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# *Guess how many Nigerians pay tax and how our government spends the money*

*Well, if your guess is as good as mine, then you will agree that the social contract is broken and needs fixing urgently.*



*Corruption is the most debilitating factor in the Nigerian economy, next to that is wastage. Whatever didn't get stolen got wasted leaving very little for development. Last year we spent N64bn on travels but only N19bn on roads.*

**By Taiwo Oyedele**

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According to Sven Steinmo, "Governments need money. Modern governments need lots of money. How they get this money and whom they take it from are the two most difficult political issues faced in any modern political economy."

Paying taxes is not particularly easy anywhere in the world for anyone who has expended time, energy and other resources to earn the income. The major reason for this is that there is no direct benefit for tax payment. How well you enjoy social services and public infrastructure is not a function of how much tax you pay hence people will avoid paying if they can.

Over the years, governments at all levels in Nigeria have relied heavily on revenue from oil and neglected tax revenue in the process. With the current state of the oil industry, it is now clear that reliance on oil is not sustainable. Taxation is a more reliable and predictable source of revenue but it comes with its own challenges especially in a clime where the rate of compliance has been historically very low.

### ***So how many Nigerians pay tax?***

According to the Joint Tax Board, there are ten million people (precisely 10,006,304) registered for personal income tax purposes in all the states of the federation including the FCT. Out of this, about 4.6 million or 46% are registered with the Lagos State Internal Revenue Service (LIRS) indicating an average of 153,000 or 1.5% per state for others.

Compared to the labour workforce of 77 million at the end of 2015 according to the National Bureau of Statistics (NBS), the number of people in the tax net is only 13%. Ironically even government as the largest employer of labour is not fully compliant in deducting and remitting taxes on the salaries of their workers. This shows why there is a very low correlation between the high public sector wage bill in the budgets and the paltry personal income tax collection nationwide.

With respect to VAT, the finance minister was recently quoted as saying the rate of compliance is about 12%. In fact, this is the ratio of the VAT registered entities that are filing returns and remitting VAT. When compared to all taxable entities (registered and unregistered), the compliance ratio will be much lower.

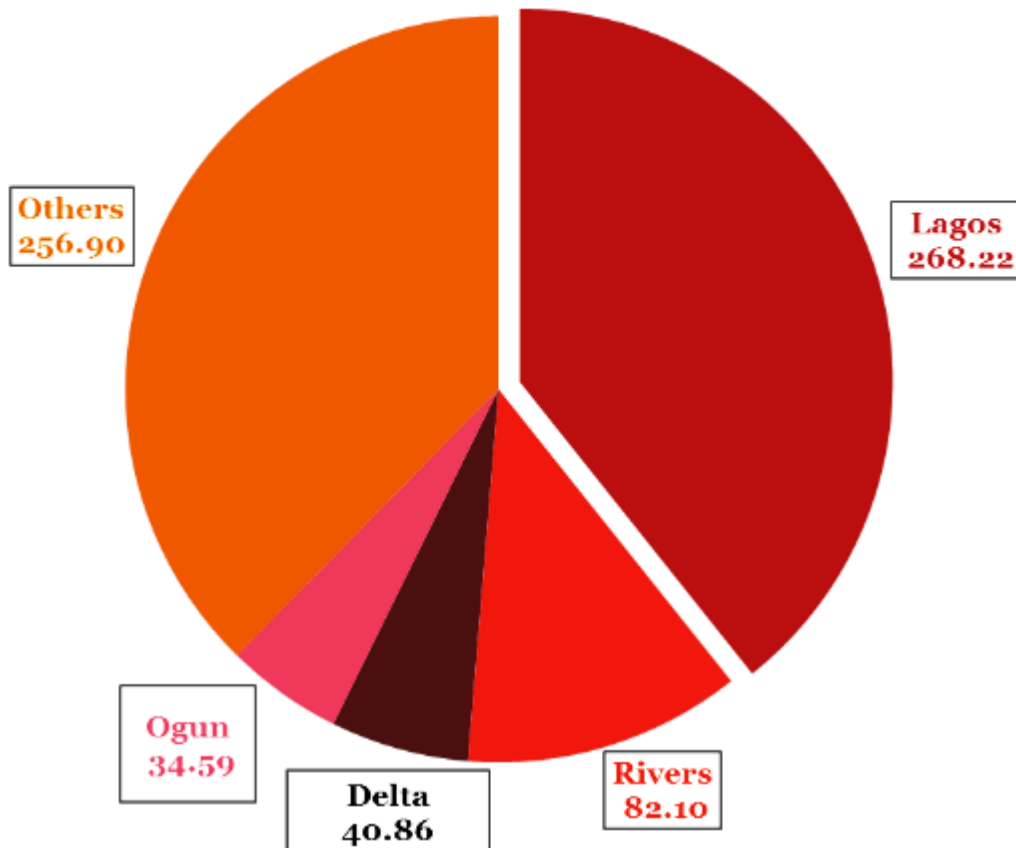
The situation is not any better for corporate income tax. Before the recent increase in corporate tax registration, the immediate past finance minister said 75% of registered companies were not in the tax net while 65% of those in the tax net do not file returns or pay taxes. This translates to less than 9% of all companies operating in Nigeria.

