

History Of African Tax Compliance – Nigeria As A Case Study

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Why discuss an “African Culture of Tax Compliance”? Africa stands at a threshold of opportunity: previously news out of Africa used to be of lost opportunity and wasted chances. In recent times, success stories are increasingly coming out of Africa, improved institutions, sustained economic growth and stable Governments in place in several African countries. If African countries are to get to the next level; there is need for very strong institutions and systems. One of the more important systems that requires sustained focus is the tax system - holds the potential for being the pivot of development for many African countries.

To develop the institutions that will take African nations out of the current level of development and into the comity of developed nations, tax systems must be at a level that will be able to support the growth and development we all seek. Has African culture of tax compliance ever really existed and if it did, what factors were responsible for its existence at the time, is it possible to re-enact such factors or identify and align them with current realities?

There's a need to be guided by history – “if you don't know where you're coming from, you would not know where you're going to”. We need to determine whether a culture of tax compliance has ever existed in Africa and if it did, what were the factors responsible for that, what circumstances intervened to alter that culture and what can be done to bring it back?

Historically African communities were organised and administered on a communal basis – with internal control mechanisms usually administered on a persuasive basis and appealing to the sense of communal belonging. Part of the mechanisms for administering such societies, included voluntary contributions to a common purse for meeting communal needs. Voluntary contributions - largely enforced not with a threat of sanction, but with an appeal to the sense of belonging.

Expansion and interaction with foreigners began to alter means of enforcing such contributions – use of sanctions, ostracisation and force were introduced. These systems evolved until the time of complete conquest and colonial rule, where formal systems of taxation were imposed and the basis for enforcement changed from a largely

persuasive to a coercive one. This is the system still largely in place in most African countries, debatable whether it is the most efficient system, need to look back and see what lessons can be learnt from the past.

History of African Tax Compliance – Nigeria as a case study

Most Nigerian societies had fairly well developed systems of taxation. In the North, prior to colonialism, there was a sustained period of rapid economic development, where various forms of taxes were developed, the zakkat, a type of taxation prescribed by the Holy Qur'an and levied on Moslems for charitable, religious and educational purposes. kudin- kasa or land tax, Jangali or cattle tax, plantation tax called shukka-shukka, kudin sarauta, an accession duty paid by every chief or holder of an office on appointment and also gado, a death duty on a deceased's estate paid to the Emir when there was no recognised or proven heir. There was an impressive tax system in Kanem Borno (North Eastern Nigeria today), there was the Kasasairam tax, collected from the nomads as grazing fee similar to the shede hudo paid by the Fulani, hakki binimram - a secular tax collected by the Chima Kura (land owners) in kind and in cash-there was the Kaleram paid by peasant farmers for permission to till the land. Warata was paid by deceased subjects where the deceased had left behind substantial property in cash, kind or both, there was also Kafelo - an obligatory 'gift' by merchants to the ruler. Others included hadiyya paid during the Muslim festivals by each province according to size and wealth.

It could therefore be seen that Northern Nigeria had a highly sophisticated system of taxation, which mostly depended on a sense of religious obligation of the subjects for its enforcement. There were also taxes paid for use of the land, access to markets and also for provision of services, such as education and protection by the rulers. While there were instances of forced enforcement by punitive action, such as imprisonment or slavery, this was rare as compliance was usually voluntary due to the nature of Government, which was run by persons having a religious authority and legitimacy acknowledged by the subjects.

In the Yoruba States, there was also an appeal to the divine and the sense of community for the imposition of taxes. Communities developed a system of annual levies and special contributions collected through the heads of families. These sources provided revenues to the ruler who relied on tributes, tolls and arbitrary levies for their revenues.

In Oyo, collection was usually tied to provision of services, such as an international market where traders could interact with the "entire world" and provision of security to such traders while they were in Oyo. In Ibadan, each provincial community bore the maintenance of the ruler and his troops of servants, messengers and attendants. Records show that in every town, "a proportionate tax was levied on every house, which has to be paid every week or at farthest, fortnight to the (local) king, who transmits it." Three distinct and recognised taxes in Yoruba land were: -

- Ishakole: which was a kind of universal land rent;
- Owo ode: a tribute paid by men and women alike, partly in cash and partly in kind. Tax defaulters were usually ordered to leave their land
- Owo Asinghu: consisted of personal service (such as building and repairing of town walls, working on the farm of Chiefs, etc.) together with contributions of food.

It can therefore be seen that in Yoruba land there was simultaneously an appeal to religious and communal obligation, provision of services as a basis for imposition of taxes and also a threat of sanction, such as exile for the enforcement of compliance.

The Igbos who populate Eastern Nigeria, did not have monarchies like the North and Yoruba – thus no ruling aristocracy which collected taxes in systematic manner like in the North or West

Each group clan, village or group of villages levied voluntary contributions, which were used for the welfare of all members. About the only form of compulsory tax collected was the Egbu-nkwu (compulsory tax imposed before palm oil is harvested).

