Practical and Effective Reforms to Improving Tax Administration in Nigeria

Appraising Recent Reforms across Seven States

Olanrewaju Ajogbasile
Nigeria Governors' Forum Secretariat Abuja, Nigeria
oajogbasile@nggovernorsforum.org

and

Mark Abani
MSCA Projects
mark@mscaprojects.com.ng

Abstract

The recent fiscal crisis that hit States following the continued decline in oil prices and receipts has invigorated interest in growing non-oil revenues and diversifying the economy. Taxes provide a more stable and predictable flow of revenue to the government when the administration and collection are efficient and transparent. The discourse in this paper examines the overall tax environment in the country and State-wide challenges to effective tax administration. Some of these challenges include obsolete revenue laws, lack of autonomy for tax authorities, lack of trained staff, poor planning and poor technology adoption amongst others. The paper appraises recent reforms across seven States that recorded the highest internal revenue growth rates in recent time, linking the implementation of reforms to outcome. The States include Kwara, Kano, Zamfara, Akwa Ibom, Bauchi and Kaduna States. The practical and effective reforms triggering growth and are common to the sample States observed were the political will of the governor, greater autonomy for the tax authority, adequate funding and training of staff, adoption of innovative technology, improved inter-agency collaboration and strategic engagement with taxpayers especially the informal sector. To compliment these reform actions and ensure sustainable gains, State governments must improve social investment, service delivery and ensure an enabling environment for businesses to thrive.

Key words: Nigerian States, Tax Reforms, Internal Revenue

Introduction

The growth of any economy is largely hinged on its ability to mobilize revenue to defray its expenditure plan. Nigeria's revenue environment has evolved over the last six decades from non-oil to heavy reliance on proceeds from oil. Prior to the 1970's, revenue generation was majorly from the export of agricultural produce and mineral resources such as rubber, cotton, groundnut, oil palm produce and cocoa amongst others. Agriculture and manufacturing contributed over 75 percent of the country's export earnings and accounted for about 65 percent of the GDP likewise 50 percent of government revenue (Anyanwu et al., 2013; Oluwafemi et al., 2015).

In 1971, Nigeria experienced an oil boom all through to 1977; growing the country's oil export and revenue share to 73 percent. Consequently, non-oil revenue contribution to total revenue and Gross Domestic Product (GDP) declined. Other attendant consequences that followed included expansion of the public sector; increase in government expenditure and deterioration in financial discipline and accountability (Agbaeze et al. 2014).

The prolonged neglect of non-oil sectors has left the country vulnerable to oil shocks that followed years of boom. Volatilities in global oil prices and drops in production due to disruptions by militant activities in the Niger Delta region continue to threaten stability in the sector. More recently, the energy policies being pursued by world powers (US and China) to be energy sufficient by 2030 will further undermine the role of oil as a major source of revenue (EIA, 2016; Powell, 2013)

Crude oil (Brent) prices averaged $107.96 in 2013 and begun a free fall to about $43.74 in 2016 for OPEC countries including Nigeria (EIA, 2017). This drop saw total revenue accruing to the federation account decline with ripple effects such as eroding currency value and increased fiscal deficit funded in part by increased debt (Uzonwanne, 2015). This was followed by a recession in the second quarter of 2016, which plunged the economy into negative growth (Anyaehie & Areji, 2015).

Furthermore, overall economic imbalances showed that the country was away from convergence, reflecting worsening social and human development indices (Ajakaiye et al. 2016). These included jobless growth, poverty and laggard development, also providing compelling evidence for diversification and the need to raise non-oil revenues. However, this will require strategic economic policies and improvements in domestic revenue administration such as greater taxpayer engagement, transparency, tax base expansion, improvement in remittance systems, adoption of modern and innovative technology, review of existing tax incentives[1] and focused compliance drives across all tax types including value added tax (VAT), company income tax (CIT), and customs and excise duties (CED).

In response, the government has initiated diversification plans and programmes aimed at widening the country's revenue sources. These include the rebasing of the country's gross domestic product (GDP) to capture new sectors such as telecommunication and entertainment (Taiwo et al., 2015). Similarly, the Taxes and Levies (Approved List for Collection) Act CAP. T2 L.F.N 2004 was amended by regulation in 2015 to regularise and streamline the range of taxes collectable by States with a view to ultimately increase their revenue. More recently, States were enjoined by the Federal Government through the development of a Fiscal Sustainability Plan (FSP) to drive improvements in public revenue and its administration. Recommended actions within the FSP included the need for States to introduce a treasury single account, improve their tax receipts and administration to boost revenue; including the review obsolete revenue laws (FMoF, 2016).

Noteworthy from the findings of this paper is that an effective tax system offers a path to improved revenue mobilization away from unsustainable streams like oil revenue, deficit financing, aid and mineral rents. Hence,

---

[1] The wide use of exemptions and waivers has also been attributed to the low non-oil revenue. According to the Budget Office (2012), waivers/exemptions granted in 2012 were valued at N54.5 billion (US$276.8 million).

State governments need to fast track the domestication and implementation of necessary reforms and recommended actions to address slow growth in taxation aspects of State internally generated revenue (IGR).

Objectives

This paper has 7 distinct sections aimed at establishing the need to grow domestic revenue and introduce strategic reforms for effective taxation.

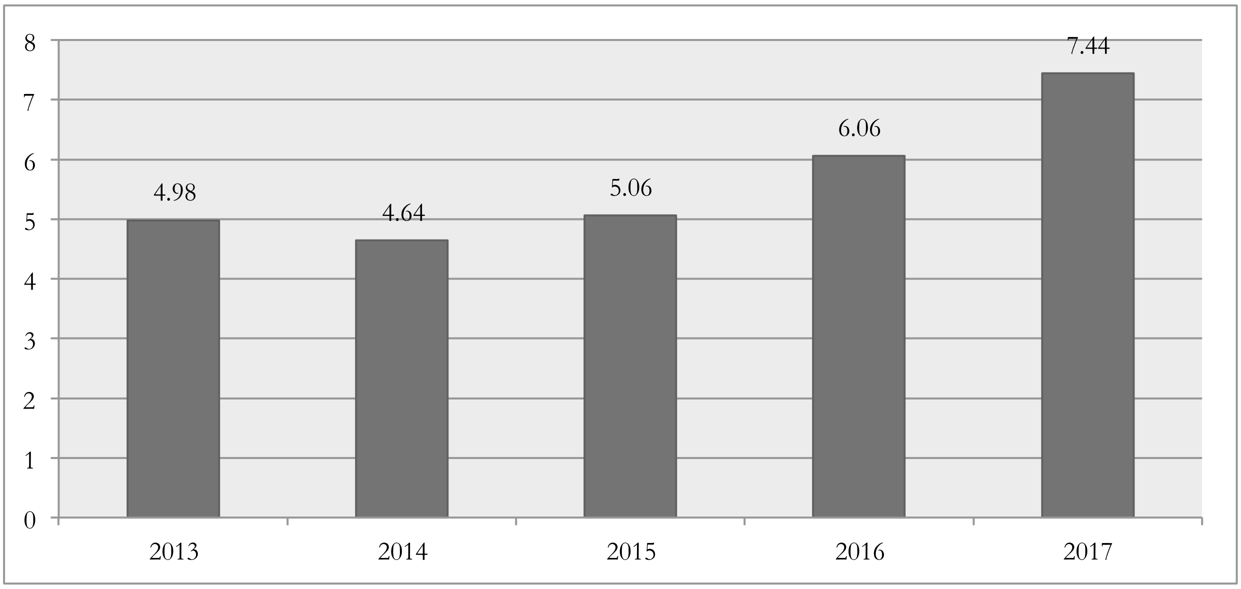
Broadly, the paper will address the following specific objectives:

1. Establish the need to improve domestic revenue
2. Provide an overview of the tax environment.
3. Provide theoretical background to recent tax reforms.
4. Discuss Federal government support to tax reforms impacting on States
5. Discuss State government driven tax reforms triggering revenue growth
6. Discuss State-wide challenges to effective tax administration
7. Discuss recommendations to be considered for effective tax administration at State-level

Public Revenue: The Need to Improve Domestic Revenue

Public revenue is a fiscal tool used by government to ensure economic growth and development of a country. It is used to finance both capital and recurrent expenses of a country including infrastructure development and settling personnel and overhead costs of governance. Every government thrives to achieve a balanced budget (*Expenditure = Revenue*) to function, whether it adopts deficit financing or not, to ensure its set goals are met and development expenditure defrayed.

