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Agenda for the new FIRS Leadership Priorities and key areas of focus for a lasting impact

As the Chief Revenue Officer of the Federation and the face of the Nigerian Tax System to the outside world, the Chairman of the FIRS and by extension the Board must focus on strategic tax administration of which tax collection is only a component.

Background

The Federal Inland Revenue Service (FIRS or the Service) in its current form was established by the Federal Inland Revenue Service (Establishment) Act 2007. The object of the Service as stated under section 2 of the FIRS Establishment Act is to control and administer different taxes and laws as enacted by the National Assembly or other regulations made by the government of the federation and to account for all taxes collected.

Section 3 of the Establishment Act provides for a 15-member management board to be headed by an Executive Chairman while the other 14 members are to act on a part-time basis. The tenure of office for all members is a term of four years renewable only once. The Chairman of the FIRS represents the country in international forums and is also the Chairman of the Joint Tax Board by virtue of section 86 of the Personal Income Tax Act. The FIRS is entitled to a percentage of all non-oil and gas revenue (currently 4%) for its capital and recurrent expenditures. Various taxes collected by the FIRS are shared among the 3 tiers of government.

This article focusses on the administration functions of the FIRS within the context of the overall tax system.

Nigeria's Tax Administration Scorecard

Although some progress has been made over the years, the tax system continues to face significant challenges while tax authorities operate under sub-optimal conditions. The current state of affairs can be summed up using the following indicators:

a) Low ranking on the ease of paying taxes index – Nigeria currently ranks 159 out of 190 economies far behind regional leaders Mauritius 5, Zambia 17, Morocco 24, Rwanda 38, and South Africa 54. The ranking is based on 3 sub-indicators being total tax rate, time to comply, and number of payments. It also measures post-filing index. It is instructive to note that Nigeria is competitive with respect to total tax rate (ranks 77) being the only sub-indicator not within the control of the tax authorities. So, Nigeria's poor ranking is largely due to poor tax administration.

b) Very low Tax to GDP ratio – At 6%, Nigeria's tax revenue profile is one of the lowest in the world, far behind regional leaders – Seychelles 32%, Tunisia 31%, Morocco 28%, South Africa 26%, Africa average 17% and OECD average 34%. The FIRS has underperformed relative to its revenue budget since 2015.

c) Poor and disjointed adoption of technology – A recent study by the Nigerian Economic Summit Group found that less than one percent of taxpayers who are registered with the FIRS use the online platform for their tax assessment, filing of returns and payment. By contrast the ratio for the South African Revenue Service is over 50%.

d) Multiplicity of tax audits and revenue agencies – Tax audits are unending with various agencies conducting audits after audits often using external consultants which not only raise the cost of collection but negatively impacts on taxpayer trust.

e) Inefficient tax collection process and poor taxpayer service – the cost of collection is about 4% of non-oil revenue (over 2% for all taxes) compared to about 1% international standard (0.89% in South Africa). Taxpayers are sometimes not treated with courtesy while relevant information to aid voluntary compliance are seldomly provided and request for refunds, rulings, TCCs etc could take an unnecessarily long period of time.

f) Poor reporting and accountability – There are no timely audited financial statements available to the public, no data on revenue forgone from tax waivers, no detailed breakdown of tax collected by type of taxpayers, analysis of tax arrears, unpaid refunds and processing time, average time spent to resolve tax audits, etc.

The Nigerian Tax Administration We Want

The Nigerian tax system must set a target to become the best in Africa and one of the best in the world. We cannot achieve this by making incremental progress or simply comparing our present with our past. To be successful Nigeria's tax administration must be best in class in all the nine core areas of the Tax Administration Diagnostic Assessment Tool (TADAT) Framework of the IMF as outlined below.

1. Integrity of registered taxpayer base – all businesses, individuals and other entities required to register are included in the database, and the database is complete, up-to-date and accurate

2. Effective risk management – risks to revenue and tax administration operations are identified and managed effectively

3. Supporting voluntary compliance – taxpayers have the necessary information and support to voluntarily comply at a reasonable cost

4. Timely filing of tax declarations – taxpayers file their declarations on time

5. Timely payment of taxes – taxpayers pay their taxes in full on time

6. Accurate reporting in declarations – effective audit and verification programs deter taxpayers from reporting incomplete or inaccurate information in their tax returns

7. Effective tax dispute resolution – the tax dispute resolution process is fair and independent, accessible to taxpayers, and effective in resolving disputed matters in a timely manner

8. Effective revenue management – tax revenue collections are fully accounted for, monitored against expectations, and analysed to inform government revenue forecasting, and legitimate tax refunds are paid promptly

9. Accountability and transparency – the tax administration is transparent in the conduct of its activities and accountable to the government and the citizenry.

