economic development is that countries trying to speed up progress nearly always face inflationary dangers".¹

In her bid to accelerate economic progress, Nigeria has not been free of this danger.

Several factors have, since 1955, worked together to generate inflationary pressure in the Nigerian economy. Firstly, various development programmes undertaken by the central and regional governments of the Federation between 1955 and 1962 were designed to develop the tertiary sector of the economy. This increase in monetary income far outpaced increase in production during the period. Secondly, the 1962/68 National Development Plan envisaged a flow of foreign capital which turned out to be rather too optimistic. Of the £793 million planned capital expenditure to be undertaken by the government, one half was expected to be financed by foreign capital.² This means an average of £66 million per year expected from foreign sources. Only £6.9 million and £2.5 million were forthcoming from foreign sources in 1962/63 and 1963/64 years respectively.³

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1. Richard Goode: Bird and Oldman, op.cit. p. 237. This danger was also envisaged in the implementation of Nigeria's 1962-68 National Development Plan. See Federation of Nigeria National Development Plan 1962-68 op.cit. pp.356-357
 2. Central Bank, Annual Report, 1964, p.11.
 3. See Table 1, "Consolidated Revenues and Expenditure of the Governments", Ibid., p. 12.

The difficulties of securing these foreign inflows and the determination of the government to press on with the plan, notwithstanding, led to:

(i) a re-organisation of priorities in the plan - in favour of projects with low off-shore costs [thus shifting emphasis from production to the social sector (education, health, etc.)], and infrastructural projects;

(ii) more intensive resort to domestic sources for finance. Demand on accumulated reserves of statutory boards, banks, and other savings institutions for loan to government increased.

About 75% of Total Domestic Loans and grants raised in 1963/64

was from banks and savings institutions¹. Thirdly, the increasing resort by government to commercial banks for loan gave banks wide capacity for credit expansion. Total bank domestic credit increased from £75.1 million in 1961 to £100.0 million, £127.2 million and £169.3 million in 1962, 1963 and 1964 respectively². Thus, volume of bank credit in 1964 was more than 200% of that of 1961 and about 170% of that of 1962. This rate of increase outpaced the rate of economic growth between the relevant period

1. Ibid., last paragraph, p.12

2. See Table 2(a) "Money Supply and Factors Affecting Money Supply, December 1961 to December 1964", Ibid., p. 13

and increased supply of money out of tune with the rate of economic growth. Forthly, the 1964 Morgan award of salary increases to low and middle income groups increased consuming power of the working class tremendously.

All these fiscal and monetary influences generated an inflationary pressure which was contained up till 1964, only via the escape valve of increasing imports. The consequence of having to close this import valve in 1964, because of the very low level to which foreign exchange reserves had fallen, was to keep the full impact of the inflationary pressure within the economy.

In light of these developments it might be wrong to regard the 1964 and 1965 expansion in the coverage of excise duties as motivated by revenue considerations only. It is clear from an examination of the commodities which became excisable as from 1964 that virtually all these commodities are direct consumer goods. And those which are intermediate goods (like cement, paint roofing sheets, flour, tanned leather, interlock fabrics, and thread) are inputs for the final production of consumer goods.¹ Since, as shown earlier², the control of consumer expenditure is

1. Owner-occupied residential houses are here regarded as consumer goods.

2. See, Supra, p. 124

a very important method of controlling effective demand, one sees that the considerable expansion in coverage of excise duties which has taken place since 1964 is motivated, inter alia, by a desire to curb the inflationary pressure in the economy.

Unfortunately, it is difficult to assess to what extent excise has succeeded in controlling the inflationary pressure. As pointed out above at the same time the government increasingly resorted to excise; other monetary and fiscal tools were also being increasingly used. Thus, it becomes difficult to attribute precisely any result to excise. That excise revenue has increased tremendously from 0.7% of Gross Domestic Product in 1963/64 to 2.2% of Gross Domestic Product in 1966/67¹ shows an increasing reduction of private purchasing power through the use of excise. But whether or not this would actually reduce inflationary pressure depends very much on the pattern of expenditure of the government and the effectiveness of monetary instruments to control advancement of credit for consumption.

However, the modes of levy mostly adopted (viz, flat rate and ad valorem rate based on manufacturers' prices) are not such as will enhance the effectiveness of excise as a means of controlling the inflationary pressure. We have suggested already

1. See, infra., p. 165 165.

that a retail-price-based excise duty would perform the task more effectively¹.

1. Unfortunately, bringing the point of levy down to retail level in Nigeria raises a host of administrative problems, a few of which are mentioned below. In cases of traders who undertake both wholesale and retail businesses, there will be the problem of distinguishing their retail from wholesale activities. The fact that retailing of a good number of products is done largely by small-scale and illiterate traders, who do not and cannot afford to employ clerks, raises the problem of the unavailability of records. Since these people would thereby not be able to keep records, assessment of excise revenue would be difficult and evasion would be rife. Furthermore, it is difficult to define a retail unit in some cases (e.g., cigarettes, matches, biscuits) because at certain stages along the distribution line, it becomes difficult to know exactly who is buying for consumption and who for re-sale.

In the alternative, excise duties could be based on retail price while the manufacturer remains the tax payer. This has been the mode of levy on cigarettes since 1966. With this approach, compliance cost will rise as producers will now be obliged to ensure that their declared prices are maintained on the market. However, this is easier to administer than the former method (which is akin to a retail sales tax), and therefore, given the market structure in Nigeria, is to be preferred.

Between fiscal years 1945/46 and 1966/67, excise revenue rose at an average annual rate of 21.1%. Between 1945/46 and 1966/67, however, the annual average rate of increase was only 14.3%. A breakdown of the year to year rate of change in excise revenue from 1959/60 to 1963/64 is shown in Table 5.1 (columns II and III). It shows that between 1959/60 and 1963/64 annual rate of increase ranged only between 17% and 11%.

CHAPTER 5

REVENUE PERFORMANCE

From the foregoing, it would appear that of the policy goals to which excise had been directed in Nigeria, the most effectively fulfilled has been the revenue objective. We shall therefore examine Nigeria's excise revenue performance a little more closely.

As can be seen from Table 1.1, revenue derived from excise has been rising gradually and consistently over the years. It rose from £0.023 million in 1939/40 to £1.15 million in 1948/49, £4.4 million in 1958/59, £9.8 million in 1963/64, and £35.7 million in 1966/67. As a result of the outbreak of civil war in the country in 1967, excise revenue fell in 1967/68 to £24.9 million but rose again to £28.2 million in 1968/69.

Between fiscal years 1945/46 and 1966/67, excise revenue rose at an average annual rate of 21.1%. Between 1945/46 and 1962/63, however, the annual average rate of increase was only 14.3%. A breakdown of the year to year rate of change in excise revenue from 1959/60 to 1968/69 is shown in Table 5.1 (columns II and III). It shows that between 1959/60 and 1962/63 annual rate of increase ranged only between 17% and 11%.

TABLE 5.1

COMPARATIVE ANNUAL RATE OF GROWTH OF EXCISE DUTY,
IMPORT DUTY AND TOTAL FEDERAL GOVERNMENT TAX REVENUES
1959/60-1968/69

YEAR	CHANGES IN EXCISE REVENUE		CHANGES IN IMPORT REVENUE		CHANGES IN * TOTAL FEDERAL GOVERNMENT TAX REVENUE	
	II £'million	III % of Previous Year's Yield	IV £'million	V % of Previous Year's Yield	VI £'million	VII % of Previous Year's Yield
1959/60	+0.73	+17	+5.93	+18	+6.8	+11
1960/61	+0.59	+12	+3.66	+14	+13.5	+19
1961/62	+0.66	+12	+2.21	+3	+2.4	+ 3
1962/63	+0.68	+11	+3.77	+8	+1.7	+ 2
1963/64	+2.76	+39	+2.69	+4	+7.9	+ 9
1964/65	+3.77	+38	+19.86	+31	+24.8	+26
1965/66	+7.01	+52	-7.22	- 8	+4.5	+ 4
1966/67	+15.07	+73	-17.62	-23	-3.6	- 3
1967/68	-10.77	-31	-5.18	- 9	-5.4	- 4
1968/69	-3.33	-13	+4.66	+8.6	n.a.	n.a.

n.a. means Not Available

* Total Federal Government tax revenue includes import duty, excise duty, export duty and Direct Taxes revenues.

But for the four years between 1962/63 and 1966/67, annual rates of increase were 39%, 38%, 52% and 73% respectively.

