Mainstreaming GOOD GOVERNANCE into Nigerian TAX REFORM

GGA

GOOD GOVERNANCE AFRICA

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ACRONYMS AND ABBREVIATIONS

ABC	ALPHABETA CONSULTING
ATAF	African Tax Administration Forum
BEPS	Base Erosion and Profit Shifting
BMO	Business Membership Organisation
CBN	Central Bank of Nigeria
CPI	Consumer Price Index
CIT	Companies Income Tax
CITA	Companies Income Tax Act
CGT	Capital Gains Tax
ECOWAS	Economic Community of West African States
EDTA	Education Tax Act
EFCC	Economic and Financial Crimes Commission
FAAC	Federal Accounts Allocation Committee
FBIR	Federal Board of Inland Revenue
FEC	Federal Executive Council
FIRS	Federal Inland Revenue Service
FRA	Federal Revenue Authority
FRSC	Federal Road Safety Commission
G8	Group of Eight (Canada, France, Germany, Italy, Japan, Russia, United Kingdom and United States) countries
GDP	Gross Domestic Product
ICAN	Institute of Chartered Accountants of Nigeria
ICT	Information and Communication Technology
IGR	Internally Generated Revenue
IMF	International Monetary Fund
ITAS	Integrated Tax Administration System
ITMA	Income Tax Management Act
JTB	Joint Tax Board
LCCI	Lagos Chamber of Commerce and Industry
LFN	Laws of the Federation of Nigeria
LGA	Local Government Area
LGRC	Local Government Revenue Committee
LIRS	Lagos State Internal Revenue Service
LSHA	Lagos State House of Assembly
MAN	Manufacturers Association of Nigeria
MDA	Ministries, Departments and Agencies

MIC	Ministerial Implementation Committee
MSME	Micro, Small and Medium Enterprises
NACCIMA	National Association of Chambers of Commerce, Industry, Mines and Agriculture
NEC	National Economic Council
NECA	Nigeria Employers' Consultative Association
NITDAA	National Information Technology Development Agency Act
NTP	National Tax Policy
OECD	Organisation for Economic Cooperation and Development
PIT	Personal Income Tax
PITA	Personal Income Tax Act
PPT	petroleum Profits Tax
PPTA	Petroleum Profits Tax Act
RA	Revenue Authority
RGA	Revenue-Generating Agency
RMAFC	Revenue Mobilisation, Allocation and Fiscal Commission
SBIR	State Board of Internal Revenue
SIRS	State Internal Revenue Service
TIN	Taxpayer Identification Number
VAT	Value Added Tax
VATA	Value Added Tax Act

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FOREWORD

Developing an effective and well calibrated tax policy has emerged as a central element in Nigeria's ongoing governance reform efforts. From fiscal provisions in the Petroleum Industry Governance Bill, to incentives designed to attract investments into conventional and renewable power generation, all the way to attracting mining and agriculture investors, efficient tax policy seems set to be a major determining factor for Nigeria's future economic success and governance improvement.

Like many extractives-dependent economies, Nigeria's strikingly low tax receipt of only about 6% of its nearly half-a-trillion-dollar economy is attributable to a "governance conundrum": the building of a relatively strong state made possible by oil revenues, which has paradoxically not translated into the creation of capable state institutions such as the revenue services in more advanced countries where effective revenue collection underpins responsive governance.

Added to the above is the seeming "motivation conundrum" in Nigeria's case. This saw successive governments either unwilling to or incapable of tapping into tax revenue opportunities, partly because of the unwanted pressures for democratic accountability that effective taxation could engender. This psychological blockage, manifested in the hitherto slow progress of Nigeria's tax reform efforts, is concretely expressed in defective tax policies, institutions and processes.

More positively, the attitude is changing to one in which governments, both at federal and state levels, have started to show a felt need to expand tax collection and grow internally generated revenue, particularly since the end of military rule in 1999. From currently having the lowest tax-to-GDP ratio in the world (total taxpayers are about 13 million with 12.5 million of these pay-as-you-earn), Nigeria's new national economic recovery blueprint targets a tax-to-GDP ratio of 15% by 2020. This is a tall order but not impossible. This Good Governance Africa-Nigeria (GGA-Nigeria) study explores the key governance changes needed to reach this ambitious target.

It considers carefully the interconnection between taxation and themes such as accountability, transparency, responsiveness, institutions and political economy. Dedicating attention to a cluster of governance-related issues in Nigeria's tax system – as opposed to the technical concerns often addressed in extant debates – it contemplates how taxation engenders good governance and *vice-versa*. Essentially, this is an iterative study of *why*, *how* and *where* good governance improvements are most needed in the tax system. It highlights the low-hanging reform goals that are more immediately feasible. A pinpoint analysis of this type, which addresses important challenges in Nigeria's taxation administration and their potential resolution through the introduction of specific good governance practices, can become a game changer for tax reform efforts in Nigeria.
It should help to deliver significant benefits for government and the tax-paying public.

Lagos and Nigeria are the primary contexts analysed in this study. Through reaching a clearer understanding of what has worked and what needs improving in both contexts, we have tried to provide a solid evidence base for addressing tax issues more broadly and more concertedly in Nigeria. It is hoped that the study will help to lift the qualitative

tone of the tax reform debates while showing exactly how good governance principles can be mainstreamed, and strengthened, throughout the Nigeran tax laws, institutions and processes. And the governance-focused issues addressed by this study will doubtless grow in importance as Nigeria charts a path forward for sustainable revenue mobilisation in an increasingly diversified, less hydrocarbon-based economy.

Ultimately, success in this endeavour will engender positive publicity for the Nigerian tax system, help strengthen democratic accountability between citizens and their elected representatives, and aid domestic resource mobilisation on the scale that Nigeria requires to build a more inclusive and sustainable society. This is the virtuous circle that Nigeria needs. It is well within reach if good governance issues are prioritised and given dedicated attention in the local, state and federal tax reform and resource mobilisation efforts. GGA-Nigeria is pleased to be able to offer this governance prism to chart the path towards a positive tax and governance transformation agenda whilst complementing existing analyses of the Nigerian tax system. We hope that the painstaking research and original insights will be of use to tax experts, concerned citizens and governments at all levels in Nigeria and throughout Africa.

Dr Oladiran "Ola" Bello
Executive Director, Good Governance Africa-Nigeria (GGA-Nigeria)
Lagos, June 2017

EXECUTIVE SUMMARY

This study seeks to shine a light on key governance issues in the Nigerian tax system beyond the technical issues that have so far been emphasised in Nigeria's tax reform efforts. Those principles are isolated for in-depth analysis in the hope of providing a clearer evidence base for addressing them more concertedly as part of the broader tax reform efforts in the country.

Naturally the work of tax administrators is easier if taxpayers willingly and voluntarily comply with their obligations under Nigeria's tax laws. However, governance challenges in Nigeria have over time compromised the integrity and effectiveness of tax administration structures, regulations and enforcement. The tenuous support for taxation – and its poor understanding – within the populace stands in the way of progress. This underlines the urgent need for interventions tailored to improving good governance practices as a way of enhancing tax administration and compliance.

We examine the strategic steps to improving tax administration in Lagos State and Nigeria as part of the interrelated goals of revenue mobilisation and good governance, which are both cornerstones of sustainable development. In focusing on the nexus between taxation and good governance, it argues that even though tax reforms have been ongoing in Nigeria since 2004 (Lagos State since 1999), with tax revenues growing from 1,194.80 billion in 2004 to 3,741.80 billion in 2015, Nigeria still has a relatively low tax-to-gross domestic product (GDP) ratio. This is considerably below the average in sub-Saharan Africa.

This study discusses the key governance challenges in tax administration in Lagos State and Nigeria and recommends strategies for improvement. It adopts a governance prism, which includes a careful consideration of the interconnection between taxation and themes such as accountability, transparency, responsiveness and political economy. In effect, it looks at how taxation engenders good governance, and considers a number of specific good governance-related interventions that can help improve overall tax administration in Nigeria.

Key findings of the study:

The survey specifically examined the following governance variables as they affect taxation:

- Strengthening the accountability of the (federal/state) government.
- Strengthening (federal/state) government responsiveness.
- Improving transparency in the budget process.
- Using the Federal Inland Revenue Service as a model for modernising IT systems in other government agencies.
- Reducing corruption within and beyond the revenue agencies.
- Improving public-private dialogue on fiscal and economic issues.
- Improving National/State Assemblies' oversight of revenue performance.
- Strengthening the monitoring of revenue by the Ministry of Finance.

- Overhauling the audit of revenue collection.
- Strengthening the representation of civil society and business associations.
- Enhancing media coverage of revenue issues.
- Improving the overall business environment.

The principal findings include:

1. The quality of the tax system (policy and administration) is itself a central pillar for good governance and nation-building. Addressing links between taxation and governance calls for an expanded focus on relevant stakeholders and state institutions beyond the revenue system. These include aspects of the National and State Assemblies' legislative functions, the Judiciary, and the role of taxpayers and other relevant stakeholders.

2. Efforts to mobilise revenue and widen the tax net don't only depend on tax reforms, but also on broader governance-related reforms that can positively influence citizens' attitudes to tax compliance and their perception of value for tax paid.

3. There is a strong correlation between government accountability, tax administration and transparency in the use of taxpayers' money.

4. Insufficient information available to taxpayers on tax compliance requirements creates uncertainty and room for leakages.

5. The objective of the tax system is not just to raise revenue but also to establish a tax system that is fair, equitable and efficient, and a judicious use of the tax revenue.

6. Institutional arrangements for the tax administration including staffing, remuneration and capacity of the staff have direct effects on the performance of the tax administration.

7. The number of registered taxpayers has a direct correlation on the amount of personal income tax collection.

8. The Taxpayer Identification Number (TIN) registration process has been very slow and this negatively affects tax collection, especially personal income tax (PIT).

9. Despite the tax reforms by the Nigerian and Lagos State governments since 2004 and 1999 respectively, there is still much room for improving taxation at both levels.

Key recommendations of the study:

Among other recommendations, the study prescribes mostly stronger political leadership to give clear direction to ongoing institutional revamp and reform of the Nigerian tax system. This is key to driving greater efficiency in the existing system, especially regarding forensic audit and oversight of revenue-generating agencies. Also, a cultural shift is needed to encourage treatment of the taxpayer as a client, together with meaningful education campaigns and engagement with taxpayers on compliance requirements. Smart use of amnesty to lure non-compliant taxpayers into the tax net is also vital. Finally, adequate resourcing, staffing, and training for all tax-related administrative functions are essential, particularly for oversight functions such as those vested in the state and federal Houses of Assembly.

At a macro level, the Constitution of the Federal Republic of Nigeria should be amended to promote fiscal federalism and properly define the taxing powers of the federal, state and local governments. Only through the simplification of all tax laws and effective harmonisation at all levels can the multiplicity of taxes be eradicated, incentives be created for internally generated revenue, and such revenues be used transparently to fund governance and promote sustainable and inclusive development throughout Nigeria.

The Nigeria Customs Service (NCS) and Federal Inland Revenue Service (FIRS) should be merged to become a single Federal Revenue Authority (FRA) in order to enhance revenue collection, the exchange of information and reduction of revenue leakages.

On a broader international level, the government needs to comprehensively implement the Organisation for Economic Cooperation and Development (OECD) Base Erosion and Profit Shifting (BEPS) Action Plan to halt the erosion of the tax base by large profit-shifting companies. With this, a framework should be developed for taxing micro, small and medium enterprises (MSMEs), which currently account for 48.47% of GDP, and the value added tax (VAT) thresholds should be set so that not all companies are required to register for VAT. This would help reduce the cost of VAT administration.

Finally, a data-driven and information technology-based tax system is essential, starting with the government's TIN project, which must be implemented to grow the tax base and instill tax transparency and accountability.

“Governance challenges in Nigeria have over time compromised the integrity and effectiveness of tax administration structures, regulations and enforcement. The tenuous support for taxation – and its poor understanding – within the populace stands in the way of progress.”


CIVIC CENTRE TOWERS

CHAPTER ONE – INTRODUCTION

1.1 Introduction

This study discusses the key governance challenges in tax administration in Lagos State and Nigeria and recommends strategies for its improvement. In contrast to the technical issues that have often been focused on in Nigeria's tax reform debates, we adopt a good tax governance prism, with careful emphasis on the interconnection between taxation and themes such as accountability, transparency, responsiveness and political economy.

Taxation and good governance are likened to "two sides of the same coin". Imposition of tax can create pressure for democratic accountability. Quality tax governance can similarly encourage a culture of voluntary compliance and increase revenue generation. In effect, good tax governance can engender good governance, and vice versa. Without good governance, including its key framing pillars of fairness, accountability, consent, equity and transparency, effective taxation becomes onerous. Re-establishing a closer, more symbiotic relationship between effective taxation and good governance will help to maximise all of the benefits of effective tax administration to society, including through greater public acceptance of the tax system and more transparency and accountability in the way that tax revenues are used.

In recent years, the catalytic role of taxation in national development has been progressively recognised (Bello, 2016). Effective tax systems are a critical building block for increased domestic resources mobilisation in developing countries. Taxation is also essential for promoting self-reliance, good governance, sustainable growth, stability and development. In the past two decades or so, governments, scholars, economists, international organisations and others have emphasised the need to improve tax administration as a way of mobilising domestic revenue to finance public expenditure. Developed countries have enjoyed the benefits of improved tax administration while developing countries are making concerted efforts in that direction. But tax evasion, corruption in tax agencies, waste and a lack of accountability for collected tax revenues are still a challenge in these developing countries, and any serious efforts towards improving tax administration must first address these.

In Nigeria, improving tax administration has become a priority for the government due to the fall in crude oil prices, which has adversely affected the country's economy. The International Monetary Fund (IMF) Article IV Consultation (April 2016) reported that "the Nigerian economy is facing substantial challenges; while the non-oil sector accounts for 90% of gross domestic product (GDP), the oil sector plays a central role in the economy. Lower oil prices have significantly affected the fiscal and external accounts, decimating government revenues to just 7.8% of GDP and resulting in the doubling of the general government deficit to about 3.7% of GDP in 2015".

The same IMF report notes that "exports dropped about 40% in 2015, pushing the current account from a surplus of 0.2% of GDP to a deficit projected at 2.4% of GDP. With foreign portfolio inflows slowing significantly, reserves fell to $28.3 billion at the end of 2015. Exchange restrictions introduced by the Central Bank of Nigeria (CBN) to protect reserves have impacted significantly on segments of the private sector that depend on an adequate supply of foreign currencies".

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Other observations emerging from the IMF Consultation include the combination of fuel shortages in the first half of the year and lower investor confidence. This caused growth to slow from 6.3% in 2014 to about 2.7% in 2015, led to weakening corporate balance sheets, lowered resilience of the banking system, and a likely reversal of progress in reducing unemployment and poverty. As reported in the consumer price index (CPI) by the National Bureau of Statistics (NBS), inflation rose by 18.3% in October 2016, 0.48% points higher than the September 2016 rate of 17.9%. The rise continued in November to 18.48% and 18.55% in December.

However, the inflation rate of 17.78% recorded in February 2017, after a further rise in January 2017 of 18.72%, was the first time in 15 months that the headline CPI declined on a year-on-year basis. This outlook shows a significant deterioration from the 9.6% inflation figure recorded in

January 2016, and was well above the CBN's medium-term target range of 6 to 9%.

These macroeconomic indicators emphasise the need to increase the fiscal space for the collection of more non-oil tax revenues. However, domestic revenue mobilisation through the collection of more non-oil taxes requires a comprehensive reform of the tax system, a key aspect of which is the improvement of tax administration and the surrounding governance ecosystem.

1.2 Objectives of the study

The core theme of this study is the need to identify strategic steps to improve tax administration in Lagos State and Nigeria to promote improved revenue mobilisation. There will be an emphasis on specific aspects of tax reform that are most connected to improving good governance practices since these are the cornerstones of sustainable development and effective public administration. The study will address the link between tax administration and governance in the specific cases of Lagos State and Nigeria's federal government.

To that end and in line with the tasks set out in the terms of reference, the study examines the following questions:

a. What are the goals and key elements of a governance-focused tax administration reform agenda?

b. What are the challenges facing the tax administration, including compliance issues in Lagos State and Nigeria?

c. Do the existing strategies for tax collection have any significant impact on the revenue collected in Lagos State and Nigeria?

d. Is there any tax gap in Lagos State and Nigeria? What factors could be responsible for a tax gap, if any?

e. What specific steps are to be taken by the tax authorities, tax intermediaries and government to address the known governance challenges affecting tax administration?

f. What strategies, especially governance-related ones, should be developed and prioritised to improve the tax system in Lagos State and Nigeria?

1.3 Scope of the study

This study does not try to reinvent the wheel in evaluating the various tax reforms and the technical aspects of tax administration improvement in Nigeria. Ample literature is already available on these. Instead, the focus is on institutional and governance strategies that can best be used to support tax systems and enhance tax administration and collection in Lagos State and Nigeria.

1.4 Methodology and sources of data

This report draws on two sources of data: a literature review and a survey of key tax stakeholders in the economy. The literature review covers recent academic literature and many other documents from multilateral organisations, the Federal Inland Revenue Service (FIRS), the Lagos State Internal Revenue Service (LIRS) and the Joint Tax Board (JTB).

The study team conducted its survey through the administration of questionnaires to selected board members and staff of the LIRS, FIRS, business membership organisations (BMOs), professional bodies, tax practitioners and other tax

intermediaries. The responses were analysed using tables and percentages.

The secondary data that relates to information on tax structure and characteristics of Lagos State and Nigeria was collected from different publications of the JTB, LIRS and FIRS.

1.5 Significance of the study

There couldn't be a better time to work on critical challenges of tax administration and collection than now, especially considering the growing tax consciousness among the different levels of government in Nigeria. The study also coincides with the uncertain outlook for oil-based revenue and the emphasis of the Buhari administration on diversifying official revenues away from oil, while improving transparency and revenue mobilisation.

This study will contribute to the empirical literature by focusing on the tax administration and compliance in Lagos State and Nigeria. This will be with a view to identifying the critical governance challenges for authorities on administering specific taxes, dealing with the multiplicity of taxes, paucity of the tax database, improving public perception and support for the tax system, and addressing corruption.

