

# ***Taxation and Governance - Part 1 (political leadership)***

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**By Kenneth Erikume**

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## ***Nigeria is in a new phase of political development***

It is now one year since the administrative change at the Federal Government. The citizens rightly expect to see the change promised by the new government.

'Change', particularly in dealing with corruption, fighting insurgency but also improving the economy are some of the clear expectations from the people. However, change cannot happen overnight. It will take time, persistence, change in values and ways of doing things. How this will unfold over the next years remains an intriguing prospect.

In a series of 3, I will consider tax and governance from the dimension of politics, religion and business. I will start this series by considering tax under the lens of political leadership.

## ***The opportunity of falling oil price for tax and governance***

One of the toughest jobs for the current government is revenue. The statistics on the impact of the drop in oil price is quite gruesome. On a simplistic basis, if crude price dropped from US\$77.5 to \$53 per barrel (based on budget crude price from 2014 and 2015 respectively), government revenue from crude oil would also drop roughly by 31% (from 2014 to 2015) based on a simple ratio. This approach will not show the true level of revenue loss because, the budget prices did not and do not reflect market prices and secondly, other factors may contribute to the real drop such as the effect of tax, currency depreciation and any other financial item that has an impact on 'profit oil'.

To put this in perspective, revenue collected by the FIRS (the main revenue collection agency of government) from taxes (including PPT) dropped by 28%, 49% and 18% for Q1, Q2 and Q3 of 2015 when compared to 2014. This resulted in a gap of about N1.2 trillion in the first two quarters of 2015.

	N' billion	N' billion	Drop	N' billion
	Q1, 2014	Q1, 2015	%age	Gap
<b>PPT</b>	638.09	368.59	42%	269.49
<b>Non-oil</b>	418.29	388.12	7%	30.17
<b>Total</b>	1,056.37	756.71	28%	<b>299.7</b>
	Q2, 2014	Q2, 2015		Gap
<b>PPT</b>	639.27	136.57	79%	502.7
<b>Non-oil</b>	815.9	609.65	25%	206.26
<b>Total</b>	1,455.17	746.22	49%	<b>709</b>
	Q3, 2014	Q3, 2015		Gap
<b>PPT</b>	594.8	325.87	45%	268.93
<b>Non-oil</b>	604.43	654.62	-8%	-50.19
<b>Total</b>	1,199.23	980.49	18%	<b>218.7</b>

*Source: Analysis from FIRS published figures*

The drop in revenue from PPT, which remained depressed in Q4 2015 and Q1 2016, as reflected in the table was above 40% in all quarters (but almost an 80% in Q2). The positive result for Q3, 2015 was encouraging but nothing to be too excited about as most companies are expecting to post less profits in the corresponding period in 2016 which will impact on how much the government is able to collect as taxes. Similarly, the de facto import restriction on certain items also reduced the import duty collection by the Nigerian Customs Service.

The implication of this is that there will be shortage of funds to run the government and to provide infrastructure in line with the 2016 approved budget of N6.06 trillion.

These are challenging times in Nigerian economic history. This 'challenge' creates an opportunity for the government to restructure the tax system in Nigeria to serve as a sustainable source of revenue. Clear policies and strategies for economic recovery are required as well as fiscal policies that will improve tax collection rather than the tax burden on compliant taxpayers. Irrespective of the harsh situation, while the economy recovers, it is inevitable that the government will not be shy to collect taxes that are due. Similarly, taxpayers will no longer be docile when it comes to how tax revenue is spent. One advantage of this situation is that tax is the only sustainable way that the government can actually use to plug the revenue gap (fines and grants are not). Secondly, studies have shown that proper taxation has a direct relationship to

political governance. An example of this is the slogan 'no tax without representation' originating in the 1750s and 1760s when US citizens resisted taxation imposed by the British Empire unless their voices were formally heard in the distant British Parliament. They wanted to have influence on how the Sugar and Stamp taxes were being spent.

Good governance will be quicker to achieve when citizens are made to comply with taxes as they will demand for infrastructure and better services from the government commensurate to the taxes they contribute. An example of this is the Nordic region where the State's efficiency and responsiveness is second to none. Performance of public services is measured – everyone has access to public records and public officers are held accountable for their lifestyle.

### ***Asset declaration can improve with related tax returns***

Asset declaration is good to the extent that it prevents corruption. In addition to declaration of asset, there should be a public declaration of tax returns by political leaders. This is common practice in some developed countries where the leaders have to demonstrate that they lead the pack in contributing to government revenue through tax and therefore will be more responsible stewards in spending the funds. At this stage of public declaration, full transparency is achieved and citizens are likely to vote for candidates who support their words with actions of public service.

The same principle can subsequently be expected from the citizens of the country. People normally behave like the leaders they idolise. They will however demand for their contribution to be used judiciously and will raise questions if there are aberrations. In the same vein, they can rest more comfortably on the fact that the transparency from their leaders reduces opportunity for misappropriation of revenue, fraud and corruption. The quotation by Dave Ramsey “A budget is telling your money where to go instead of wondering where it went” will become more of a reality through employment of tax disclosures.

### **Conclusion**

Tax is generally regarded as a social contract. A responsible government is one that takes taxes seriously and leads by example. Some of the measures that can be put in place (either by legislation or good practice similar to the president’s public declaration of assets) are as follows:

- **#1 Set the tax agenda for political leaders** – In many developed countries where they rely mostly on tax to run their government, tough and probing questions are asked of political candidates during elections to determine not only their suitability for office but the likely direction of their fiscal policies if elected.
- **#2 A push in the future for political candidates to disclose their tax returns**

– A lot of concern have been raised in recent times on the effectiveness and efficiency of the National Assembly (in terms of relevant Bills passed) compared to their compensation. A candidate that has demonstrated a painful contribution to tax revenue will most likely be more effective in making laws for the utilisation of such funds.

- **#3 Reconciliation of asset declaration to tax returns** – Simple accounting tells us that an asset (debit) must be represented by income or borrowings (credit). It will add credibility to the process if political leaders can demonstrate that their assets are represented by income on which they have paid appropriate taxes.

These measures are not easy to implement. In addition, it may not automatically lead to a society that is free from corruption. Other measures have to be put in place such as uncompromised anti-graft law enforcement and an independent and efficient judiciary that can prosecute cases within a short period of time.

In the end, the words of Franklin D. Roosevelt ("Address at Worcester, Mass.," October 21, 1936) will resonate *“Taxes, after all, are the dues that we pay for the privileges of membership in an organised society.”*

**Watch out for part 2 on tax and religious leadership and part 3 on tax and corporate leadership.**

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