Figure 1. FEDERAL GOVERNMENT ANNUAL EXPENDITURE BUDGET (NGN' TRILLION)



Source: Computed by Authors using Data from Budget, Office

Figure 1. above shows that government budget continued to increase despite dwindling resources due to plummeting oil revenue. More interestingly, the 2017 budget recorded a deficit increase of 7 percent from ₦2.2 trillion in 2016. This is to be financed by external and domestic borrowings. The deficit expansion recorded year on year indicates a troubling trend, especially when domestic revenue generation looks gloomy and recurrent expenditure unsustainable; given its exponential increase over the years.

Correspondingly, States showed a similar trend with the same contributory factors. The untamed increase in expenditure and debt accruals toppled States into a fiscal crisis between June 2014 and June 2017 when the country's federation revenues plummeted by 60 percent, from ₦1.1 trillion to ₦462.4 billion during the periods. While States' domestic revenue grew by an average of 20 percent, its contribution to total recurrent revenue remained low. States' domestic revenue growth for 2016 fluctuated between a decline of 39 percent and growth of 140 percent. Hence, government (Federal and State) need to improve domestic revenues to augment for the rise in total expenditure and debt stock as well as decline in Federal Account Allocation Committee (FAAC) disbursements to ensure fiscal sustainability.

Various authors including Kiabel and Nwokah (2009); Pfister (2009); Bird and Zolt (2003) opine that Nigeria's domestic revenue generation challenges are primarily due to a poor business-enabling environment and an ineffective tax administrative system. At the national level, Nigeria ranked 169 overall and 182 for ease of paying taxes out of 190 economies surveyed in the 2017 Ease of Doing Business (EDB) study. These suggest the need for government to not only streamline business registration and permit processing but also reduce the cost of complying with tax obligations. Unfortunately, a similar index for tax was not captured in the subnational version of the EDB.

According to Bukie and Adejumo (2013) tax authorities have become less efficient due to a combination of inadequate skilled manpower, poor funding and adoption of innovative technologies in line with global good practice. Inspite of these inherent deficiencies, States Boards of Internal Revenue (SBIRs) are still given unrealistic revenue targets, which encourage many to adopt illegal and unsustainable approaches to meet up.

Nevertheless, taxes provide a more stable and predictable flow of revenue to the government when the administration and collection are efficient and transparent. To institute an effective tax administrative system, both Federal and State governments need to address obsolete revenue laws, issues of accountability and administrative lapses that habit tax avoidance and evasion.

Overview of the Tax Environment

Nigeria is governed by a federal system, characterized by fiscal federalism where governmental powers and financial oversight is shared amongst the three tiers of government namely, Federal, State and the Local Government.

The tax system of the country dates prior to independence, with the introduction of income tax by Lord Lugard in the Northern Region in 1904. More recent laws and enactments that followed include Personal Income Tax Act CAP. P8 L.F.N 2004 (Amended 2011), Company Income Tax Act CAP. 21 L.F.N 2004 (Amended 2007), Petroleum Profits Tax Act CAP. P13 L.F.N. 2004, Value-Added Tax Act CAP. V1. L.F.N 2004, Education Tax Act CAP. E4 L.F.N, Capital Gains Act CAP. C1 L.F.N 2004, Customs and Excise Management Act CAP. C45 L.F.N 2004, Stamp Duties Act CAP. S8 LFN 2004, Taxes and Levies (Approved List for Collection) Act CAP. T2 L.F.N 2004 and the 1999 Constitution of the Federal Republic of Nigeria. These and other relevant tax laws have been collated under the Laws of the Federation of Nigeria (LFN) 2004 [2]

While companies tax, personal income tax and capital gain tax of residents in the Federal Capital Territory (FCT) and indirect taxes such as VAT are administered by the Federal Government, the personal income tax and capital gains tax of residents in States and indirect taxes such as hospitality taxes are administered by the State Government. At the local level, the Local Government generally administers fees and levies for economic activities. The jurisdiction for each level of government is provided for in the Taxes and Levies (Approved List for Collection) Act CAP. T2 L.F.N 2004 (As amended 2015).

[2] http://www.lawnigeria.com/

However, the administration of taxes by all levels of government over the years remained inefficient, characterized by a perception of corruption, bullying and ineffectiveness as enforcement impeded business growth and ultimately affected tax revenues. The need for improvements in tax laws and their administrative systems necessitated modern reforms, which started in 2002 with recommendations from a study group led by Professor Dotun Philips, and a working group chaired by Seyi Bickersteth (FIRS, 2012).

Emerging reforms from their recommendations included; the passing of the Federal Inland Revenue Service (FIRS) Management Act 2007 giving full autonomy to the Service, with federal taxation receipts increasing significantly (FIRS, 2012). This was followed by the 2012 National Tax Policy (NTP)[3] which was reviewed in 2016 invigorating new approaches to taxation including the current Voluntary Income and Asset Declaration Scheme (VAIDS) designed as a limited window of opportunity to all taxpayers (avoiders, evaders or the negligent) to regularise their tax affairs free from penalties, interest and for full disclosure, a guarantee of immunity from prosecution. This amnesty scheme is significant, considering that it benefits both the Federal Government and all the 36 States of the federation.

At the State level, Lagos State has made the most progress with reforms. The need for the State to raise its domestic revenues became imperative in 2004 when the Federal government withheld its Local government allocation. Ever since, its Internal Revenue Service (IRS) has evolved, introducing reforms ranging from autonomy for the tax authority, introduction of e-payment solutions, harmonisation of revenue related laws to active taxpayer education, sensitisation and engagement. Many States have taken a cue from this, having identified with the significant impact the reforms had on Lagos State domestic revenues. These States include Kaduna, Kwara, Kano, Akwa Ibom, Ogun and Zamfara States to mention just a few.

More importantly, the Joint Tax Board (JTB), which draws its membership from the FIRS and all SBIRs along with key stakeholders, continues to promote and share good practices between member States for an overall improvement in the tax environment. Some of such good practices and practical reforms executed by States are discussed in subsequent sections of this paper.

Theoretical Background to Recent Tax Reforms

This section provides a theoretical background to recent tax reforms advocated for by the NTP and FSP amongst other domestic revenue targeted reform tools.

Optimal Tax Theory

This theory argues that the maximization of taxpayers' social welfare should be the primary focus of government (Mankiw et al., 2009). The theory supports the Adam Smith's canons of Equality and Ability with emphasis on reducing inefficiencies and distortion in the market (Slemrod, 1990). It is based on two notions of equality namely Horizontal and Vertical Equity. Horizontal equity suggests that people with equal ability to pay be taxed the same e.g. Lump sum as in presumptive tax. On the flip side, the vertical equity argues that people with higher ability to pay be taxed more than those with lower ability to pay which is reflected in the Personal Income Tax (PIT) amendment of 2011 (Holcombe, 2006).

Exogenous Growth Theory

This theory posits that the fiscal policies such as changes in tax rates do not have long-term impact on economic growth (Smith, 1776; Solow, 1956). The theory argues that it is the input from labour and technology that drives long-term impact; thus, the need to strengthen institutional capacity of tax authorities.

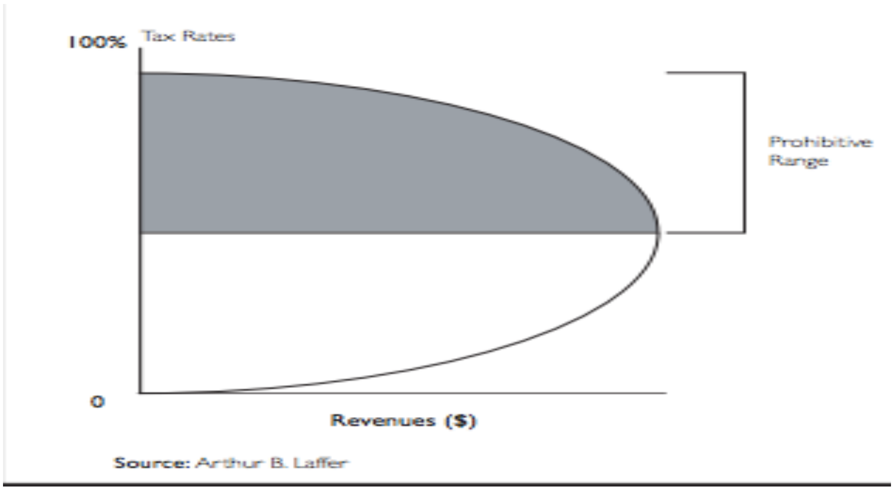
[3] National Tax Policy (NTP) 2017

The Federal and State government have recognized this in their enactment of tax management laws that provide for full autonomy, both administrative and financial. Associated with this is the adoption of innovative technologies by a number of tax authorities to drive efficiency, automation of payment processing and account management. In States where this has been introduced, revenue Streams have increased.