1.6 Organisation of the report

Chapter 1 is an introduction to the study. The rest of the report is organised as follows: Chapter 2 provides an overview of the literature on Nigeria's taxation system and highlights the evolution of tax administration in the country. Chapter 3 discusses the challenges facing tax administration in Lagos State and Nigeria based on information from our desk review. In Chapter 4, the strategies for mainstreaming governance into tax reforms in Nigeria are discussed. This makes use of information gathered from our fieldwork. Chapter 5 closes the report with a set of conclusions and a summary of the key findings and recommendations. Supplementing the study are three annexes. Annex A is the list of organisations that provided information for the study, Annex B presents the survey questionnaire (general) while Annex C presents the survey questionnaire for LIRS.

CHAPTER TWO – OVERVIEW OF THE TAXATION SYSTEM IN NIGERIA

2.1 History of taxation

The history of taxation in Nigeria can be categorised into three eras – pre-colonial, colonial and post-colonial. For many centuries, various traditional authorities levied taxes and collected other forms of revenue to finance the administration of communities within the areas that ultimately became known as Nigeria, following the amalgamation of the Northern and Southern protectorates by the British colonial government in 1914. These tax systems have evolved over the colonial years, through independence and to the inception of Nigeria's Fourth Republic in 1999 to give form to the taxation architecture in Nigeria.

2.1.1 Taxation in the pre-colonial era

The Northern Emirates: During the pre-colonial era in Northern Nigeria, various taxes were levied, such as *gandu* (an agricultural tax levied on one-eighth of every farmer's crop which was introduced during the reign of Naguji who succeeded Yusa as the sixth king of Kano), and *zakat* (a type of taxation prescribed by the Holy Quran and levied on Muslims for charitable, religious and educational purposes). Others include *kudin kasa* (land tax), *jangali* (cattle tax), *shukka-shukka* (plantation tax), *gado* (a death duty on a deceased's estate paid to the Emir when there was no recognised or proven heir) and *kudin sarautu* (an accession duty paid by every chief or holder of an office upon appointment).

The Yoruba States: In the South West, the Obas (paramount rulers) collected taxes such as *ishakole* (a kind of universal land rent), *owo ode* (a tribute paid by men and women alike, partly in cash and partly in kind for the support of the chiefs), and *owo asingba* (consisting of personal service, providing labour for building and repairing of town halls, and working on the farm of chiefs, etc). At other times, taxes were paid in the form of food contribution. Often tax defaulters were banished from the community.

The Benin Kingdom: The Benin kingdom also had an elaborate system of taxation, which the British found on their arrival at the close of the 19th Century. The Oba controlled the central administration, appointed the territorial rulers for governing outlaying districts and participated actively in the most important secular and religious ceremonies, and in several economic activities. These activities included the control of internal and external trade, trading associations, levying of taxes, the founding of work camps and the establishment of farms and villages. The granting of titles and collection of tolls at fixed points were other sources of revenue for the Oba.

The Eastern Region: The Igbo people are one of Nigeria's largest ethnic groups whose egalitarian worldview encouraged individual attainment rather than hereditary aristocracy. Consequently, the evolution of Igbo history did not permit the development of monarchies. The absence of a monarchy or any form of central authority made it impossible for a standard form of taxation to be practised in pre-colonial Igbo society. The closest approximation to a tax system could be said to be the contributions towards the collective execution of projects such as community roads carried out under the auspices of various social groups such as the age grade associations.

Nigeria: Regions, 1965

http://www.zum.de/whkmla/histatlas/westafrica/nigeriaad1961.gif

The Coastal States: In the Delta region of Nigeria, there was a curious mix of states with varying degrees of political organisation. The most powerful of these states were Nembe, Calabar, Bonny and Brass. Most of them could be referred to as "city-states". For most of the coastal tribes, the clan was the highest level of political organisation and this, as in the case of Nigeria's Eastern region, did not support the development of a tax system.

2.1.2 Taxation in the colonial era

Initially the colonial administration generated much of its revenue from customs duties because the British Government was cautious of introducing direct taxation. The evolution of direct taxation is traceable to the High Commissioner for Northern Nigeria, Sir Frederick Lugard. He introduced direct tax to replace the series of taxes, fines and other forms of irregular collections made by the Emirs before colonial rule. This led to the passage of the Stamp Duties Proclamation No 8 of 1903 and the Native Revenue Proclamation No 2 of 1906. The actual collection of revenues, however, commenced in 1907.

The new tax was an income tax based on the total wealth of the community, and agricultural commodities formed a substantial part of it. The new tax system was accepted by the Emirs because of the certainty of collection and their own regular remuneration. In 1917, following the amalgamation of the Northern and Southern protectorates, the Native Revenue Ordinance of 1917 replaced the 1906 Native Revenue Ordinance. Furthermore, the provisions of the 1917 Ordinance were amended in 1918 and extended to Southern Nigeria, particularly the West and Midwest, and subsequently to Eastern Nigeria in 1927. The Native Revenue Ordinance was later incorporated into the Direct Taxation Ordinance No 4 of 1940 cap 54. Under the Direct Taxation Ordinance of 1940, the assessment and collection of taxes became the primary responsibilities of native administrations/authorities throughout the country. Taxes collected this way were their main source of revenue.

In 1943, another ordinance known as the Income Tax Ordinance of 1943 was promulgated to include Lagos residents, who had opposed the 1940 Ordinance. Unlike the 1940 Ordinance, the 1943 Ordinance was a mixture of both poll tax and income tax. These were received from the native residents in the township of Lagos and non-native residents in Nigeria by the central government as general revenue of the country. In 1958, the Income Tax Administrative Ordinance No 39 established three administrative bodies – the Federal Board of Inland Revenue, the Scrutineer Committees and the Body of Appeal Commissioners – to strengthen tax administration in the country. Another major milestone in taxation was recorded in 1959 with the passage of the Petroleum Profits Ordinance No 15 of 1959. This law was introduced to regulate the taxation of income arising from petroleum operations following the discovery of oil in Oloibiri by Shell in 1956.

2.1.3 Taxation in the post-colonial era

Nigeria gained full independence on 1 October 1960 as a federation of three regions (Northern, Western and Eastern) under a parliamentary system of government. Under the constitution, each of the three regions retained a substantial measure of self-government. Prior to independence, the Raisman Commission was set up to review the existing taxing powers and revenue allocation formula, which was already becoming a contentious issue. Key recommendations of the commission were that the federal government should have exclusive taxing power over corporations and companies, as well as taxation of non-residents. The federal government was also empowered to enter double taxation agreements with other countries. The regions (which later became states) had exclusive powers to impose a personal income tax on individuals, sole traders, partnerships, clubs, trusts and other unincorporated associations.

These recommendations led to the enactment of the Income Tax Management Act, 1961 (ITMA). The ITMA defined taxable income and the basis of the charge, the period of assessment, the list of allowable deductions, the treatment of dividends as well as general administration of personal income tax. Corporate taxation was placed under the purview of the Federal Board of Inland Revenue (FBIR), established under the Companies Income Tax Act No 22 of 1961.

Other major developments that have taken place in the Nigerian tax system since independence include a series of reforms by successive administrations. In 1978, the Federal Military government set up a Task Force on tax administration under the chairmanship of Alhaji Shehu Musa, Permanent Secretary of the Federal Ministry of Finance. The report of that Task Force led to the promulgation of the Companies Income Tax Decree No 28 of 1979 (CITA 1979), which repealed the Companies Income Tax Act of 1961. Another outcome of the task force was the introduction of the withholding tax regime, imposition of a 10% levy on excess profits of banks and the imposition of 21% turnover tax on building and construction companies.

The CITA of 1979 also established the FBIR and vested it with the administration of the act, as well as preceding tax legislations such as the Capital Gains Tax Act 1967, Petroleum Profits Tax Act 1959, Stamp Duties Act 1939 as amended, Armed Forces and Other Persons (Special Provisions) Act 1972 and the Industrial Development (Income Tax Relief) Act 1971. In 1991, the federal government set up a study group on the Nigerian tax system and administration headed by Professor Emmanuel Edozien. The recommendations of the study group formed the basis for the promulgation of the Finance (Miscellaneous Taxation Provisions) (Amendment) Decree No 3 of 1993. The decree restructured the FBIR by establishing the FIRS as an operational arm of the board. It also established the State Board of Internal Revenue and the Local Government Revenue committees. Furthermore, in 1992, the study group on indirect taxation was constituted under the chairmanship of Dr Sylvester Ugoh. The recommendations of the committee formed the basis for the enactment of the Value Added Tax (VAT) Act (1993 as amended).

In 2002, the study group on the Nigerian tax system under the chairmanship of Professor Dotun Phillips was inaugurated by then finance minister Mallam Adamu Ciroma. This had an 11-item terms of reference tailored at repositioning the tax system for better efficiency. The study group submitted its report in July 2003.

A working group chaired by Seyi Bickersteth of KPMG was inaugurated on 12 January 2004 by then finance minister and coordinating minister for the economy Dr Ngozi Okonjo-Iweala. The terms of reference for the working group were as follows: to evaluate the recommendations of the study group; prioritise the set of strategies required to reform the tax system; and segment the strategies to be implemented in the short (six months), medium (two years) and long terms (five years). The working group submitted its report to the federal government in March 2004. The report of the study group and the working group provided the platform for the commencement of reforms of Nigeria's tax system, and work is still ongoing.

In 2012 Dr Okonjo-Iweala launched a diagnostic study of the Nigerian tax system with the technical help of McKinsey & Company. According to the minister, the objective of the diagnostic study was to find a solution to help improve compliance in Nigeria's tax system. It led to the implementation of some key initiatives by the FIRS that resulted in increased tax revenues in 2014.

In Lagos State, the history of tax reforms commenced with the election of Bola Ahmed Tinubu as the governor of the state in 1999. The governor made taxation an early priority and commenced a review of Lagos's tax processes. Before Tinubu's election, taxes were paid in cash to revenue officials who gave out handwritten receipts.

Diane de Gramont (2015) in her paper "Governing Lagos: Unlocking the Politics of Reform", published by the Carnegie Endowment for International Peace, said this process of tax payment and accounting provided multiple opportunities for corruption. The level of evasion was high – many people were not paying at all. Revenue officials were poorly trained and could not effectively carry out audits of businesses. In addition, the officials were not well remunerated.

The first step in the series of reforms by the state's finance ministry was to shift tax collection from cash transaction towards electronic payments through banks. Thereafter, the government hired a consultant, ALPHABETA CONSULTING (ABC), to manage its payment system in exchange for a commission on tax revenues. Electronic payments reduced the opportunities for fraud in the collection process but didn't make any serious positive impact on how much the taxpayer paid. However, from the start of the governor's second term, Lagos State embarked on far-reaching tax reforms. The state had faced a fiscal threat in 2004 when the monthly statutory transfers from the Federation Account Allocation Committee (FAAC) were suspended because of a political dispute between the state and the federal government. This increased the level of tax efforts in Lagos State and even when the dispute was resolved, the tax efforts were sustained.

Lagos State recorded a turning point in its tax administration when former bank executive Babatunde Fowler was appointed to head the tax authority. The governor granted him autonomy to run the tax administration, and supported the proposal for the 2007 establishment of the LIRS with Fowler as the first executive chairman. Reforms since then have been ongoing, with the example of Lagos inspiring a review of tax collection processes in other states of Nigeria.

2.2 Characteristics of taxation and its importance

Tax is a compulsory contribution imposed by the government on the people residing within the country. Since it is compulsory, it implies that any person who comes under a tax jurisdiction and refuses to pay can be punished. Tax is not a levy in return for any specific service rendered by the government to the taxpayer. An individual can't ask for any special benefit from the state in return for the tax paid. Tax is a contribution to settle the cost incurred by the government. The state uses the revenue collected from taxes to provide goods and social services such as hospitals, schools, public utilities and other services that benefit the people.

Taxation is important for several reasons, including the need to generate revenue for the government to meet its capital and recurrent expenditure, and the reduction of inequalities of income under a progressive tax regime (the more you earn the more tax you pay). The importance of taxation also includes the need to increase output and employment; to awaken civic

http://www.nigeriatoday.ng/2016/12/fct-to-review-abuja-masterplan-suspends-tenement-rate-collection/

responsibilities among citizens; its use as a fiscal policy measure for inflation, deflation and depression; providing incentives such as encouraging new industries; and discouraging harmful practices such as the consumption of harmful products or foods such as alcohol and tobacco.

2.3 Principles of taxation

A good tax system must be based on certain principles – generally called canons of taxation. Adam Smith puts forward the principles of a good tax system as follows:

a. Equity: A good tax system should be equitable. This means every person should be taxed according to his/her ability. This principle recommends a progressive tax system.
b. Certainty: The amount of tax to be paid, the time of payment and the manner of payment should be certain and clear to both taxpayers and tax officials.
c. Convenience: A good tax system should be convenient in terms of time and mode of payment by the taxpayers.
d. Administrative efficiency: The process of levying and collecting tax must be administratively efficient, transparent and economical without any distortion.
e. Productivity: A good tax system should be one that brings in sufficient revenue to the government.

2.4 Forms of taxes

The structure of the tax system in Nigeria can be classified in two ways. Under the first way, the country's taxes are classified as follows:

a. Proportional tax system: This form of tax assesses taxpayers on a fixed percentage. Thus, the amount of tax payable is proportional to every taxpayer's income. For example, if the tax rate is 10%, every taxpayer should pay income tax at this rate as his/her income increases or decreases. A taxpayer whose income doubles, pays double the amount of tax.

b. Progressive tax system: This form of tax is graduated and it applies higher rates of tax as income increases. An example is the personal income tax rate table. The progressive tax system has a main objective of redistributing the income of the rich to that of the poor in some ways. The rich are taxed more to finance projects of common interest.

c. Regressive tax system: Under this system, the tax payable decreases as the taxpayer's income increases. A high-income person pays less than a low-income person in a regressive tax system. This system may not be suitable for developing countries as it yields low revenue in addition to its propensity to provoke negative social reactions from poorer segments of society. However, it is not commonly applied even in developed economies.

The second form of tax classification is by incidence, which could be direct or indirect, as stated below:

a. Direct tax system: This form of tax is levied on the income, gains or profit of individuals and business firms and is paid by the entities or people on whom the tax is legally imposed. The taxpayer may be advised by notification (assessment notice) and is duly receipted. The purpose of these formalities is to bring to the taxpayer's notice the incidence of such tax. The type of tax that falls under this heading includes the following:

   i. Personal income tax
   ii. Companies income tax
   iii. Capital gains tax
   iv. Education tax
   v. Petroleum profits tax

b. Indirect tax system: Indirect taxes are borne by people other than the ones from whom tax is collected (levied). These are taxes imposed on commodities before reaching consumers or point of sale. They are paid ultimately by those upon whom the incidence falls, usually not in the form of explicit taxes but as part of the selling price of the commodities. Indirect taxes may affect the cost of living, as they constitute taxation on expenditure. The type of taxes that fall under this heading include the following:

   i. Value added tax (VAT)
   ii. Excise duties
   iii. Customs duties

2.5 Tax regulation and administration

The 1999 Constitution defines the legislative competence of each tier of government. Since there is no tax without an enabling legislation, the definition of legislative powers by the Constitution is pivotal in determining the tier of government that has jurisdiction over the taxes.

Section 4 (2) of the 1999 Constitution vests the powers to make laws on any matter included in the Exclusive Legislative List set out in Part I of the Second Schedule of the Constitution on the National Assembly. Section 4 (7) (a & b) vests the power to make laws on any matter not included in the Exclusive Legislative List set out in Part I of the Constitution as well as any matter included in the Concurrent Legislative List set out in the first column of Part II of the Second Schedule on the House of Assembly of a state. However, Section 4

(5) places a caveat to the extent that where the law enacted by a House of Assembly of a state is inconsistent with any law validly made by the National Assembly, the law made by the National Assembly will prevail and that other law will to the extent of the inconsistency be void.

The tax items on the Exclusive Legislative List are: customs and excise duties; export duties; stamp duties; and taxation of incomes, profits and capital gains. The tax items placed on the Concurrent Legislative List are: (a) capital gains, incomes or profits of persons other than companies; and (b) documents or transactions by way of stamp duties.

While the 1999 Constitution defines the legislative competence of each tier of government, the Taxes and Levies (Approved List for Collection) Act Cap T2 Laws of the Federation 2004 (as amended) defines the jurisdiction of the three tiers of government in terms of actual collection of the various tax types as follows:

i. Federal Inland Revenue Service: Taxes in Part I of the Schedule to the Act.
ii. State Board of Internal Revenue: Taxes and levies in Part II of the Schedule to the Act.
iii. Local Government Revenue Committee: Taxes and levies in Part III of the Schedule to the Act.

The principle of fiscal federalism gives the three tiers of government the right to administer and collect taxes within their areas of jurisdiction. The enabling law in respect of each type of tax contains a provision as to the body charged with the administration of such tax.

2.5.1 Federal Inland Revenue Service (FIRS)

The FIRS is charged with the administration of taxes on the profits of all incorporated companies, and income taxes of the armed forces. Though taxation of residents of the Federal Capital Territory was previously the responsibility of the FIRS, this function is now vested in the Federal Capital Territory Internal Revenue Service which was established in 2015.

Composition of the Federal Board of Inland Revenue:

a. The executive chairman who shall be appointed by the president and subject to the confirmation of the senate.
b. Six members with relevant qualifications and expertise who shall be appointed by the president to represent each of the six geopolitical zones.
c. A representative of the attorney-general of the federation.
d. The governor of the Central Bank of Nigeria or his representative.
e. A representative of the minister of finance not below the rank of a director.

f. The chairman of the Revenue Mobilisation, Allocation and Fiscal Commission or his representative who shall be any of the commissioners representing the 36 states of the federation.
g. The group managing director of the Nigerian National Petroleum Corporation or his representative who shall not be below the rank of a group executive director of the corporation or its equivalent.
h. The comptroller-general of the Nigeria Customs Service or his representative not below the rank of a deputy comptroller-general.
i. The registrar-general of the Corporate Affairs Commission or his representative not below the rank of a director.
j. The chief executive officer of the National Planning Commission or his representative not below the rank of a director.

The powers and functions of the board include providing general policy guidelines relating to the functions of the FIRS; and managing and superintending the policies of the FIRS on matters relating to the administration of the revenue assessment, collection and accounting system under the FIRS Establishment Act or any enactment or law. The board also reviews and approves the strategic plans of the FIRS, employs and determines the terms and conditions of service including disciplinary measures of the employees of the FIRS, and stipulates remuneration, allowances, benefits and pensions of staff and employees in consultation with the National Salaries, Incomes and Wages Commission. It can also do other things it believes necessary to ensure the efficient performance of the functions of the FIRS under the act.

2.5.2 State Board of Internal Revenue (SBIR)

Section 87 of the Personal Income Tax Act (as amended) provides for the establishment in each state of a board to be known as the State Board of Internal Revenue whose operational arm shall be known as the State Internal Revenue Service (SIRS).