An identical trend can be seen in the changes in the proportion of excise revenue to Gross Domestic Product (G.D.P.). As Table 5.2 shows, the proportion of excise revenue to G.D.P. rose from a fairly constant level of about 0.5% to 0.7% in 1963/64, 1.33% in 1965/66 and 2.2% in 1966/67.

The 1963/64 increase was accounted for by the tremendous increase in productive capacity and greater capacity utilization in the beer and cigarettes industries. While a stout factory went into production in 1962, two beer factories went into production in 1963, thereby increasing the number of factories in this industry to four. Production of beer and stout increased by about 87.5% in 1963. Similarly, production of cigarettes went up by 20%.

The 1964/65 increase was however largely responsible for by the expansion of tax coverage from 3 to 22 commodity categories (see Table 2.1). Although none of the 1964 additions is particularly highly productive of revenue (in comparison with, say, cigarettes and beer), they together, yielded £2.86 million (about 20% of total excise revenue for that year). The expansion of tax coverage in 1965 involved only 6 additions to the number of commodities taxed but included one high revenue-yielding item - oils (Motor oils and Diesel)

TABLE 5.2

EXCISE REVENUE AS PERCENTAGE OF GROSS
DOMESTIC PRODUCT 1958/59 - 1966/67

YEAR	GROSS DOMESTIC PRODUCT* £'million	EXCISE REVENUE £'million	EXCISE REVE- NUE AS PER- CENTAGE OF G. D. P. %
1958/59	924.3	4.4	0.48
1959/60	982.2	5.1	0.52
1960/61	1122.3	5.7	0.51
1961/62	1186.7	6.4	0.54
1962/63	1315.4	7.1	0.54
1963/64	1403.2	9.8	0.70
1964/65	1457.0	13.6	0.93
1965/66	1540.0	20.5	1.33
1966/67	1605.0	35.7	2.22

*Gross Domestic Product at current prices.

SOURCES: (1) Economic Indicators, Vol.4, No. 12, December 1968, Federal Office of Statistics, Lagos.

(2) Column III has been extracted from our Table E.5.

which yielded £3.99 million (about 19.4% of total revenue for the year). Total contributions of commodities other than beer, cigarettes and oils almost double (increased from £2.86 million to £4.84 million) reflecting increase in production of these other commodities.

While expansion of tax coverage was also not much (only 3 new commodities were added) in 1966, there was a tremendous increase of about £15.1 million in excise revenue in 1966/67 (about 73% increase) over that of the previous year. This was accounted for to a considerable extent by a substantial increase of £10.15 million in excise revenue from Motor Spirit and Diesel and an increase of £3.65 million in revenue from the other products besides cigarettes and beer. (The latter represents an increase of about 75% over that of the previous year.) These increases, as in the preceding year, indicate increases in production.

All these show that the upswing in rate of increase in excise revenue from financial year 1963/64 has been caused, not only by the expansion of tax coverage, which started in earnest only in 1964 but also by considerable expansion in production which took place during the period.

A comparison of changes in excise and import revenues is shown in Table 5.1. Although yearly increase in excise revenue was lower than yearly increase in import revenue up

till 1964/65, (See Chart 4), relative increase in excise revenue has remained higher since 1961/62 (See Chart 5). After a peak of 31% rate of increase in 1964/65, however, import revenue started to decline. Although the rate of reduction in import revenue was much lower in 1965/66 and 1966/67 than the rate of increase in excise revenue, absolute fall in import revenue each year exceeded absolute increase in excise revenue. This is indicative of the fact that total increase in excise revenue has not been compensating fully for total fall in import revenue.

But bearing in mind (1) that the coverage of import duty is much greater than the coverage of excise tax (or, to put it more precisely, that excise tax did not cover the whole range of import substitution industries) and (2) that the margin by which total fall in import revenue is greater than total increase in excise revenue is very small, one sees that the commodities subjected to excise tax have actually been yielding more than enough to compensate for loss of import duties on them.¹

It can also be seen from Table 5.1 (and Chart 5) that excise revenue has been increasing at a much faster rate than

1. This is further indicative of the fact that in spite of the excise levies, production of these commodities have progressed more than necessary to substitute for quantitative reduction in import.

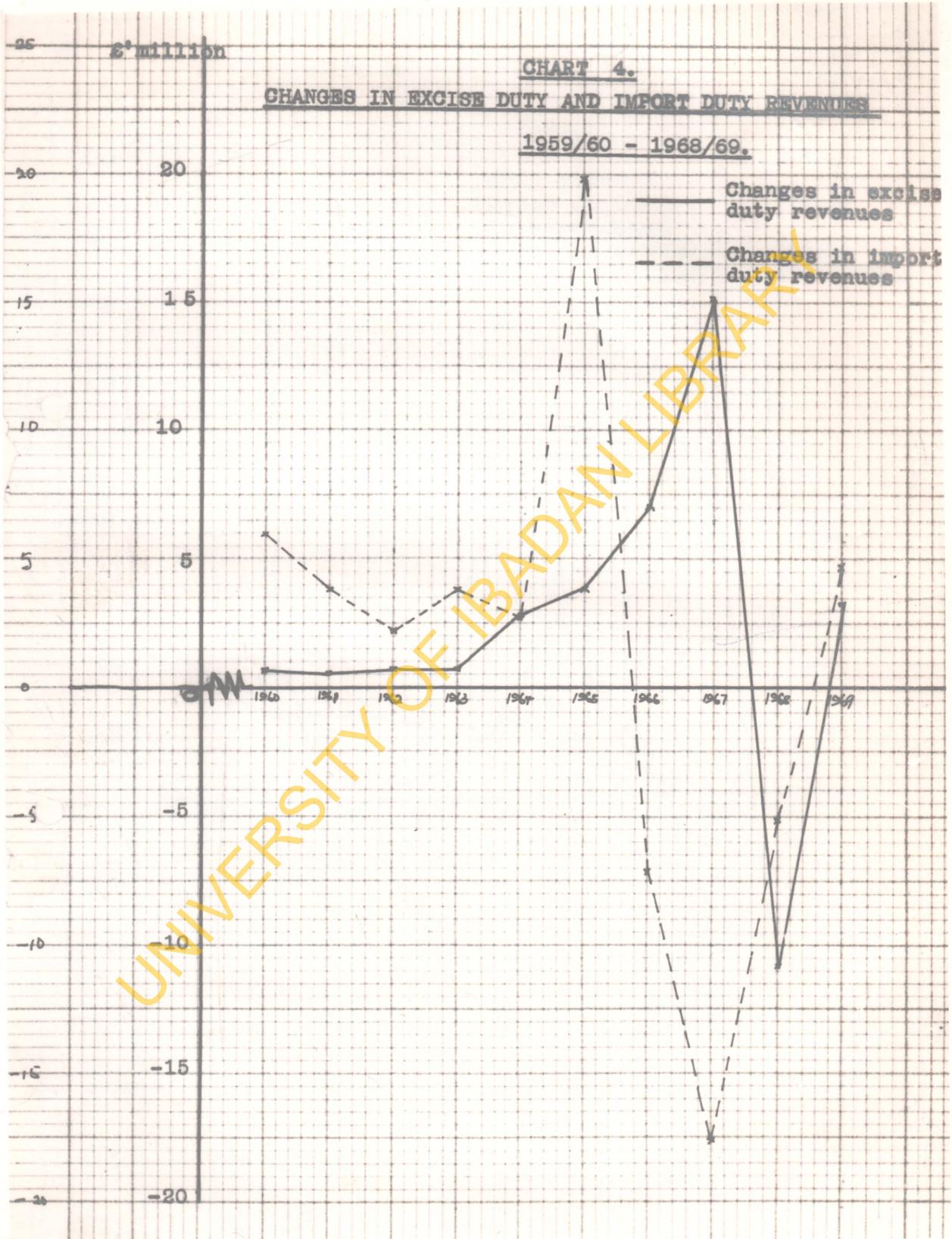
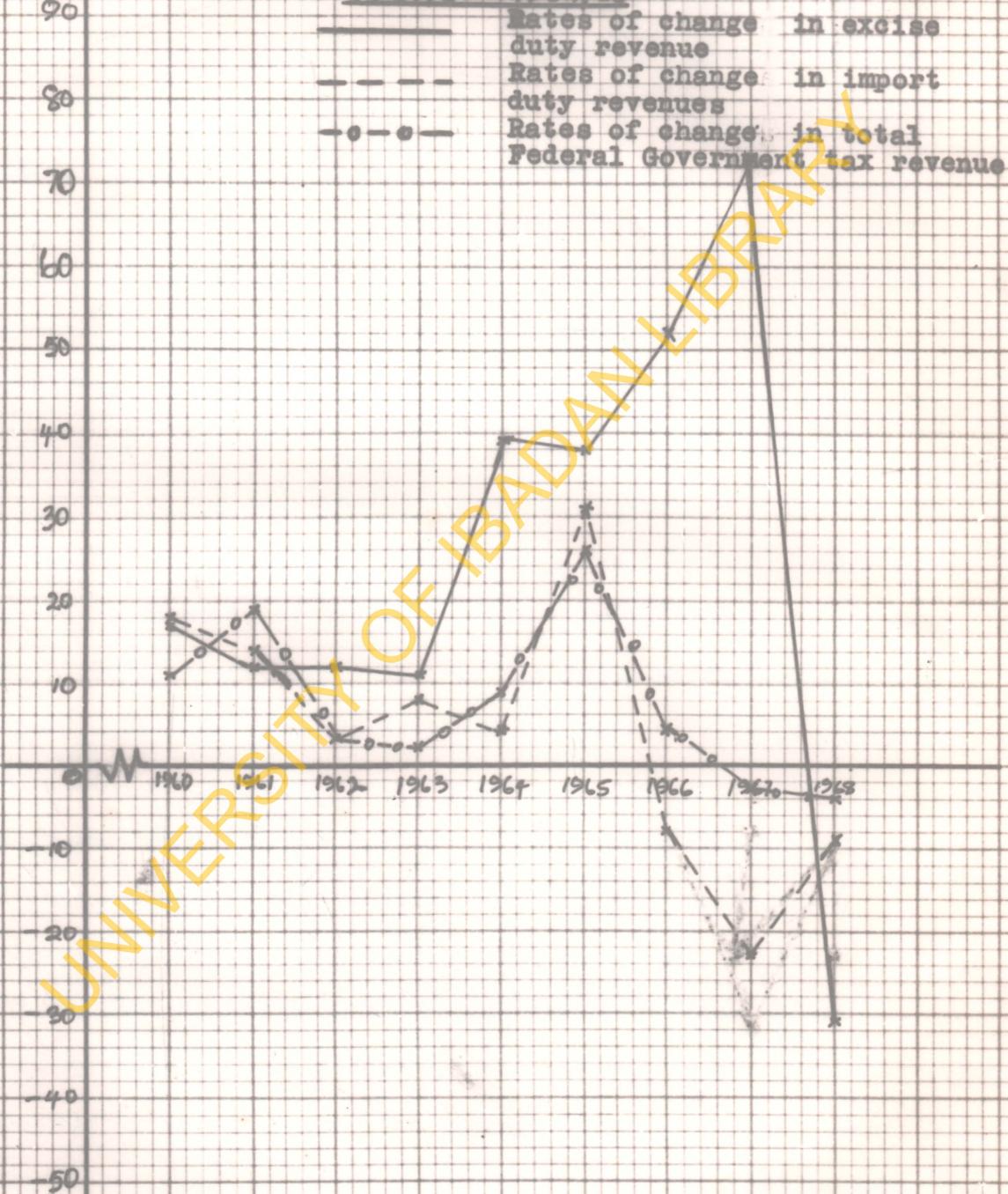