Laffer Curve Theory

The curve opines that taxation has two effects on tax revenue namely the Arithmetic and Economic Effects. While the arithmetic effect focuses on the nominal value of imposing a tax rate, the economic effect examines taxpayers' response to increasing tax rates. The curve (See figure 2) suggests that as tax rates increase beyond a certain level assumed to be optimal, the taxpayer begins to lose incentive to work or resort to tax avoidance which then leaves government with zero tax revenue at 100 percent increase in tax rate (Laffer, 2008).

Figure 2. LAFFER CURVE



Source: Laffer, A. B. (2008)

The theory supports Adam Smith's canon of Economy that taxes should be so contrived as both to take out and keep out of the pockets of the people as little as possible (Smith, 1776).

Similarly, it is important that the assessment of taxpayers' ability precede government's choice of tax rates; especially for taxpayers in the informal sector whom are often middle to low income earners. However, their lack of standard bookkeeping practices continues to burden accurate assessment by the tax authority. Government recognizing this have introduced the presumptive tax regime and started to harmonize taxes levied by the different levels of government to remove double taxation, which is inline with the NTP.

Federal Government Support to Tax Reforms Impacting on States

As a result of the JTB resolution on harmonisation of taxes, the Minister of Finance, Ngozi Okonjo-Iweala in 2015, executing Section 1(2) of the Taxes and Levies (approved list for collection) Act - CAP. T2 L.F.N 2004, introduced new tax items and extended certain provisions in Schedule III to Schedule II where State finances were involved (See figure 3). Some of such items include Entertainment Tax (where applicable), Slaughter Fees, Signage and Mobile Advertisement Fees.

Figure 3. SCHEDULE II EXTRACT FROM 2015 AMENDMENT OF THE TAX AND LEVIES (APPROVED LIST OF COLLECTION) ACT, 2004

3. Part II of the Schedule to the Principal Act is amended by–
(a) substituting the existing item 7 with a new item 7 as follows–

"7. Business premises registration fees in respect of urban and rural areas which includes registration fees and per annum renewals as fixed by each state" ; and
(b) inserting immediately after the existing item 11, new items 12 to 25 as follows–
"12. Land use charge, where applicable;
13. Hotel, Restaurant or Event Centre Consumption Tax, where applicable;
14. Entertainment Tax, where applicable;

Amendment of Part II to the Schedule to the Principal Act.

15. Environmental (Ecological) Fee or Levy;
16. Mining, Milling and Quarrying Fee, where applicable;
17. Animal Trade Tax, where applicable;
18. Produce Sales Tax, where applicable;
19. Slaughter or Abattoir Fees, where State Finance is involved;
20. Infrastructure Maintenance Charge or Levy, where applicable
21. Fire Service Charge;
22. Property Tax, where applicable;
23. Economic Development Levy, where applicable ;
24. Social Services Contribution Levy, where applicable; and
25. Signages and Mobile Advertisement, Jointly collected by States and Local Governments."

4. Part III of the Schedule to the Principal Act is amended by inserting immediately after the existing item 20, new items 21 as follows–
"21. Wharf Landing Charge, where applicable".

Source: Schedule II, Tax and Levies (Approved list for collection) Act CAP. T2 L.F.N 2004 as Amended 2015

To compliment the legislative framework provided by the tax law, the government developed the NTP adopted in 2012 to guide taxation in the country. It set the parameters and guiding principles that govern tax administration and revenue collection by all stakeholders. However, it was revised in 2016[4] to provide a simpler operational framework and recommend immediate reform actions including the need to grant all tax authorities greater autonomy and adopt innovative technologies while actively engaging taxpayers on compliance. In line with other recommendations of the revised NTP, the government launched a 9-month tax amnesty scheme called the Voluntary Assets and Income Declaration Scheme (VAIDS) and introduced a taxpayer engagement strategy (Tax Thursday).

Other reforms implemented at the federal level to strengthen the collection of Value Added Tax (VAT), Withholding Tax (WHT) and Pay-As-You-Earn (PAYE) included the development of a Government Integrated Financial Management Information System (GIFMIS) which is used by the Federal Inland Revenue Service (FIRS) in collaboration with the Office of the Accountant General of the Federation (OAGF) to collect VAT and WHT from government suppliers at the point of payment. Also, the FIRS floated a VAT auto-collect platform, which it uses to track transactions liable to VAT and tax automatically at source.

In addition, the FIRS collaboration with SBIRs under the aegis of the JTB has contributed significantly to advancing effective tax administration in the country. Some of such collaborations include[5]:

- Taxpayers Identification Number (TIN) upgrade, exploiting the Banks Verification Number (BVN) database (17 million active users), Federal Road Safety Corps (FRSC) database, existing State databases and potentially, the National Identity Management Commission (NIMC) database. Taxpayers' data from the 36 SBIRs rose from 10 million in April 2016 to 13 million in November 2016 – an additional 3,414,496 taxpayers over the 7-month period since the integration begun;
- Improvements in the data of compliant taxpayers. As at November 2016, data obtained from States indicated that 8,550,643 individuals and 4,483,579 enterprises pay taxes regularly.
- Collaboration on joint audits and increased sharing of useful information on unremitted taxes in States;
- Greater attention to the informal sector and High Net Worth Individuals (HNWIs) to further expand taxpayer base and revenue.
- Inauguration of Joint State Revenue Committees (JSRC) by States to harmonise taxes and levies.

[4] National Tax Policy, 2017
[5] Joint Tax Board, 2017

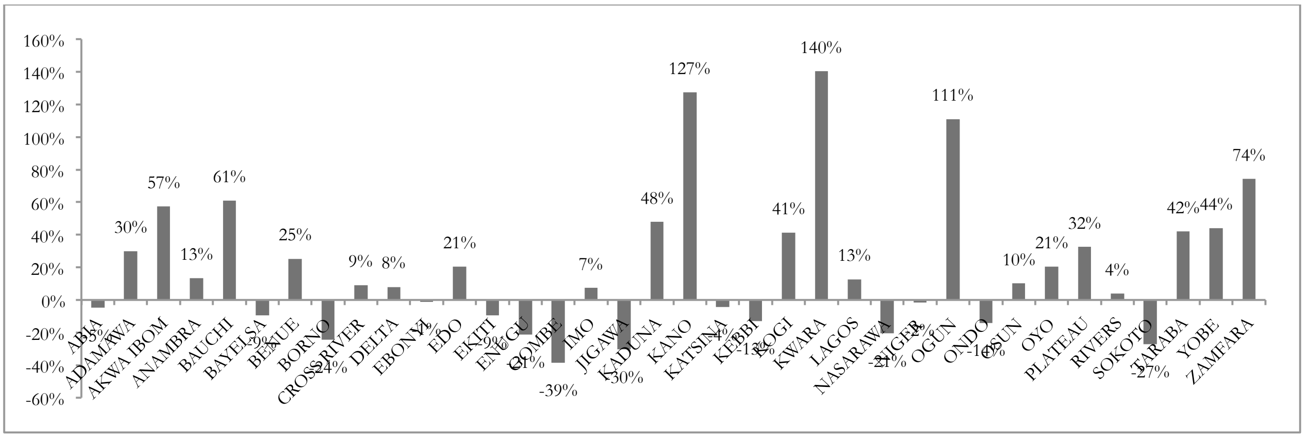
States Driven Tax Reforms Triggering Revenue Growth

This section of the research paper examines the impact of discretionary tax reforms implemented by State governments on tax revenue. Unfortunately, due to data constraints, it will only examine a few States that recorded remarkable growth in 2016, focusing on reforms triggering growth and linking implementation to outcome. However, it is pertinent to note that some reforms are more long-term triggering than others. For example, the process of seeking executive or legislative consent to the implementation of approved reforms could take months and sometimes years. These processes vary across States depending on factors such as political will and the perception of other actors (both governmental and non-governmental) of the intended reform.

Figure 4. below shows 2016 annual growth in internal revenue across all 36 States with Kwara State (140%) recording the highest growth rate followed by Kano (127%), Ogun (111%), Zamfara (74%), Bauchi (61%), Akwa Ibom (57%) and Kaduna (48%). However, Lagos, Rivers and Ogun State remain highest in nominal terms with their IGR at ₦302.43 billon, ₦85.2 billion and ₦72.9 billion respectively.

