Tax Administration in Nigeria

Nigeria’s tax administration system has undergone several technological upgrades over the last few years aimed at improving the efficiency of the system. Some successes have been recorded, as well as some failures too. At the Federal Inland Revenue Service (FIRS) these changes include the introduction of the Taxpayer Identification Number (TIN), electronic-tax payment platforms (ePPs), the Integrated Tax Administration System (ITAS) which was later discontinued, and more recently, the deployment of Tax ProMax to replace ITAS and VAT automation (also known as automated tax administration system). The digitization of processes through Tax ProMax such as electronic Tax Clearance Certificates (TCCs) application, filing of returns, obtaining withholding tax credit notes, amongst others are supposed to make the system more efficient for taxpayers. However, taxpayers continue to face challenges in terms of user-friendliness of Tax ProMax (especially for CIT filing) and poor migration of taxpayer data (especially in relation to WHT credit notes).

State Tax Authorities are also investing in technology, with states like Ogun and Lagos successfully deploying portals to aid processes like digital TCCs, electronic payments, and tax payer registration and assessment. Other states like Edo, Rivers and Kaduna have also deployed technological solutions at different levels across their domains. The State Internal Revenue Services are unable to match the efficiency of the FIRS for several reasons, including limited budget, too much focus on PAYE instead of properties and individuals, and lack of a consolidated and robust database for individuals across the country (since PIT is assessed based on residence).

Tax authorities already face challenges in optimising revenue generation such as:

1. **Multiple Taxation:** According to the PEBEC Ease of Doing Business Subnational Baseline Survey of January 2021, three out of ten businesses in Nigeria are dissatisfied with paying taxes. This is because of the lack of clarity on the number, rate and type of taxes, charges, levies and duties that businesses are required to pay.

2. **Inefficient Tax Administration System:** Due to limited resources, there is a negative impact on end-to-end tax administration across the country.

3. **Tax Aversion:** Nigeria’s low level of tax compliance can be attributed to perceived mismanagement of funds realized from tax remittance, and complex tax compliance processes.

These challenges are compounded by poor implementation of tax administration technologies. The following are some of the critical areas in implementing a tech driven tax agency:

1. **No coherent strategy for tax administration and no digital strategy** - One of the reasons deployment of technology does not work is that there is no clear strategy with clear business case and cost/benefit analysis. This is one of the reasons for decommissioning technology solutions like ITAS. The HMRC is one of the best tax administration agencies in the world today. In July 2021, they published a 10 years strategy which they have boldly on their website for any stakeholder in this link https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system. No Nigerian tax authority has defined such a strategy nor have a digital strategy embedded therein.

2. **No legal framework or poorly implemented policies** - When tax authorities want to deploy technology, it usually requires legal backing. For example, when Lagos State wanted to implement fiscalisation for consumption tax, they needed a law, which was later suspended with legal challenge. Similarly, when the FIRS initially tried to implement VAT automation, there was pushback because taxpayers could not be compelled without a law. Even after a law has been enacted, there has to be a review of policies to improve adoption and acceptance. For example, taxpayers are not happy with VAT automation because they still have to file VAT returns in Tax ProMax and are still subject to VAT audits like everybody else. Compare this with Russia where VAT automation is voluntary and adoption exempts the taxpayer from audits.

3. **Inappropriate benchmarks** - Most times, when a tax authority intends to automate their agency, they usually think of PAYE, issuance of receipts and paying the technical partner a percentage of revenue generated. These benchmarks are the wrong areas of focus for deploying tax administration technology. Tax authorities need to focus on new taxpayer discovery, biometric enumeration of individuals and property, incremental revenue as the basis of performance and enhancing user experience.

4. **Inability to transform data into value** - Many of the solutions are task focused. There is no data and analytics functionality either embedded in the solution or designed as an add-on to the solution. In this basic form, the technology only reduces man-hours. As tax administrations do not really reduce headcount, there is no direct value from automating those functions. The real value resides in being able to generate insights that would generate new taxpayers and/or enhance revenue, for example, being able to generate information of all taxpayers in Banana Island and identifying outliers paying below a moderate benchmark or being able to link taxpayers with properties and predict the expected rental income.
The Impact of Digitizing Tax Administration in Nigeria

The digitization of tax administration is the future of tax administration around the world. With technology, tax authorities can lower their operational costs, provide better services, improve turnaround time, and increase compliance.

In 2013, the FIRS introduced the Integrated Tax Administration System (ITAS) as part of a drive to digitize the tax administration system in Nigeria and simplify the tax compliance process. Some of the solutions introduced under ITAS were e-Registration, e-Stamp Duty, e-TaxPayment, e-Filing and e-tax clearance certificates etc.

ITAS had the potential to simplify tax payment, however it was plagued by several challenges that ultimately led to a low adoption rate by taxpayers across the country. Subsequently, the FIRS deployed more advanced solutions such as Automated Tax Administration System (ATAS) and TaxPro Max.

While some of these solutions have been highly successful at increasing tax revenue, there are still some fundamental challenges with the digitization of the Nigerian tax administration system.

First, there is still the challenge of capturing potential taxpayers outside the tax net or tracking defaulters within the tax net due to the lack of reliable and comprehensive data. A solution that will expand the tax net is adopting integrative database management systems that connect the taxpayer database to other databases run by different agencies such as immigration, customs, health, financial services etc.

There is also the challenge of tracking hidden income earned by taxpayers as there is no cohesion between tax authorities and financial institutions. Such cooperation will benefit both taxpayers and tax authorities as there will be fewer routine audits, increased transparency, and greater trust among all parties in the ecosystem. The need for aggressive action by tax authorities against financial institutions and their clients will also be eliminated as information needed for accurate assessment will be readily available.

Furthermore, the issue of confidentiality and data privacy must also be addressed as taxpayers have expressed concerns over the security and privacy of their data.

Examples of Digital Tax Administrations Around the World

Rwanda

In 2013, the Rwandan government introduced Electronic Billing Machines (EBMs) to counter problems identified with their VAT system. The existing process was vulnerable to manipulation of sales invoice books and false refund claims. In response, a new framework requiring traders to buy and use EBMs was introduced. This resulted in increased VAT collection rates, prosecution of undue refund claims, and reduction of the VAT compliance burden.

Nigeria’s TaxProMax is a step in the right direction, even though it may not be as advanced as Rwanda’s EBMs. It has significantly cut compliance hours for many companies, and further updates to the system are eagerly anticipated.

Korea

In Korea, the tax administration is providing mobile services via apps that allow taxpayers to file tax returns, calculate deductible expenses for tax settlements and receive information on payment schedules.

Our TaxProMax system already performs some of these functions, but the FIRS may consider deploying this as a mobile app to aid penetration and consumer usage.

Russia

Russia’s Federal Tax Service began using Big Data technologies to monitor VAT compliance in 2015 with data from many checkout terminals feeding directly to the tax administration system. This allowed the system to track transaction data from buyers and sellers across the country, and identify potential fraud cases automatically. This has resulted in up to 12% increase in compliance rates.

Conclusion

Technology and digitization is the future of any country’s economy, Nigeria inclusive. The implications are far reaching and tax authorities need to be at the forefront of this drive. Consequently, tax administrators in the country must begin to develop a framework for the deployment of technology across all levels of the tax value chain.

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1. https://www.oecd.org/tax/administration/revenuebodiesandbanksmovetowardstransparentcompliance.htm

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