CHART 5.

**ANNUAL RATES OF CHANGES IN EXCISE DUTY, IMPORT
DUTY, AND TOTAL FEDERAL GOVERNMENT TAX REVENUES.**

1959/60 - 1967/68



the rate of increase in total Federal Government revenue from all tax sources. For example, while excise revenue increased at an average annual rate of 31.8% from fiscal year 1959/60 to 1966/67, total tax revenue increased only at an average rate of 8.9%.

Relative Contributions to Excise Revenue

The nature of excise duty revenue can even be more understood by examining the extent to which particular commodities have contributed to total excise revenue. Thus up till 1963/64, virtually all excise revenue was still being derived from cigarettes and beer only. As can be seen in Table 5.3, in spite of the addition of a few commodities to the range of excisable goods in 1960/61 cigarettes and beer still contributed 93.9% of total excise revenue. By 1963/64 it had risen to 97.26%. Since then, however, the two commodities had started to lose ground slowly and in 1966/67, only cigarettes retained its position as the biggest source of excise revenue. Beer was beaten to the fourth place by motor spirits and diesel oil. However, between them, the four products: cigarettes, beer, motor spirits and diesel oil, contributed 76.6%, 76% and 68.6% in the respective years from 1965/66 to 1967/68. The low percentage of 1967/68 was accounted for largely by the fact that the figures for motor spirits and diesel oil were for seven months only as excise revenue from

TABLE 5.3

PERCENTAGE CONTRIBUTIONS OF SELECTED
COMMODITIES TO EXCISE REVENUE 1952/53 - 1968/69

YEAR	CIGA- RETTES	BEER	MOTOR SPIRITS	DIESEL	OTHERS
1952/53	98.23	1.77	..	..	..
1953/54	96.34	3.66	..	..	..
1954/55	96.17	3.83	..	..	..
1955/56	95.69	4.31	..	..	..
1956/57	93.86	6.14	..	..	..
1957/58	91.07	8.93	..	..	..
1958/59	89.66	10.34	..	..	..
1959/60	83.48	16.52	..	..	..
1960/61	74.36	19.54	..	..	6.10
1961/62	73.56	21.76	..	..	4.73
1962/63	70.52	27.08	..	..	2.40
1963/64	60.80	36.46	..	..	2.74
1964/65	48.20	30.87	..	..	20.93
1965/66	35.44	21.79	8.79	10.61	23.37
1966/67	22.95	13.39	21.61	18.07	23.98
+1967/68	25.19	18.53	13.15*	11.69*	31.44
+1968/69	26.17	17.42	..	neg.	56.41

.. means nil; neg. means negligible.

+ Excludes figures for the three Eastern States

* Figures are for the first 7 months of 1967/68 expressed as percentage of total. They represent 19.66% and 17.55% respectively of total revenue for the relevant 7 months.

SOURCES: Accountant General of the Federation Reports for the various years up to 1966/67;

Central Bank of Nigeria, Research Section, and Federal Official Gazette, No. 39, Vol. 56 of 1969.

them ceased to be forthcoming in October 1967 as a result of the civil war in the country.

It can be seen, therefore, that the revenue yielding capacities of these four 'core' commodities have been the propelling force behind changes in excise revenue and it will be interesting to examine them a little further.

MOTOR SPIRIT AND DIESEL OIL

Arguments for and against tax on petroleum and diesel oil usually centre around highway maintenance and application of cost-benefit principle¹. The argument will not be gone into here since highway maintenance has not been a strict policy objective for the levying of excise duty on these products in Nigeria. Although the mining of petroleum in commercial quantities in Nigeria has begun since 1958, refining of crude petroleum was not commenced until 1965. Before then, motor spirit and diesel had to be imported.

Import duty collected on motor spirit and diesel oil in 1963/64 were £6.05 million and £4.11 million respectively. These, as shown in Table 5.4, rose to £7.13 million and £5.57 million respectively in 1964/65. Effective import substitution would have meant a reduction in government revenue to this extent. But since quantities of both

1. See, for example, A. R. Prest: Public Finance, op.cit., pp.372 - 373; R. A. Musgrave; Theory of Public Finance, op. cit., p. 177 and J. F. Due; Government Finance, op. cit., pp. 413 - 414.

TABLE 5.4

IMPORT AND EXCISE REVENUES ON MOTOR
SPIRIT AND DIESEL 1963/64 - 1968/69

(£'million)

		1963/64	1964/65	1965/66	1966/67	1967/68*	1968/69*
SPIRIT	IMPORT REVENUE	6.05	7.13	5.98	0.06	n.a.	6.96
	EXCISE REVENUE	-	-	1.81	7.70	3.35	nil
DIESEL	IMPORT REVENUE	4.11	5.57	4.27	-0.54	n.a.	5.68
	EXCISE REVENUE	-	-	2.18	6.43	2.89	..

*Excludes figures in respect of the Eastern States from September 1967

n.a. Means 'not available'

..Excise revenue that year was only £56

SOURCES: The same as for Table 5.3

commodities imported fell only slightly that year, import revenues on them fell by only £1.15 million on motor spirits and £1.30 million on diesel in 1965/66. These were more than compensated for by excise revenue yields of £1.8 million on motor spirits and £2.18 million on diesel oil.

The process of import substitution was virtually completed however, in 1966/67 when imports fell so low as to yield net revenues of only £0.07 million from motor spirit, whilst repayment which had to be made on diesel exceeded the import revenue collected by about £0.5 million. On the contrary, excise revenue from both rose to £7.71 million and £6.43 million respectively. These excise yields were just about the total revenue from import and excise duties on motor spirits and diesel in the previous year.