In comparative terms, only Akwa Ibom, Edo, Kogi, Ogun and Taraba States had sustained positive growth between 2014 and 2016[6].

Figure 4. ANNUAL IGR GROWTH RATE (2016)



Source: Computed by Authors using JTB Data (2017)

According to Somorin, (2017) and the Nigeria Governors' Forum (NGF) HelpDesk Report (2017) on common reforms and innovations at the State level. The reforms common to the 7 leading States are:

- Greater autonomy for the SBIRs
- Improved taxpayer mapping (Including the informal sector)
- Adoption of modern technologies to block leakages
- Strategic re-organisation of the SBIRs
- Community engagement (Tax for Service[7])
- Presumptive tax implementation and legislative review of obsolete tax laws and rates to fit current economic realities.

Subsequent sub sections will provide individual State details as to specific reforms that triggered growth in IGR.

---

[6] Joint Tax Board Database

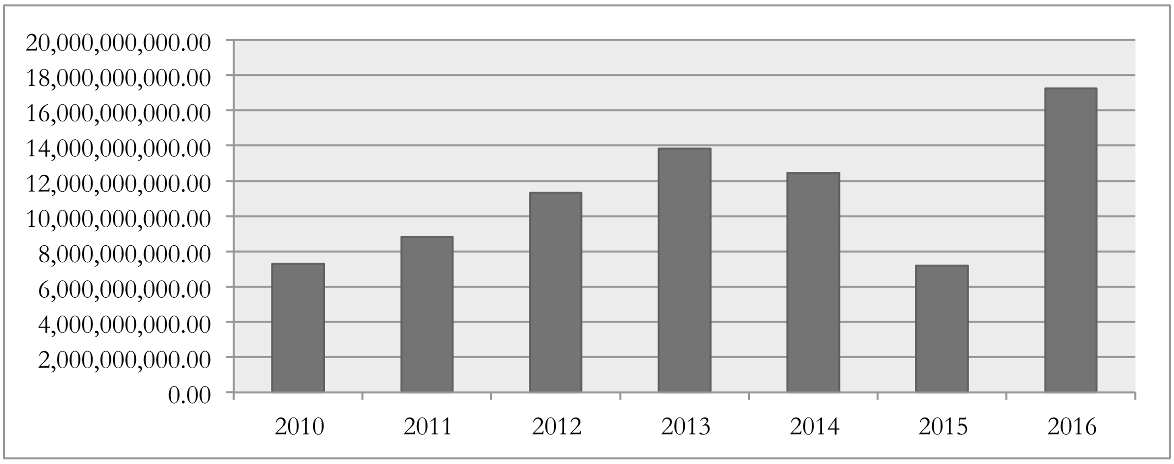
[7] Gems 3 Tax Toolkit: Improving State and Local government Tax Revenue Processes (Part 3: Tax for Service)

Kwara State

The Kwara State Revenue Administration Law No.6 was enacted under the administration of Governor Abdulfatah Ahmed on the 22nd of June 2015. This granted full autonomy to the Kwara State Internal Revenue Service (KW-IRS) to effectively administer taxes in the State. Also the law mandated that the KW-IRS be the sole revenue collector for the State (Somorin, 2017).

According to figure 5 below, the State recorded a compound annual growth rate of 15 percent in internal revenue from 2010 to 2016 and an annual growth rate of 140 percent in 2016. The seven-year period was characterized by decline and growth interchangeably year on year.

Figure 5. KWARA STATE INTERNALLY GENERATED REVENUE (2010 – 2016)



Source: Computed by Authors using JTB Data (2017)

Kwara State government and the KW-IRS had initiated several reforms between 2015 and 2016 to ensure positive growth is revived (Somorin, 2017; KWAREVENews, 2017). Categorizing the 140 percent growth recorded for 2016, the State recorded 30 percent growth in PAYE, 120 percent growth in Direct Assessment and 82 percent growth in Road taxes.

Some of the reforms triggering growth implemented by the Kwara State government and the KW-IRS within the period included:

1. The KW-IRS was granted full autonomy in 2015, allowing the Service to embark on a restructuring exercise. The Service reshuffled its board and recruited tax professionals, ensuring skill gaps in the Service were addressed.
2. The establishment of an informal sector directorate to regularly engage with the trade unions and associations in the informal sector. This was complimented by an enumeration exercise between December 2015 and January 2016, which recorded a total of 10, 000 new tax payers. Sequels to this, taxpayers in the sector were grouped into two categories namely, Market and Artisans. By December 2016, the KW-IRS had registered 26, 770 and 49, 125 new taxpayers under the Market and Artisan groupings respectively. To ensure flexibility in remitting their tax, the directorate introduced POS machines; deploying 4 POS machines to Artisans, 14 POS machines to Markets and 2 POS machines to Local Governments. The 120 percent growth in direct tax is an obvious outcome of this reform.
3. The adoption of a centralized tax collection platform using the lead bank system. All transactions channels were integrated with the State's Electronic Revenue Management System (ERMS) for easy monitoring and reconciliation.
4. As incentive, compliance with tax obligations was used as a prerequisite for the issuance of a Kwara Residence Identification Number Card required to access many State services. This was easier to

implement following the introduction of the ERMS, with which the tax compliance of a taxpayer could be verified and Resident Identification Number issued likewise electronic an electronic Tax Clearance Certificate (TCC).

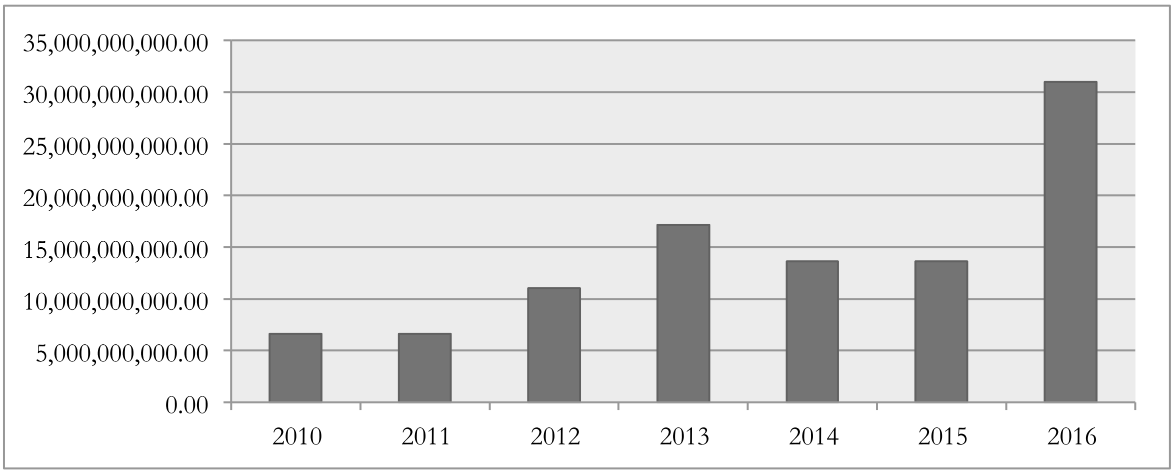
5. The centralization of the issuance of Kwara State citizenship certificate in June 2015 to block revenue leakages. By December 2016, total registration income was 42.6 million Naira.
6. In 2015, the State government successfully negotiated for the KW-IRS to manage 16 local government collections. This resulted in an increase of 129 percent in total monthly average collection for 2016. This is an indication that a harmonized approach is more effective.
7. The introduction of a community impact program (a version of Tax for Service) centered on providing services to the people in the area of education, environment, empowerment, enterprise and employment. This was an inducement to promote voluntary compliance by taxpayers in the State.
8. The institution of revenue courts to prosecute tax offenders and recover debts more effectively.

Kano State

The Kano State Edict No.12 1985 established the Kano State BIR as a division under the Ministry of Finance. More recently under the administration of Governor Abdullahi Umar Ganduje, the Kano State Revenue Law was revised, granting the board full autonomy to effectively execute its mandate (Somorin, 2017).

According to figure 6 below, the State recorded a compound annual growth rate of 29 percent in internal revenue from 2010 to 2016 and an annual growth rate of 127 percent in 2016. The seven-year period was characterized by decline and growth interchangeably year on year.

Figure 6. KANO STATE INTERNALLY GENERATED REVENUE (2010 – 2016)



Source: Computed by Authors using JTB Data (2017)

Somorin, (2017) opined that the State government and the Kano State Internal Revenue Service (KIRS) had together initiated reforms to ensure effective tax administration in the State. The effectiveness of the reforms is evident in the remarkable growth that followed shortly after.

