CHAPTER EIGHT

MAKING THE NIGERIAN TAX SYSTEM GLOBALLY COMPETITIVE

Background

Taxation is now globally recognised as the only practical source of sustainable revenue to finance government spending. Zee and Tanzi are of the opinion, however, that while striving to raise revenue levels, taxing systems in developing countries must ideally avoid three scenarios namely; excessive borrowing; discouraging economic activity; and deviating too much from other tax systems. In other words, an ideal tax system must strike a balance between domestic economic growth and global competitiveness.[1] The authors also identify five major challenges in establishing efficient tax systems in developing countries. First, majority of workers are employed in informal sectors and are paid off the book, in cash. Further, these employees do not typically spend their earnings in departmental stores where proper books and inventories are kept. Tax levels that government may have achieved from income tax or consumer taxes are therefore sub-optimized. Second, lack of skilled, professional staff and modern tools and facilities compel governments in developing countries to take the least path of resistance; exploiting whatever options are available without regard to the overall implications for the economic system. Third, the informal nature of the economy makes it difficult for both tax and statistical offices to generate reliable data that would enhance proper assessment of the impact of changes in the tax system. This often results in marginal changes instead of structural changes even when the latter are preferred. Fourth, uneven income makes it possible for the rich and powerful to prevent fiscal reforms that would increase their tax burdens. This particular challenge explains the lack of progress in property taxes. Finally, tax policies (where they exist) are not based on the pursuit of the optimal but that of the possible.[2]

There are certain contending issues in the composition of tax revenue which governments all over the world always have to grapple with. These issues include taxation of incomes relative to taxation of consumption; and under consumption, the taxation of imports relative to taxation of domestic consumption. Based on available statistics, industrialised countries derive twice as much from income tax than from consumption tax and revenues from personal income tax are four times as much as that from companies' income tax. Interestingly, trade taxes in developing countries are significantly higher than in industrial countries.[3] The contending arguments relating to taxation of income relative to consumption usually turn up questions of efficiency and equity. First, taxing income (whether labour or capital) reduces the ability of the taxpayers to save and invest thereby resulting in a higher efficiency cost. Second, taxing consumption is said to be regressive because it is harder on the poor than on the rich. Regarding imports, lowering rates would lead to competition from foreign businesses and while this is an objective of trade liberalization, the consequence is a reduction in budgetary revenue. For developing countries, the important policy issues (without undue regard to theoretical considerations) should be to spell out the clear objectives to be achieved in any contemplated shift from a particular mix to another; assess the economic consequences of such a shift and implement compensatory measures if the poor are made worse off by the shift.[4]

The inauguration of the 2002 Study Group on the Nigerian Tax System was informed by the desire to reposition the tax system and make it globally competitive. At its Extraordinary Meeting of 18 October 2004, the Federal Executive Council adopted the harmonised report of the Study and Working Groups after which the tax sector reforms commenced. Between 2004 and 2011, a lot of transformations have taken place in the Nigerian tax system. These transformations, details of which have been documented elsewhere,[5]are summarised below as the implementation strategies towards making the Nigerian tax system globally competitive.

Restructuring the Regime of Taxation

With its coming to power in 1999, the democratically-elected government of President Olusegun Obasanjo recognised the tax system as part of the critical areas of its reform agenda within the context of the government's economic development blueprint: the National Economic Empowerment Development Strategy (NEEDS). The Study Group (2002) on the Nigerian Tax System, and the subsequent Working Group (2004) which reviewed the work of the former, helped to develop a new National Tax Policy. The Study Group concluded that Nigeria needed a National Tax Policy hinged principally on the foundation of fostering national development. Such a policy would constitute a means of (i) attracting foreign direct investment; (ii) consolidating several policy documents into a single document for easy reference; (iii) blending various opinions on taxes of different kinds, as well as the issues surrounding those opinions; and (iv) providing direction and focus on general tax practice.