Production and flow of excise revenue on both products has been disrupted since 1967 as a result of the civil war in the country. It can be expected, however, that when the local refineries go into production again, they will be able to meet local demand fully as the data for 1966/67 indicate. We can therefore estimate from import data pre-1965/66 what is likely to be the trend of excise revenue on these products after production must have been resumed in Nigeria.

If we take quantities of these products imported pre-1965/66 as estimates of demand during that period, we can see

TABLE 5.5

QUANTITIES OF IMPORT AND IMPORT DUTIES ON MOTOR
SPIRIT AND DIESEL 1958 - 1964

	1958	1959	1960	1961	1962	1963	1964
Motor Spirit (million gallons)	61.6	71.3	72.0	77.2	73.1	83.5	89.0
Diesel (million gallons)	40.6	46.2	57.1	65.5	71.3	71.9	84.3
Import Duty* (per gallon)	11d.	11d.	1/4d	1/4d	1/8d	1/8d	1/9d

*The same duty applies to both products.

SOURCES: Annual Abstract of Statistics, Nigeria, 1966,
(Federal Office of Statistics, Lagos).

Federal Gazettes for the various years.

from Table 5.5 that demand for motor spirit rose from 61.6 million gallons in 1958 to 89 million gallons in 1964. This means that over the period, demand for motor spirit increased at an average annual rate of 6.7% per annum. Similarly, demand for diesel grew from 40.6 million gallons in 1958 to 84.3 million gallons in 1964 - an annual average rate of growth of 13.3%. Thus, in spite of the fact that import duty in 1964 was almost double what it was in 1958, demand for motor spirit in 1964 was 144.3% that of 1958, while demand for diesel was slightly more than double what it was in 1958.

This remarkable increase in demand for the products, in spite of increasing import duty stems from the fact that demand for motor spirit and diesel oil derives largely from demand for motor vehicles and locomotives. And the latter increased tremendously over the period. If demand for motor vehicles and locomotives continues to rise as fast as it did over the period 1958 - 1964, we can say, ceteris paribus, that demand for motor spirit and diesel would also continue to grow at these (6.3% and 13% per annum respectively) rates. In that case, if excise duties on these products remain unchanged, and rate of production of the local refinery (and any new one that may be set up) adjusts adequately to changes in demand, one could expect that excise revenue on the products would also grow at these rates.

Cigarettes

The Excise revenue derived from cigarettes has increased tremendously over the years and it contributes the greatest share of excise revenue. (See Table 5.3). However, there has been a steady decline in percentage contribution to total excise revenue and this can be explained by the broadening of coverage of excise and the faster rate of change in contributions by beer, motor spirit, and diesel.

Changes in rates

As can be seen in Table 2.2, since the change over, in 1951, to ad valorem mode of levy, the rates of excise duty on cigarettes had remained fairly stable till the end of the fiscal year 1965/66. There were only two changes during that period. The first was in 1956 when cigarettes having a weight of not more than 2½ lb. per thousand were divided into two classes. Those weighing not more than 2 lb. were subjected to duty at 30% ad valorem while those weighing more than 2 lb. but not more than 2½ lb. per thousand were further re-classified - with respect to price. The cheaper category - those costing less than or equal to 70/- per thousand - were to retain the original rate of 40% ad valorem while rate on the second category - costing more than 70/- per thousand - was increased to 48%.

The first round of general increase of rates occurred at the end of March 1965 when all rates went up by 5% each. This increase lasted only two months and in June the whole structure of excise on cigarettes was changed. By this change all types of cigarettes were classified into four classes with both weight and price demarcating each class bracket. The lowest class consisted of cigarettes weighing not more than 1 lb. and costing not more than 25/- per thousand. The next class consisted of cigarettes weighing not more than 2½ lb. and costing above 25/- but not more than 50/- per 1,000. The third class comprised of cigarettes weighing not more than 2½ lb. and costing above 50/- but not more than 125/- per thousand. The fourth category comprised of the most superior cigarettes weighing more than 2½ lb. and costing more than 125/- per thousand. Each class was then subjected to a combined ad valorem and flat rate structure. These rates were 20% plus 6d. per thousand on the first class, 30% plus 9d. per thousand on the second class, 40% plus 1/- per thousand on the third class and 50% plus 1/6d. on the fourth class.

Taking a class bracket as a unit, one sees that this last rate structure was progressive. But, within each class, the flat rate introduces a regressive element as the flat rate

1. These changes are clearly set out in Table 2.2 above

would constitute a higher percentage on the selling price of the cheapest ones in each class than on the selling price of the more expensive ones. One cannot actually posit whether or not, this structural change has an overall effect of increasing or reducing the rates above what they were. The change in the definition of selling price to mean retail price rather than manufacturers' ex-factory price also makes comparison with the former rates more difficult.

Since this structural change was introduced, there have been two changes in rates. These were the 5% surcharge levied in 1967, and the '3d. per packet of twenty' surcharge of 1968¹. Unfortunately, the 1968 surcharge made the whole structure rather regressive. Thus, as a result of the changes, the rates increased to equivalents of 72% ad valorem on the cheapest and lightest cigarettes and of just a little more than 50% on the most expensive and heaviest cigarettes.

Effects of Rates Changes on Revenue

The precise effects of changes in rates of duty on demand and revenue are not easy to isolate. This is because of the constant re-classifications - especially as data are not available in respect of changes in production of each category.

1. It is, however, intended by the government that the surcharge would only last the period of national emergency.

In 1956, when the rate was lowered on the lightest cigarettes, excise revenue from cigarettes went up by 13.4% compared with the average rate of 8.1% of the preceding four years. (See Table 5.6). Similarly, in 1959/60, when rate of duty on the more costly middle class cigarettes - those weighing more than 2 lb. but not more than 2½ lb. and costing more than 70/- per thousand - was raised to 48%, total excise revenue from cigarettes went up by 8.5% compared with 3.8% of the three preceding years. If we assume that changes in the amount of excise tax payable are reflected fully in price, then the former (where rate of increase in total revenue went up when tax was lowered on the poorer cigarettes) suggests a high price elasticity of demand for the poorest cigarettes. On the other hand, the latter (where rate of increase in total revenue went up when tax was increased on the higher quality grades of the middle weight category of cigarettes) suggests low price elasticity of demand for the higher grade cigarettes.

However, one should not lose sight of the fact that in 1956 and 1958 new cigarettes factories started production at Port Harcourt and Zaria respectively. The resulting increase in productive capacity might well have been largely responsible for the 1956/57 and 1959/60 high rates of increase in revenues.

TABLE 5.6

CHANGES IN EXCISE REVENUE FROM
CIGARETTES AND BEER 1952/53 - 1968/69

FISCAL YEAR (beginning 1st April)	CIGARETTES		BEER	
	CHANGE IN REVENUE	RATE OF CHANGE OVER PREVIOUS YEAR	CHANGE IN REVENUE	RATE OF CHANGE OVER PREVIOUS YEAR
	£'000	%	£'000	%
1952	411	15.8		
1953	230	7.6	69	126.6
1954	4	..	6	5.0
1955	291	9.0	30	23.2
1956	475	13.4	103	64.8
1957	-85	-2.1	123	46.7
1958	9	..	69	17.8
1959	335	9.0	391	86.2
1960	-58	-1.4	262	31.0
1961	474	11.3	280	25.3
1962	285	6.1	523	37.7
1963	996	20.0	1,670	87.5
1964	556	9.3	610	17.1
1965	762	11.7	284	6.8
1966	894	12.3	370	8.3
1967	-1,920	-23.4	-169	-3.5
1968	+1,105	17.6	+305	+6.6

.. means less than 1%.

An examination of revenue changes between 1961/62 and 1965/66, when there were no changes in rates reveals that revenue yield from cigarettes increased at an average rate of 11% per annum. During this period, Gross Domestic Product at 1962 prices grew at an average rate of 4% per annum. If this rate of growth of Gross Domestic Product is taken as an estimate of the rate of growth of National Income, it means that excise revenue from cigarettes has been rising at a much faster rate than rate of growth of Income.

It is realised, of course, that increase in the consumption of cigarettes cannot be explained by increase in income only. It does reflect, for example, a whittling down, in Nigeria, of the restraining influence of medical (the threat of cancer), social and religious antagonism to the habit of smoking - a triumph for the power of advertisement¹.

