
Nigeria's New National Tax Policy: A new dawn or another false start?



Interestingly we do not need money to solve our biggest challenges such as building strong institutions, addressing inefficiencies, improving the ease of doing business and restoring investor confidence. What we require is a robust policy diligently implemented.

By Taiwo Oyedele

Nigeria's ranking has declined 3 places from 124 to 127 out of 138 countries in the latest Global Competitiveness Index by the World Economic Forum. In this context, competitiveness is defined as "the set of institutions, policies, and factors that determine the competitiveness of each country assessed."

For any economy to develop and be competitive, there must be robust macro-economic policies in place, among other factors. And this is where the recently updated National Tax Policy comes in.

The Revised National Tax Policy

The national tax policy review committee was inaugurated on 10 August 2016 by the finance minister with a mandate to review and update the National Tax Policy which was first published in 2012. The mandate also includes recommending a workable implementation strategy. The committee has completed its assignment and on 29 September 2016 submitted the revised Policy to the finance minister.

Policy Objectives

The National Tax Policy provides the fundamental guidelines for the orderly development of the Nigeria tax system. The Policy is designed to achieve the following specific objectives, among others;

- guide the operation and review of the tax system;
- provide the basis for future tax legislation and administration;
- serve as a point of reference for all stakeholders on taxation;
- provide benchmark on which stakeholders shall be held accountable; and
- provide clarity on the roles and responsibilities of stakeholders in the tax System.

Guiding Principles

All existing and future taxes are expected to align with the following fundamental features:

Equity and Fairness: Nigeria tax system should be fair and equitable devoid of discrimination. Taxpayers should be required to pay according to their ability.

Simplicity, Certainty and Clarity: Tax laws and administrative processes should be simple, clear and easy to understand.

Low Compliance Cost: The financial and economic cost of compliance to the taxpayer should be kept to the barest minimum.

Low Cost of Administration: Tax Administration in Nigeria should be efficient and cost-effective in line with international best practices.

Flexibility: Taxation should be flexible and dynamic to respond to changing circumstances in the economy in a manner that does not retard economic activities.

Sustainability: The tax system should promote sustainable revenue, economic growth and development. There should be a synergy between tax policies and other economic policies of government.

Key Highlights

For the purpose of the Policy, “**tax**” is defined as any compulsory payment to government imposed by law without direct benefit or return of value or a service whether it is called a tax or not. This definition is important to distinguish between tax and non-tax payments to government or its agencies which are sometimes wrongly referred to as tax. Also, it means that government or its agencies cannot hide under the pretence of nomenclature such as “levies” or “charges” to impose tax without complying with the Policy.

The new Policy outlines the key provisions under Chapter 2 of the Constitution of the Federal Republic of Nigeria 1999 that contains fundamental objectives and directive principles of state policy which are relevant to tax policy. These include honest declaration of income and payment of tax; fiscal responsibility and accountability; promoting a planned and balanced economic development; securing maximum welfare, justice and equity; and so on.

Specifically, the Policy contains measures designed to:

1. Address multiplicity of taxes and multiplicity of Revenue agencies
2. Reduce income tax rates and compliance burden for Micro, Small and Medium Enterprises
3. Improve Nigeria's ranking on the global ease of paying taxes index from the current position of 181 out of 189 economies to top 50 by the year 2020

4. Encourage diversification, expand the country's tax base and improve Tax to GDP ratio.

Implementation Measures

The Policy provides a framework to ensure, guide and monitor implementation. This covers:

- Establishment of a National Tax Policy Implementation Committee to monitor compliance, regularly review the Policy and make appropriate recommendations.
- Government to work towards ensuring that there is only one Revenue agency per level of government to streamline revenue administration and improve efficiency of revenue collection.
- Establish an Office of Tax Simplification which shall be responsible for ensuring continuous improvement to tax legislation and administration.
- A reporting framework whereby heads of relevant MDAs shall give periodic reports to the Ministry of Finance on the level of implementation of the National Tax Policy while the minister of finance will in turn report status of implementation periodically to the National Economic Council.
- Tax authorities to develop Key Performance Indices for Nigeria to attain a top 50 position on the global index of ease of paying taxes by 2020 and consistently improve on the ranking.
- National and State Houses of Assembly are encouraged to establish a Taxation Committee to focus on tax matters and collaborate with the Tax Policy Implementation Committee.
- To promote tax awareness and a tax culture in Nigeria, the Federal and State tax authorities through the Joint Tax Board shall set aside a uniform day in the year as a National Tax Day.
- Tax authorities shall establish administrative framework for amnesty and whistle blowing as part of the strategies for curbing evasion and widening the tax net.
- There shall be an Establishment Act for the Joint Tax Board towards strengthening and repositioning it to contribute meaningfully to the development of the Nigeria tax system through broader mandate beyond its current advisory role.
- The Independent National Electoral Commission shall by necessary Regulation and Rules mandate political parties to articulate, prepare, provide and make public their tax agenda before and during election campaigns. This will make political parties

reflect deeply in an organised fashion on the financial implications of their promises and the options for financing them. This would also help the taxpayers know the preferences of each party on tax matters and take informed decision.

- The qualification for the lower income tax rate applicable to small businesses should be reviewed in line with current economic realities. The income tax rate for small businesses should be further reduced as an incentive to encourage compliance and promote Micro, Small and Medium Enterprises (MSMEs).
- There should be a minimum threshold for VAT registration in order to protect micro-businesses.
- Ministry of Finance in conjunction with the Ministry of Justice shall sponsor a bill for the establishment of a tax court as an

independent body to adjudicate in tax matters.

The Way Forward

The Revised National Tax Policy is concise and written in plain, simple language. It is expected that the Policy will be approved by the Federal Executive Council and the National Economic Council before its implementation can begin.

If properly implemented, the Policy should lead to a significant improvement in the Nigeria tax system.

Interestingly we do not need money to solve our biggest challenges such as building strong institutions, addressing inefficiencies, improving the ease of doing business and restoring investor confidence. What we require is a robust policy diligently implemented. Whether the new Policy is a new dawn or another false start, time will tell.

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