Composition of the SBIR:

The chairman of the SIRS as chairman of the SBIR is appointed by the state governor, subject to confirmation by the State House of Assembly.

a. The directors from within or outside the SIRS.
b. A director from the State Ministry of Finance.
c. The legal adviser to SIRS.
d. Three other people nominated by the state governor on their personal merit, one each representing a senatorial district in the state.
e. The secretary of SIRS who shall be an *ex-officio* member.

The functions of the SBIR include ensuring the effectiveness and optimum collection of all taxes and penalties due to the government under the relevant laws; and whatever is deemed necessary and expedient for the assessment and collection of taxes and accounting for anything collected in a way prescribed by the commissioner. An amount of no less than 5% of revenue collected, as may be approved by a state's House of Assembly, is retainable by the SBIR to defray the cost of collection and administration.

The board also makes recommendations where appropriate to the Joint Tax Board (JTB) on tax policy, tax reform, tax registration, tax treaties and exemption as may be required from time to time. Its functions also include generally controlling the management of the SIRS on matters of policy, subject to the provisions of the law setting up the SIRS; and appointing, promoting, transferring and imposing discipline on SIRS employees.

To assist the SBIR in the performance of its duties, Section 89 of PITA also provides for the establishment a Technical Committee of the State Board. This committee comprises the chairman of the SBIR as the chairman; the directors within the SIRS; the legal adviser to the SIRS; and the SBIR secretary. The committee shall have powers to co-opt additional staff from within the SIRS in the discharge of its duties, consider all matters that require professional and technical expertise, and make recommendations to the SBIR. It can also advise the SBIR on all its powers and duties, and attend to such other matters as may, from time to time, be referred to it by the board.

2.5.3 Local Government Revenue Committee

Section 90 of PITA provides for the establishment of the Local Government Revenue Committee (LGRC) in each local government area of a state. This committee comprises:

a. Supervisor for finance as chairman.
b. Three local government councillors as members.
C. Two other people experienced in revenue matters to be nominated by the chairman of the local government on their personal merits.

Functions of the revenue committee include responsibility for the assessment and collection of all taxes, fines and rates under its jurisdiction. It accounts for all amounts so collected in a manner prescribed by the chairman of the local government. It is also autonomous of the local government Treasury and bears responsibility for the day-to-day administration of the department, which forms the operational arm.

2.5.4 Joint Tax Board

Section 86 of PITA provides for the establishment of the JTB. The board comprises the following members:

a. The chairman of FIRS, who also serves as the chairman of the JTB.
b. One member from each state, being a person pursuant to Section 87 (2) of PITA, and a nomination to this paragraph, shall be evidenced by notice in writing to the board secretary by the governor.
c. The JTB shall appoint an officer who is experienced in income tax matters to be board secretary, and may, in accordance with existing law, appoint such other staff as the board may deem necessary, from time to time, including on secondment or transfer, from any public service in Nigeria.
d. The legal adviser of FIRS acts as the legal adviser to the JTB.

Functions of the Joint Tax Board include exercising the power or duties conferred on it by PITA; exercising powers and performing duties conferred on it by any enactment of the federal government imposing tax on the income and profits of companies, or which may be agreed by the minister to be exercised or performed by it under the enactment in place of FIRS. It also advises the federal government, on request, in respect of double taxation arrangements concluded or under consideration with any other country, and in respect of rates of capital allowances and other taxation matters having effect throughout Nigeria and in respect of any proposed amendment to PITA. It promotes uniformity both in application of PITA and in the incidence of tax on individuals throughout Nigeria, and imposes its decisions on matters of procedure and interpretation of PITA on any state for purposes of conforming to agreed procedure or interpretation.

2.5.5 Joint State Revenue Committee

Section 92 of PITA provides for the establishment of the Joint State Revenue Committee (JSRC) for each state of the federation. The JSRC comprises:

a. The chairman of the SIRS, who serves as the chairman of the JSRC.
b. The chairman of each Local Government Revenue Committee.
c. A representative of the bureau on local government affairs not below the rank of a director.
d. A representative of the Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC), as an observer.
e. The state sector commander of the Federal Road Safety Commission (FRSC), as an observer.
f. The legal adviser of the SIRS.
g. The secretary of the committee who shall be a staff member of the SIRS.

2.5.6 Tax regulation/laws

Taxation in Nigeria is governed and regulated by the following laws:

a. Personal Income Tax Act: This act enables the imposition and regulation of tax on incomes of individuals, sole traders and partnerships. An example is pay as you earn (PAYE) by employees.

b. Companies Income Tax Act: This act imposes and regulates tax on the incomes of companies, other than the sole proprietorship, partnerships and companies engaged in upstream petroleum operations. An example is corporation tax with a 30% rate.
c. Petroleum Profits Tax Act: This act imposes and regulates tax on the profits of companies engaged in upstream petroleum operations.
d. Value Added Tax Act: This act replaced the Sales Tax Act of 1994. It imposes and regulates tax on the supply of goods and services by businesses that are not specifically exempted from the payment of such a tax.
e. Stamp Duties Act: This act regulates the charges on all contract documents listed in the act.
f. Education Tax Act: This act imposes and regulates education tax on the assessable profits of all registered companies in Nigeria.
g. Capital Gains Tax Act: This act regulates tax on capital gains arising from the disposal of chargeable assets listed in the act.

Also of interest is a special levy imposed on companies of a particular size, to aid the development of information technology (IT). The enabling legislation is framed within the National Information Technology Development Agency Act (NITDAA). This act imposes a levy of 1% of the profit before tax of companies and enterprises enumerated in the Third Schedule to the Act with an annual turnover of 100,000,000.00 and above. The companies referred to are: (i) GSM service providers and all telecommunication companies; (ii) cyber companies and internet service providers; (iii) pensions managers and pension-related companies; (iv) banks; (v) insurance companies and other financial institutions.

2.6 Conclusion

The history of taxation in Nigeria dates back to the pre-colonial era when the traditional authorities levied taxes and collected other forms of revenue to finance the administration of communities, before the name Nigeria was coined. The colonial era, after the amalgamation of the Northern and Southern protectorates by the British Government in 1914, saw the introduction of tax legislation with the enactment of the Native Revenue Ordinance in 1917. In 1940, the Native Revenue Ordinance of 1917, 1918 and 1927 were all incorporated into one tax legislation – the Direct Tax Ordinance No 4 of 1940 – which was believed to be the first major tax legislation in Nigeria. Since then, the Nigerian tax system has witnessed dynamic changes to give form to the present taxation architecture in Nigeria.

The Nigerian Government embarked on reforms to the tax system in 2004 on the recommendations of the studies and working groups set up by the government. However, despite the various reforms undertaken, there have been several recurring issues and challenges.

CHAPTER THREE – CHALLENGES OF TAX ADMINISTRATION IN LAGOS STATE AND NIGERIA

3.1 Tax reform efforts

Since 2004, Nigeria has been implementing tax reforms as part of a widening economic reform programme to increase growth and achieve macroeconomic stability. The reforms of the tax system commenced with the inauguration of the Study Group on the Nigerian Tax System under the chairmanship of Professor Dotun Phillips by then finance minister Mallam Adamu Ciroma. The reforms have seen tax revenues grow from 1,194.80 billion in 2004 to 3,741.80 billion in 2015 with actual collections for most of the years from 2004 (when the reforms began) exceeding set targets (Table 3.1).

TABLE 3.1: FIRST TAX REVENUE COLLECTIONS (2000 - 2015)

ANNUAL SUMMARY OF COLLECTIONS FROM 2000 - 2015		
YEAR	**TARGET (N' BILLION)**	**ACTUAL (N' BILLION)**
2000	380.5	455.3
2001	500.7	586.6
2002	396.2	433.9
2003	572.9	703.1
2004	800.0	1,194.8
2005	1,304.4	1,741.8
2006	3,054.1	1,866.2
2007	1,753.3	1,846.2
2008	2,274.4	2,972.2
2009	1,909.0	2,197.6
2010	2,557.3	2,839.3
2011	3,639.1	4,628.5
2012	3,635.5	5,007.7
2013	4,468.9	4,805.6
2014	4,086.1	4,714.6
2015	4,572.2	3,714.8

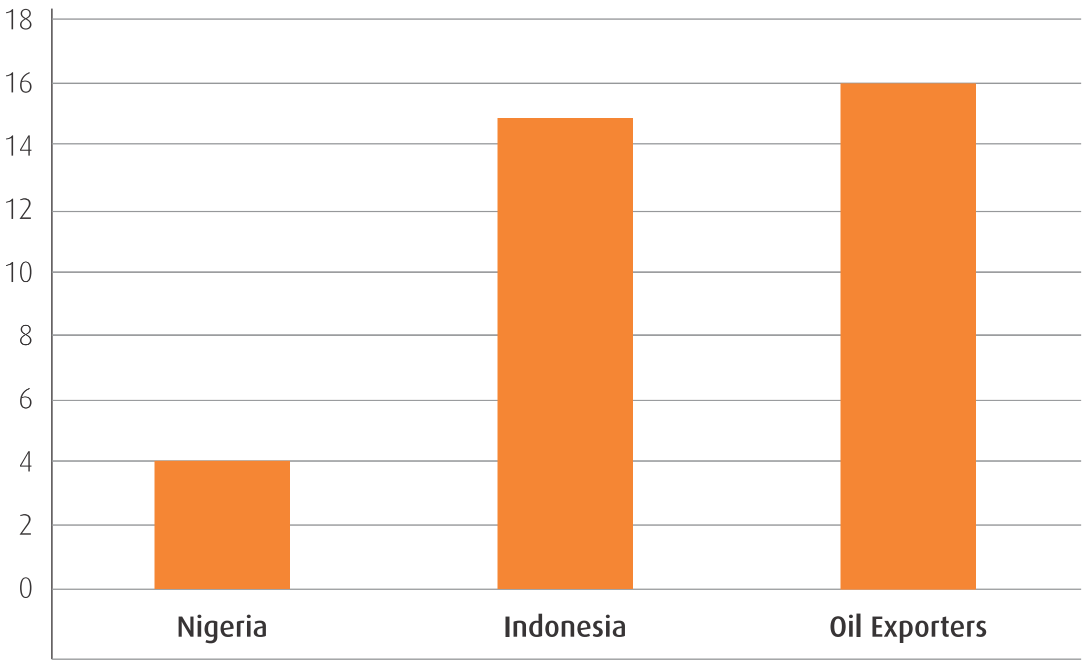
Source: Federal Inland Revenue Service

However, despite the successes, Nigeria still has a relatively low tax-to-GDP ratio, which lies considerably below average in sub-Saharan Africa. This chapter presents first an overview of reform initiatives and progress in tax collection and tax administration efforts by both Nigeria's federal and Lagos State governments, then addresses the core governance challenges militating against effective tax administration in Nigeria.

3.2 Nigeria's tax collection in a global context

According to Heritage Foundation 2012 data, Nigeria's tax revenue-to-GDP ratio was 6.1%, while in the Government Finance Statistics Yearbook (2013), a publication of the International Monetary Fund, it was reported that the average for sub-Saharan Africa in the same year was 20.4%. Furthermore, non-oil tax revenue for 2014 was estimated at only 4% of GDP (IMF Article IV Consultation and Staff Report on Nigeria, April 2016), far below the average of 15% of GDP for other oil exporters (See Figure 1).

GOVERNMENT NON-COMMODITY REVENUE (PERCENT OF GDP)



Source: IMF 2016 Article IV Consultation and Staff Report on Nigeria

Furthermore, in the 2015 tax collection data for all 36 states of the federation by the National Bureau of Statistics (NBS), when compared to Nigeria's total tax revenues of 5.5 trillion (about US$27.5 billion), South Africa's tax revenues more than doubled the amount of tax revenues collected in Nigeria with total tax collections of about R808 billion (about US$57 billion) in 2014/15.

TABLE 3.2: TOTAL TAX REVENUES IN NIGERIA IN 2015

AGENCIES	REVENUE (N' BILLION)
Federal Inland Revenue Service	3,741.8
Nigeria Customs Service	903
States' Internal Revenue Service	683.6
Local Governments (774)	205.06
TOTAL	**5,533.46**

Source: National Bureau of Statistics

An analysis of the composition of the FIRS tax revenue collections by tax type between 2011 and 2015 (Table 3.3 and Figure 1) shows that petroleum profits tax (PPT) contributed over 50% of the total tax revenues between 2011 and 2014. Corporate taxes (companies income tax, capital gains tax and stamp duties) including CIT on gas contributed about 16% in 2011 and increased to 38% in 2015. Value added tax (VAT), which over the years has performed abysmally, contributed about 14% in 2011 and 2012. In 2013 and 2014, VAT contribution increased to about 17%. In 2015, the VAT collection of 760 billion (about 21%) was less than 1% of Nigeria's consumption GDP of 80 trillion. These figures show that although non-oil tax revenues are improving, the reforms are yet to yield the desired results.

TABLE 3.3: PROJECTED AND ACTUAL TAX REVENUES BY FIRS (2011-2015)

TAX TYPE	2011		2012		2013		2014		2015	
	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL
PPT	1,927.53	3,070.60	1,793.70	3,201.31	2,280.20	2,666.36	1,927.54	2,453.95	1,484.88	1,289.96
CIT + GAS	777.10	715.40	899.90	846.59	1,075.00	998.44	1,082.59	1,204.83	1,519.57	1,408.43
VAT	770.00	659.10	802.90	710.55	945.20	802.68	845.45	802.98	1,283.70	767.33
Tertiary Education Tax	97.20	130.70	96.84	188.43	125.40	279.36	162.01	189.62	205.08	206.05
CONSOL IDATED	59.00	43.80	33.12	51.59	33.12	48.94	59.08	53.29	67.94	57.74
NITDEF	8.70	8.60	9.12	9.12	10.00	9.86	9.39	9.91	10.04	12.25
TOTAL	**3,639.53**	**4,628.20**	**3,635.58**	**5,007.59**	**4,468.92**	**4,805.64**	**4,086.06**	**4,714.58**	**4,571.21**	**3,741.76**

FIGURE 2: COMPOSITION OF TAX REVENUES COLLECTED BY FIRS (2011-2015)

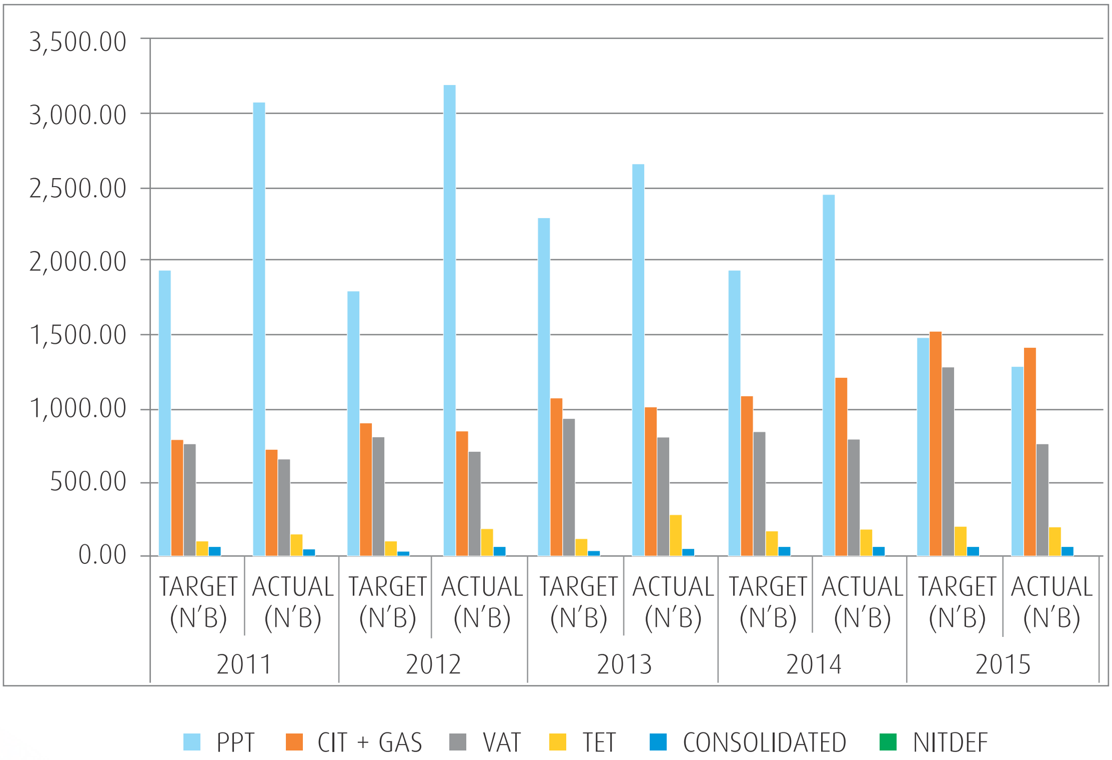
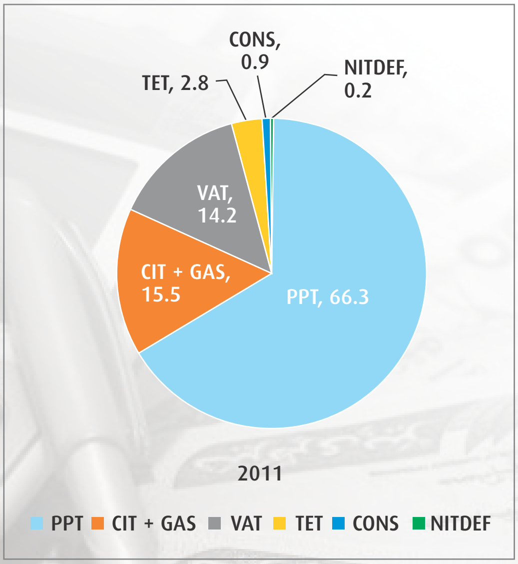


FIGURE 3: COMPOSITION OF TAX REVENUES COLLECTED BY FIRS (2011-2015)



