STATES & LOCAL FINANCE

The IGR Initiative

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Of road taxation in Nigeria

THERE ARE AT LEAST FOUR reasons why road taxes are still justifiable in Nigeria. The most obvious is revenue generation for maintaining existing road infrastructure and constructing new ones. For instance, it will cost both the federal and state governments approximately N17.61 trillion to repair all the roads in Nigeria. This estimate also assumes that there are no new constructions. Sadly, this estimate exceeds 70% of the total expenditure size of both the federal and state governments put together. Worse still, the combined spending allocations for road infrastructure by these two tiers of government in Nigeria is not up to 15% of that estimate. The implication is that, unless there are new sources of revenue essentially for road infrastructure upgrades, our roads' future conditions will worsen beyond their current terrible state. Second, although road taxes should ideally finance road infrastructure, such revenue receipts are also deployable in improving other areas of governance.

The third reason is with regards to the safety of human lives. The principles underlying road taxes aim at creating optimal conditions for safe usage of roads. That is why road users must receive statutory approval and license, while those who break some of the safety rules, including falling short of roadworthiness requirements, pay specified fines and penalties. Accordingly, efficiency in the licensing and control of road safety abuse and infringements enhances governments' internally generated revenue and improves our roads' safety standards. The third is to control numerous negative externalities arising from transportation such as air and noise pollution, traffic jams and accidents already mentioned under the safety argument. It is unclear whether such negative externalities feature strongly in the country's articulation, design, and implementation of road tax policies.

Road taxes can have different definitions depending on country contexts and laws. It is the mandatory payment on wheeled vehicles for using public roads in Nigeria. Our laws make it obligatory that all vehicles brought into the country or domestically manufactured must pay for the statutory rights to ply the public roads within thirty days. These approval requirements and attendant statutory payments are usually for Motor Vehicle registration, renewal of number plates and drivers license fees, road permits, roadworthiness assessment fees and other categories of related fines. The road tax administration may also provide special permits and licensing for motor vehicles, motorcycle, and tricycle value chains, including auto dealers, spare parts dealers, and mechanic workshops. Aside from uniform motor licensing fees through the instrumentality of the Joint Tax Board, other differences in statutory approval requirements vary based on the laws of individual states and the goods and passenger-carrying capacity, engine types and vehicle categories. However, recently the Federal Inland Revenue Service has been pushing for a road infrastructure tax through their office.

Although the law vests the rights to collecting road taxes and state governments, the mechanism involves a tripartite arrangement. The three critical players under this arrangement are the Federal Road Safety Commission, the Joint Tax Board and the Road traffic department or vehicle inspection officers [VIOs]. Understandably, the Federal Road Safety Commission has statutory rights for producing and issuing driver's licenses while the Road Traffic Department tests and recommends candidates to the FRSC for licensing. It also has responsibility for inspecting vehicles involved in accidents, certification of driving schools and other kindred concerns. The Joint Tax Board comprising the chairperson of the Federal Inland Revenue Service and the Chairman of the various state Internal Revenue Services, local government revenue committees and representatives of the revenue mobilization commission, fixes the rates for the procurement of vehicle number plates and drivers licenses and ensures uniformity of licensing rates and fees and in their administration across the country.

The modalities of the road tax administration vary widely based on country contexts. The annual vehicle registration fee appears to be the most basic and cuts across most countries. There is an annual licensing fee and a traffic improvement fee in some countries such as Australia. In Belgium, car registration fees and yearly road tax contributions depend on the vehicle's engine capacity and environmental friendliness. Brazil, on the other hand, implements a vehicle property tax and annual vehicle licensing fee determined by each subnational government. Costa Rica also implements vehicle property taxes. France implements an environmental friendliness tax and tax on toll roads charged per thousand kilometres travelled. The Spanish road tax implementation model comprises the registration tax at a vehicle purchase price and environmental friendliness and the mechanical vertical circulation tax based on vehicle engine capacity.

As of the first quarter of 2021, Lagos state road tax revenue constituted approximately 42% of that category's tax entire receipts across the country. This lead position is probably because of the dominant place of the Lagos seaports in the importation of cars and other vehicles. There is no other state in the country with that extraordinary advantage permitting massive vehicle purchase and registration. Secondly, vehicular and associated human traffic in Lagos as the country's commercial capital is quite enormous. Zamfara and Delta states held distant second and third positions, respectively, with approximately 6% share within the same period. Again, the road tax receipts of about 40% of the entire states in the country for the same period was less than 7% of the whole country receipts. That shows how lackadaisically several subnational government's tax administration perceive road taxes. For instance, road tax as a share of Rivers state's total internally generated revenue is approximately 0%. Understandably, the state earns substantially more from the Pay as You Earn tax category, ranking second in the country. Yet, at three times Rivers states PAYE size, Lagos state has demonstrated a significant commitment to expropriating road tax opportunities. On average, the share of road taxes in the total internally generated revenue of subnational governments in Nigeria is 2%. The percentage of road taxes in the aggregate revenue receipts of half of all the states in Nigeria fall below the 2% national average. However, road taxes contribute 11.6%, 4.9%, 3.8% and 3.4% in Zamfara, Edo, Ondo, and Anambra states.