The Igbo therefore had the most inclusive and persuasive form of taxation amongst the major ethnic groups that were amalgamated to form present day Nigeria

With the advent of colonialism, these internal tax systems were largely replaced with an enforced system of taxation imposed on a basis as were deemed fit by the colonial masters. In some instances the existing systems of collection were retained largely to enable the collection of taxes with ease.

Few taxes were retained such as the Jangali tax in Northern Nigeria - but overall a new and alien system of taxation was imposed. This entailed payment of taxes to a central

and "foreign" Government and default or failure was met in most instances with sanctions, including imprisonment.

In most cases the people could not identify with such a system and this led to widespread resistance and even violent actions such as the popular Aba women's riot of 1929.

Eventually however, the new centralized system of taxation was accepted and was imposed over all of Nigeria - brought about a major shift in the motivating factors for payments of taxes.

Previously taxes were paid to rulers who claimed some divine, moral or communal authority - payments were now made to rulers who had coercive authority and were outsiders - payment was perceived as an imposition by a foreign authority.

This was a far cry from the situation which existed in pre-colonial times. While there may have been some coercive element to taxation at that time, this was more easily accepted as it was done by rulers to whom the people ascribed legitimacy.

The factors which contributed to the compliance in pre-colonial times included:

- collection was done on a communal basis to meet local needs, which could be easily identified;
- the use to which the collections were put were easily verifiable and cases of abuse or misuse of such collections were largely non-existent;
- collection was made by persons with a moral or religious authority to do so, such authority being one given by the community and not forcefully arrogated; societies were organized in small groupings which made collection easy; and collections were made on basis freely agreed by all members of the community and not imposed by an outside authority.

These factors are more or less missing in our current systems and while we cannot go back to pre-colonial times, there is a need to imbibe the philosophy which guided those systems and use this to further develop our current systems;

Attitudes and perceptions towards the tax system which had being formed during the colonial era continue to subsist today;

Fueled in a large part by the failure of African Governments to successfully use taxation

as a tool of national development;

After independence African nations began to neglect the traditional means of raising revenue such as taxation and local and international trade and began to depend heavily on aid and grants;

Discovery of oil and other natural resources totally altered the system of development - led to widespread and in some instances total neglect of taxation as a source of Government revenue;

For Government, this was a chance to finance development without going through the rigours of taxation – but also meant that there was little or no need for accountability to the citizens, since this revenue was being raised without their active participation. This attitude in turn rubbed off on the citizens, who felt that there was no need to pay taxes to a Government that was not accountable.

Between the non-accountable Government and the non-compliant taxpayer, the tax system began to be relegated to the background, until it got to a situation where voluntary compliance is the exception rather than the rule in most African countries. Not all doom and gloom however - in recent times, there has been resurgence in the tax system in many African countries. This is partly due to the fact that the effects of the “resource curse” have become more evident and there is now a realization that African cannot develop without going back to develop its traditional institutions. Increasingly tax administration in many African countries is getting the attention it has long been denied - reforms are ongoing and taxation is beginning to assume its rightful place.

However there is still a long way to go due to the prior years of neglect. It is in bridging this gap that we need to refer to the culture of African tax compliance previously highlighted and see what elements can be useful today. Culture of compliance is necessary as the tax system if properly harnessed can be the major revenue earner for Government and also enable sustainable development - taxation is not a source or asset which can be depleted unlike natural resources. Where a proper system of taxation is put in place, it can become a self sustaining institution and would not depend on the presence of particular individuals or circumstances to work. This should be the ultimate focus for our tax systems.

Tax compliance encourages a participatory system of Government. One of the 4 Rs of taxation is “Representation”, whereby taxes are imposed to assure citizens of representation in the Governance of the society. This means that compliance provides the citizens access to and direct representation in Government. Closely linked to the above is the issue accountability. Tax compliance forces accountability on the Government in reciprocation of compliance by taxpayers. It provides the taxpayer a

platform upon which to stand and demand for accountability for taxes collected - in most African nations, citizens usually lack the moral and legal standing to demand for accountability as they do not properly comply with tax laws.

Compliance enables Government obtain the required revenue for providing infrastructure, public services and other indices of development - this is important, because each citizen may not be able to provide all his public needs if they were to retain their taxes for personal use. Pooling of public resources in form of taxes enables provision of public services on a larger scale and for the benefit of a wider population. Accordingly compliance can be a tool for achieving social harmony and stability, as where Government is able to meet the needs of its citizens there is less room for unrest.

Compliance as a culture strengthens our system of Government. It reinforces the social contract between Government and the citizens and enables each party fulfil its own obligation. In this respect, it serves to bring Government closer to the citizens as there is a direct linkage between taxes paid and services provided by the Government. A culture of compliance serves to significantly reduce the cost of tax compliance as funds, time and personnel that would otherwise be utilized to enforce compliance can be channeled elsewhere.

In view of the above, how can the culture of African tax compliance be used to the benefit of African nations today?

can be used to reinforce the fact that taxes are used to meet local (in this case national) needs - where this message is well understood and the philosophy behind taxation is clearly articulated to the citizenry, taxpayers will see an overriding reason comply with tax obligations

can be used to reinforce those other factors which brought about a culture of compliance in times past (earlier listed)

- for e.g. collection by persons accountable to the taxpayer - this may entail decentralizing collection and bringing it closer to the taxpayer rather than having taxes collected by a central and distant authority

- providing systems that promote ease of payment and verification of uses to which taxes are put. If the taxpayer can comply easily and likewise easily confirm the use to which the tax is put, it would aid a culture of compliance.