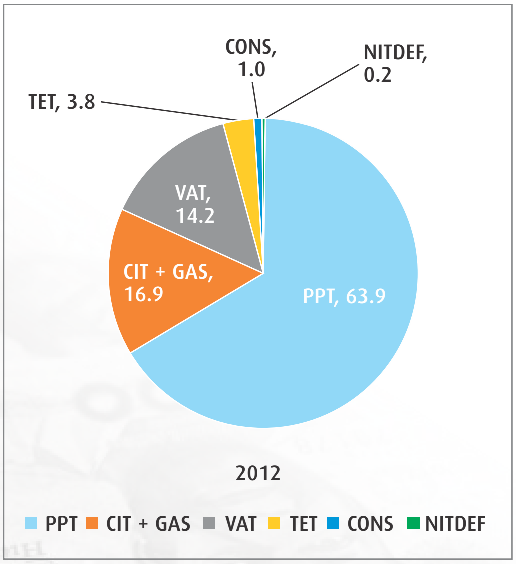
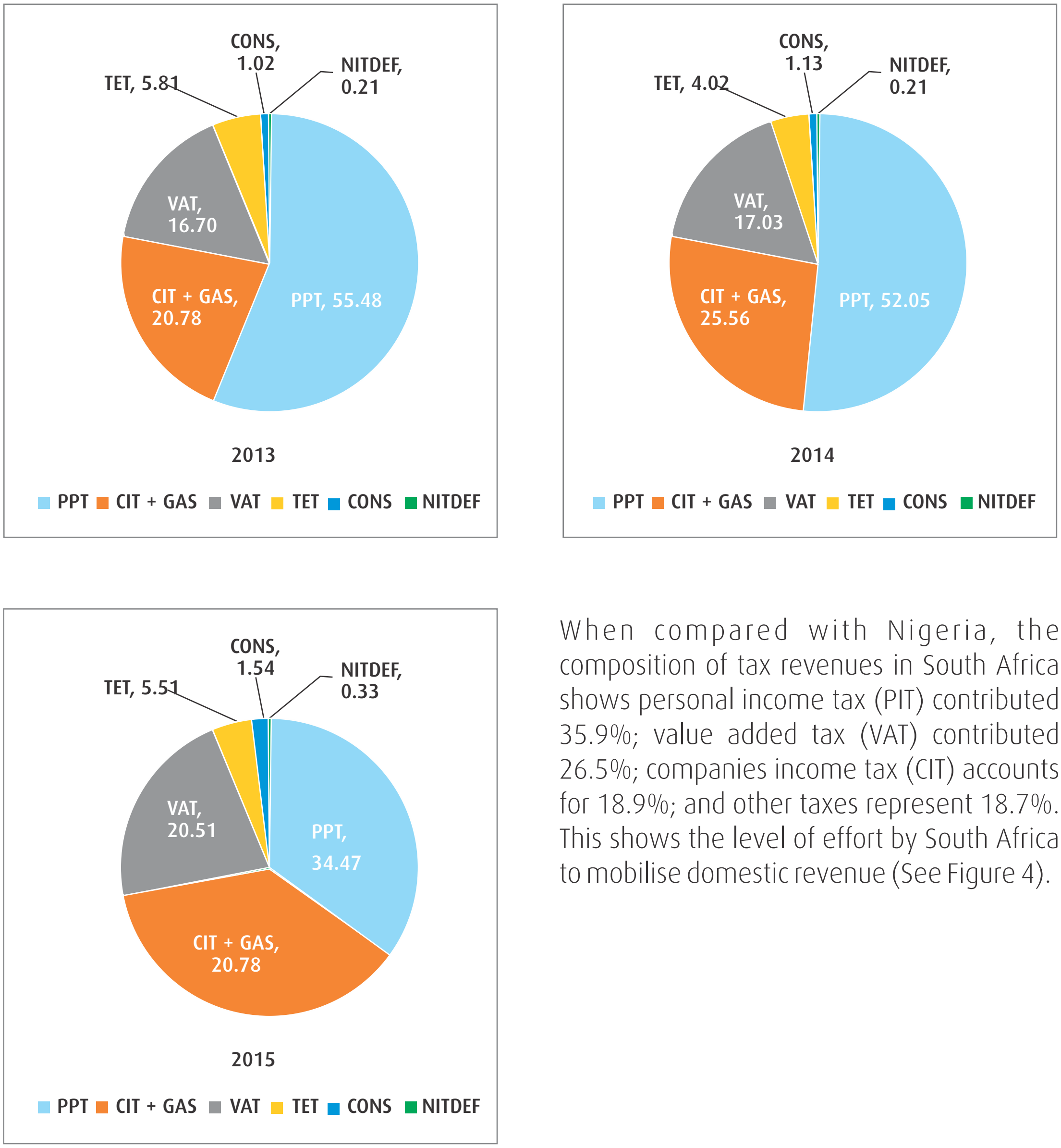


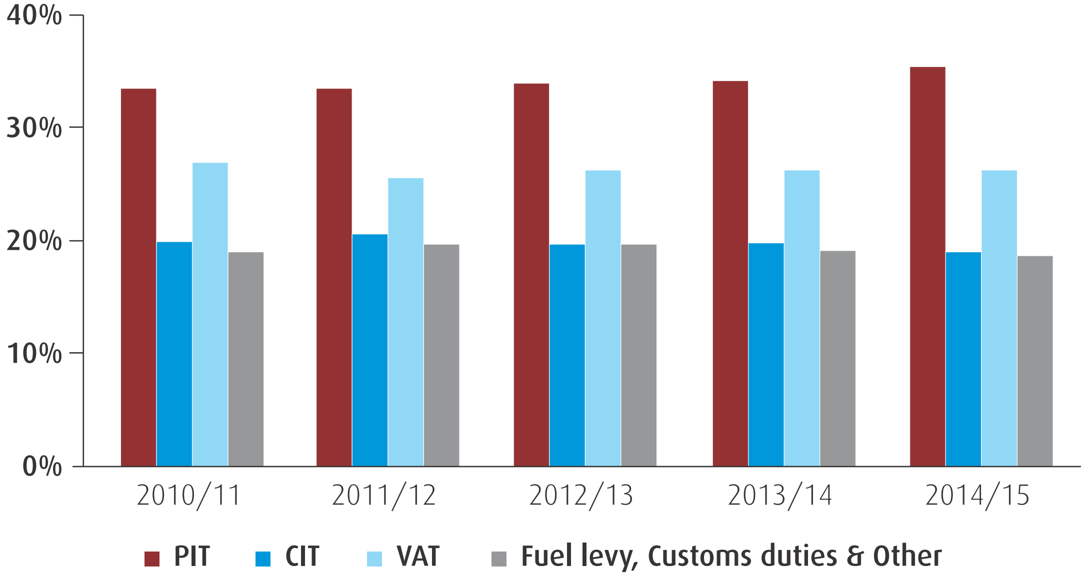
FIGURE 3: COMPOSITION OF TAX REVENUES COLLECTED BY FIRS (2011-2015)



Source: Author's analysis of FIRS collections

When compared with Nigeria, the composition of tax revenues in South Africa shows personal income tax (PIT) contributed 35.9%; value added tax (VAT) contributed 26.5%; companies income tax (CIT) accounts for 18.9%; and other taxes represent 18.7%. This shows the level of effort by South Africa to mobilise domestic revenue (See Figure 4).

FIGURE 4: 2010/11 - 2014/15 COMPOSITION OF TAX REVENUES IN SOUTH AFRICA



Source: South African Revenue Service - Tax Statistics 2015 Highlights

As reported in the IMF Article IV Consultation of April 2016, Nigeria's low tax performance in the non-oil sector reflects a combination of tax rates, exemptions and enforcement issues on value added tax (VAT), companies' income tax (CIT), and customs and excises. VAT collection efficiency is low compared to other oil exporters, owing to the rate and design. At 5%, Nigeria has one of the lowest VAT rates in the world, well below the regional Economic Community of West African States (ECOWAS) requirement of 10%.

In addition, the current VAT is not neutral, as it disallows input tax credits to businesses on purchases of capital goods, thereby imposing a consumption tax on real investments and undermining competitiveness. CIT performance is below peers. Despite being slightly above comparators, CIT revenue is much lower (1.5% of GDP against an average of 5% for other oil exporters). The wide use of exemptions and poor compliance are two important factors explaining the relatively low CIT collection. Herein lie key governance challenges facing tax administration in Nigeria.

3.3 Tax collection and reform efforts in Lagos state

In Lagos State, tax reforms commenced in 1999 when governor at the time Bola Ahmed Tinubu began a review of Lagos's tax processes shortly after his election in the same year. The tax reforms have impacted positively on revenue generation and collection, with internally generated revenue (IGR) moving from a monthly average of about 600 million in 1999 to about 22 billion in 2015, thereby making Lagos State less dependent on proceeds from the Federation Account.

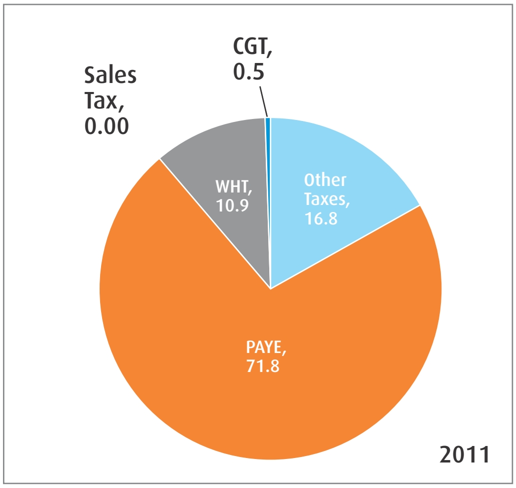
FIGURE 3.4: LAGOS STATE IGR COLLECTIONS (2011 - 2015)

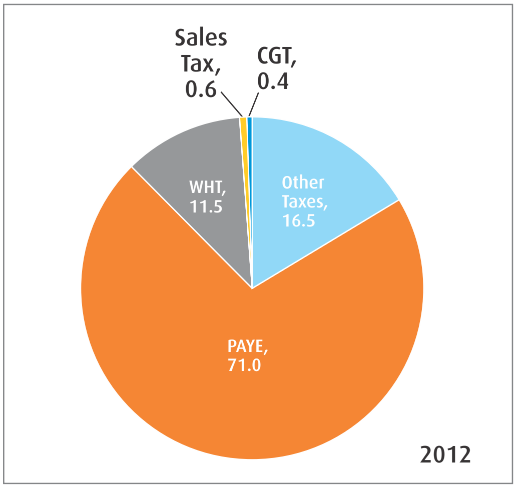
TAX TYPE	2011(N)	2012(N)	2013(N)	2014(N)	2015(N)
PAYE	120,249,472,186.90	122,991,050,484.04	145,565,605,708.89	161,674,518,565.33	175,434,263,322.92
WHT	18,203,887,822.57	19,990,336,598.54	24,319,401,371.17	25,829,027,653.03	28,509,133,176.92
Sales Tax	934,889.16	11,028,089.28	3,267,644.51	100	0
Capital Gains Tax	856,216,013.66	611,408,204.00	692,412,098.86	818,641,171.95	717,461,800.05
Other Taxes	28,153,023,763.66	28,556,605,175.59	30,023,882,194,39	28,677,826,073.24	24,148,591,029.57
Total Taxes	167,463,534,675.95	172,160,428,551,45	200,604,569,017.82	217,000,013,563.55	228,809,449,329.47
Other IGR	35,297,527,002.09	41,557,014,231.93	40,692,440,913.26	59,469,437,736.20	39,415,333,105.76
Gross IGR	**202,761,061,678.04**	**213,737,442,783.38**	**241,297,009,931.08**	**276,469,451,299.75**	**268,224,782,435.23**

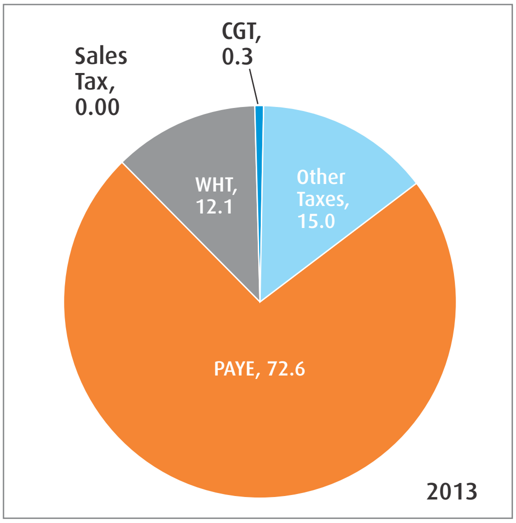
Source: Lagos State Internal Revenue Service

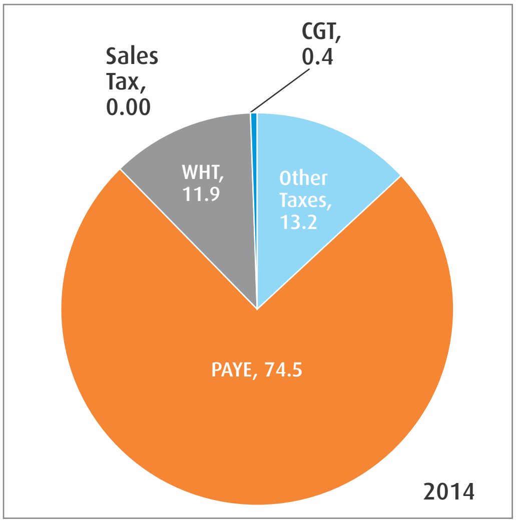
Table 3.4 shows the collection of IGR in Lagos State between 2011 and 2015. Pay as you earn (PAYE) contributed the most in all the years under review. Other taxes (entertainment tax, development levy, inheritance tax, property tax, business premises registration, pools betting, etc) have not performed well in the years under review (Figure 5). With an estimated population of 12.1 million in 2015 and an assumption of about 80% of the Lagos population having an income, there is ample opportunity to increase revenue from taxes in Lagos State.

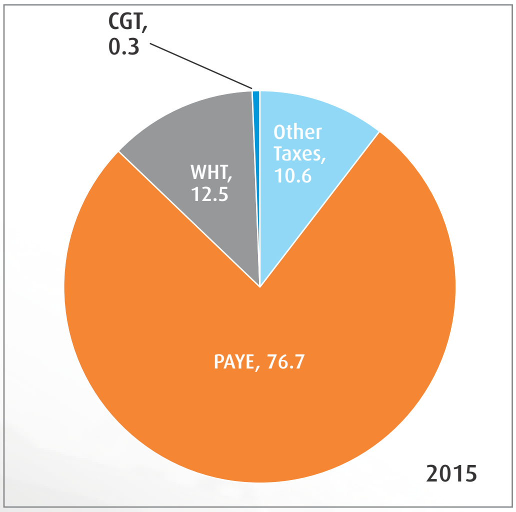
FIGURE 5: LIRS COMPOSITION OF TAX REVENUES (2011 - 2015)











Source: Author's analysis of LIRS collections

3.4 Governance challenges facing tax administration

This study focuses on governance challenges ranging from weak institutional arrangements of the tax administration, excessive administration cost, staffing and modernisation, to the quality of tax services provided, compliance, enforcement, corruption issues and the tax administration's place in the community. Each of these challenges is analysed with a view to providing a context for the challenges and to proffer solutions.

a. Institutional arrangements: The design of a revenue authority is a key determinant of how efficiently it administers and collects taxes. Revenue authorities should enjoy varying degrees of independence in staffing, salaries and incentives, procurements and budgets, and the freedom to undertake the important changes needed for modernisation. In addition to having semi-autonomous structures, many jurisdictions in Africa have adopted the institutional arrangement that streamlines revenue collection, reduces administrative costs and increases revenues through improved efficiency by integrating their tax and customs revenue administration.
As reported in the African Tax Outlook 2016, a publication of the African Tax Administration Forum (ATAF), countries where tax and customs revenue services are not integrated struggle to access information from customs departments. Tadashi Yasui (2009), in his paper "Cooperation between Customs and Tax Administrations", says that integrating

customs and tax administrations into one organisation is one of the most significant reforms to institutional arrangements for tax administration. He says in most cases, these two administrations are ideally integrated into a semi-autonomous agency, usually called a Revenue Authority (RA).

The first Revenue Authority (RA) was established in Ghana in the mid-1980s. Since then, more than 15 countries in sub-Saharan Africa have adopted this model, including Kenya, Rwanda, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. ATAF reported in the African Economic Outlook that Togo's Revenue Authority, the first to integrate taxes and customs in Francophone Africa, was singled out for praise by the African Development Bank.

In Nigeria, the lack of synergy between the tax and customs administration regarding VAT collection has increased the problems facing tax administration and taxpayers. VAT collected by customs administration (import VAT – input tax credit) is disallowed by the tax administration because of weak exchange of information between the two agencies. The lack of exchange of information is also an avenue for tax fraud and evasion. Tax-related information could be used by customs officials in identifying high-risk transactions or checking discrepancies in information for different tax purposes. The merger of customs and tax administration would make it easier to find comprehensive information on a taxpayer within an integrated system.

“ The design of a revenue authority is a key determinant of how efficiently it administers and collects taxes. Revenue authorities should enjoy varying degrees of independence in staffing, salaries and incentives, procurements and budgets, and the freedom to undertake the important changes needed for modernization. ”

At a state level, the drawback of weak institutional arrangements is manifested in state-level governments also mandating ministries, departments and agencies (MDAs) to collect internally generated revenues (IGR). This can lead to conflicting responsibilities among official entities involved in tax-collection efforts, and the lack of a clear line of accountability for the revenues collected.

Another challenge arises where tax consultants or agents are engaged to collect tax revenues. These agencies often have their own objectives and can complicate the relationship between the taxpayer and tax administration. In many cases their questionable practices and modes of operation can paint the government in a bad light in the eyes of taxpayers. This happens when they use aggressive and unorthodox methods to collect tax revenues. Section 12(4) of the FIRS Establishment Act 2007 provides that the FIRS “may appoint and employ such consultants including tax consultants or accountants and agents to transact any business or to do any act required to be transacted or done in the execution of its functions under the act; provided such consultants shall not carry out duties of assessing and collecting tax or routine responsibilities of tax officials”. Also, Section 102 of PITA defines a “tax collector” as a "duly authorised official" of the SBIR or the FIRS. This effectively means that agents or tax consultants are not vested by the law with the full powers of official tax collectors.

b. The multiplicity of taxes across the federation: There has been a high incidence of the multiplicity of taxes cutting across the three tiers of government. This has been largely due to the lack of clarity on taxation powers vested in each level of the government as well as the encroachment of the powers of one governmental level such as the states on the lower levels.

The issue of multiple taxes or internal double taxation is not new in Nigeria. In the Raisman Commission (1958) report, the eastern region taxed the individual incomes of its residents while the western region taxed residents in the west as well as any income derived from the western region regardless of the residence of the recipient. The result of this was that a resident in eastern Nigeria working in western Nigeria would be taxed twice on the same income by both regional governments. The issue of internal double taxation was eliminated by the Income Tax Management Act (ITMA) 1961.