### **How much tax does Nigeria collect?**

The NBS recently released tax collection data by all 36 states of the federation which totalled N683.6 billion out of which Lagos state accounted for N268 bn or 40% of the total revenue collected by all the states of the federation in 2015. In fact, Lagos state collected more than all the other states combined excluding Rivers, Ogun and Delta (see IGR chart).

If we consider total tax revenue collected by the federation, this comes to N5.5 trillion (about US\$27.5 bn) as shown in Table 1. By comparison, South Africa with a smaller economy and only about one-third the Nigeria's population collected twice as much R808 bn (about US\$57 bn) in taxes alone or more than what Nigeria generates from tax and oil revenue combined. Interestingly, VAT revenue of about N700 bn in 2015 is less than 1% of Nigeria's consumption GDP of about N80 trillion. Even more surprising is the revenue collection by the Nigerian Customs Service given that the country is heavily import dependent.

### **IGR at State Level 2015: N683.6bn**



<b>Table 1</b>	
<b>Agencies</b>	<b>Revenue N'm</b>
FIRS	3,741.80
Customs	903
States IRS (36)	683.6
Local (774)	205.08
<b>Total</b>	<b>5,533.48</b>

### ***How does Nigeria spend its tax revenue?***

An analysis of the federal government budget for the past few years shows that tax revenue has been essentially spent on debt financing and recurrent expenditure significant amount of which goes to salaries, travels and other overheads.

Although the capital expenditure component in the 2016 budget is said to be about 30% of the budget, further analysis reveals that this is not coming from tax revenue given that planned borrowing in the budget (N2.2 trillion) exceeds capital expenditure (N1.6 trillion).

Over one-third of federal government revenue (or almost the entire non-oil revenue) will go into debt servicing in 2016 notwithstanding that Nigeria's debt to GDP ratio is low (about 13%). This is due to the high cost of borrowing and low tax revenue indicating that there is really no room for further borrowing. At states level, most are barely able to pay salaries.

According to the finance minister, Kemi Adeosun, speaking on BBC Africa Business Report & Channels TV recently, "corruption is the most debilitating factor in the Nigerian economy, next to that is wastage. Whatever didn't get stolen got wasted leaving very little for development. Last year we spent N64bn on travels but only N19bn on roads."

The picture is not very different at states level with many states applying tax revenue to projects based on vested rather than public interest. Sometimes when we have capital projects they do not reflect the right priority like building a golf course or an airport in a state that has no motorable roads or portable water.

### ***Why are Nigerians tax averse?***

The low level of tax compliance can be attributed to a number of factors including incoherent fiscal policies, the cumbersome and inefficient tax administration system, high level of tax evasion, ambiguities in the tax laws and lack of

transparency regarding the utilisation of tax revenue for social services and visible development.

At a recent tax stakeholder forum organised by PwC, we conducted a survey to find out why many Nigerians do not pay tax. The result was insightful but not surprising. 70% said it is because people cannot see taxpayer money at work, 22.5% said it was due to the tax rules that are unclear and compliance process being too complex while 7.5% said it is due to poor enforcement by tax authorities.

Interestingly no one thought it was due to the people being too poor or not being aware. Understandably the survey result could have been different if it was conducted outside Lagos but largely the top 3 factors would have nonetheless remained the same.

### ***So what is the best way forward?***

In order to improve tax revenue, there should be a broad base tax strategy focusing on all key areas of the tax system with measurable outcomes. Focus should be on simplification of the tax system and ease of implementation with priority given to quick wins and low hanging fruits while more challenging aspects should be deferred until positive results are being recorded.

Capacity building through both soft and technical training of personnel is key. No leading tax authority in the world relies on the use of consultants for sustainable capacity building so the use of consultants should only be a stop gap measure if at all. In addition, tax authorities should undertake significant enlightenment and public awareness and take advantage of technology and innovation including social media. Transparency is critical, we probably do not need the auditor general for the federation if we make full information about revenue and expenses with detailed breakdown available to Nigerians online. Most importantly we must implement the 2010 National Tax Policy and our leaders must set the right tone from the top and lead by example.

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