1. Cigarettes advertising in Nigeria, mostly done by radio, is usually geared towards boosting the personality of people who smoke particular brands, (e.g. There are advertising slogans such as: "Smart men smoke 'Mark Ten'", "Players' Gold Leaf is cigarette for the V.I.P.", "You are an important man if you smoke S.M." (Sweet Menthol) and so on); attributing to particular brands certain wonderful effects they are supposed to have on people who smoke them (e.g. "UNIVERSITY helps you to concentrate, Be a Varsity man, Enjoy that fine clear-head feeling"), or attempting to create an image of taste (e.g. "Target for Taste", "Green Spot is good and cool in the mouth").

These can be seen as appeals to the self-conscious, those who feel they need an aid to keep going mentally, the curious and the imitator. Needless to say, these categories of people will embrace a substantial proportion of the population as well as cut across the income strata of the society.

On the other hand, it cannot be denied that the choice of quality of cigarette a smoker will smoke is influenced, to a considerable extent by the social and/or economic class he belongs to. Therefore, both initial choice of brand and subsequent brand switching are likely to be considerably influenced by the smoker's income. Thus, income elasticity of demand for cigarettes is likely to be fairly high. Therefore, if the number of cigarettes the smoker smokes does not increase, his contribution to excise revenue increases as a result of the switch to higher quality and more costly brands.

From the above, it can be said that in Nigeria, cigarettes exhibit the following characteristics: (a) high income elasticity of demand, (b) low price elasticity of demand with respect to the higher quality grades, and (c) high price elasticity of demand with respect to the lowest quality grades¹.

As shown in our discussion on issues of theory, the first two characteristics are important for purpose of maintaining a high, stable and increasing revenue on cigarettes. This is because since higher quality cigarettes have low price elasticity of demand, it would be possible to subject them to a high

1. While Professor A. R. Prest, in a similar study based on United Kingdom, concluded that "tobacco would seem to pass the test of inelastic demand", he was sceptical about income elasticity of demand for tobacco being high. See A. P. Prest, Public Finance, op.cit., pp. 369 - 370.

1. This company manufactures a considerable proportion of total cigarettes supplies in Nigeria.

and progressive rate structure without demand falling off. On the other hand, it would be inadvisable to levy too high duty on the lowest grades of cigarettes. This conclusion is borne out by the present experience with the '3d. per packet of twenty' surcharge. One of the manufacturers¹ who responded to our questionnaire, remarked that the surcharge "has made it difficultto produce inexpensive cigarettes".

Beer

Next in importance to cigarettes has been beer. Up till 1965, it made the second largest contribution to excise revenue only dropping to the fourth position in 1966. Table 5.3, above shows that up to 1963, the percentage contribution increased from year to year. As in the case of cigarettes, the reduction in percentage contributed (since 1964/65) has resulted from the considerable broadening of excise tax which has been taking place since 1964.

However, as can be seen from Table 5.6, excise revenue on beer has been rising consistently except for 1967/68 when, as a result of the civil war which stopped the flow of excise revenue from the beer factories situated in the Eastern States, excise revenue on beer fell. And, as can also be seen from the table, revenue from beer consistently increased, up till 1964, at a much higher rate than revenue from cigarettes.

1. This company manufactures a considerable proportion of total cigarettes supplies in Nigeria.

However, changes in duty levied on beer has been very frequent - much more frequent than changes in duty on cigarettes. Within the eighteen years between 1949 and 1967, excise duty on beer was changed six times thereby raising duty to more than five times the initial levy of 1/3d. per gallon. (See Table 2.3).

In 1959, duty on beer was four shillings (4/-) per gallon and by 1966, it had gone up to 7/- (i.e. a 75% increase), while revenue from beer had increased from £0.85 million in 1959 to £4.84 million in 1966 (i.e. an increase of over 480%). Similarly, between 1960 and 1966, duty went up from 5/6d. per gallon to 7/- per gallon (a 27% increase) while revenue increased from £1.11 million to £4.84 million (an increase of over 300%). In both cases it will be seen that revenue increased at a much higher rate than changes in rate of duty. This tends to suggest that increase in revenue may not be explained by changes in duty only.

However, the regression of excise revenue on beer on the rate of duty between 1952/53 and 1966/67 yields equations:

$$\hat{Y} = -1.367 + 0.058X$$

where \hat{Y} = estimated revenue yield from beer (in £'million)
and X = rate of excise duty on beer (in pence, per gallon).
The graphical representation of this equation is shown in

CHART 6.

REGRESSION OF EXCISE REVENUE YIELD FROM BEER ON THE
RATE OF DUTY.

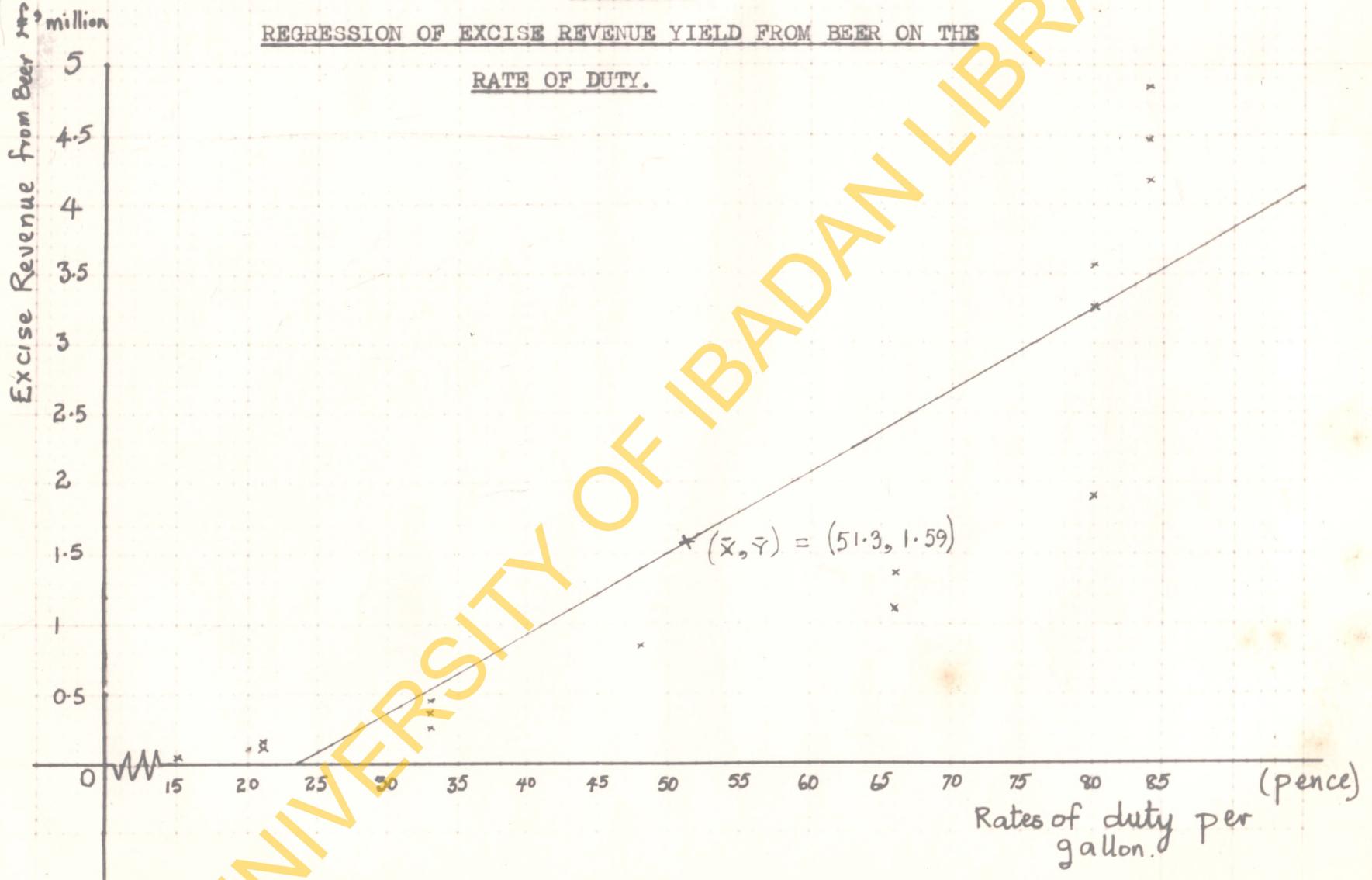


Chart 6. The square of the correlation coefficient is given by $r^2 = 0.79$. This statistical result tends to indicate that only about 21% of excise revenue yield from beer is not explained by the excise duty levied.

