

**TEXT OF A PRESENTATION MADE BY THE CITN PRESIDENT, MR. MARK ANTHONY DIKE, FCTI ON TAXATION AND GOVERNANCE AT THE 7<sup>TH</sup> ANNUAL LAGOS STATE STAKEHOLDERS CONFERENCE HELD ON THURSDAY, 16<sup>TH</sup> JANUARY 2014.**

**1.0 Protocols**

May I commend the Lagos State Government for sustaining the organisation of this yearly annual conference which is the 7<sup>th</sup> in the series. It is equally important that I commend the giant strides made by the Lagos State Government over the years especially as it relates to boosting taxation revenue and giving back to the people through the execution of developmental projects throughout the length and breadth of the State. It is no longer news that Lagos State has witnessed a phenomenal increase in revenue generation from just over N600 Million monthly in 1999 to over N20 Billion Naira monthly and still counting as at today. This feat is not magical or miraculous, it is as a result of a conscious and determined effort to change the status quo in terms of improving the tax administration system, blocking loopholes, simplifying the tax payment process and good governance.

**2.0 Taxation and Governance**

Taxation and good governance are two sides of a coin. Taxation engenders good governance, much in the same way without good governance the essence of taxation is defeated. The two principal players are the tax payer on one hand and the government on the other side. Each has a responsibility that must be fulfilled for the relationship to be cordial. Often times, especially in developing countries, particularly in a situation where dependence on revenue from natural resource has relegated the development of the tax system, we have seen the citizens being non-chalant with regards to their responsibility to pay taxes. However, this is changing gradually, especially viewed against the backdrop of the enthronement of a democratic system of government now prevalent across most developing countries including Nigeria. Democratic governance provides an opportunity for citizens to be more actively involved in deciding how their affairs are carried out.

First of all, the taxpayer is duty bound to pay tax as a contribution to economic wellbeing. The fulfilment of the duty to pay by the tax payer creates a valid expectation that the fund will be used judiciously and efficiently. The extent to which this expectation is met determines the willingness for future compliance. In the spirit of “quid pro quo”, in other words “this for that”, the taxpayer expects the government to give him something in return for tax paid.

What the taxpayer receives from the government may not be commensurate with the amount paid but where the taxpayer is not satisfied with what is received, this may serve as a disincentive for future compliance. The right of a taxpayer to receive a service for tax paid is not usually enforceable in the court of law, but can be enforced through pressure groups and mass action. A classic example of this is the famous Aba Women Riot of 1929.

Herein lies the nexus between tax payment and good governance. Much as we believe that this social contract is a two way thing between the taxpayer and the government, it behoves on the taxpayer to pay their taxes believing that the government will fulfil its part of the contract by being accountable.

As I had earlier stated, in every tax system, we have two primary stakeholders, that is, the government and the tax payer. Each has a responsibility that is distinct from each other.

## **2.1 The Government**

The government needs to stand on a moral high ground in order to justify its collection of tax revenue. The government in a democratic setting is elected by the taxpayers and entrusted with public funds. In this regard, there are two sets of agents that act on behalf of government namely: revenue collectors and expenditure agents.

### **2.1.1 Expenditure Agents**

Government expenditure agents are the ministries, departments and agencies that execute public projects using public funds. They must not only be

accountable but be seen to be accountable to the taxpayers. It is expected that government expenditure agents should spend tax revenue for the overall public interest. This includes providing the enabling environment for businesses to thrive by providing basic infrastructural facilities like roads, water, electricity and education. Government expenditure agents should also use tax money to provide other social goods like security, health care, employment, etc.

They also have the moral obligation to give account of their stewardship in a transparent manner so as to engender the confidence of taxpayers in government activities. They should be honest and show value for money in their expenditure of the tax money.

### **2.1.2 Revenue Collectors**

On the other hand there is an obligation on the part of the tax collector to collect from taxpayers the maximum amount of tax that the taxpayers are obliged in law to pay. This implies two things – one is that tax collectors are not permitted to exceed the bounds of the law in securing payment of tax, nor are they permitted to waive or moderate legal rules in return for private benefit.

Thus they cannot use undue pressure going beyond the law to coerce taxpayers to pay something (whether or not it is due) nor can they use their position of power over taxpayers to receive private benefits such as bribes or favours. In conventional theory, administrators are as much servants of the populace with whom they deal as they are servants of the authority that employs them.

Tax officers must adhere to rules and codes of ethics of taxation required to carry out his/her duties. These qualities would include, professionalism, integrity, efficiency, and collective responsibility.

### **3.0 Tax Payers**

These are the entities that bear the burden of compulsory contribution to the public purse by way of tax. They engage tax practitioners to act as their agent

in their interface with government. The tax payer is required to act a manner that is will not short-change the system.

### **3.1.1 Tax Practitioners**

Although tax practitioners owe a duty to the tax authority, they also have a paramount obligation to their clients. In taxation they are ethically bound to ensure that their client pays the minimum amount of tax. Just as a taxpayer is entitled to obtain professional advice before entering into a legal transaction, the practitioner has a positive duty to give appropriate advice.

That advice may not be such that encourages the doing of something that is illegal – but it must be full and professional and should extend to advising their client how to pay the least amount of tax that it is legal to pay. The practitioner has no obligation to judge the morality of the taxpayer. In addition the common law doctrine of professional privilege may oblige the practitioner to reveal nothing of the instructions and advice that have passed between him and his client without the client's clear and specific permission. Accountants and professional tax practitioners have an obligation to their clients to ensure they act in their clients' best interests.

Thus there may be a perception on the part of tax administrators that professionals always act in a manner which is adverse to the interests of the public purse. But this apparent bias and corruption on the part of professionals may in fact be only a perception arising from professionals doing no more than acting professionally. What is clear, however, is that professionals are usually bound to ethical standards imposed and administered by their professional bodies. In Nigeria, the Chartered Institute of Taxation of Nigeria has a code of conduct for members.

As members of professional bodies, tax practitioners are bound by the code of ethics of their professional institutes. Tax practitioners play an important role in the tax system. They act as catalysts between the taxpayer who may or may not be knowledgeable in taxation and the tax administrator who is

knowledgeable in the area. They are saddled with the responsibility of advising their clients and representing them on issues of taxation. In broad terms, tax practitioners are expected to perform their duties in adherence with the following fundamental principles; viz

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality

#### **4.0 Lagos State Tax Administration System**

Once again, I am inclined to refer to the commendable strides by the Lagos State Government in the area of improving the tax administration system in the State. The proper delineation of taxes to be collected by the relevant tiers of government in the State has no doubt improved the system. We have a situation where the revenue agency collects on behalf of the local governments and remits to the central pool and it is later distributed to the respective local governments.

#### **5.0 Conclusion**

May I implore the Lagos State Government to show zero tolerance to tax evaders who must be treated as economic saboteurs. Relevant sanctions in the tax laws should be enforced to the letter to put in check individuals and corporate organisations who are bent on circumventing and cheating the process. Effective political will to see through the enforcement of the tax provisions no matter who is involved will lead to the entronement of a tax regime that is efficient and regulated to the extent that citizens feel a sense of duty to pay their accurate taxes as at when due.