Nevertheless, this issue still plays out when a taxpaying resident in another state goes back to his or her state of origin to apply for an official document, such as a certificate of occupancy. They are often asked to produce a tax clearance certificate (TCC) issued by the tax authority in the state of origin.
In a bid to stop the challenges of the multiplicity of taxes and levies in Nigeria, the Federal Military Government issued the Taxes and Levies (Approved List for Collection) Decree 1998, whereby taxes, levies and fees collectable by the various tiers of government were spelt out. However, the necessity to generate greater revenue for the various tiers of government led to a situation where the federal, state and local governments refused to be bound by the taxes and levies listed in the schedule consisting of three parts: Part I (eight for federal government), Part II (11 for state governments), and Part III (20 for local governments) as provided for by section 1(1) of the act.

Besides, it was discovered that "ad-hoc revenue contractors" and "touts" were being used by many states and local governments to harass taxpayers contrary to Section 3 of the act which provides: "A person who (a) collects or levies any tax or levy; or (b) mounts a road block or causes a road block to be mounted for the purpose of collecting any tax or levy, in contravention of section 2 of this decree, is guilty of an offence and liable on conviction to a fine of 50,000 or imprisonment for three years or to both such fine and imprisonment."
However, the increased demand to grow IGR led to exercising the powers of taxation to the detriment of the taxpayer.
In 2012, because of the complaint by the Manufacturers Association of Nigeria (MAN) on the effect of multiplicity of taxes and levies on their businesses, a Ministerial Implementation Committee (MIC) of the National Economic Council (NEC) was set up under the chairmanship of coordinating minister for the economy and minister of finance at the time Dr Okonjo-Iweala. The committee was mandated to consider the harmonisation of taxes and levies across the federation. The committee submitted its report with observations and recommendations to the NEC. Given the seriousness of the multiplicity of taxes and levies as constraints to manufacturing,

agriculture and overall national development, five critical recommendations were made for immediate attention:

1. Review and amendment of the Taxes and Levies (Approved List for Collection) Act, Cap T2, LFN 2004.
2. Outlawing the use of unorthodox means to collect taxes and levies.
3. Automation of tax operations by relevant tax authorities to eliminate leakages and ensure ease of collection.
4. Tax authorities should discontinue the use of consultants for tax assessment and collection.
5. Tax authorities should publish the approved list of taxes and levies within the states and local governments to educate the public and facilitate compliance.

The NEC approved the recommendations, which were subsequently ratified by the Federal Executive Council (FEC). The duty to review and amend the Taxes and Levies Act fell on the minister of finance in accordance with Section 1(2) of the act.

The SBIRs, who are members of the Joint Tax Board, made a case for the inclusion of several taxes and levies on the amended list if the tax had an enabling legislation. Consequently, the list of taxes and levies for state governments contained in Part II to the Schedule increased from 11 to 25. In contrast to the states, the taxes and levies contained in Part I for the federal government merely increased from eight to nine while Part III for local governments increased from 20 to 21.

In spite of the work done, there are still incidents of the multiplicity of taxes across the federation. One of the reasons for multiple taxations across the three tiers of government is to be found in Section 4 of the 1999 Constitution. This defines the legislative competence of each tier of government. Section 4(1) vests the powers to make laws on any matter included in the Exclusive Legislative List set out in Part I of the Second Schedule of the Constitution in the National Assembly. Section 4(7) (a & b) vests the power to make laws on any matter not included in the Exclusive Legislative List set out in Part I of the Constitution as well as any matter included in the Concurrent Legislative List set out in the first column of Part II of the Second Schedule in the House of Assembly of a State. One of the items in the Concurrent Legislative List is the collection of taxes. Unfortunately, these state governments have leant on this provision in the Constitution to enact new tax laws without considering the burden on the taxpayer.

Similarly, the Lagos State House of Assembly (LSHA) passed a bill to clarify and stipulate legitimate levies for local governments in Lagos State. The bill also sought to monitor and regulate the method of collection of such levies in all local government authorities in the state. Despite the legislative clarification and monitoring, a recent survey carried out by the Lagos Chamber of Commerce and Industry (LCCI) showed the following:

- 83% of businesses in Lagos State confirmed that "multiple taxations" remained even after the law approving levies and taxes for LGAs in Lagos.
- Businesses in Lagos paid taxes eight times more than businesses located in other states.
- Nearly two-thirds (67%) of the businesses in Lagos State complained that double taxation, fees, levies and charges caused a significant rise in their cost of doing business over the past few years.

c. The underground economy (informal sector): This sector is primarily made up of self-employed individuals, small and micro enterprises and other forms of economic activities. Incomes generated by the operators in the sector, in many cases, are not fully captured in the tax net of the states or federal government. The informal sector forms a greater percentage of tax defaulters, increasing cases of tax evasions that lead to leakages in government revenue.

Statistical data for this sector is not easily obtained. In a 2016 presentation by the minister of industries, trade and investment to the NEC titled "Energising the Micro, Small and Medium Enterprises (MSMEs) Sector as a Major Economic Growth Driver", it is stated that the total estimated number of MSMEs in Nigeria is 37,067,416. Their contributions to employment are 84.02%, 48.47% to GDP, and 7.27% to export.

The presentation further stated that of the total number, micro enterprises account for the majority (99.8%) of the MSMEs in

"The underground economy (informal sector): This sector is primarily made up of self-employed individuals, small and micro enterprises and other forms of economic activities. Incomes generated by the operators in the sector, in many cases, are not fully captured in the tax net of the states or federal government. The informal sector forms a greater percentage of tax defaulters, increasing cases of tax evasions that lead to leakages in government revenue."

Nigeria, with 36,994,578 micro enterprises, 68,168 small enterprises and 4,670 medium enterprises. According to the presentation, Lagos State has the highest number of micro enterprises (3,224,324), followed by Oyo and Kano States (1,864,054 and 1,794,358 respectively) while Nasarawa State has the least (226). The implication is that while MSMEs contribute to GDP and employment, they do not contribute to tax revenue because a greater percentage of them are not registered with any tax authority.

Viewing the concerns of taxation of the informal sector through a governance lens, Max Everest-Phillips (2009) claims that taxing the micro, small and medium enterprises effectively is "the biggest challenge in state-building".

Seth Terkper (2003) suggests a useful three-way classification: informal enterprises at the subsistence level is not a major target for taxation; other small enterprises should be subject to a simple presumptive tax; and informal entities with higher incomes are outright tax evaders who should be targeted for vigorous enforcement.

The issue of taxing the informal sector is a complex one. It can certainly benefit from further research to ascertain what has worked best in various conditions and how the costs compare to the revenue gains.

d. Non-compliance issues: One of the greatest challenges of tax administration at all levels in Nigeria is non-compliance. Taxpayers are said to comply with tax laws when they\register as required; file the required returns on time; report complete and accurate information; and remit the amounts owed as and when due. Non-compliance occurs when any of these obligations are not met. Dr Okonjo-Iweala, speaking at the IMF/World Bank joint conference "Fiscal Policy, Equity and Long-Term Growth in Developing Countries" in Washington DC, US, 21-23 April 2013, said the objective of the diagnostic study of Nigeria's tax system, which was carried out with the support of McKinsey & Co in 2012, was to establish a solution to improve compliance in the system. The key findings of the study were:

- 75% of registered companies were not in the tax net.
- 65% of active corporate taxpayers registered with the FIRS tax offices did not file returns or pay any tax in either 2010 or 2011.
- 30% of corporate taxpayers who got tax exemptions in the form of Pioneer Status misused those exemptions.

3.5 Factors accounting for low tax compliance in Nigeria

Finance Minister Kemi Adeosun, speaking at a press conference in Washington, DC, in April 2016, said the VAT compliance rate for Nigeria stood at 10%. Several factors account for the low tax compliance in Lagos State and Nigeria. Some are technical in nature, but most are governance-related and embedded in the weak institutional structure and enforcement processes of Nigeria's tax administration. These factors are discussed below, with emphasis on the governance factors that drive non-compliance.

Inadequate data: Tax administration is particularly dependent on data. The tax authority is first and foremost an organisation that deals with information. The three basic tasks of a tax administration are the identification of taxpayers; the assessment of tax liabilities; and the collection of taxes, all of which require adequate data.

One of the biggest challenges in the Nigerian tax system (including Lagos State) is insufficient data to identify taxpayers. The Taxpayer Identification Number project, which was launched in 2008, has obviously yielded some results; but considering Nigeria's population of about 170 million, the number of registered taxpayers – which stands at about 10 million as at December 2015 (for personal income tax on the TIN project) – isn't nearly enough. Out of this figure, Lagos State accounts for about 4.6 million (about 46%) and the other 35 states account for 54% of the number.

With a workforce of about 77 million at the end of 2015, according to the National Bureau of Statistics, and the number of registered taxpayers for personal income tax of 10,000,000 at the end of 2015 (see table 3.5), only an estimated 13% of potential taxable people are actually in the tax net.

This contrasts with the situation in South Africa which in 2014 recorded 16,779,711 tax-registered people out of its total population of about 54 million (this number increased to 18.2 million as at 31 March 2015). This higher rate is due to the effort by the South African Revenue Service (SARS), which requires all employers to register all employees as taxpayers regardless of their tax liability. The estimated number of taxable people in the tax net is therefore about 83% of South Africa's total labour force of about 20,122,000 people, according to Statistics South Africa.

FIGURE 3.5: TAXPAYER REGISTRATION FOR PERSONAL INCOME TAX AS AT DECEMBER 2015

STATE INTERNAL REVENUE SERVICE	NO. OF TAXPAYERS IN THE DATABASE AS AT DEC. 2015	2016 PROPOSED REGISTRATION	TARGET BY DEC. 2016
ABIA	451,624	250,000	701,624
ADAMAWA	44,364	0	44,364
AKWA IBOM	42,600	250,000	292,600
ANAMBRA	97,609	500,000	597,609
BAUCHI	184,795	150,000	334,795
BAYELSA	50,568	0	50,568
BENUE	38,557	0	38,557
BORNO	77,910	120,000	197,910
CROSS RIVER	362,510	250,000	612,510
DELTA	33,268	300,000	333,268
EBONYI	30,210	0	30,210
EDO	176,969	200,000	376,969
EKITI	62,025	0	62,025
ENUGU	271,348	250,000	521,348
GOMBE	27,739	100,000	127,739
IMO	51,806	0	51,806
JIGAWA	32,615	0	32,615
KADUNA	161,345	300,000	461,345
KANO	281,192	1,000,000	1,281,192
KATSINA	88,098	0	88,098
KEBBI	98,487	20,000	118,487
KOGI	360,225	200,000	560,225
KWARA	85,000	200,000	285,000
LAGOS	4,607,800	800,000	5,407,800
NASARAWA	250,011	50,000	300,011
NIGER	115,450	150,000	265,450
OGUN	258,211	170,000	428,211
ONDO	95,104	250,000	345,104
OSUN	462,504	200,000	662,504
OYO	350,411	900,000	1,250,411
PLATEAU	178,767	240,000	418,767
RIVERS	253,244	250,000	503,244
SOKOTO	133,965	0	133,965
TARABA	85,000	300,000	385,000
YOBE	53,291	100,000	153,291
ZAMFARA	51,682	75,000	126,682
TOTAL	**10,006,304**	**7,575,000**	**17,581,304**

Source: Joint Tax Board – Taxpayers' data from States' Internal Revenue Service December 2015

TABLE 3.6: FIRS TAXPAYER REGISTRATION IN 2015

TAXPAYER GROUP	NO OF TAXPAYERS
Corporate	1,646,068
Individuals	771,120
Enterprises	563,961
TOTAL	**2,981,149**

Source: Joint Tax Board - Taxpayers' data from Federal Inland Revenue Services December 2015

Table 3.6 shows the data of registration of taxpayers by the Federal Inland Revenue Service categorised into Corporate, Individuals and Enterprises. When compared with South Africa's number of registered companies of 2,935,385 as at 31 March 2015, substantial efforts must be made to get more companies registered with the tax authority.

Non-protection of taxpayers' rights: Taxpayers in Nigeria have few rights in relation to the tax administration. Tax officers collect tax revenues by means of coercion. Where tax administration does not recognise taxpayers' rights, it becomes difficult to achieve voluntary compliance.

What Nigeria has is perhaps best described as "quasi-voluntary" compliance. Protection of taxpayers' rights has not been a priority issue as it is in other successful tax jurisdictions. At present, there is no express legislation specifically addressing the issue of protection of taxpayers' rights. However, certain general rights provisions exist and can be construed and applied in protecting taxpayers' rights. Some of these rights can be gleaned from the provisions of the 1999 Constitution of the Federal Republic of Nigeria, tax laws and the Federal Inland Revenue Service Charter. However, these don't provide a sufficient legal framework to ensure the full protection of taxpayers' rights. The FIRS Service Charter is at best an administrative regulation, which does not have the force of law through enactment by statute.

"What Nigeria has is perhaps best described as "quasi-voluntary" compliance. Protection of taxpayers' rights has not been a priority issue as it is in other successful tax jurisdictions. At present, there is no express legislation specifically addressing the issue of protection of taxpayers' rights."

Unfair treatment of taxpayers: Taxpayers often perceive the tax administration as unfair – ie not treating taxpayers fairly or equally. For example, the high rate of corruption among tax officers leads to a reduced propensity among the public for tax compliance.

Recently the Economic and Financial Crimes Commission (EFCC) arrested an FIRS deputy director in a case of abuse of office and bribery. Furthermore, in May 2015, the FIRS was reported as one of the five most corrupt government agencies. Corruption within the tax administration system reduces what goes into the government Treasury. At the November 2016 NEC meeting presided over by Vice President Yemi Osinbajo at the Presidential Villa, Abuja, it was decided that the federal government should probe the abuse and excesses of revenue-generating bodies, which have been ongoing for decades.

In her presentation, Adeosun briefed the council on certain activities of some revenue-generating agencies (RGAs) that amount to financial abuses of the revenue they generate rather than being remitted to the Federation Account. These are often diverted through several illegal means. The minister said these financial abuses had been going on for a decade.

Some agencies hide revenues that ought to go into the Federation Account. The finance minister has therefore prioritised efforts to ensure that such activities are exposed as directed by the Nigerian president. Furthermore, in a recent survey conducted by the LCCI, a key finding was that four in five businesses said corruption and moral issues still existed in the workings of the Lagos State tax consultants.

Lack of transparency: There is lack of transparency regarding the use of tax revenues collected, which leads to low levels of tax compliance among taxpayers. Transparency is critical for the efficient functioning of a modern economy and for fostering social well-being. Transparency ensures that information is available that can be used to measure the authorities' performance and to guard against any possible misuse of powers.

Transparency serves to achieve accountability, which means that authorities can be held responsible for their actions. Full information about revenue and expenditure with a detailed breakdown is not readily available to Nigerians. Nigerians would like to see what taxpayers' money is being used for.

Unfortunately citizens are in the dark regarding the use of tax revenues, and this partly accounts for the low level of tax compliance. An analysis of the federal government budget for the past few years shows that tax revenue has been essentially spent on debt financing and recurrent expenditure. A significant amount goes to salaries, travel and other overheads.

Adeosun, speaking on BBC's Africa Business Report in April 2016, pointed out that "corruption is the most debilitating factor in the Nigerian economy; next is wastage. Whatever is not stolen gets wasted, leaving very little for development. Last year we spent 64 billion on travels but only 19 billion on roads".

"Transparency serves to achieve accountability, which means that authorities can be held responsible for their actions. Full information about revenue and expenditure with a detailed breakdown is not readily available to Nigerians. Nigerians would like to see what taxpayers' money is being used for."

Obsolete laws: The non-review of tax legislation has created obsolete laws which do not reflect Nigeria's current realities. Despite the changes in the Nigerian tax system, there are still a number of contentious issues that require urgent attention and among them is the issue of the appropriate tax authority to administer several taxes.

The issue between Lagos State and the federal government on the tax jurisdiction of VAT in the state is still contentious and has been taken to the courts. Other states like Ogun, Oyo and Benue have joined Lagos state, while states like Abia have gone against this.

Adeosun alluded to this while speaking during the 18th annual tax conference of the Chartered Institute of Taxation of Nigeria (CITN). She said most of the tax codes in the country were outdated. She said with the government's objective to drive the economy through revenue from non-oil sources, a thorough review of the tax codes was needed. She said the federal government would work with the National Assembly to expedite action on the review.

Also, the complexity of the tax system makes it difficult for taxpayers to comply without the use of consultants. Tax laws should be codified in simple, non-technical language, if possible in the three major languages – Hausa, Ibo and Yoruba.

Lack of taxpayer education and services: By not making information and assistance available to taxpayers, the tax system imposes undue burden and increases the cost of compliance for individuals and businesses. Taxpayer service indicators measure tax administration efforts to reach out to taxpayers and reduce the cost of tax compliance. Taxpayers must comply with tax laws over and above the actual payment of tax, but this obligation can be lightened by tax administrations educating taxpayers to make compliance easier and therefore less costly. Taxpayer education interventions improve taxpayers' compliance.

Tax administrations in Nigeria have not sought to deliberately inform taxpayers of their tax obligations, new procedures and requirements through radio and television talk shows, tax clinics and seminars, educational materials, stakeholder training and forums, and school projects and outreach. In addition, tax administration responsiveness to taxpayers' issues is low.

According to Africa Tax Outlook 2016 (an ATAF publication), to track and trend response times, several African countries (Burundi, Kenya, Rwanda, South Africa, Tanzania, Togo and Uganda) have established call centres to answer queries and complaints from taxpayers. They have also created websites that manage statistics on taxpayers' queries. These are ways of encouraging voluntary compliance.

Conclusion

An interesting observation about the Nigerian tax system is that most of its challenges are not new, although efforts to address them have often proved insufficient to bring about the desired improvement. The new National Tax Policy (NTP), February 2017, succinctly summarises the challenges in the administration system as follows:

- Lack of a robust framework for the taxation of the informal sector and high network individuals, thus limiting the revenue base and creating inequity.
- Fragmented database of taxpayers and weak structure for exchange of information by and with tax authorities, resulting in revenue leakage.
- Inordinate drive by all tiers of government to grow internally generated revenue which has led to the arbitrary exercise of regulatory powers for revenue purpose.
- Lack of clarity on taxation powers of each level of government and encroachment on the powers of one level of government by another.
- Insufficient information available to taxpayers on tax-compliance requirements thus creating uncertainty and non-compliance.
- Poor accountability for tax revenue.
- Insufficient capacity which has led to the delegation of powers of revenue officials to third parties, thereby creating complications in the tax system.
- Use of aggressive and unorthodox methods for tax collection.
- Failure by tax authorities to honour refund obligations to taxpayers.
- The non-regular review of tax legislation, which has led to obsolete laws, that do not reflect current economic realities.
- Lack of strict adherence to tax policy direction and procedural guidelines for the operation of the various tax authorities.