Next Steps and Key Priorities

In order to address the identified challenges and begin the journey towards becoming a world-class tax administration, the following action points are recommended for the new leadership of the FIRS:

Action #1 – Conduct a status-quo assessment

Conduct a comprehensive assessment to determine what is working, what to improve and what to discontinue. Resist the temptation to accept or announce an unrealistic tax revenue target without a robust planning process. The assessment should cover the core functions of the Service and the Board including providing general policy guidelines relating to the function of the FIRS; managing and superintending over policies relating to administration of revenue, collection and accounting system; review and approval of the strategic plan of the Service; review of the tax regimes and promote the application of tax revenues in collaboration with the relevant ministries and agencies to stimulate economic activities and development; provide data on losses arising from tax fraud or evasion and revenue forgone arising from tax waivers; exchange of information with relevant national and international agencies; collation, review and implementation of all federal government's tax policies; public awareness and enlightenment campaign; and oversight over all taxes and levies accruable to the government of the Federation.

Action #2 – Build capacity and develop internal capabilities

Phase out the use of consultants for the core functions of the FIRS and eliminate political interference in the tax administration process. Promote professionalism, decentralise decision making, empower tax officers and put the best foot forward in local and international representations. Enhance the legal and dispute resolution team, revamp the Policy & Research unit, and ensure regular and quality training for all staff. Be proactive in addressing key issues such as the tax treatment of new accounting standards, Finance Bill readiness, implementation of National Tax Policy; AfCFTA, BEPS, and Exchange of Information, use of tax intelligence, and risk-based audit methodology.

Action #3 – Seek collaboration, stakeholder relations and partnerships

Work with relevant professional bodies without discrimination, tax agents and intermediaries, banks, trade associations and organised private sector players. Collaborate with relevant MDAs including the

Nigeria Customs Service, Nigeria Postal Service, States IRS, Financial Intelligence Units, NBS, NIPC, National Assembly, Ministry of Finance, Budget Office, National Planning Commission, CAC, CBN, Nigeria Governors' Forum, Economic Advisory Council, EFCC, ICPC, Office of the Attorney-General of the Federation, etc

Action #4 – Improve ease of paying taxes

There should be a target to move from the current 159 to the top 50 on the ease of paying taxes ranking within the next 4 years. Also embark on massive taxpayer education and awareness, establish functional call centres, conduct annual taxpayer satisfaction survey to get useful feedback, and ensure timely payment of legitimate tax refunds. Leverage technology to provide streamlined and friendly taxpayer service, deploy AI for routine queries, website should be up-to-date with relevant laws, regulations, guidelines and other resources. Also use social media platforms effectively to connect with and educate taxpayers. Harmonise electronic tax platforms and allow API for ease of connectivity with taxpayers' systems. Monitor adoption by taxpayers and assess impact on tax compliance process. Promote taxpayer rights, fully automate TCC collection process, and allow banks to register their customers for TIN.

Action #5 – Build sustainable structures, develop a strategic plan

Carefully outline the role of the FIRS, the Executive Chairman, and the Board and set up relevant structures as contained in the various enabling laws such as the Transfer Pricing Decision Review Panel, Technical Committee of the Board, periodic review of the FIRS Establishment act, whistle-blowing framework to curb corruption, revenue forecasting and scenario planning e.g. based on GDP growth rate, crude oil price, and exchange rate. Develop a plan to progressively raise tax to GDP ratio over the next 4 years from the current 6% to a minimum of 12% with meaningful expansion of the tax net and limiting the erosion of the country's tax base through arbitrary incentives and waivers as well as transfer mispricing.

Action #6 – Improve efficiency, respect due process and provide leadership

Cost of collection is too high, this should progressively reduce to the international benchmark of 1%. There should be full transparency on how FIRS budget is spent and disclosure regarding FIRS' own compliance with its tax obligations. Use data to inform administrative policies and consider impact of changes on FIRS and taxpayers in the short, medium and long term. Adopt a cost-benefit approach to tax audit and ensure to follow due process for tax enforcement including the use of bank substitution order. Respect taxpayer privacy, confidentiality and data protection in line with applicable laws. Champion changes to the tax laws and tax law reform, use the JTB platform for sub-national coordination, provide data and intelligence as input to national planning, and render robust and timely audited annual reports.

My final thoughts

As the Chief Revenue Officer of the Federation and the face of the Nigerian tax system to the outside world, the Chairman of the FIRS and by extension the Board must focus on strategic tax administration of which tax collection is only a component. The new FIRS leadership needs to build on the gains that have been made so far especially in the area of tax awareness, better coordination with sub-national levels through the JTB and the various initiatives to digitalise tax compliance.

The immediate priority for the new FIRS Chairman and Board should be how to build capacity to implement the Nigeria Tax and Fiscal Law (amendment) Bill otherwise known as the Finance Bill which seeks to amend 7 different tax laws and is expected to take effect from January 2020. Other key areas of focus should include effective and efficient tax administration beyond the improvement in Nigeria's ease of paying taxes ranking but how all of these translate into better taxpayer experience, expansion of the tax net, ensuring robust and transparent reporting of tax revenue, and improving taxpayer trust.

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