Consequently, the Study Group recommended, among other things, that:

a. Tax should be regarded as a citizen's obligation to the Nigerian state for which he expects in return good governance, the provision of security, clean water and other social amenities.

b. Tax should be collected only by career tax administrators, who are civil servants, not ad hoc consultants or agents.

c. Tax efforts and focus should be shifted from direct taxation to indirect taxation.

d. The number of taxes should be small in number, broad-based and yield high revenues.

e. The machinery of tax administration should be configured to be efficient and cost effective.

f. All the three tiers of Government should be free to set up their own administrative machineries for taxes under their jurisdiction, subject to the national minimum standards.

g. The various tiers of Government must avoid the hitherto common internal double taxation by the Federal, State and Local Governments.

h. In furtherance of the desire to reduce the tax burden on individual Nigerians, the National Tax Policy should be geared towards a low tax regime.

The views of the Study and Working Groups were harmonised and presented to an Extraordinary Session of the Federal Executive Council on 18 October 2005 as the Reform Agenda for the Nigerian tax system. The Council approved that:

a. the FIRS be funded on a percentage of revenue collected, a four percentage non oil collection having already been provided for in the 2005 Appropriation Bill;

b. That the FIRS be granted autonomy in terms of funding, recruitment and remuneration of employees;

c. That the tax laws be amended to bring about the intended objectives of the reforms

Following the above resolutions and approvals, the FEC constituted a Presidential Technical Committee, PTC, to draft a bill that would give effect to the proposed tax reforms. The committee was chaired by the Attorney-General of the Federation and Minister of Justice. Members of the committee included the Minister of Finance; the Minister of Aviation, the Minister of the Federal Capital Territory, the Chairman of the FIRS, the Economic Adviser to the President, the Accountant-General of the Federation, the Group Managing Director of the Nigerian National Petroleum Corporation, the Director-General of the Budget Office, the State House Counsel and former Chairman of the FIRS, Mr. Ballama Manu. The PTC was mandated to present the bill for the consideration of the FEC before transmission to the National Assembly.

Autonomy and increased funding for the Federal Inland Revenue Service were intended to position the Service as the main driver of the reforms. The Service therefore, introduced strategic planning by articulating the FIRS Strategic Plan 2004-2007. The framework agreed on the Vision, Mission, Values and Goals that would drive the activities of the Service and the key performance indicators by which performance would be measured. This Plan is now being reviewed towards the adoption of a Tax System Vision 2020 to be articulated in collaboration with the Joint Tax Board. The FIRS Tax System Vision 2020 aligns with the Vision 20:2020 national development agenda. The FIRS Vision is driven by three strategic components which are long term plans (2020); four-year medium term plans (the current one being the FIRS Medium Term Plan 2008-2011) and short term plan (FIRS Annual Corporate Plans).

In addition to the articulation of a strategic direction; the Service developed a Modernisation Plan to be driven by seven key planks which are:

a. Fund FIRS/Acquire autonomy

b. Strengthen investigation/enforcement

c. Audit oil, gas and large taxpayers

d. Provide taxpayer education and services

e. Re-engineer and automate collections/ tax administration system

f. Build capacity: structure, staffing and specialization

g. Re-engineer and automate human resource processes, finance and procurement

The granting of autonomy and the cost of collection system of funding to the Service by Federal Government therefore marked the first step in the implementation of the FIRS Modernisation Plan. The remaining planks of the Plan are all aimed at making the Nigerian tax system globally competitive and tremendous progress has been made in this regard.

References

1 Zee, H., & Tanzi, V., 'Tax Policy for Developing Countries', *Financial Standard,* 12 September, 2007.

2 *Ibid.*

3 Zee & Tanzi, *op.cit.*

4 *Ibid*.

5 Okauru, Ifueko Omoigui (Ed): Federal Inland Revenue Service and Taxation Reforms in Democratic Nigeria.