From the challenges relating to equity and fairness, through accountability concerns, all the way to blockages in the system that prevent information exchange, it is clear that governance failures largely account for Nigeria's slow progress in improving tax administration on multiple levels.

The next chapter examines strategies for mainstreaming governance into tax reform in Nigeria.

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CHAPTER FOUR – STRATEGIES FOR MAINSTREAMING GOVERNANCE INTO TAX REFORMS IN NIGERIA

An ideal system of taxation should be simple, easy and cheap for tax authorities to administer and control. It should also be easy for taxpayers to understand, with clarity, what is expected of them and how to comply. All stakeholders would act responsively with a sense of fairness, collecting and paying the right amount of tax at the right time, minimising tax leakage through evasion, avoidance, and error, and using the tax revenue in a transparent manner.

However, the real world is different. Businesses and individuals get involved in aggressive tax planning to exploit opportunities to defraud the tax system. This underscores the need for strategies to ensure that the barriers to the optimum performance of tax administrations are addressed proactively.

In developing strategies, it must be noted that there is no single set of prescriptions that, once introduced, will ensure improved tax administration in any country or state. However, a tax system should be organised to impact positively on the yield, incidence and efficiency.

Vito Tanzi and Anthony Pellechio in the IMF Working Paper on the Reform of Tax Administration (WP/95/22) have listed six essential elements for successful tax administration reform:

1. An explicit and sustained political environment.
2. A team of capable, hardworking officials dedicated full-time to tax administration reform.
3. A well-defined and appropriate strategy.
4. Relevant training of staff.
5. Additional resources for the tax administration or, at least, some reallocation of resources.
6. Changes in incentives for both taxpayers and tax administrators.

Richard Bird (1992), in his paper "Improving Tax Administration in Developing Countries" published in the Journal of Tax Administration (Volume 1.1), proposed two approaches to improving tax administration. The first approach is to begin with a model of what a good revenue administration should look like, and then examine the actual tax system in a country or state to determine how it diverges from the model. The usual next step is to propose changes that would transform "what is" – the imperfect reality of the current situation – into "what ought to be" – the perfect model of a modern revenue administration. He says an alternative approach is to compare the performance of a tax administration to the experience of other countries.

Having identified some governance challenges in the Nigerian tax system in Chapter Three, this chapter focuses on the strategies for mainstreaming governance into tax reforms in Nigeria. Some of the strategies to be adopted are:

a. Strengthened political will: Three ingredients need to flow from the will to institute an effective tax administration: the political will, a clear strategy, and adequate resources. If the political will exists, the blueprint for effective tax administration is relatively straightforward. Political will is an essential ingredient for the reform of tax administration in Nigeria. The steps needed for effective tax administration are well known, but there must be adequate political support for tax

"Three ingredients need to flow from the will to institute an effective tax administration: the political will, a clear strategy, and adequate resources. If the political will exists, the blueprint for effective tax administration is relatively straightforward. Political will is an essential ingredient for the reform of tax administration in Nigeria."

Box 1: Case of G8 driving reform on tax compliance and transparency

In June 2013, at the start of the summit of the G8 countries (Canada, France, Germany, Italy, Japan, Russia, United Kingdom and United States), now G7 (with Russia out), the then British prime minister set the agenda by announcing that three 'T's (taxes, transparency and trade) would be priorities as the world leaders settled in for the two-day conference. At the end of the summit, the G8 countries agreed on the Lough Erne Declaration.

Following the G8's positive support, the OECD Base Erosion and Profit Shifting (BEPS) Action Plan was endorsed by G20 leaders at the Saint Petersburg Summit on 5 and 6 September 2013.

The OECD, and all G20 members, have started detailed technical discussions. Some G8 members have contributed additional funds to support delivery of the project. The OECD has consulted on transfer pricing matters, including the development of a common template for reporting to tax authorities, as part of the BEPS Action Plan. G8 members worked closely with the rest of the G20 who endorsed the creation of a new single standard for automatic exchange of tax information between tax authorities.

Source: Tax, Trade and Transparency – The 2013 UK G8 Presidency Report administration reforms to succeed. Box 1 provides an example of how political will can drive reforms in tax administration.

Nigeria's political leadership should take their cue from this and set an agenda for the comprehensive reform of the Nigerian tax system, with the full and active involvement of stakeholders from the different levels of government, the corporate sector, and the wider public.

b. Appropriate institutional structure: The tax administration must have the appropriate institutional structure to perform effectively. It must be adequately staffed with trained and competent officials. It should be properly organised. It should leverage on modern information technology. More importantly, the institutional arrangement between customs and tax administration is vital in improving tax administration.

A single body that registers, collects and audits achieves more cost-effective tax administration and taxpayer compliance.

The concept of an integrated tax administration has many benefits, among which are: exchange of tax-related information; reduced administrative costs; reduced compliance costs for the taxpayer; and increased revenues through improved efficiency.

The first Revenue Authority in Africa was established in Ghana in the mid-1980s (De Wulf, 2005). Since then, more than 15 countries in sub-Saharan Africa have adopted this model, including Kenya, Rwanda, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.

c. Taxpayer as a client: The most important stakeholder in a taxing process is the taxpayer. It is critically important for the tax administration to treat the taxpayer not as potential evaders but as clients. The prevalent attitude in tax administrations in Nigeria, including Lagos State, appears to be that all taxpayers are potential criminals. Accordingly, the key administrative problems of tax administrations are identifying and controlling taxpayers and accosting those who cheat. These tasks are indeed important, and this emphasis is understandable in a country where there is no ingrained culture of tax compliance. However, most of the time, shutting down businesses or making arrests don't solve tax enforcement.

Research into the experience of a number of countries shows that there is much to be gained from viewing taxpayers more as clients – perhaps not very willing clients, but still clients – than as would-be criminals. There should be a win-win relationship between taxpayers and tax authorities. Tax authorities should facilitate compliance by providing the following services to the taxpayer:

i. Clear, accessible tax laws and information: Taxpayers want a tax environment that is fair, clear, predictable and stable. The government should ensure that the tax laws are easily understood by taxpayers without resorting to tax consultants. There is a need to simplify Nigerian tax laws. Also, guidelines should be published regularly on the application of tax laws, both the areas of uncertainty and the areas that appear obvious. The tax forms should be simplified and printed in the major languages. In addition, all relevant information must be easily accessible and widely communicated.

ii. Taxpayer charter: In any democratic society, citizens will have a number of basic rights and obligations in relation to their government and its agencies. Tax authorities are no exception and most countries have legislation governing taxpayers' rights and obligations in relation to taxation. A taxpayer charter clearly sets out what the taxpayer should expect from the tax authority and also what is expected of the taxpayer.

In 1990, the OECD's Committee on Fiscal Affairs Working Party Number 8 published a document titled "Taxpayers' rights and obligations – A survey of the legal situation in OECD countries". The survey found that while most countries at that time did not have an explicit taxpayers' charter, the following basic taxpayer rights were present in all systems:

- The right to be informed, assisted and heard.
- The right of appeal.
- The right to pay no more than the correct amount of tax.
- The right to certainty.
- The right to privacy.
- The right to confidentiality and secrecy.

These basic taxpayer rights also imply basic obligations – a set of behavioural norms expected of taxpayers by governments. These expected behaviours are so fundamental to the successful operation of taxation systems that they are legal requirements in many, if not most, countries. Without this balance of taxpayers' rights and obligations, taxation systems could not function effectively and efficiently. These taxpayer obligations are:

- The obligation to be honest.
- The obligation to be co-operative.
- The obligation to provide accurate information and documents on time.
- The obligation to keep records.
- The obligation to pay taxes on time.

Many countries have elaborated these basic rights and obligations into a taxpayers' charter. In Nigeria, a taxpayers' charter is yet to be enacted. However, the FIRS has a Service Charter which was released on 19 April 2006. This charter is an administrative document and does not have the character of law enacted by the National Assembly.

d. Accountability and transparency: One of the most serious problems undermining tax compliance is the perception among citizens that the taxes they pay are not

"Taxpayers want a tax environment that is fair, clear, predictable and stable. The government should ensure that the tax laws are easily understood by taxpayers without resorting to tax consultants. There is a need to simplify Nigerian tax laws."

spent on public services. This perception erodes citizens' confidence in the capacity of the government to provide essential social services, which in turn affects their willingness to pay taxes. In a recent taxpayer survey conducted by PricewaterhouseCoopers to find out why Nigerians don't pay tax, 70% said they don't pay taxes because people can't see taxpayer money at work; 22.5% said it was due to tax rules that are unclear and compliance processes being too complex; and 7.5% said it was due to poor enforcement by the tax authorities.

According to Adebisi and Gbegi (2013), the proper use of public funds has a strong influence on enhancing tax morale and compliance. Tax payment is a constitutional obligation of the citizens but the lack of accountability by the government can make citizens evade taxes. The government must therefore establish clear and transparent procedures and publish full information regularly about tax revenue collected and how it's used.

e. Anti-corruption measures: Anti-corruption measures such as internal controls and the investigations unit can help to promote transparency and better accountability in tax administration. For example, monthly tracking and monitoring of revenues by the Ministry of Finance and external oversight of the tax administration operations and staff by the National and Lagos State Legislature should be put in place or strengthened.
More importantly, tax processes should be automated to reduce the level of the human interface between tax officials and taxpayers. The Modernisation Programme in the South African Revenue Service enabled the migration of most taxpayers to electronic payment platforms, significantly improving turnaround times. This significantly reduced the risk associated with human intervention and reduced cash collections at branch offices. In the 2014/15 financial year, e-Filing accounted for 73.2% of the value of all taxpayer payments.

“One of the most serious problems undermining tax compliance is the perception among citizens that the taxes they pay are not spent on public services. This perception erodes citizens' confidence in the capacity of the government to provide essential social services, which in turn affects their willingness to pay taxes.”

f. Taxpayer registration: With Nigeria's population of over 170 million, the total number of taxpayers registered for personal income tax of about 10 million as at December 2015 is grossly insufficient. The government should make a concerted effort to harmonise data from the various registration agencies such as the Federal Road Safety Corps (FRSC), the National Identity Management Commission, etc. The South African model can be adopted or replicated in Nigeria by mandating employers to register all employees regardless of their tax liability.

Furthermore, a holistic education and awareness programme should be embarked upon to keep citizens abreast of the TIN project. More registration centres should also be created and these should be properly equipped to execute the TIN project.

g. Structured incentives for tax compliance: The Federal Government of Nigeria recently introduced a new initiative called the Voluntary Assets and Income Declaration Scheme (VAIDS) targeted at increasing tax awareness and voluntary compliance, as well as to grant taxpayers a time-limited opportunity to regularise their tax status without penalty. It concentrates on the obligations of all Nigerian companies and citizens to pay their taxes, wherever their income is earned and wherever they reside. The scheme offers a window for those who have not complied with extant tax regulations to remedy their position through a limited amnesty to enable voluntary declaration and payment of liabilities. It aims to increase the tax-to-GDP ratios from the current 6% to 15% by 2020, with the initial revenue expected from the scheme conservatively estimated at $1bn. It will cover all back taxes with no limit on how far back a tax assessment can go. Taxpayers are allowed up to three years to settle their liabilities. Jointly executed by the federal and state governments, the initiative is commendable. However, care must be taken to respect well-established practices such as the fiscal residency of nationals who may have legitimate reasons to pay part or all of their taxes in other foreign jurisdictions, such as the countries of their normal residence.

Conclusion

Even by the standards of comparable extractive-dependent economies, Nigeria's tax receipt from its nearly half-a-trillion-dollar economy is strikingly low. Yet the experience of reformers like South Africa, where the revenue service led the modernisation of tax administration and significantly grew tax revenue, may point a way forward for Nigeria and others.

Mandatory registration of all workers by employers is one of the highly successful changes that countries desiring a more robust and simplified tax administration should consider. However, Nigeria's special circumstances, including a development trajectory that gave birth to a relatively strong state on the back of oil revenues while not translating into greater state capability in many areas, is one of the contextual nuances to be better understood and addressed in such a tax reform effort.

Essentially, the path to resolving Nigeria's governance conundrum may lie in successfully addressing serious defects in its tax system, bolstering effective taxation over all significant economic activities, and greater official accountability to the public in issues such as tax administration. The corollary of this is the necessity of the political will to tap tax revenue in the face of the oil price fall, and bottom-up pressures for democratic accountability by citizens who also will embrace their tax obligations. This will require both the will and targeted actions to improve the weak to non-existent culture of tax compliance, and the government's effort to improve policies, regulations and institutions related to taxation.

CHAPTER FIVE – FINDINGS AND RECOMMENDATIONS

This study examines the strategic steps to improving tax administration in Lagos and Nigeria as a whole to promote the twin goals of revenue mobilisation and good governance as the cornerstones of sustainable development.

Tax issues in Nigeria have gained new prominence in recent years because of the falling crude oil prices; the focus of development policies has increasingly shifted to taxation.

This study argues that while tax reforms have been ongoing for more than a decade in Lagos and Nigeria, collection performance hasn't reflected the level of efforts and resources put into the reforms. This study must therefore look beyond the technical issues such as tax rates, tax rules and income distribution. Rather the focus is on tax administration and the underlying transparency, policy stability, predictability and tax authority's relationship with society. The study to that extent examined the interconnection between tax and governance.

5.1 Instruments for data collection

A total of 20 questionnaires were administered to 17 organisations, out of which 12 were properly completed and returned (Annex A). Three caveats should be noted about the administration of the questionnaire and the findings. First, the sample is selective and the information generally reflects the individual views of the respondents drawing on their personal knowledge. Second, most of the questions are open-ended to encourage the respondents to provide full, meaningful responses based on their knowledge and/or feelings. Finally, respondents were promised confidentiality to elicit their candid views. The report does not, therefore, identify the sources of qualitative opinions.

Questionnaires were sent to representatives from 17 organisations – five business membership organisations (BMOs), four government agencies (involved in tax administration and tax policy) at the federal and state levels, one non-governmental organisation (the Tax Justice Network), one professional body (Chartered Institute of Taxation), four professional practice/consulting firms (listed in annex), one academia (University of Lagos) and one bilateral agency.

The questionnaires were sent in advance and followed up by phone calls and emails to set up meetings for the interviews. In the end, 10 interviews were completed, using the questionnaire as a framework for discussion. Two respondents opted to return the questionnaires by email while no response was received from five organisations. The full questionnaires are attached as Annexes B and C. The data was analysed using tables and simple percentages. This was used to ascertain the correlation between the variables of interest.

The survey asked respondents for information in three areas:

- The government's involvement in supporting tax systems.
- Taxation and governance.
- Tax administration.

The tax administration area was specifically meant for the tax administration and tax policy officials.

5.2 Government involvement in supporting tax systems

The first module sought approximate information on the priority of developing effective tax systems by the government at the federal level and in Lagos State. All respondents were uniform in rating tax systems as a high and long-standing priority in Lagos State. However, in the case of the federal government, 11 respondents rated the tax system as a high priority, but a recent development. Only one respondent still regards revenue mobilisation as a moderate but growing priority at the federal level.

On the question of what the government is doing to increase its support on tax systems, the representatives responded as follows:

At the federal level:

- Audit, improved ICT framework and use of consultants for capacity enhancement but not collection.
- Organising discussions with stakeholders.
- Review of existing national tax policy (NTP) document and putting in place a process for reviewing tax laws.

At the state level:

- Liaising with professional associations such as the Institute of Chartered Accountants of Nigeria (ICAN) and the Chartered Institute of Taxation (CITN) and business membership organisations (BMOs).
- Simplification of the State Internal Revenue Service (SIRS) Tax Form A and translating it into pidgin English and Yoruba for ease of completion.
- Establishment of additional tax stations and call centres.
- Establishment of multi-modal payment portals.

5.3 Areas of focus of government

Turning to areas of focus of government in improving tax administration, the questionnaire offered a menu of 11 options. The responses are summarised in Table 5.1.

FIGURE 5.1: AREAS OF FOCUS OF GOVERNMENT

	Variable	No. of respondents rating this item as none/ negligible (1) or some involvement (2)	No of respondents rating this item as often involved (3) or major focus (4)	Total
1	Comprehensive Tax Reform Programme	5	7	12
2	Tax Policy/ Law	8	4	12
3	Tax Administration Process Re-engineering	5	7	12
4	Tax Admin Organisation Reform	7	5	12
5	Information System/ E-taxation	8	4	12
6	Taxpayer Services/ Public Information	10	2	12
7	Accountability Anti-corruption	6	6	12
8	Judicial reform/ strengthening	3	9	12
9	Fiduciary Oversight (National/ State Assembly)	4	8	12
10	Strengthening stakeholder or media organisation	8	3	12
11	Revenue Monitoring	9	3	12

Source: Author's analysis of results of survey

This module solicited information from respondents on the level of involvement of government at the federal and state levels on 11 variables ranging from comprehensive tax reforms to revenue monitoring.

Seven respondents rated government involvement in comprehensive tax reforms and tax administration re-engineering as a major focus or some involvement. Nine respondents rated judicial reform/strengthening and fiduciary oversight as either a “major focus” or “often involved”.

These responses show that there must be other governance issues affecting tax administration if despite the reforms and tax administration re-engineering, the tax-to-GDP ratio is still low compared to other jurisdictions in sub-Saharan Africa. The responses also show that the government's level of involvement in supporting tax systems is either negligible or some involvement in the areas of information systems/e-taxation; taxpayer services/public information; strengthening stakeholder or media organisation; revenue monitoring; and tax policy/law reforms.

> "Strengthening the accountability of government AT ALL LEVELS AND improving transparency in the budget process; WHILST reducing corruption beyond the revenue agencies IS ALSO KEY. SIMILARLY, improving public-private dialogue; strengthening National/State Assembly oversight of revenue performances; AND strengthening the monitoring AND audit PROCESSES WITH FULL civil AND WIDER SOCIAL PARTICIPATION."

5.4 Taxation and governance

The second module solicited information on links between revenue mobilisation and governance. A theme that emerged consistently in the interviews is that the tax reforms would lead to improvements in governance, which would in turn result in improved tax revenues and sustainable economic growth.

