

The making of a good e-tax system

Even with technology, you cannot build something on nothing



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Technology is influencing our lives and continues to change the way we do things from the simple day to day activities to the complex and less routine tasks. It is difficult today to imagine that we once lived in a world without Social Media like Facebook, without Search Engines like Google, without Smart phones or Tablets and so on. Interestingly that was the world we lived until as recent as 13 years ago.

The impact of technology can be seen and felt in every area of our lives from commerce to entertainment, education, communications,

healthcare, defense and taxation. According to the World Bank and PwC Paying Taxes Report 2013, sixty six economies had fully implemented electronic filing and payment of taxes as at 2010. Twenty of them adopted the system in the past 7 years.

An electronic system for filing and paying taxes, if implemented well and used by most taxpayers, benefits both tax authorities and taxpayers. For tax authorities, electronic filing lightens the workload and reduces operational costs – such as the costs of processing, storing and handling tax returns.

At the same time, it increases tax compliance and saves time. For taxpayers, electronic filing saves time by reducing calculation errors on tax returns and making it easier to prepare, file and pay taxes. And both government and taxpayers benefit from a reduction in potential incidents of corruption, which are more likely to occur with more frequent contact with tax administration staff.

The Joint Tax Board, the Federal Inland Revenue Service and some State Internal Revenue Service have or are in the process of implementing electronic tax systems. Whilst the initiative is commendable it is important to ensure that the potential areas of failure are anticipated and prevented. Some of the elements of a good technology driven tax system include:

Smooth transition

there should be concerted effort to ensure that taxpayers are sensitised and educated to become fully aware of the e-system. Various media should be used to ensure wider reach including print, electronic and social media. Short demo videos should be available on the portal to serve as a guide to users. The implementation should be in phases with proper testing before full rollout. This also requires that existing taxpayers' manual information should be captured into the electronic system and validated by taxpayers as a starting point.

Simplicity and inclusiveness

the system should be easy to use even with minimum education. This will also make the system inclusive. Taxpayers should not be required to provide the same information twice unless where it is necessary for data validation. Also, taxpayers should not be asked to provide redundant information which serves no useful purpose. For instance, the tax calculator on the FIRS website requires information about dividend from quoted and unquoted companies. This is of no particular relevance since all dividends which have suffered withholding tax are franked and tax exempt. Also, it is of little or no use to require TIN for non residents who have no filing obligations such as recipients of dividends.

Availability

it is crucial that the system be available always. Downtime should be minimised otherwise taxpayers will consider it unreliable and therefore prefer the manual process. This is particularly important during filing and payment deadlines. Given the last minute compliance tendency of most taxpayers the authorities must envisage and cater for the high traffic in and around key tax filing and payment deadlines such as 30 June for companies with 31 December year end date taxable under the Companies Income Tax Act.

Accessibility

the system should be able to efficiently collect, electronically store, and easily retrieve taxpayer

information. Every registered taxpayer must be able to view their tax records online which should contain all transactions by and on behalf of such taxpayer including any withholding tax deducted on the taxpayer's income by third parties. With this it should not be necessary to apply for credit for withholding tax suffered and the lengthy verification process should become a thing of the past. Accessibility also requires that the system should be of general application and be compatible with other systems.

Affordability

this has to do with the cost benefit analysis both for the tax authority and the taxpayers in the short, medium and long term. The initial cost of any major system will likely be significant but the benefit should be enduring. This will be the case if the system is well maintained and constantly updated not abandoned post commissioning as is the case with many systems in Nigeria which are merely symbolic rather than functional.

Stakeholder engagement

regular surveys about the tax system should be conducted from time to time including the ease of paying taxes, professionalism of the tax officers. Also taxpayers should be asked to contribute to government fiscal policies via the system.

Completeness and limited human interface

the system should assist taxpayers to deal with their tax compliance obligations from start to finish. For instance, it is pointless to fill tax liability information online and then have to physically visit a bank to pay. In the same manner tax receipts should be electronically generated for taxes paid. At the beginning of the year, every taxpayer who has complied with their self assessment obligations and have no outstanding undisputed tax liability should automatically be issued a tax clearance certificate which they can login to their accounts and be able to print out. This should contain computer readable codes to prevent counterfeiting.

Support

since there is no perfect system anywhere, there should be a helpline and other forms of real time support for taxpayers who may encounter problems in using the system. Also there should be detailed help manual on how to complete tax forms. Where necessary there should be free downloadable software on the website for preparing tax returns.

Compliance focus

the system should uniquely identify every taxpayer and should not allocate more than one number to any taxpayer unlike under the current tax identification system where many taxpayers end up with more than one number generated for them at different times. The system should be used for taxpayer profiling, provide reliable online tax

calculator, link with other agencies such as the Nigeria Customs Service, Corporate Affairs Commission and Land Registry. This will make the system truly integrated and should facilitate a risk-based audit approach.

Security and back-up plan

the system must be secured to guarantee taxpayer confidentiality and minimise fraud especially with respect to online payment. There should be a robust disaster recovery plan in case of an attack. Online information exchange between taxpayers and tax officers should be done via secured protocol. For instance tax officers should desist from using Yahoo emails for official business.

Controls and monitoring

relevant information about users should be collected to evaluate usage and address challenges faced. Also to provide data validation mechanism as is the case with smart systems. For instance, tax payable should not be negative or greater than turnover figure.

Flexibility and transparent reporting

the system should make it possible to transfer excess tax payments or refund due in one tax head to another. For instance, excess withholding tax should be available to defray VAT liability or education tax otherwise refunds should be paid promptly within 90 days as provided by the law. This is important to win taxpayer confidence in the event that a taxpayer is debited twice due to system errors. It should also be possible to allow joint filing and payment of several taxes by a taxpayer. Detailed information and analysis of taxes collected, unpaid refunds and unutilised credits and allowances should be provided.

The system once implemented should be constantly reviewed to address teething problems and to evolve with the changing economic landscape and increased complexity of today's business environment.

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