To establish further, the dominating influence of changes in the rate of excise duty on the excise revenue from beer, we have made an attempt, in Table 5.7 to isolate the effect of production on total excise revenue from beer. To do this, we have held the initial (i.e. 1949) rate of duty of 1/3d. per gallon constant. Then, by dividing excise revenue from beer each year by the relevant rate of duty for the respective years, we have obtained an estimate of the year to year production for the period 1952/53 to 1966/67. Then we have, thereupon, multiplied these production figures by the initial rate of 1/3d. per gallon to obtain an estimate of what revenue would have been each successive year if rates of duty had remained constant. (This is shown in Column III.) The difference between these estimates and the actual revenue for the respective years we have attributed to effects of changes in rates. (This is shown in Column V.) Columns IV and VI merely show what percentage of total excise revenue from beer figures in columns III and V respectively would be. The two percentages in each row, sum up to 100. A diagrammatic representation

TABLE 5.7

CHART 7
EFFECTS OF CHANGES IN EXCISE DUTY AND PRODUCTION ON
EXCISE REVENUE FROM BEER, 1952/53 - 1966/67

I FISCAL YEAR (beginning 1st April)	II DUTY (pence per gal.)	III PRODUC- TION EFFECT* £'million	IV % (of total revenue from beer)	V EXCISE DUTY EFFECT+ £'million	VI % (of total revenue from beer)
1952	15	0.054			
1953	21	0.088	71.5	0.035	28.5
1954	21	0.092	71.3	0.037	28.7
1955	21	0.114	71.7	0.045	28.3
1956	33	0.119	45.2	0.144	54.8
1957	33	0.175	45.4	0.210	54.6
1958	33	0.206	45.4	0.248	54.6
1959	48	0.264	31.2	0.581	68.8
1960	66	0.253	22.9	0.854	77.1
1961	66	0.315	22.7	1.072	77.3
1962	80	0.358	18.7	1.552	81.3
1963	80	0.671	18.8	2.908	81.2
1964	84	0.758	18.1	3.432	81.9
1965	84	0.799	17.9	3.676	82.1
1966	84	0.866	17.9	3.977	82.1

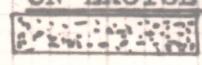
*Effect of changes in production assuming excise duty is constant at 1952 level.

+Cumulative effect of changes in rates of excise duty.

CHART 7.

THE INFLUENCE OF CHANGES IN EXCISE DUTY AND PRODUCTION
ON EXCISE REVENUE FROM BEER.

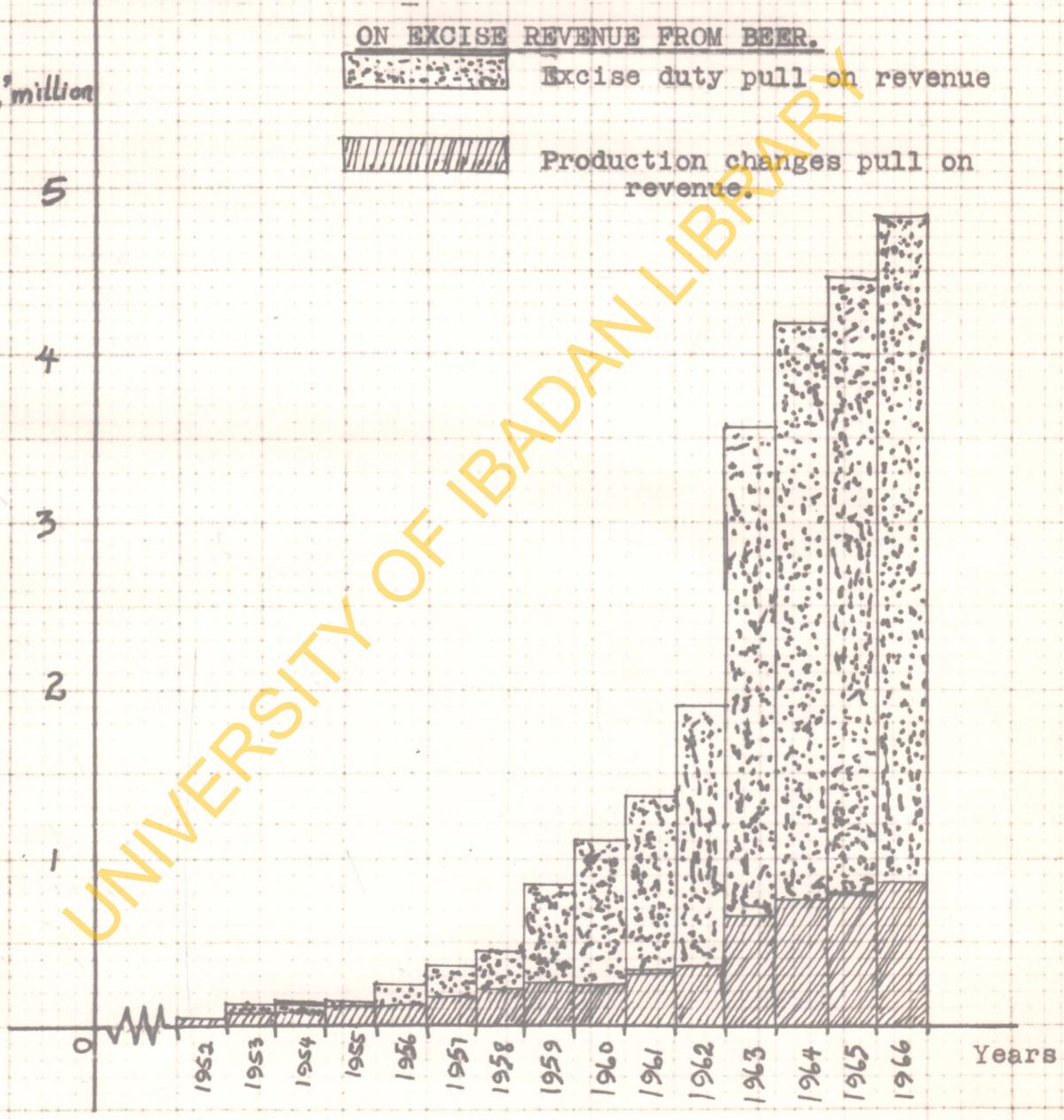
£ million



Excise duty pull on revenue



Production changes pull on revenue



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of columns III and V is shown in Chart 7.

It can be seen that excise revenue would have increased from £0.054 million in 1952/53 to only £0.253 million in 1960/61 and only £0.866 million in 1966/67¹ if excise duty had remained at the 1952 level. On the other hand, the cumulative effect of the increases in excise duty has been to increase revenue by amounts increasing from £0.35 million in 1953/54 to £0.854 million in 1960/61 and £3.977 million in 1966/67. And column VI shows that the cumulative effect of increases in excise duty has been to increase the proportional influence of duty on revenue from beer from 28.5% in 1953/54 to 82.1% in 1966/67. It can be seen that this result is in conformity with the high correlation shown above. One can conclude from these, therefore, that increases in excise duty has aided excise revenue more than any other factor.

It is obvious that changes in production has also had its impact. As can be verified from Table 5.8, production of beer has been increasing steadily both to substitute for import as well as meet growing demand. However, the year to year movement of total supply would seem to indicate a production capacity constraint on total supply. For example, when

1. On the contrary, it could validly be argued that if excise duty has not been increased, it might have resulted in greater consumption. But whether or not this would have been reflected in excise revenue would also depend on the rate of expansion of production.

TABLE 5.8

COMPOSITION OF TOTAL SUPPLY OF BEER 1961 - 1968

(N'000 gallons)

I YEAR	II LOCAL PRODUC- TION	III CHANGE IN LOCAL PRODUC- TION	IV IMPORTS	V CHANGE IN IMPORTS	VI TOTAL SUPPLY	VII CHANGE IN TOTAL SUPPLY
1961	5,044+		7,758		12,802	
1962	5,729+	685	5,021	-2,737	10,750	-2,052
1963	10,738+	5,009	1,925	-3,096	12,663	1,913
1964	12,132+	1,394	1,644	- 281	13,776	1,113
1965	12,610	478	433	-1,211	13,043	- 733
1966	13,896	1,286	310	- 73	14,256	1,213
*1967	13,338	- 558	246	- 114	13,584	- 672
*1968	15,596	2,259	254	+ 8	15,851	2,267

* Excludes figures for the three Eastern States from July 1967 to December, 1968.

+ Estimates derived from excise revenue.

SOURCES: Economic Indicators, Vol.4, No. 12, December 1968,
Federal Office of Statistics, Lagos.

Annual Abstract of Statistics, Nigeria, 1965;
Federal Office of Statistics, Lagos.

imports fell by 217 million gallons in 1962, local production went up by only 0.7 million gallons, thus causing a total fall of 2 million gallons. The total fall of 0.7 million gallons of 1965 can be similarly explained.