Some of the reforms triggering growth included:

- The restructuring of the entire Service to execute its mandate more effectively. This involved redeploying unsuitable staff and recruiting up to 600 new graduates and professionals. Also key performance indicators were developed and introduced at all levels of tax administration for individual tax officers and operational teams.

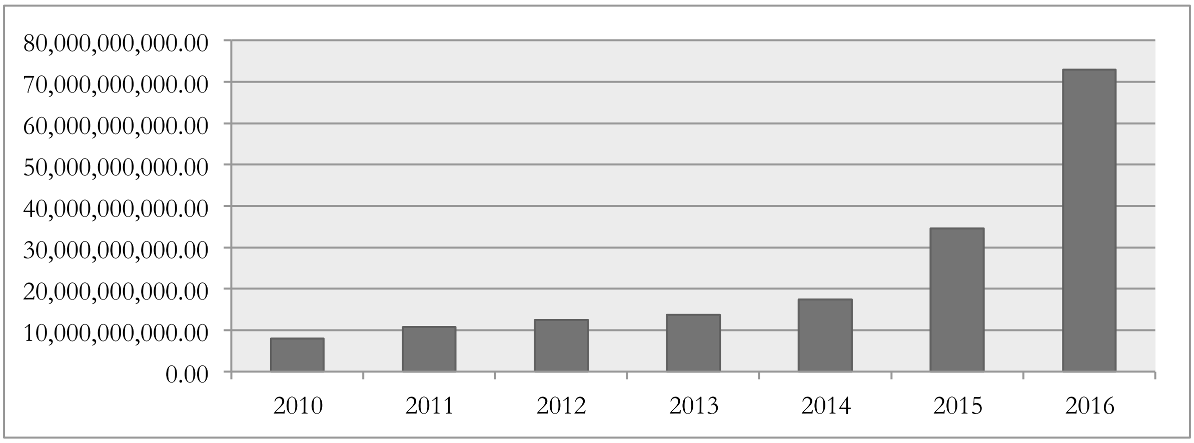
- The introduction of a dedicated KIRS training School following findings from a comprehensive needs assessment by the Service. This is aimed at building internal capacity across various work streams within the Service.
- A rationalization and reduction in the number of consultants engaged by the State government. This was complimented with the strategic use of some consultants whose contracts required that they are paired with staff of the service, to ensure knowledge transfer of processes and taxpayer engagement techniques.
- The introduction of an electronic system to capture all financial transaction across the State including revenue-generating MDAs. This was complimented with the enactment of an MDA Harmonization law (2016[8]) to give legal backing to the integration.
- The introduction of new laws to domesticate and bring the Kano State Revenue Laws in line with the 2015 amendment of the Taxes and Levies (List of approved collections) Act 2004[9].
- The deployment of a presumptive tax system to effectively engage the informal sector and the use of a Tax for Service approach to promote voluntary compliance amongst taxpayers.

Ogun State

The Ogun State Edict of 1996 and the Personal Income Tax Act Law Cap P8 LFN 2004 (as amended) both govern tax administration in Ogun State. In 2004, the SBIR was restructured on request of Governor, Otunba Gbenga Daniels, to allow it effectively discharge its mandate, which included tax policy formulation for the State (Somorin, 2017).

According to figure 7 below, the State recorded a compound annual growth rate of 45 percent in internal revenue from 2010 to 2016 and an annual growth rate of 111 percent in 2016. The State recoded steady but slow growth over the seven-year period.

Figure 7. OGUN STATE INTERNALLY GENERATED REVENUE (2010 – 2016)



Source: Computed by Authors using JTB Data (2017)

In 2012, the State government and the SBIR defined specific strategies and reform actions which it planned on implementing in the long-term to ensure effective tax administration in the State and sustained growth in IGR. The reforms have been built on by subsequent administrations fully supported by the current Governor Ibikunle Amosun, to sustain and trigger exponential growth in IGR from 2012 to 2016 with annual growth rates of 98 percent and 111 percent in 2015 and 2016 respectively.

---

[8] Kano State MDA Revenue Harmonization Law 2016

[9] Kano State Revenue Administration (Amendment) Bill 2016 (1438) AH [Passed into Law 2017]

Some of the reforms triggering growth implemented by the Ogun State government and the SBIR from 2012 till date included:

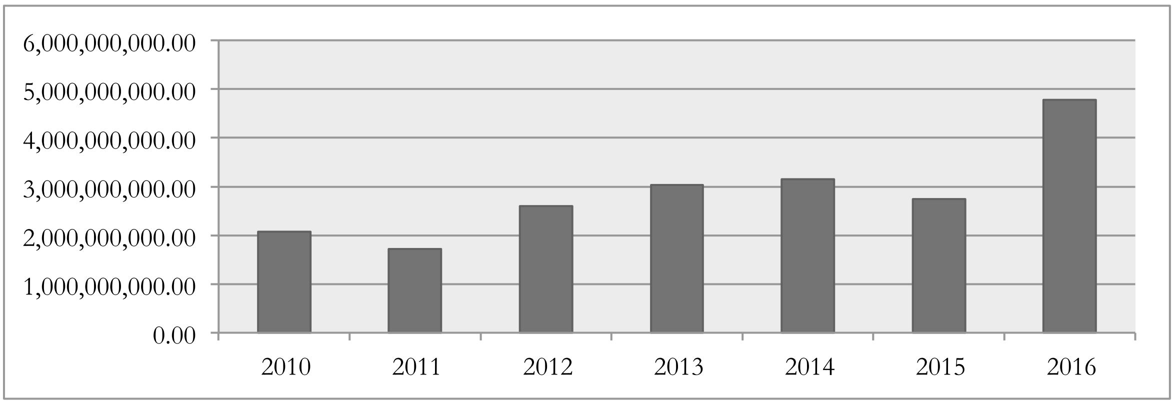
1. The re-organization of the board in terms of personnel and administrative structure to address skill and process gaps within the Service. This involved recruitment of accountants and other relevant professionals for assessments and collections. Also, an enforcement unit was instituted to drive debt recovery and taxpayer compliance.
2. Aggressive taxpayer mapping and enumeration drives.
3. Electronic issuance of TCC and receipts for payments. This has assisted in eradicating leakages and improving taxpayer confidence in collection officers.
4. Consistent engagement with trade unions and associations on tax obligations of their members.
5. Increased publicity on Tax for Service and government executed projects to boost taxpayer confidence and voluntary compliance.
6. The engagement of haulage tax consultants who remit collections under the Ministry of Commerce and Industry but pay PIT and PAYE directly to the SBIR.
7. The expansion of the State's tax base to include provisions such as Hotel and Restaurant Consumption Tax as contained in the 2015 amendment of the Taxes and Levies (List of approved collections) Act 2004.
8. The adoption of a centralized tax collection platform using the lead bank system.

Zamfara State

The Zamfara State Internal Revenue Service was granted full autonomy under the administration of Governor Alhaji Abdul'aziz Abubakar Yari on the 3rd of June 2016. This included administrative and financial autonomy, which extends to the Service the authority to recruit, discipline and promote its staff (Somorin, 2017).

According to figure 8 below, the State recorded a compound annual growth rate of 15 percent in internal revenue from 2010 to 2016 and an annual growth rate of 74 percent in 2016. The seven-year period was characterized by decline and growth interchangeably year on year.

Figure 8. ZAMFARA STATE INTERNALLY GENERATED REVENUE (2010 – 2016)



Source: Computed by Authors using JTB Data (2017)

Zamfara State government and the SBIR had initiated several reforms over the years to revive and sustain positive growth in IGR (Somorin, 2017; NGF HelpDesk, 2017). Categorizing the 74 percent growth recorded for 2016, the State recorded 178 percent growth in Direct Assessment and 504 percent growth in Road Taxes.

