

PRESCRIPTIONS FOR AN EFFECTIVE TAX REGIME IN NIGERIA

Introduction

Since the approval of the revised National Tax Policy, a new air of expectations of a simplified tax compliance regime has been awaited with baited breath. Such expectations has not happened by accident but is rather a culmination of fervent yearnings for a systemic shift to a saner tax regime at all tiers of government if only to blunt the backward slide in Nigeria's ease of doing business as well as ease of paying taxes.

The urgency to birth such a tax system also finds its voice in incidences of multiple taxation as well as the impact of disruptive technologies and advanced innovations which has redefined how commerce and other related activities are undertaken for taxation purposes.

The exigency of the current situation and the need to address same provides fodder for identifying the issues that continue to plague the tax system and the likelihood of recommendations that could mitigate or outrightly tackle the identified issues.

Some Challenges

A lack of robust framework for the taxation of informal sector and high networth individuals continue to limit the revenue base creation. This is inspite of the fact that the informal sector is quite large and its activities are largely uncaptured for tax purposes.

Secondly, the inordinate drive by all tiers of Government to grow internally generated revenue has led to the arbitrary exercise of regulatory powers for revenue under various guise. This drive, in itself, leads to increased cost of tax compliance and administration without necessarily bringing about commensurate increase in revenue. This also provides fodder for stakeholders that are under the yoke of multiple taxation.

Another protacted issue is that of database fragmentation of taxpayers and weak structure for exchange of information by the Tax Authorities, resulting in revenue leakages and inefficiencies. The taxpayer is therefore able to skirt around the system with little or no risk of detection.

A lack of clarity on *taxing* powers of each level of Government and encroachment on the powers of one level of Government by the another is also a subsisting challenge. This is despite the best of efforts by government through the enactment of the taxes and levies (Approved list for Collections), Laws of Federation of Nigeria, Cap. T2, 2004, as amended.

Another challenge is the case of insufficient information to taxpayers on tax compliance requirements thus creating uncertainty and increasing non-compliance for policy action for the tax system.

Conditions of insufficiency in, capacity with respect to personnel and training has led to delegation of powers of revenue officials to third parties by some tiers of government, thereby creating complications for the tax system;

Other issues include:

- ✓ Use of Aggressive and Unorthodox Methods of tax collection
- ✓ Failure by Government to appropriate funds to honour tax refund obligations to taxpayers;
- ✓ The non-regular review of Tax Laws to reflect economic realities;
- ✓ Lack of strict adherence to tax policy direction and procedural guidelines for the operation of various tax authorities.

Way Forward

Addressing the issue of a robust framework for the taxation of informal sector and high net worth individuals require that all relevant Tax Authorities create efficient taxpayers' database which can be integrated for a robust database in the country. Sources of initial data for such identified data base include trade associations, market associations, commercial banks, and Ministries, Departments and Agencies (MDAs) of Government. Another means of building taxpayers' data base is the strict implementation of the Tax Identification Number, Act, 2014 through the rendition of returns by MDAs on business transactions to various Tax Authorities.

All Government agencies at the three Tiers of Government that are involved in revenue collection should start harmonizing taxpayers' data to build up a comprehensive database. As a starting point Tax Authorities should develop taxpayer data in electronic *format* so as to make for easy exchange of information and integration. Tax Authorities should enter into memorandum of understanding for the purpose of exchange of information, using the Joint Tax Board as the platform.

All tax agencies should also operate within the powers granted to them by law in revenue collection functions. Also, there should be harmonisation of tax/revenue laws so as to remove inconsistencies. In addition, Tax Authorities should collaborate amongst themselves through joint operating agreements as a means of pooling resources together for greater efficiency and to reduce the cost of collection.

As a matter of urgency, there should be a simplification of the tax/revenue laws and to re-write them in plain language. This will not only remove ambiguities from the laws but will make them easy to apply. This will bring about a reduction in the number of contentious issues and cost of compliance. Thus making the tax system more efficient.

Voluntary tax compliance relies on a balance between taxpayer education and tax compliance enforcement. The first task in the system is to ensure that taxpayers understand their tax obligations. Taxpayer education should be a regular feature of the tax administration system so as to make it a justification for tax enforcement.

Taxpayers should be informed of how revenue collected has been spent with details of specific project periodically. Accountability for revenue collection is a motivation for tax compliance especially as it reduces corruption perception of government.

There is need to train existing personnel of Tax Authorities and to recruit qualified and competent people to bring about professionalism and efficiency in tax administration. While training and recruitment are desirable, a critical aspect of capacity building is assured through joint operation arrangements amongst Tax Authorities, thus sharing experiences and ensuring optimal utilization of special skills.

The provisions of tax/revenue laws on tax compliance should be adhered to strictly. Deviations from the laws in terms of tax enforcement should be punished.

One of the principles of taxation is fairness. If taxpayers can be punished for late/non-payment of taxes, excess payment they make should be refunded. Refund of excess payment to taxpayers as and when due brings about credibility to tax administration and elicits tax compliance.

There is need for periodic review of tax laws and legislation to reflect economic realities. This will make the laws more effective and will engender efficient tax administration.

There should be strict adherence to policy direction to bring about desired economic development. To this extent, tax policy implementation monitoring should be part of the structure of every Tax Authority.

Conclusion

The tax authorities and taxpayers alike must be ready to define their roles, however complementary or polarized they are and begin to work their way through to a common platform of mutual trust and cooperative compliance.