Argument of productive capacity constraint might seem reasonable in the 1962 case on the ground that the 2 factories which had been producing since 1959 might not have been able to sustain adequately the sudden windfall of demand for locally produced beer caused by the drastic fall in import in that year. But the same cannot definitely be said of 1965. Productive capacity in that year was 16.6 million gallons¹ - meaning the industry would still have been able to exceed the year's production by about 1/3 of what it actually produced. However, in 1966, there was enough expansion of production which compensated for the fall during 1965 and thus tends to suggest that productive capacity does not actually constitute a major constraint on excise revenue from beer. In that case, the year to year trend might be taken as indicating a time lag of as much as one year for adjustment of production to changes in demand. If this is so, the question turns on the behaviour of demand for beer.

From the sixth column of Table 5.8, it can be seen that the total supply of beer (both from import and local

1. See Central Bank, Annual Review, 1965, p.25.

factories) increased from 12.8 million gallons in 1961 to only 14.3 gallons in 1966. This represents an average increase of only 3.05% per annum. During that period, there was an average annual increase of 4% in Gross Domestic Production in economy. If these increases can be taken as estimates of changes in demand for beer and increase in National Income respectively, this would tend to suggest that the income elasticity of demand for beer is low¹. This, therefore, explains the low impact of production on excise revenue from beer as production has expanded to a considerable extent, only to substitute for fall in imports and, only to a lesser extent, to meet expanded demand.

More importantly, now that the import composition of total supply is very low, assuming the rate of excise duty is left unchanged, excise revenue from beer would continue to rise only at a rate less than the rate of increase in income. This follows from the fact that income elasticity of demand for beer is likely to be low. However, if we assume that increases in excise duty have been passed on to consumers by way of higher prices, the fact that consumption of beer has continued to rise in spite of increases in excise duty gives an impression that price elasticity of demand for

1. A. R. Prest has also shown that the income elasticity of demand for beer in the United Kingdom is low. See op. cit., p.371.

beer is also likely to be low. In that case, it might be possible (up to a limit) to maintain a steady rate of increase in excise revenue from beer, equal to or even greater than the rate of increase in National Income, by raising the rate of duty regularly!

... source of government revenue in Nigeria. It becomes a potentially powerful instrument of state policy in Nigeria. Although excise was first introduced in 1947, not more than four commodity groups were subject to excise until 1964, and the use of excise was not geared to any goal other than to supplement government revenue from other sources. Since 1964, however, there has been increasing use of excise.

Certain factors have made this increasing use of excise possible. First, since the beginning of the 1960s there have been considerable growth of import substitution industries (particularly with respect to production of consumer goods) under the protection of strict import restriction. Secondly, except for cigarettes, beer, portable spirit, and petroleum spirit and diesel (on which excise duties were levied from the time production started), excise duties are levied at stages where local production forms a substantial proportion of total supply. Thirdly, import and excise tariffs are so designed as to g.

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CHAPTER 6SUMMARY AND CONCLUSION

By and large, excise taxation has become a very important source of government revenue in Nigeria. It has also become a potentially powerful instrument of economic policy in Nigeria. Although excise was first introduced in 1933, not more than four commodity groups were subject to excise until 1964, and the use of excise was not geared to any goal other than to supplement government revenue from other sources. Since 1964, however, there has been increasing use of excise.

Certain factors have made this increasing use of excise possible. Firstly, since the beginning of the 1960s there have been considerable growth of import substitution Industries (particularly with respect to production of consumer goods) under the protection of strict import restriction. Secondly, except for cigarettes, beer, portable spirits, matches and petroleum spirit and diesel (on which excise duties were levied from the time production started), excise duties are levied at stages where local production forms a substantial proportion of total supply. Thirdly, import and excise tariffs are so designed as to give local production

comparative cost advantage on the local market. Fourthly, monetary income has been growing faster than production, thus demand for consumer goods have remained high in spite of the increasing use of excise.

The motive force behind the increasing use of excise in Nigeria has largely been revenue. Thus excise was initially used merely to supplement government revenue from other sources. Later, it was increasingly used, in addition, to compensate for loss of import revenue that would necessarily result from restrictions imposed on imports in the government's attempt to arrest the adverse trend in the country's Balance of Payments.

In addition to the revenue objectives, excise has been used in Nigeria as part of a package deal, to restrain private consumption and thus, on one hand, encourage savings, and, on the other hand, reduce inflationary pressure caused by excess demand. Also, the imposition of excise duty on building materials can be seen importantly as an attempt by the government to discriminate against investment in private buildings. Furthermore, it has been attempted through the use of discriminatory excise tariff to encourage the use of locally produced materials inputs in preference for imported inputs.

With respect to the revenue objective, a considerable

use being made of excise, it is likely to take the place of import as the largest source of revenue for the Federal Government of Nigeria within the next few years.

The use of excise to achieve other economic objectives has, however, not been very successful. Because of the growing acquisitive instinct of Nigerians, excise appears to have been an ineffective instrument to restrain consumption in a bid to encourage private savings. Nevertheless, it could be used effectively to substitute public savings (in the hands of the government) for private savings. Similarly, Nigeria's excise as it is, would appear to be weak for controlling inflationary pressure. Since inflationary pressure in Nigeria emanates largely from excess demand, excise tax designed to mop off such excess demand should be directly related to the retail price as opposed to manufacturer's price. Thus, as much as possible, excise tax should be based on retail prices rather than manufacturer's ex-factory prices. More importantly, it would appear that the use of monetary and expenditure instruments would be more effective in controlling inflation in Nigeria than the use of excise. With respect to the use of excise to encourage the use of locally produced inputs in preference to imported inputs, experience has shown that it is better to levy discriminatory tax on the inputs than on the end product.

Although substantial progress has been made, there are still some factors inhibiting the use of excise in Nigeria. Firstly, because industrialisation has not progressed very far in Nigeria, most of the industries comprise of only very few manufacturers. Thus it is easy for the manufacturers to stand effectively in the way of the government especially where the government's excise tax policy seems unfavourable to them. Secondly, in the few industries where there are many local craftsmen the problem of excise control is high. Thirdly, the administration of excise gives much room for evasion and avoidance. In particular, the practice of stationing an officer permanently with a firm for a very long time on end gives room for collusion between the manufacturer and the stationed tax official to evade tax. Also, the light control on the excise factories in which officers are not permanently stationed places too much reliance on the honesty of manufacturers whereas this honesty is not firmly demanded, as it should be under such a system, by prompt subjection of defaulters to deterrent punishment.

Furthermore, granting that some small scaled producers of excisable commodities should be excluded from paying the tax on the ground that the revenue that would likely accrue from them would be so small as not to worth the trouble and cost of collection, there is no definite criterion on which

such small scaled producers are exempted. The strategy usually relied on of 'giving the carrot and then applying the stick' will only succeed in getting in those manufacturers who stand to gain from the various concessions granted by the government e.g. those who import, or have to pay a substantial amount of excise duties on their commodity inputs. In cases where the import and/or excise duties payable on inputs are altogether lower than excise duty payable on the final output (e.g. where only a small part of the inputs are dutiable), the manufacturer would try to keep outside the excise tax net simply by not applying for concessions. Furthermore, the success of such a strategy also depends very much on whether or not the manufacturers know of such concessions. The situation, therefore, arises whereby some manufacturers (e.g. in the furniture industry) openly keep outside the excise tax net while their counterparts whose products are no better and who do not operate on a larger scale, by any standard of measurement, are liable for payment of excise tax. This, to say the least, gives an impression that excise tax is not being effectively enforced, and might easily destroy the morale of those who comply and encourage evasion.

These shortcomings caused by the administrative deficiencies, the structure of industries, and the excise tariff structure can be seen in effect as:

- (a) making for loss in excise revenue through evasion,
- (b) making Nigeria's excise appear to be a tax on honesty and bigness, and,
- (c) undermining the effectiveness of excise in achieving economic policy goals in Nigeria.

We have made some suggestions aimed at removing these shortcomings or at least reducing their adverse effects on excise taxation in Nigeria. Firstly, exemption of factories producing excisable commodities from liability for payment should be based on a definite quantitative criterion. Such criterion could be based on labour or capital employed or the average volume of output per period of time. Of these, we are of the opinion that the labour basis is the least objectionable because, given the predominant method of production in any industry, it is easy to ascertain the labour requirement for any scale of operation in any factory in the industry. Having regard to the peculiarities of the industry for each excisable product therefore, a specific lower limit of labour employed could be set on which exemption from payment of excise could be based. This should be supplemented by a proper surveillance by the Department of Customs and Excise to ensure that all the factories which, according to the criterion set, should operate under excise licence do so. Furthermore, as much as possible, import and/or excise duties payable on inputs required

to make a unit of the output should at least be made equal to the amount of excise that would otherwise be due on the unit of output.