Respondents were asked to rate 12 specific links between revenue mobilisation and governance as either negligible (1), some effect (2), substantial effect (3) or strong effect (4). As shown in Table 5.2, at least seven respondents rated the following variables as either 3 or 4: strengthening the accountability of the federal/state government; strengthening federal/state government responsiveness; improving transparency in the budget process; reducing corruption beyond the revenue agencies; improving public-private dialogue; strengthening National/State Assembly oversight of revenue performances; strengthening the monitoring of revenue by the Ministry of Finance; strengthening the audit of revenue collection; strengthening representation of civil society and business associations; strengthening media coverage of revenue issues; and improving business activities. The strongest correlations were recorded in: strengthening accountability of the federal/state government; improving transparency in the budget process; reducing corruption beyond the revenue agencies; strengthening the audit of revenues; and strengthening representation, civil society, and business associations.

FIGURE 5.2: TAXATION AND GOVERNANCE

	Variable	No. of respondents rating this item as negligible (1) or some effect (2)	No of respondents rating this item as substantial (3) or strong effect (4)	Total
1	Strengthening the accountability of the federal/ state government	5	7	12
2	Strengthening federal state government responsiveness	6	6	12
3	Improving transparency in the budget process	4	8	12
4	Model for modernising IT systems in other government agencies	6	6	12
5	Reducing corruption, beyond the revenue agencies	4	8	12
6	Improving public-private dialogue on economic issues	5	7	12
7	Strengthening National/ State Assembly oversight of revenue performances	4	8	12
8	Strengthening the monitoring of revenue by the Ministry of Finance	2	10	12
9	Strengthening of the audit of revenue collection	2	10	12
10	Strengthening representation, civil society and business associations	4	8	12
11	Strengthening media coverage of revenue issues	4	8	12
12	Improving business activities	5	7	12

Source: Author's analysis of results of survey

Respondents were further requested to comment on the variables, which should be the top priority for the government. More than half of the respondents repeatedly cited "strengthening the accountability of the federal/state government" as the top priority variable. Two respondents each cited "reducing corruption beyond the revenue agencies" and "improving business activities" as the top priority for the government.

5.5 Other governance issues

Two governance issues highlighted during the interviews with respondents were the problem of getting elites to pay fair taxes and the problem of incentives and waivers. Respondents were requested to comment on how the problems could be properly managed. Most respondents commented that a strong "political will" to drive the tax system coupled with effective synergy between the relevant ministries, departments and agencies (MDAs) was needed.

Other responses were as follows:

- Establish a viable enforcement mechanism that guarantees fair, equitable and strict compliance with the provision of the relevant tax laws.
- Incentives and waivers should be constructively applied to aid economic growth and develop targeted sectors of the economy.
- If the tax laws are applied without favouritism, elites will pay the appropriate taxes.
- Review the incentive regime to make it more efficacious.
- There is no concerted effort to rein in non-tax-compliant elites. Rather they are celebrated and rewarded with appointment to prominent public positions.
- No timelines and accountability for incentives and waivers.

5.6 Strategic government priorities for governance-driven tax reforms

To corroborate the information obtained in modules 1 and 2, respondents were requested to comment on the extent to which they disagree or agree with some statements. They were requested to rate 1 for strongly disagree, 2 for disagree, 3 for agree and 4 for strongly agree. Seven options were presented in the menu.

FIGURE 5.3: GOVERNMENT PRIORITIES FOR GOVERNANCE-DRIVEN TAX REFORMS

	Variable	No. of respondents rating this item as strongly disagree (1) or disagree (2)	No of respondents rating this item as agree (3) or strongly agree (4)	Total
1	Government focus has been on revenue collection rather than business promotion	3	9	12
2	Tax amnesty is an incentive for non-compliant taxpayers to register or remit unpaid taxes	2	10	12
3	Nigeria's tax system is too complicated to allow for voluntary compliance by taxpayers	6	6	12
4	Insufficient information available to taxpayers on tax compliance requirements creates uncertainty and room for leakages	0	12	12
5	Most taxpayers evade tax due to conflicts between tax law provisions and administrative regulations/ practices	7	5	12
6	Most taxable persons do not have a Taxpayer Identification Number (TIN)	6	6	12
7	The prompt completion of the TIN registration will improve tax revenues	1	11	12

Source: Author's analysis of results of survey

“ The quality of the tax system – both tax policy and tax administration – is itself a central pillar for nation-building and good governance. Addressing links between taxation and governance also requires working with institutions outside the revenue system, including the Judiciary and the National and State Parliaments. ”

Table 5.3 further corroborates the areas that the government should focus on to improve tax administration. Nine respondents agreed that government focus had been on revenue collection rather than business promotion.

A respondent said: "Focus has been on increasing tax collection and the so-called collection has been achieved by coercion rather than voluntary compliance."

Ten respondents agreed that tax amnesty was an incentive for non-compliant taxpayers to register and/or remit unpaid taxes. All the respondents were unequivocal in stating that insufficient information available to taxpayers on tax compliance requirements created uncertainty and room for leakages. Also, almost all the respondents agreed that the prompt completion of the Taxpayer Identification Number project would improve tax revenue collections. A statement that most of the respondents disagreed with is that most taxpayers evade tax due to conflicts between tax law provisions and administrative regulations/practices.

5.7 Politicisation of tax administration

Finally, respondents were requested to comment on the politicisation of the tax administration. Ten respondents commented that tax administration was politicised if the head of tax administration was a political appointee.

5.8 Summary of findings

The study examined tax administration and collection in Lagos and Nigeria through a desk review of available literature and questionnaires selectively administered to business membership organisations, tax administration and tax policy agencies, professional bodies and tax practitioners. Many of the questions were aimed at finding out the extent of the government's support to tax systems, and the links between taxation and governance. The principal findings are as follows:

1. Even though tax reforms have been ongoing since 2004, taxation was not a top priority for the federal government; but it has now become a top concern against the backdrop of falling oil prices. In Lagos State, taxation has been a priority since 1999.

2. Governments at the federal and state levels have been involved in tax reforms since 2004 and 1999 respectively. Despite the reforms, there is still a huge tax gap at both federal and state levels.

3. Efforts to mobilise revenue and widen the tax net depend not only on tax reforms but on broader governance reforms that influence citizens' perception of the quality of governance, which in turn can influence them and shape their attitude to see tax payment as representing value for money.

4. There is a strong correlation between tax administration and government transparency and accountability in the use of taxpayers' money.

5. Insufficient information available to taxpayers on tax compliance requirements creates uncertainty and room for leakages.

6. The quality of the tax system – both tax policy and tax administration – is itself a central pillar for nation-building and good governance. Addressing links between taxation and governance also

requires working with institutions outside the revenue system, including the Judiciary and the National and State Parliaments.

7. The objective of the tax system is not just to raise revenues but also to establish a tax system that is fair, equitable and efficient while promoting business activities.

8. Institutional arrangements for the tax administration including staffing, remuneration and capacity of the staff have direct effects on the performance of the tax administration.

9. The number of registered taxpayers has a direct correlation with the amount of personal income tax collection.

10. The TIN registration process has been very slow and this negatively impacted tax collection, especially personal income tax (PIT).

1.9 Concluding remarks and recommendations

Even though paying taxes is a primary civic obligation, the level of compliance remains low in Nigeria. Tax compliance in Nigeria can best be characterised as "quasi-voluntary" compliance. The low level of tax compliance can be attributed to several factors.

Achieving tax compliance requires astute management as well as cultivating an environment of trust between the government (as represented by the Ministry of Finance, the tax authorities and other governmental stakeholders) and the taxpayers.

Taxation and good governance are "two sides of a coin". Taxation engenders good governance. In the same way, without good governance, the essence of taxation is defeated. Each has a responsibility that must be fulfilled for the relationship to hold. The literature, as well as the findings, of this study suggests that to a large extent, a tax administration gets the taxpayers it deserves. This implies that the attitude of taxpayers is a reflection of how the government – including the tax authorities – treats citizens and the broader questions around governance. This study has proven that improvement in the government's accountability and transparency in the administration and use of taxes will improve the compliance rate of taxpayers.

In light of the above, the following strategies are recommended to address the challenges of tax administration in Lagos State and Nigeria:

A. The political leadership should as a matter of concern give direction on the comprehensive reform of the Nigerian tax system. The reforms should begin with the prompt implementation of the national tax policy document, review of all the tax laws including simplification and a complete reform of the revenue agencies.

b. Analyses in this study have shown that political legitimacy helps to strengthen the fiscal legitimacy and improve tax compliance. The Constitution of the Federal Republic of Nigeria, being the Grundnorm, should be amended to promote fiscal federalism and properly define the taxing powers of the federal, state and local governments. This is one of the ways that multiplicity of taxes can be eradicated.

c. The governments at the federal and state levels should become more transparent in their transactions, from the budget process to the publication of all revenues and expenditure.

d. The Ministry of Finance should be empowered to regularly monitor revenue-generating agencies.

e. The office of the auditor-general should carry out annual audits of revenue-generating agencies and reports should be promptly published.

f. The oversight functions of Parliament should be strengthened.

g. Tax administrations should establish effective taxpayer services, embark on massive education of the taxpayer on compliance requirements and strengthen broader stakeholder outreach, including to the CITN, as well as other forums all over the federation that can play key supportive roles.

h. Tax administrations should organise taxpayers' appreciation programmes as a way of acknowledging and expressing appreciation of the role of taxpayers in Nigeria's (and states') economic development. In this regard, a national taxpayers' day should be declared annually.

i. Tax administrations should recognise, uphold and protect taxpayers' rights.

j. The government should grant amnesty to non-compliant taxpayers to bring them into the tax net. The framework should be worked out, approved by the Federal/State Executive Council and ratified by the National or State Assemblies.

k. The Nigeria Customs Service and Federal Inland Revenue Service should be merged to become one Revenue Authority. This would enhance revenue collection, exchange of information and reduction of revenue leakages.

l. Tax administrations should be adequately staffed, trained and competitively remunerated.

m. Tax administrations should reduce corruption among tax officers within the tax system.

n. The Integrated Tax Administration System embarked on by the FIRS some years ago should be promptly completed to enable taxpayers to file their returns and make payments without the intervention of tax officers. This would reduce the level of the human interface between the taxpayer and tax officials and consequently reduce the rate of corruption among tax officials.

o. To halt the erosion of the tax base by large profit-shifting companies, the government should begin to implement the "actions" from the OECD's BEPS Action Plan.

p. The analysis of the composition of tax revenues in this study shows that VAT has performed very poorly. Apart from the low VAT rate in Nigeria, one of the reasons for its poor performance is the inefficiency of the tax systems. One reason for such inefficiency is the absence of VAT thresholds. The government should set VAT thresholds such that not all companies will be required to register for VAT. This will also reduce the cost of VAT administration.

Q. While governments (federal and state) through the Ministry of Finance and the Tax Authority seek to maximise domestic revenue mobilisation, the potential of micro, small and medium enterprises should not be overlooked. A framework should be developed for taxing MSMEs, which currently account for 48.47% of GDP.

r. The importance of data in tax administration cannot be over-emphasised. The government should make concerted efforts to complete the TIN project.

s. All employers should be compelled to register all employees (housemaids, nannies, cleaners, drivers, cooks etc) as taxpayers regardless of their tax liability.

t. All artisans should be registered as taxpayers through their trade unions and associations.

1.10 Recommendations for future research

The focus of this study is the nexus between taxation and governance. The findings and recommendations point to directions for further research. Some key areas are:

- More systematic testing of taxation and governance variables.
- Taxing the informal sector in Nigeria.
- Survey of taxpayers' morale and its effect on tax compliance in Nigeria.

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ANNEX A - LIST OF ORGANISATIONS THAT PROVIDED INFORMATION FOR THE STUDY

Chartered Institute of Taxation of Nigeria (CITN)
Federal Inland Revenue Service (FIRS)
Federal Ministry of Finance (FMF)
GEMS 3 funded by United Kingdom – Department for International Development (DFID)
Joint Tax Board (JTB)
Lagos Chamber of Commerce and Industry (LCCI)
Lagos State Internal Revenue Service (LIRS)
Manufacturers Association of Nigeria (MAN)
Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA)
Nigeria Employers' Consultative Association (NECA)
Preston Consult Limited
PricewaterhouseCoopers (PwC)

ANNEX B - QUESTIONNAIRE ON IMPROVING TAX ADMINISTRATIONS IN LAGOS STATE AND NIGERIA AS A WHOLE

Survey questionnaire

The questionnaire is part of a study on Improving Tax Administration in Lagos and Nigeria, which is being conducted on behalf of Good Governance Africa-Nigeria. Good Governance Africa (GGA) is a research and advocacy organisation based in Africa that works to improve government performance on the continent. In February 2012, GGA opened its first centre in Johannesburg, South Africa. In November 2015, GGA's Lagos office was opened.

The purpose of the study is to identify strategic steps to be taken to improve tax administration in Lagos and indeed Nigeria as a whole, including effective collection and efficient use of tax revenues.

To this end, we seek your assistance in responding to the questionnaire and providing information on the following tax administration issues.

The information provided will be a major source of evidence to be used by GGA-Nigeria to contribute to good governance, through research, policy engagement and other such activities that help promote sustainable socio-economic development in Africa's largest economy and most populous country.

Please be assured that responses will be fully confidential. We will contact you by email or phone to arrange a suitable date and time.

Yours sincerely,
Andrew N. Onyeanakwe
Managing Director/CEO
Kandyson & Associates
Financial Management Consultants
aonyeanakwe@yahoo.com
+2348033138503

Survey questionnaire on improvement of tax administration in Nigeria:

1. Contact information:

   Organisation: ______________________________
   Name: ______________________________
   Title: ______________________________
   Phone: ______________________________
   Email: ______________________________

Section A: Government involvement in supporting tax systems

2. Within the overall scope of Nigeria's development agenda today:

   a. How would you rate the priority of concern with the development of tax systems at both federal and state levels? Please note that state refers to Lagos State.

   High priority ☐
   Moderate concern ☐
   Low priority ☐

   Comments:

   b. If taxation is a high or moderate priority, is this a relatively recent development or a long-standing priority?

   c. What is the government doing to increase its support for tax improvement programmes especially with the shortfall in oil revenues? Please explain briefly.

3. How do you rate each of the following areas of focus in terms of government involvement to improve tax administration? Please rate each option on an ascending scale where: 1 = none/negligible; 2 = some involvement; 3 = often involved; 4 = major focus.

	1	**2**	**3**	**4**
a. Comprehensive tax reform programme.	☐	☐	☐	☐
b. Tax policy/tax law.	☐	☐	☐	☐
c. Tax administration process re-engineering.	☐	☐	☐	☐
d. Tax administration organisational reform.	☐	☐	☐	☐
e. Information systems/e-taxation.	☐	☐	☐	☐
f. Taxpayer services/public information .	☐	☐	☐	☐

	1	2	3	4
g. Accountability/anti-corruption.	☐	☐	☐	☐
h. Judicial reform/strengthening.	☐	☐	☐	☐
I. Fiduciary oversight (National/State Assembly, Federal/State audit).	☐	☐	☐	☐
j. Strengthening stakeholder or media organisations.	☐	☐	☐	☐
k. Revenue monitoring by the Ministry of Finance.	☐	☐	☐	☐
l. Other areas of focus? Please specify.	☐	☐	☐	☐

Section B: Taxation and governance

4. There is increasing awareness of links between strengthening revenue mobilisation and improving governance. In your opinion, how significant in practice are the following governance dividends from tax improvement programmes? Please rate each option on an ascending scale, where: 1 = negligible; 2 = some effect; 3 = substantial effect; 4 = strong effect.

a. Strengthening the accountability of the federal/state government.	☐	☐	☐	☐
b. Strengthening federal/state government responsiveness.	☐	☐	☐	☐
c. Improving transparency in the budget process.	☐	☐	☐	☐
d. Model for modernising IT systems in other government agencies.	☐	☐	☐	☐
e. Reducing corruption, beyond the revenue agencies.	☐	☐	☐	☐
f. Improving public-private dialogue on economic issues.	☐	☐	☐	☐
g. Strengthening National/State Assembly oversight of revenue performances.	☐	☐	☐	☐
h. Strengthening the monitoring of revenue by Ministry of Finance.	☐	☐	☐	☐
I. Strengthening of the audit of revenue collection.	☐	☐	☐	☐

	1	2	3	4
j. Strengthening representation, civil society and business associations.	☐	☐	☐	☐
k. Strengthening media coverage of revenue issues.	☐	☐	☐	☐
l. Improving business activities.	☐	☐	☐	☐
m. Other? Please specify.	☐	☐	☐	☐

5. In your view, which of the possible governance dividends listed above should be top priority in terms of potential impact to strengthen tax systems?

6. There are two major tax issues that are strongly linked to governance:

   a. The problem of getting elites to pay taxes fairly.

   b. The problem of incentives and waivers.

   In your view, how can these problems be properly managed? Explain briefly.

7. To what extent do you agree with the following statements? Please rate each option on an ascending scale, where: 1 = strongly disagree and 4 = strongly agree.

a. Government focus has been on revenue collection rather than business promotion.	☐	☐	☐	☐
b. Tax amnesty is an incentive for non-compliant taxpayers to register or remit unpaid taxes.	☐	☐	☐	☐
c. Nigeria's tax system is too complicated to allow for voluntary compliance by taxpayers.	☐	☐	☐	☐
d. Insufficient information available to taxpayers on tax compliance requirements creates uncertainty and room for leakages.	☐	☐	☐	☐
e. Most taxpayers evade tax due to conflicts between tax law provisions and administrative regulations/practices.	☐	☐	☐	☐
f. Most taxable persons do have a Taxpayer Identification Number (TIN)	☐	☐	☐	☐
g. The prompt completion of the TIN registration will improve tax revenue Collections.	☐	☐	☐	☐

8. In your view, how do you assess the stability of the Nigerian tax system?	☐	☐	☐	☐

Please rate in an ascending order where: 1 = Frequent changes and 4 = Highly stable.

9. What is your perception regarding the integrity, efficiency and effectiveness of tax administration in Nigeria? Please explain briefly.

10. To what extent is tax administration politicised? Please rate each option on an ascending scale, where: 1 = False; 2 = Fairly true; 3 = Substantially true; 4 = Very true.

a.	The head of the tax administration is a political appointee.	☐	☐	☐	☐
b.	Senior management positions are political positions.	☐	☐	☐	☐
c.	Political interference in individual tax assessment cases.	☐	☐	☐	☐
d.	Political interference in enforcement cases.	☐	☐	☐	☐
e.	Due to political interference whole industry/sectors cannot be taxed properly.	☐	☐	☐	☐
f.	The tax administration faces problems in collecting taxes from businesses owned or protected by politicians.	☐	☐	☐	☐
g.	Others (comment briefly).	☐	☐	☐	☐

Section C: Tax administration

11. Is there a significant level of autonomy granted by the law to the tax administration, especially in terms of budget management, organisation structure, planning, human resources policies, management information systems and systems?