Some of the reforms triggering growth implemented by the Zamfara State government and the SBIR included:

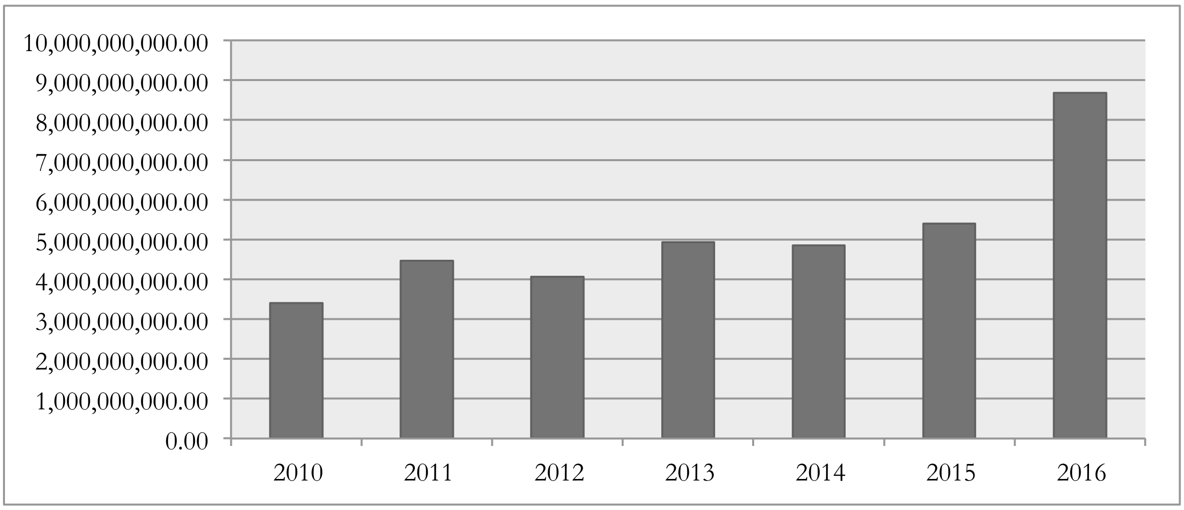
1. The Zamfara State BIR was granted full autonomy, allowing it to recruit tax professionals and address existing skill and process gaps within the Service. This was complimented by a 17 percent cost of collection charged on previous year performance and a monthly incentive of 2 percent. Hence, encouraging the Service to deliver on its mandate and sustain growth in IGR.
2. The adoption of Paydirect automation solution to ease remittance by taxpayers and reconciliation of all collections by revenue MDAs. In addition, the SBIR developed a monitoring dashboard with which it monitors revenue streams, identifying performing and non-performing MDAs and tax items. This allows the Service to strategically plan engagements with relevant stakeholders.
3. The deployment of POS machines for tax payment and receipting purposes. This has improved taxpayers' confidence in collection officers.
4. The constitution of a Revenue Recovery Tribunal to prosecute tax offenders and recover debts more effectively.
5. Aggressive and effective expansion of its taxpayer database which in terms of numbers of taxpayers is in the top five States of the federation.

Bauchi State

Bauchi State Revenue Administration Law was enacted in 2009 to govern tax administration in the State (Somorin, 2017). While reforms were introduced and progress made, the real boost has been that the Service under the administration of, Governor Mohammed Adbullahi Abubakar, was granted full autonomy (administrative and financial) to effectively execute its mandate as the SBIR (NGF HelpDesk, 2017). This led to the introduction of sufficient funds to drive some of the ICT reforms and improvement in the conditions of Service of the staff leading to greater engagement and productivity.

According to figure 9 below, Bauchi State's IGR has been volatile with growth and decline interchangeably year on year, till 2015 when it started to record a sustained growth. The State recorded a 17 percent compound growth in internal revenue from 2010 to 2016 and annual growth in 2016 of 61 percent.

Figure 9. BAUCHI STATE INTERNALLY GENERATED REVENUE (2010 – 2016)



Source: Computed by Authors using JTB Data (2017)

Bauchi State government and the SBIR had initiated several reforms in the last three years to sustain positive growth in IGR (Somorin, 2017; NGF HelpDesk, 2017). The reforms appear effective considering that the State recorded annual growths of 11 percent and 61 percent in 2015 and 2016 respectively.

Some of the reforms triggering growth implemented by the Bauchi State government and the SBIRS within the period included:

1. The Bauchi State BIR was granted full autonomy, allowing the Service to recruit tax professionals and address existing skill and process gaps within the Service. This was complimented by a 15 percent cost of collection on charged on previous year performance and a monthly incentive of 2 percent.
2. Members of staff were placed on a separate salary structure from that of the civil Service and complimented with a contributory pension scheme. They were also drafted for periodic training[10] based on need. Hence, encouraging the staff to deliver on their target and abstain from corrupt practices.
3. The integration of TIN with their Integrated Tax Administration System (ITAS) database. ITAS allows for semi-automated reconciliation, reporting, budgeting, registration, assessment and issuance of notices. This is complimented by the provision of internet connectivity and a cloud based server network across all offices, for easy backup and real-time reporting. Both ICT infrastructures have made operations in the Service more efficient and effective reducing the turn-around time for executing tax processes.
4. The implementation of a cashless system, ensuring collections are remitted directly to designated banks and through selected e-payment channels.
5. The institution of a specialised unit to oversee payment from High Net Worth Individuals (HNWIs). This has significantly improved voluntary compliance by this group of taxpayers.
6. The institution of a corporate communication department, which manages public relations, brand and image of the Service. The department facilitates awareness programmes on State government projects, linking taxes to provision of social and public Services. To compliment this, a tax complaints management process was instituted to effectively manage taxpayers' complaints and questions. The activities of the department have boosted citizen engagement and taxpayers' confidence over the year, hence, improving voluntary compliance.
7. Aggressive taxpayer mapping and frequent execution of enumeration drives to bring in the informal sector

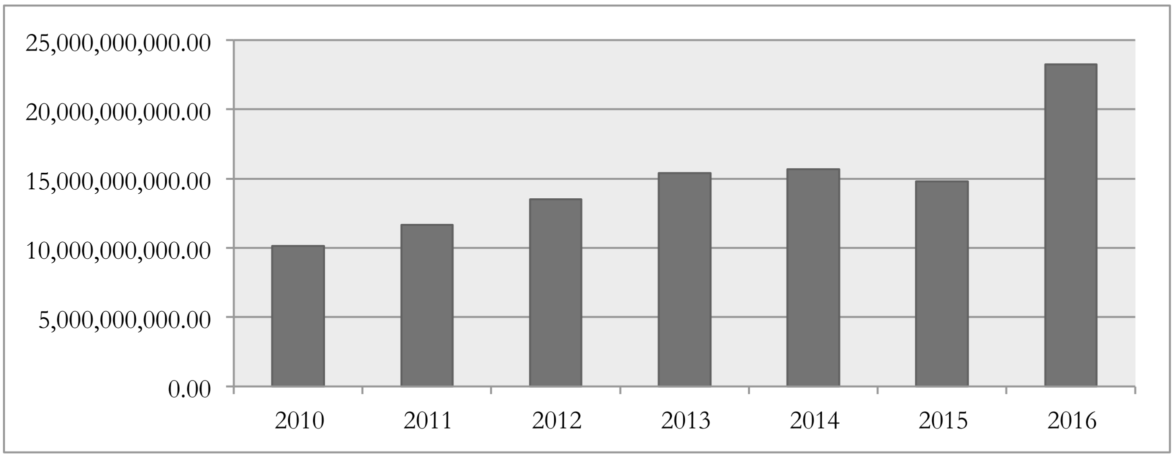
Akwa Ibom State

Akwa Ibom State Internal Revenue Service was established as a State government extra-ministerial agency in 1987 during the military administration of General Ibrahim Badamosi Babangida. More recently, the Service was granted autonomy under the administration of Governor Udom Gabriel Emmanuel on the 30th of June 2016 following the passage of a bill requesting for full autonomy initiated in 2003 by the Chairman at the time, Etubom Essien Etim. The law allowed for an autonomous board to be constituted and a revenue Service to be established to administer taxes for the State.

According to figure 10 below, the State recorded a compound annual growth rate of 15 percent in internal revenue from 2010 to 2016 and an annual growth rate of 57 percent in 2016. The Service has been able to sustain steady but slow growth over the seven-year period asides for 2015 when it recorded a decline of 13 percent.

[10] Including Charter Institute of Taxation Nigeria (CITN) and Joint Tax Board (JTB) Training

Figure 10. AKWA IBOM STATE INTERNALLY GENERATED REVENUE (2010 – 2016)



Source: Computed by Authors using JTB Data (2017)

Akwa Ibom State government and the SBIR had initiated several reforms over the years to revive and sustain positive growth in IGR (Somorin, 2017; NGF HelpDesk, 2017). Categorizing the 57 percent growth recorded in 2016, the State recorded 50 percent growth in PAYE and 459 percent growth in Direct Assessment.