Secondly, the system whereby tax official visits excise factories and makes records of production daily should be extended to all excise factories rather than limited to just a few. Thirdly, the staffing of the excise section of the Department of Customs and Excise should be so adjusted that having regard to the suggested method of control, economic efficiency is at least achieved in excise control. Given the attributable working capacity of a properly equipped tax official, such economic efficiency will be achieved when the marginal excise revenue collected is at least equal to the marginal cost of control.

Fourthly, to further check dishonest practices on the part of tax officials, a system of regular inter-factory transfers should be substituted for the present practice of retaining a permanently stationed field staff with a factory for a very long time. In addition, the excise laws should be amended to provide stringent punishments for dishonest practices by any tax official (as was provided for in the 1941 Excise Ordinance).

Fifthly, all manufacturers of excisable commodities (except those specifically exempted from payment of excise duty) should

be required to submit periodically, for purposes of tax audit, appropriately drawn up and properly audited statements of their accounts for the period.

Sixthly, the present predominant practice of basing excise levies on manufacturer's ex-factory prices should be changed in preference for retail price basis of levy. It is realised that retail sales tax would be very difficult to administer in Nigeria at the moment because of the market structure for most of the locally manufactured commodities. Nevertheless, an excise tax based on retail price but collected from the manufacturers would be much more feasible. In particular, basing excise levies on retail price would allow for automatic adjustment of excise revenue to changes in inflationary pressure. Thus excise revenue rises as prices are rising and falls as prices are falling. This would make it a much more effective instrument of economic control.

A P P E N D I X

QUESTIONNAIRE SENT TO MANUFACTURERS OF EXCISABLE GOODS

EX C I S E D U T Y I N N I G E R I A

1. Name of Company:.....
(You may omit this if you feel like it)

2. Name(s) of Product(s):-

- (a)
- (b)
- (c)
- (d)
- (e)

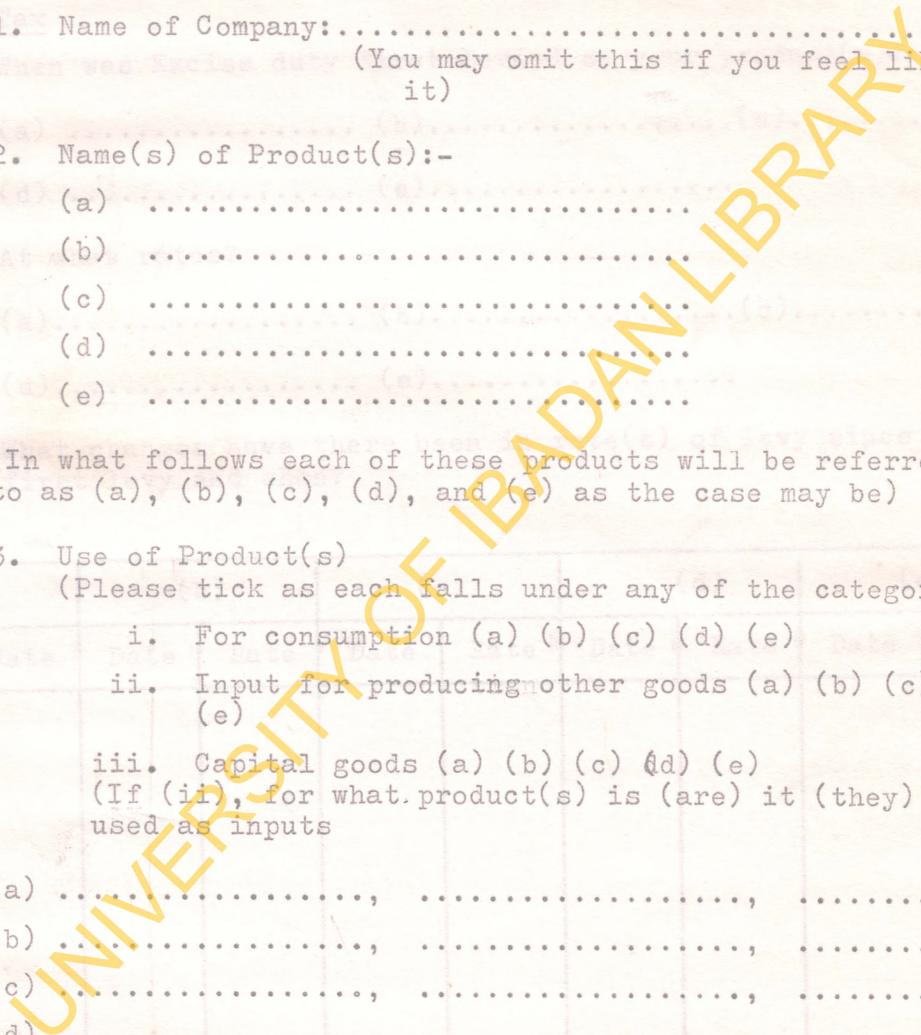
(In what follows each of these products will be referred to as (a), (b), (c), (d), and (e) as the case may be)

3. Use of Product(s)

(Please tick as each falls under any of the categories)

- i. For consumption (a) (b) (c) (d) (e)
 - ii. Input for producing other goods (a) (b) (c) (d) (e)
 - iii. Capital goods (a) (b) (c) (d) (e)
- (If (ii), for what product(s) is (are) it (they) used as inputs

- (a),,
- (b),,
- (c),,
- (d),,
- (e),,



4. Tax

When was Excise duty first levied on your product(s)?

- (a) (b).....(c).....
 (d) (e).....

At what rates?

- (a)..... (b).....(c).....
 (d)..... (e).....

What changes have there been in rate(s) of levy since the first levy and when?

(a)		(b)		(c)		(d)		(e)	
Date	Rate								

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5. Production

(A) Please give the following information about your commodity inputs:-

Name of Input	Average amount imported yearly		Average amount obtained locally yearly		*Rate of import duty or Excise duty	Average value used up yearly	
	Quantity	Value	Quantity	Value		Quantity	Value
i.							
ii.							
iii.							
iv.							
v.							

(*If obtained duty-free please put a dash (-))

(Note: Extra tables are sent for companies producing more than one product)

(B) How much does it cost to produce 1 unit* of your product excluding Excise duty but including profits?

(a).....(b).....(c).....

(d).....(e).....

*Please define what your unit of measure is, e.g., Bale of 100 yards, Barrel of 100 gallons, Box of 100 lb weight, etc.....

6. Distribution

(A) Please tick right () where applicable:

(A) Do you sell:-

- i. Direct to retailers (a) (b) (c) (d) (e)
- ii. Exclusively to wholesalers (a) (b) (c) (d) (e)
- iii. To both retailers and wholesalers (a) (b) (c) (d) (e)

(B) If you sell direct to retailers, at what price do you sell?

(a).....(b).....(c).....

(d).....(e).....

(C) If you sell to wholesalers (whether exclusively or not) at what price do you sell?

(a).....(b).....(c).....

(d).....(e).....

(D) At what price do the wholesalers sell to retailers?

(a).....(b).....(c).....

(d).....(e).....

7. (A) Please specify information about your total monthly sales for the period stated below:

Month	1965	1966	1967	1968		
7. Turnover						
(A) How has Excise duty affected your turnover?						
i. Aided your sales:						
Jan.						
Feb.						
Mar.	very much	(a)	(b)	(c)	(d)	(e)
April	slightly	(a)	(b)	(c)	(d)	(e)
May	not at all	(a)	(b)	(c)	(d)	(e)
June						
ii. Reduced your sales:						
July						
Aug.	very much	(a)	(b)	(c)	(d)	(e)
Sept.	slightly	(a)	(b)	(c)	(d)	(e)
Oct.	not at all	(a)	(b)	(c)	(d)	(e)
Nov.						
Dec.						

(Enter in the space provided for use of companies producing more than one product)

8. Comments

Please comment freely in the space provided below on the Nigerian Excise Law and its operation including any reforms you would like to see effected in the law and how it is being administered.

- 7 (B) Please supply information about your total monthly sales for the period stated below:-

*Month	1965	1966	1967	1968
Jan.				
Feb.				
Mar.				
April				
May				
June				
July				
Aug.				
Sept.				
Oct.				
Nov.				
Dec.				

(*Extra tables are sent for use of companies producing more than one excisable product)

8. Comments

Please comment freely in the space provided below on the Nigerian Excise Law and its operation including any reforms you would like to see effected in the law and how it is being administered.

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