Six factors are critical for subnational governments' enhanced performance in road tax receipts. They are the enabling laws, database intelligence, political will, enabling infrastructure, road safety considerations, and relevant solid institutions. It is vital to continuously review the extant tax laws and rates to align with the current fiscal realities and meet performance targets. A good example is the Federal Inland Revenue Service proposition for the national legislature to adopt a road infrastructure tax to deal with the country's terrible road infrastructure situation. The second significant driver of road tax growth is associated database intelligence. Lagos state appears to be leading the pack in integrating taxpayer databases to the vehicle owner, licensed vehicles, and licensed drivers' databases. For instance, such a level of integration has enabled the state's traffic officers to quickly detect licensed vehicles with a backlog of unpaid licensing fees and correctly link their vehicle owners to due taxes in other categories.

Subnational governments require substantial investments in such solid, properly integrated database architecture to tap into the revenue opportunities that road taxes offer. But beyond that, none of these initiatives can take root and yield the desired results in the absence of the required levels of political will from the state and local government's leadership. Additionally, good road traffic management and safety infrastructure make it possible to raise taxes and ensure the safety of road users. For instance, sensors remotely picking vehicle numbers and matching them against integrated databases, traffic lights, patrol vans, speed bikes, ambulances and towing vehicles all make it possible to track down traffic offenders from which the government earns fines and fees. There is also the prioritization of road safety as a driver of road-based revenues. Governments that place a substantial premium on their citizens' safety will always source the required financial resources to accomplish such safety-guaranteeing infrastructure. Road taxes present such opportunities to pursue large-scale safety on the road. The last factor is the overriding need to create and strengthen appropriate institutions for driving road taxes professionally. Professionally managed state traffic management agencies may raise significant income from traffic offender penalties and fines.

Unfortunately, many state and local governments fail to make the desired level of investment in providing some of these primary traffic control and road safety management infrastructures. Worse still, there are inadequate traffic management personnel, and sometimes the existing ones lack professional decorum and often behave more like touts. There is no doubt that this has much to do with inadequate training and frequent exposure to the professional norms deserving of those with such responsibilities. The high level of unprofessionalism of the traffic officers weakens the enforcement of traffic laws at various state levels. And therefore, even at some of the impound sites, seized assets are sometimes not adequately protected from theft, attrition and vandalization. Consequently, state, and local government must significantly increase their funding of these desiderata to reap the numerous revenue advantages of their results.

Finally, future design and implementation of road tax policy must carefully align with its primary goal of controlling negative externalities of air and noise pollution, traffic jams and accidents. The global trend in road transport sustainability is to minimize all these externalities using tax and rewards. Pursuing clean air targets also places an enormous demand on vehicles running on combustion engines. Therefore, future road tax reforms should target minimizing CO2 emissions from vehicles. While we await an organic but large-scale transition to electric vehicles, such clean environment focused road taxes will hasten such a shift. It will also, all things being equal, reduce the associated noise pollution. But again, noise pollution from vehicles appears to depend considerably on the size of the engine and their roadworthiness. Big trucks and lorries naturally create more noise pollution than smaller vehicles and should naturally pay more in taxes as a consequence. And therefore, the longer vehicles with a high air and noise pollution use public roads, the more widespread this pollution becomes.

A rational way of compensating for that is to design applicable taxes based on the mileage used. The more the miles used, and by implication, the more the pollutions created, the higher the taxes paid to compensate for them. Minimizing the negative externalities of traffic jams and accidents requires that state governments invest in desirable infrastructure to achieve them. In recent times state governments have set up road traffic management agencies. Unfortunately, in some states, this agency only acts as a pseudo-police force doing the bidding of the state governor. As we advance, we expect the revenue from the road infrastructure tax proposed by the Federal Inland Revenue Service to go a long way to fixing existing roads and creating new ones to minimize accidents and traffic inconveniences. However, while it is essential, it is also needless to ask how previously collected road taxes have given us befitting roads.

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