Some of the reforms triggering growth implemented by the Akwa Ibom State government and the SBIR included:

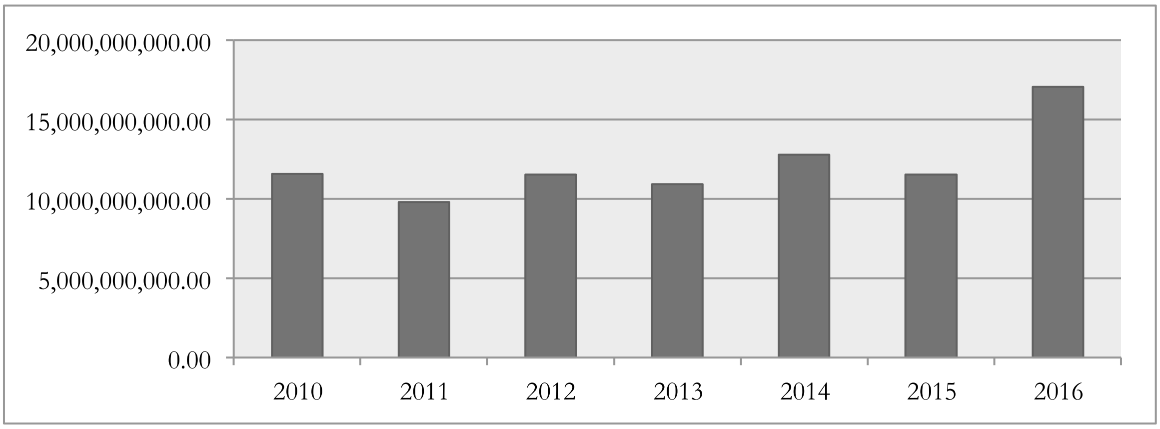
1. The Service was granted autonomy, which allowed for an autonomous board with both administrative and financial autonomy to execute its mandate effectively. This was followed by the provision of operational equipments to facilitate effective tax administration by the Service including 8 Hilux vans, 4 Buses and 110 laptop computers for revenue officers. The gestation period (2003 to 2016) for this reform indicate the varying difficulty in achieving autonomy by States.
2. The implementation of a cashless system, ensuring collections are remitted directly to designated banks and through selected e-payment channels.
3. The development of an online real-time web based system called Revenue Enhancement and Electronic Monitoring System (REEMS), which enables e-payment, self assessment, real-time monitoring of remittances and management of accounting operations of the Service.
4. Aggressive taxpayer mapping and frequent execution of enumeration drives to bring in the informal sector, evidenced by the 459 percent growth in direct assessment.
5. The institution of revenue courts in three senatorial districts to prosecute tax offenders and recover debts more effectively.

Kaduna State

Kaduna State revenue administration is governed by the Kaduna State Tax (Codification and Consolidation) Law No.3 2016. The law was passed under the administration of Governor Nasiru Ahmed El-Rufai, to grant full autonomy to the Kaduna State Internal Revenue Service (KADIRS) and harmonize all taxes, levies, fees, charges and rates in the State to be administered and collected by the Service. (Somorin, 2017).

According to figure 11 below, the State recorded a compound annual growth rate of 7 percent in internal revenue from 2010 to 2016 and an annual growth rate of 48 percent in 2016. The seven-year period was characterized by decline and growth interchangeably year on year.

Figure 11. KADUNA STATE INTERNALLY GEENERATED REVENUE (2010 – 2016)



Source: Computed by Authors using JTB Data (2017)

Kaduna State government and the SBIR had initiated several reforms in the last two years to revive and sustain positive growth in IGR (Somorin, 2017; NGF HelpDesk, 2017). The reforms appear effective considering the 48 percent growth recorded for IGR in 2016. Categorizing the 48 percent growth recorded for 2016, the State recorded 58% percent growth in PAYE.

Some of the reforms triggering growth implemented by the Kaduna State government and the SBIR included:

1. The enactment of the Kaduna State (codification and consolidation) law 2016 on 1st March 2016. The law provided for full autonomy of the SBIR, allowing the Service to recruit tax professionals and address existing skill and process gaps within the Service. This was complimented by a 5 percent cost of collection charged on previous performance.
2. The 2016 law also mandated that the State IRS administer taxes, levies, fines and charges on behalf of the State and Local government. This has helped to reduce cases of double taxation.
3. The establishment of a single revenue account and closure of all other revenue accounts operated by MDAs and local governments. This has assisted the Service in blocking leakages and made revenue performance easier to monitor.
4. The institution of a specialised unit to oversee the management of HNWIs. This has improved compliance by HNWIs with direct assessment and PAYE in the case where the such persons owns a company or business
5. The designation of a court of competent jurisdiction in each local government to give priority to matters relating to the revenue of the State. This has assisted the Service in executing back audits more effectively and prosecute tax offenders for recovery of debts.
6. The establishment of presumptive tax[11] for persons whom for all practical purposes, their income cannot be ascertained or financial records were not kept in a manner that would enable proper assessment of income.
7. The adoption of Paydirect automation solution to ease remittance by taxpayers and reconciliation of all collections by revenue MDAs.
8. The constitution of a State Joint Tax Revenue Committee to address issues of revenue mobilization and promote effective collaboration between the KADIRS and revenue generating MDAs.

[11] Kaduna State Tax Law 2016, Part VII

State-wide Challenges to Effective Tax Administration

This section provides an overview of common challenges to effective tax administration in the country, especially at the sub-national level. As previously seen a number of States have started to address these challenges while a few others not covered in this paper have also initiated reforms in this respect. These reform efforts include the development of draft bills to update obsolete tax laws, collaboration with relevant MDAs, improvements in taxpayer mapping as well as development partner engagements to upgrade technology infrastructure at the SBIRs. Common State-wide challenges to effective tax administration include the following:

- **Obsolete Revenue Laws**: Many States are yet to review their tax laws to provide a modern enabling law for tax administration in the State to domesticate the potential revenue sources now provided for in schedule II of the 2015 amendment of the Taxes and Levies (List of approved collections) Act CAP. T2 L.F.N 2004 or to harmonize their tax and revenue laws to minimize the incidence of double taxation.
- **Lack of Autonomy**: Most States, even where there is an enabling law, have not delegated full administrative and financial autonomy to their SBIRs, which often affects the implementation of strategic executive decisions. This has left many SBIRS ineffective, understaffed and without skilled labour for tax administration.
- **Inadequate Funding:** States that are autonomous or semi-autonomous also face funding issues, as they are often reimbursed below the percentage mandated by law for cost of collection. Other States that get reimbursed in full, experience delay in remittance by government. Findings from the NGF HelpDesk Report (2017) report suggest that this slows and impedes operations at the SBIRs as they are unable to confidently embark on pertinent capital and recurrent expenditure needed to effectively deliver their mandate.
- **Poor Planning:** Most SBIRs lack clear strategic plans, leaving their operations most time to be reactive rather than pro-active. Unfortunately, the few who have managed to develop strategic plans to manage key categories of taxpayers such as the informal sector and High Net Worth Individuals (HNWIs) lack the right manpower and clarity to execute and implement the plans. Overall, States need to consider employing strategic approaches such as presumptive tax to engage the informal sector and develop active taxpayers education and engagement activities to boost taxpayer confidence and related compliance.
- **Poor Taxpayer Database Management:** Many States are yet to integrate their TIN database with other relevant databases as recommended by the NTP 2017. This is worsened by poor inter-agency collaboration between the SBIRs and relevant data agencies within the States such Banks (BVN), Corporate Affairs Commission, Ministry of Lands, Survey and Country Planning amongst others. While the JTB has taken the lead in this regard, providing States with collaborative opportunities, some States are still yet to fully engage and exploit the benefits therein.
- **Non-Institution/Designation of Revenue Courts:** Only a few States have instituted or designated revenue courts to prosecute tax offenders and recover debts more effectively. The absence of revenue courts continues to undermine the efforts of SBIRs in debt recovery, with cases spanning years and unresolved.
- **Poor Adoption of Modern Technology:** Many States still lack the basic ICT infrastructure to facilitate efficiency at the SBIR. More predominant and disturbing is the inefficient manual process of documentation and assessment still being employed by many SBIRs who are yet to adopt digitalized and electronic systems for tax administration.
- **Inadequate Capacity Building:** Inadequate skilled manpower worsened by poor capacity building and training for tax officers continues to hinder any significant efficiency gains from other reforms that they undertaken.

Recommendations to be considered for Effective Tax Administration at the State-Level

The following recommendations remain key to ensuring effective tax administration and sustainable revenue result.