12. What is the main criterion according to which tax administration is organised?
    a. Type of taxes administered.
    b. Functional.
    c. Taxpayer segments.

13. How many offices does the tax administration (federal) have both at national and state levels? For Lagos State at state and local government levels?

14. Does the organisational structure of tax administration provide for the decentralisation of responsibilities and sufficient flexibility, so that decisions concerning taxpayers can be made at the most appropriate level?

15. Is there any mechanism in place to ensure coordination within and between organisational units both in HQ and regional/local offices as well as between the HQ and regional/local offices?

16. Is the tax administration going through a tax administration modernisation or reform process? If YES, when did the reform start, at what stage is it now and how is the reform process funded?

17. Please provide the following information about total net tax revenue collected by the tax administration:

TABLE 1: TOTAL NET TAX REVENUE COLLECTED AS A PERCENTAGE OF GDP BY TYPE OF TAX

Type of Tax	Year 2015		Year 2014		Year 2013	
	Amount	% GDP	Amount	% GDP	Amount	% GDP
Income Tax						
Companies Income Tax (CIT)						
Personal Income Tax (PIT)						
Value Added Tax (VAT)						
Property Tax						
Consumption Tax						
Capital Gains Tax						
Other Taxes (Make a List)						
Total Tax Revenues						

18. If tax revenues have not been stable in recent years, in your opinion what are the reasons?

19. In your opinion, do you think realistic revenue targets are set for the tax administration? Please explain briefly.

20. What is the current annual budget of the tax administration in absolute terms and as a percentage of tax collection?

21. Is the given budget sufficient to ensure the efficient implementation of its policies and achievement of its objectives?

22. Is the tax administration permitted to retain any part of its collection ie a percentage collection exceeding its revenue targets for its own purposes?

23. How many total employees does the tax administration have?
   a. How many are professional staff?
   b. How many are tax auditors?
   C. How many people work in the collection/enforcement department?

24. Please provide the following information:

TABLE 2: TAX ADMINISTRATION'S OPERATING COSTS

Type of Expenditure	Year 2015	Year 2014	Year 2013
Wages and Salaries			
Goods and Services			
Other Current Expenditure			
Capital Expenditure			
Total Expenditure			
Total Gross Revenues Collected			
Total Net Revenue Collected			
Tax Collection Ratio (Total expenditure/ total net revenue collected)			

25. a. How many registered taxpayers do you have from the record of Taxpayer Identification Numbers (TIN)?
   b. How many active taxpayers do you have?
   c. Is the taxpayer registry computerised? If YES, what percent of taxpayers are in the computer registry?
   d. Is the corporate taxpayer registration linked (real time) to the Corporate Affairs Commission?

26. What taxpayer attributes are stored in the registry?
   Please mark the appropriate ones:
   Date of formation ☐
   Entity type ☐
   Economic activity ☐
   Other key attributes: please enumerate

27. Are there electronic forms on the tax administration website to facilitate taxpayers complying with their registration obligations?

28. Does the tax administration periodically update the taxpayer register? What is the frequency of this process?

29. Does the tax administration routinely and systematically carry out checks to detect and bring unregistered taxpayers into the tax net?

30. Please provide the following information:

TABLE 3: NUMBER OF TAXPAYERS REGISTERED BY SIZE

Taxpayers by type of tax	Number of active large taxpayers	Total number of large taxpayers registered	Number of active medium-sized taxpayers	Total number of medium-sized taxpayers registered	Number of active small taxpayers	Total number of small taxpayers registered
Personal Income Tax - PAYE - Individual taxpayers - Professionals - Self-employed						
Enterprises subject to corporate income tax						
VAT taxpayers						
Others						
Total Number						

TABLE 4: TIME TO PROCESS TAX RETURNS IN 2015

Type of tax return	Number of tax returns processed in less than 1 week	Number of tax returns processed between 1 week and 1 month	Number of tax returns processed in more than 1 month
PIT			
CIT			
VAT			
Others			

TABLE 5: NUMBER OF TAX RETURNS BY MEANS OF PRESENTATION IN 2015

Type of tax return	Electronically	Diskette	Paper	Others (Specify)
PIT				
CIT				
VAT				
Others				

TABLE 6: AMOUNT OF TAX REVENUE BY MEANS OF PAYMENT IN 2015

Type of tax return	Paid Electronically	Bank Payment	Paid at the tax offices	Others (Specify)
PIT				
CIT				
VAT				
Others				

TABLE 7: REFUNDS MANAGEMENT IN 2015

	PIT Refund Claim	CIT Refund Claim	VAT Refund
Initial Stock - Number - Amount			
Refund claims received - Number - Amount			
Refund issued - Number - Amount			
Claims rejected due to verification/ audit procedures - Number - Amount			

	PIT Refund Claim	CIT Refund Claim	VAT Refund
Claims partially reduced to verification/ audit procedures - Number - Amount			
Total stock at year-end - Number - Amount			

31. Are commercial banks allowed to collect tax payments? If YES, what are their responsibilities and how are they remunerated?

32. Is there a dedicated unit within the tax administration to monitor banks' compliance with their contractual obligations?

33. Does a sanction regime exist in case of non-compliance with those contractual obligations?

34. Are taxpayers able to submit tax returns electronically?

35. Are taxpayers able to make electronic payments?

36. How many calendar days does it take to process a tax clearance certificate (TTC)?

37. Are systems and procedures in place to detect non-filers, stop filers and delinquent taxpayers?

38. Does tax administration leverage on third party information sources? Please explain sources briefly.

39. Has the tax administration set up a one-stop office to assist taxpayers in meeting their tax obligations?

40. Has the tax administration created an e-tax office?

41. Is there a taxpayer education programme in place? Please explain briefly.

42. Does the tax administration conduct on a regular basis taxpayer satisfaction surveys?

43. Briefly explain the tax administration audit process.

44. Please complete the following table:

TABLE 8: AUDIT RESULTS BY TYPE OF AUDIT - TAX YEAR 2015

Type of audit	LARGE TAXPAYERS				OTHER TAXPAYERS			
	No.	TAA	Cov.*	AP**	No.	TAA	Cov.*	AP**
Desk audits								
Verification Activities								
"Mass audits"								
Single Issue Audits								
Full (Comprehensive) Audits								
VAT refunds audits								
PIT and CIT refunds audits								
Tax Fraud Investigations								
Total								

No. - Number TAA - Total Amount Adjusted Cov.* - Coverage* AP** - Audit Productivity**

TABLE 9: TOTAL AMOUNT OF TAX ARREARS

Type of tax	Total number of tax debts and debtors at year-end					
	Year 2015		Year 2014		Year 2013	
	Total Amount	Number of Debtors	Total Amount	Number of Debtors	Total Amount	Number of Debtors
Personal income tax						
Corporate income tax						
VAT						
Other Taxes						
Total						
Total net tax revenue collected by the tax administration in that year						
Stock of tax arrears against total net tax revenue						

45. Please complete the following table on tax arrears management:

TABLE 10: AGE OF TAX ARREARS

Age of tax arrears	Total number of tax debts and debtors at year-end					
	Year 2015		Year 2014		Year 2013	
	Total Amount	Number of Debtors	Total Amount	Number of Debtors	Total Amount	Number of Debtors
Up to 6 months overdue						
6-12 months overdue						
1-2 years overdue						
More than 2 years overdue						
Total						

46. Please complete the following table:47. What is the average time to resolve a tax dispute?

TABLE 11: TAXPAYER SEGMENTS AND THEIR CONTRIBUTION TO TOTAL REVENUE COLLECTED (1)

Taxpayer Segment	Year 2015	Year 2014	Year 2013
Number of active large taxpayers			
Total revenue collected from large taxpayers			
Number of active medium-size taxpayers			
Total revenue collected from medium-size taxpayers			
Number of active small taxpayers			
Total revenue collected from small taxpayers			
Large taxpayer revenue/ total revenue (%)			
Medium-size taxpayer revenue/ total revenue (%)			
Small taxpayer revenue/total revenue (%)			

47. What is the average time to resolve a tax dispute?

48. Briefly explain the tax dispute resolution process?

ANNEX C - QUESTIONNAIRE ON IMPROVING TAX ADMINISTRATIONS IN LAGOS STATE

Survey questionnaire

The questionnaire is part of a study on Improving Tax Administration in Lagos and Nigeria, which is being conducted on behalf of Good Governance Africa-Nigeria. Good Governance Africa (GGA) is a research and advocacy organisation based in Africa that works to improve government performance on the continent. In February 2012, GGA opened its first centre in Johannesburg, South Africa. In November 2015, GGA's Lagos office was opened.

The purpose of the study is to identify strategic steps to be taken to improve tax administration in Lagos and indeed Nigeria as a whole, including effective collection and efficient use of tax revenues.

To this end, we seek your assistance in responding to the questionnaire and providing information on the following tax administration issues.

The information provided will be a major source of evidence to be used by GGA-Nigeria to contribute to good governance, through research, policy engagement and other such activities that help promote sustainable socio-economic development in Africa's largest economy and most populous country.

Please be assured that responses will be fully confidential. We will contact you by email or phone to arrange a suitable date and time.

Yours sincerely,
Andrew N Onyeanakwe
Managing Director/CEO
Kandyson & Associates
Financial Management Consultants
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SEGMENT 1: LAGOS STATE'S

	2011	2012	2013	2014	2015	Aggregate
1. Gross IGR						
2. Tax Revenue						
2.1. Other Taxes						
2.2. Pay as you earn						
2.3. Withholding Tax						
2.4. Sales Tax						
2.5. Property Tax						
2.6. Capital Gains Tax						
3. Non-tax IGR						
3.1. Earnings and sales						
3.2. Fines and fees						
3.3. Interest repayments and dividends						
3.4. Licences						
3.5. Rent on government property						
4. Miscellaneous IGR						
4.1. Miscellaneous (recurrent rev)						
4.2. Internal sources						
5. Any other (please specify)						

SEGMENT 2: EXECUTIVE, LEGISLATIVE AND LEGAL FRAMEWORK FOR TAX ADMINISTRATION

6.	When last was the state tax law reviewed, updated or re-enacted? *Note: Response to this should be limited to the State House of Assembly (HoA) review and not executive review. If there is a bill before the State HoA, this should be stated.*
7.	Is there an executive body responsible for discussing tax policy and outcomes on a regular basis?

8.	How often does the executive body meet and who chairs it? (This aims to understand the level of executive commitment to tax policy repositioning.)
9.	Any new policy pronouncements from them in the past six months?
10.	Is the body responsible for formulation of policies?
11.	Is the BIR autonomous?
12.	How many offices does the IRS have in the state?
13.	To whom does the IRS report?
14.	How regularly does the IRS submit a written report to such a supervisory agency?
15.	What proportion of IRS employees are tax professionals? (Only certified tax specialists with accounting, economics or legal backgrounds are counted in this group.)
16.	Any capacity-building programme for the IRS in the past six months?
17.	In what form was the capacity building (e.g workshops, specialised training, etc)?
18.	Has the state enacted and implemented any law to support property taxes?
19.	When was the law enacted and/or implemented?
20.	Has the state enacted and implemented consumption and/or sales tax law?
21.	When was the law enacted and/or implemented?
22.	Any other new tax item that has been added to the list of taxes in the past two years? (Discuss all such taxes and why they were introduced.)
	Note: For each of the above, discuss any bills that may be in the State HoA and challenges facing their enactment and/or implementation.
23.	New measures: Any new institutional procedures enacted or instituted within the past year to propel good tax administration?
24.	Which bodies/agencies are involved in the new measure?
25.	Any new law enacted or amendment made to existing laws by the State House of Assembly or specific pronouncements by the executive governor in the area of tax administration?
26.	Please list all such laws and pronouncements: • .... • ....

27.	Specific outcomes: Is there any observed outcome from any of these measures? Please link each outcome to a measure taken. • .... • .... • .... *E.g total collection of a specific tax item or group of tax items went up by ?% over the past year on account of this move by the legislature or executive; or a specific change in procedures that occurred because of such pronouncements. Please be specific.*

SEGMENT 3: TAX ADMINISTRATION PROCESSES

3.1. TAX DATABASE

28.	Is there a database that covers the informal sector?
29.	How recently was this developed/updated?
30.	Does the IRS use it for locating firms for tax payment?
31.	Has the state adopted the national TIN number system? If yes, what proportion of the taxpaying public has been issued with this TIN?

3.2. PROCEDURES FOR ASSESSMENT

32.	Is this exclusively done by the IRS or is the taxpayer part of the process?
33.	If the taxpayer is part of the process, how does he participate?
34.	How does self-assessment operate in practice in the state?
35.	Are there provisions in practice for objections where a taxpayer feels he is unfairly assessed?
36.	Please describe such provisions.
37.	Does the state operate an e-filing system?
38.	If yes, when was it instituted and who manages it?
39.	Describe other new processes on tax database or assessment procedures instituted within the past year to propel tax administration.
40.	Which bodies/agencies are involved in the new measure?

41.	Is there any observed specific outcome from any of these measures? Please link each outcome to a measure taken. • .... • .... • ....

3.3. COLLECTION PROCEDURES

42.	Is there a central payment platform for taxes in the state?
43.	If yes, describe how it works.
44.	Is the platform automated and online/real time?
45.	Does the IRS use agents/tax consultants different from IRS employees to collect taxes?
46.	If yes, give details of the agents and the taxes they collect.
47.	List the MDAs responsible for other non-tax revenues, the specific revenues they collect and who collects them (whether they collect directly or engage agents to collect for them). 1. MDA .... Revenue item collected: Group responsible for collection (tick as appropriate): Ministry staff [ ] External agent [ ] Other [ ] 2. MDA.. Revenue item collected: Group responsible for collection (tick as appropriate): Ministry staff [ ] External agent [ ] Other [ ] 3. MDA.................................... Revenue item collected: Group responsible for collection (tick as appropriate): Ministry staff [ ] External agent [ ] Other [ ] (Please use extra sheet if the space is not enough for the enumeration of all MDAs involved in revenue collection.)
48.	New measures: Describe any new measures instituted on tax collection within the past year.
49.	Which bodies/agencies are involved in the new measures?

50.	Specific outcomes: Is there any observed outcome from any of these measures? Please link each outcome to a measure taken. • .... • .... • ....

3.4. ACCOUNTING AND AUDITING PROCESSES

51.	Is there a tax accounting department in the BIR?
52.	Is this tax accounting department different from the assessment and tax collection departments?
53.	Does the tax accounting department conduct monthly reconciliation with the assessment and collection departments?
54.	Does the accounting department conduct regular (monthly) reconciliation of what was collected relative to what was remitted to the state?
55.	Does the accounting department publish reports of its activities to relevant state agencies e.g the Ministry of Finance?
56.	Is there an audit and monitoring department in the IRS?
57.	Has the department conducted any audit of firms (eg on PAYE, direct assessment and withholding tax) in the past year?

3.5. ENFORCEMENT PROCEDURES

58.	Please describe if (and by how long) demand notices precede enforcement measures.
59.	Who is used for enforcement (eg IRS/MDA officials, external agents, others)?
60.	New measures: Describe any new measures instituted on enforcement procedures within the past year to improve tax administration.
61.	Which bodies/agencies are involved in the new measures?
62.	Specific outcomes: Is there any observed outcome from any of these measures? Please link each outcome to a measure taken. • .... • .... • ....

3.6. SUPPORT FOR THE BOARD OF INTERNAL REVENUE

63.	How is the IRS funded? Please specify whether the IRS is self-accounting (i.e takes its expenses off whatever it collects first and remits the rest to the government) or if it is included in the budget? If none of the above two applies, please describe how the IRS is funded.
64.	If the IRS is funded as part of the budget, is it a first line charge item?
65.	How adequate is funding to the IRS? Adequacy is defined in terms of continuous growth in the funds available to the IRS, not only to take care of recurrent expenditures, but also to provide capital equipment (including housing) for its (expanding) operations. In answering this question, give indicators like what the IRS has been able to achieve in the past three years with its own funds.
66.	Is the IRS head office rented or built by the government?
67.	Are all offices in the headquarters of the IRS equipped with computers?
68.	Are all such computers networked?
69.	How often do the zonal offices send written reports to the IRS headquarters in the state?
70.	New measures: Describe any proposed funding arrangement that you think might begin to yield fruits in the near future?
71.	Specific outcomes: Is there any outcome that might have come on account of the improved funding to the IRS? Eg increased capacity to generate revenue or increased efficiency in the work of the agency? • .... • .... • ....

3.4. STAKEHOLDER ENGAGEMENT

72.	Is the taxpayer aware of the rates and procedures for assessment?
73.	Describe any public enlightenment programme that has been embarked on by the state in the past year?
74.	How would you rate cooperation of the public towards tax payment?
75.	If the rating is not too good, do you think it may be associated with poor public perception of utilisation of tax revenues?
76.	New measures: Describe any new measures instituted on enforcement procedures within the past year to propel IGR growth?

77.	Which bodies/agencies are involved in the new measures?
78.	Specific outcomes: Is there any observed outcome from any of these measures? Please link each outcome to a measure taken. • …………………………………………………………………… • …………………………………………………………………… • ……………………………………………………………………

SEGMENT 5: STATE'S UNIQUE MEASURES AND EXPERIENCES

79.	In your view, what is the distinguishing factor in the state's approach to tax administration that distinguishes it from approaches adopted by other states in the country? • Note that such distinguishing factors must be unique to the state's circumstances and peculiarities and must be such as is not being replicated elsewhere. • This factor could be institutional or procedural.
80.	Please describe any measures for tax reform embarked upon by the state in the past five years which are noteworthy. • Note that such measures must be unique either to the state's history or among measures taken by other states. • It must also have led to improved tax administration. • Such a measure must be institutionalised and not just a one-off event.
81.	Share any unique outcomes and results that the state has obtained on account of measures put in place recently (including those by the current administration). • Such outcomes may be such as have never been the case in the state in the past or such as are not the case in other states.
82.	Share any unique challenges facing the state's tax administration. • Such experience must be unique to the state either because other states do not have it or the state has not envisaged such problem in drawing up measures. • The experience must have specific lessons that other states would learn from so as to avoid pitfalls associated with the challenge. • If there are cost implications associated with the challenge, these should be shared here. • State should share measures being taken to overcome the challenge and what constraints they face in the implementation of the measures.