1. **Political Will:** A common driving force for the States that recorded remarkable growth in 2016 is the significant political support from their Governors, ensuring that appropriate enabling laws are presented to the State Houses of Assembly and passed while providing adequate funding for effective administration of taxes by the SBIR. Odusola (2006) and NTP 2017 advocate similarly, that tax related laws be periodically reviewed and adequate funding be provided to ensure that revenue authorities execute their mandate effectively and efficiently. Hence, State Governors should take a cue from their colleagues and support strategic reforms needed to push effective tax administration in their State and raise revenue.
2. **Autonomy:** It is evident from the 7 leading States examined in this paper, that granting administrative and financial autonomy to SBIRs is positively correlated with improved revenue performance. This is because the SBIR is able to implement necessary reform actions to address challenges to effective tax administration inherent at the Service. In addition, the SBIRs should be made sole collectors for their States to reduce incidence of double taxation. This understanding between the Local and State governments on the sole collector Status of the SBIRs can be reached; adopting a revenue sharing formula as executed in Kaduna State.
3. **Professionalization of the Revenue Authority:** To address skills and process gaps in the SBIRs, many will have to undergo restructuring including standardizing organizational structure and recruiting professionals to execute the mandate of the service more effectively. This should be complimented by periodic capacity building training for tax officers and strategic planning on taxpayer engagement. States with high revenue growth as reviewed herein, were all characterized by having addressed the skills gap with strategic recruitment of professionals and standardized capacity building trainings.
4. **Technology:** States should ensure the provision of basic ICT infrastructure across their SBIR offices with internet connection to facilitate real-time reporting and documentation. Also electronic solutions for both case management and revenue collections should be deployed to drive ease of paying taxes. More importantly, the deployment of innovative technologies like POS machines and E-billings systems will help to boost taxpayer confidence in the service and its collection officers while curbing leakages.
5. **Taxpayer Engagement and Education:** SBIRs should begin to employ innovative strategies such as presumptive tax to manage the informal sector and Tax for Service; consistently, linking taxes to local development and other government services. This will help to boost voluntary compliance and reduce administrative costs borne by the Service on enforcement. Also, SBIRs should make greater use of their mobile TIN kits as they embark on enumeration and awareness drives.
6. **Economic Development:** Government needs to improve social investment and development efforts in their State; creating an enabling environment for businesses to strive and grow. The level of economic development largely impacts the responsiveness of taxpayers to tax obligations (Musgrave, 1969; Adeoti and Taiwo, 2015).

References

Adeoti, J. O. and Taiwo, O. (2015) Effectiveness of Nigeria's Tax System in the Redistribution of National Income. *Journal of Taxation and Economic Development*. ISSN 118-6017 Vol. 14 No. 1

Agbaeze, E.K., Udeh, S.N., Onwuka I.O. (2015) Resolving Nigeria's Dependency on Oil – The Derivation Model. *Journal of African Studies and Development*. 7:1.

Ajakaiye, O., Jerome, A. T., Olaniyan, O., Nabena, D. and Alaba, F. (2016) Nigeria. The Relationship between Growth and Employment. *Africa Lions: Growth Traps and Opportunities for Six African Economies*. Chapter 6 in Bhorat, H and F. Tarp (Eds.) The Brookings Institution Press. Washington, D.C. Pp 181-228.

Anyaehie, C.M. and C.A. Areji, (2015) Economic Diversification for Sustainable Development in Nigeria. *Open Journal of Political Science*. 5: p87– 94.

Anyanwu, S.O., Offor, U.S., Adesope, O.M and Ibekwe, U.C (2013) Structure and Growth of the Gross Domestic Product (1960 -2008): Implications for Small-Scale Enterprises in Nigeria. *Global Advanced Research Journal of Management and Business Studies*. 2: p342-348.

Asher, M.G. (1989), Fiscal Systems and Practices in ASEAN: Trends, Impact and Evaluation. *Singapore: Institute of South-East Asian Studies.*

Bird, M.R. and M.E. Zolt, (2003). Introduction to Tax Policy Design and Development. Available from: http://www.worldbank.org/ [Accessed 5 September 2017].

Bukie O. H and Adejumo, T. A (2013). The effects of Tax Revenue on Economic growth in Nigeria (1970 – 2011). *International Journal of Humanities and Social Science Invention* (Online): 2319 – 7722

Energy Information Administration (EIA) (2016) International Energy Outlook Report

Energy Information Administration (EIA) (2017) Short-Term Energy Outlook Report

Federal Inland Revenue Service (2012) Federal Inland Revenue Service and Taxation Reforms in Democratic Nigeria. Edited by Ifueko Omoigui Okauru. ISBN: 978-978-48776-5-2

Holcombe, R. (2006). Public Sector Economics; The Role of Government in the American Economy. New Jersey: Pearson.

Available at: https://dash.harvard.edu/bitstream/handle/1/4263739/Mankiw_OptimalTaxationTheory.pdf?sequence=2 [Accessed 5 September 2017]

Kiabel, B.D. and Nwokah, N.G. (2009). Boosting Revenue Generation by State Governments in Nigeria: The Tax Consultants Option Revisited. *European Journal of Social Sciences*. 8(4): 532–539

KWAREVENews (2017). Year 2016 Not for Celebration but for Appreciation. 3:14.

Laffer, A. B. (2008). The Laffer Curve: Past, Present and Future. Laffer Associates, January 6.

Libabatu, S. G (2014) Tax Revenue and Economic Growth in Nigeria. Department of Accounting, Faculty of Administration Ahmadu Bello University, Zaria.

Mankiw, N.G., Weinzierl, M., Yagan, D. (2009) Optimal Taxation in Theory and Practice.

Musgrave, R.A. (1969) Fiscal Systems, Yale University Press, New Haven

Nigeria Governors' Forum HelpDesk Report (2017) Diagnostic Study Report for States Board of Internal Revenue (SBIRs): Kaduna, Zamfara and Bauchi States.

Odusola, A. (2006) Tax Policy Reforms in Nigeria. *Research Paper No. 2006/03 UNU-WIDER.*

Available at: https://www.econstor.eu/bitstream/10419/63285/1/509144713.pdf [Accessed 5 September 2017]

Oluwafemi, Z.O., Adedokun, M.A., Ogunleye, A. A. and Oladokun, Y.O.M (2015) An Empirical Analysis of the Contribution of Agricultural Sector to Nigerian Gross Domestic Product: Implications for Economic Development. *Developing Country Studies*. Vol.5, No.21. (Online) www.iiste.org.

Owolabi, S.A. and A.T. Okwu, 2011. Empirical Evaluation of Contribution of Value Added Tax to Development of Lagos State Economy. *Middle Eastern Finance and Economics*, 1(9): 24 –34.

Oyedele, T., Asuzu, D. and Alade, B. (2015) Economic and Fiscal Implication and Nigeria's Rebased GDP Available at: http://www.pwc.com/ng/en/publications/gross-domestic-product-does-size-really-matter.html [Accessed 5 September 2017]

Papp, T.K and Takáts, E (2008) Tax Rate Cuts and Tax Compliance— The Laffer Curve Revisited. *IMF Working Paper Policy Development and Review Department.*

Pfister, M. (2009) Taxation for Investment and Development: An overview of Policy Challenges in Africa. *Ministerial Meeting and Expert Roundtable of the NEPAD – OECD Africa Investment Initiative on November 11 – 12.*

Powell, J. (2013) Implication of Increasing US Crude Oil Production. *Independent Statistics and Analysis.*

Slemrod, J. (1990). "Optimal Taxation and Optimal Tax Systems". Journal of Economic Perspectives. 4 (1): 158. Available at: https://dx.doi.org/10.3386percent2Fw3038 [Accessed 5 September 2017]

Smith, A. (1776). *An inquiry into the nature and causes of the wealth of nations: Volume One*

Solow, R. M. (1956) A Contribution to the Theory of Economic Growth. *The Quarterly Journal of Economics*. Vol. 70 No.1 Pp65 -94

Somorin, O.A. (2017) Tax Reforms in Nigeria since 1978. *Chartered Institute of Taxation. Teju Tax Series No. 4.*

Uzonwanne, C.M. (2015) Economic Development in Nigeria in the Face of Dwindling Oil Revenue. *Journal of Economic and Sustainable Development*. 6(4): 61 – 67

World Bank (2017) Doing Business: Equal Opportunity for All

Available at: www.doingbusiness.org/reports/global-report/doing-business-2017[Accessed 5 September 2017]

Worlu, C.N. and Emeka, N. (2012) Tax Revenue and Economic Development in Nigeria: A Macroeconometric Approach. *Academic Journal of Interdisciplinary Studies*. 1(2): 211-223.