- can be used to promote a culture of accountability that existed (although this was easier in small groupings) so as to promote even greater compliance. This can be

achieved by the use of technology and other available platforms which provide taxpayers access to information with ease and at little or no cost

There are various institutions, which have a role to play in developing an African culture of tax compliance – major one are highlighted here:

Executive - encompasses all the organs and institutions which are responsible for implementing and enforcing law at different levels of Government. Its roles include to:

- develop, implement and enforce policies which enhance the abilities of the taxpayer to comply

- In Nigeria a number of these policies, which have been introduced and are being implemented, include the automation of key tax processes such as registration of taxpayers and collection and payment of tax revenue. The Government is also implementing a policy of shift from direct to indirect taxes, which seeks to reduce direct tax (income taxes) rates, so as to widen the taxpayer base and ensure more taxpayers comply, while at the same time gradually increasing indirect taxes rates, to make up for the reduction of direct tax rates. Other policies, include the introduction of a Presumptive Tax Regime and improvement in the Self Assessment Regime all in a bid to encourage greater compliance.

- enforcement of tax laws

- accountability for tax revenues and communicating the use to which tax revenues are used this is a major role for the Executive, as they are responsible for the disbursement and expenditure of tax revenue by various organs and levels of Government

- provision of adequate funding to tax authorities, oversight activities, provision of autonomy, proper facilities and a conducive atmosphere within which to operate and bring about the desired level of compliance.

v Legislature - plays a complimentary role to the Executive

- responsible for passing tax legislation and reducing tax policy into enforceable legislation

- responsible for ensuring proper appropriation of tax revenue for use by the Executive and carrying out general oversight of the Executive with respect to accountability for tax revenues

- overall role is to ensure checks and balances in the tax system as obtained in the old African systems, which roles was then played by various groups within the society.

v Judiciary - has a less direct role to play. But should ensure

- speedy and impartial adjudication of disputes between tax authorities and taxpayers

- major role of the judiciary and related institutions (appeal bodies) is therefore to create the necessary confidence in the tax system by the taxpayer, who will have the

belief that his disputes or grievances with the tax system will be dealt with in a speedy and fair manner and that he will not be unjustly dealt with.

- African culture has always included a system of dispute resolution, which ensures that all parties have a chance to be heard and are fairly dealt with in the process of revenue collection.

v Tax Administrations / Revenue collecting authorities –part of the Executive. They however play a frontline role

- more than any other group in the tax system they have a major role to play in bringing about the desired level of tax compliance

- they interface with the taxpayer and have the responsibility for, developing a proper tax authority – taxpayer relationship

- carry out taxpayer education and ensure that the tax system is service oriented towards the taxpayer

- In times past resentment or hostility against the Government or leadership was visited or vented on the tax collector, who was the face of the tax system that the taxpayer could identify.

- this hasn't changed much and it therefore places a major responsibility on the tax authority to be a helpful face, so that the resistance and resentment by taxpayers is minimized and the taxpayer is able to easily identify with the tax system and comply voluntarily.

v Taxpayers and citizens

- central focus of the tax system - the geese that lay the golden egg

- should be consciously committed to complying with tax laws. Various reasons have been adduced for taxpayer apathy and low level of tax compliance in Africa, including the usual refrain that Government misappropriates tax revenue, so the taxpayer is justified in withholding his contribution.

- argument is flawed, because by not complying, the taxpayer then joins the same Government he accuses of misusing the tax revenue in undermining the tax system.

- the taxpayer cannot meet Government's failure (real or perceived) with another wrong of non-compliance. Rather the taxpayer must discharge his own part of the bargain and then engage Government to discharge its own obligations.

- the taxpayer should constantly seek to partner and co-operate with Government in developing a system of compliance, which only the taxpayer can guarantee.

- the taxpayer has as big a role to play as Government in developing confidence in the tax system and in this regard, taxpayers, must see themselves as part and parcel of the system.

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v International Organizations / Development Partners etc

- previous role was limited to provision of aid and grants with limited follow up to confirm if the assistance provided has been properly utilized

- international organizations have now become more directly involved in developing systems and institutions in Africa

- provision of aid, capacity building, experience sharing and exchange of personnel

- International organizations, especially those from jurisdictions with well developed tax systems have a major role to play in assisting African tax administrations in developing a culture of tax compliance. This can be done by providing not just funding, but also by engaging with African Governments to highlight the benefits of a well developed tax system.

- other international organizations, such as umbrella bodies of tax administrations can assist by providing a forum for collaboration, partnership, exchange of information and experience sharing amongst tax authorities, so that best practices can be highlighted and emulated (ATAF etc)

v As highlighted in this presentation, a culture of tax compliance is necessary, if African nations are to make the transition from perpetually developing to developed nations

v In recent times African nations have experienced growth rates comparable and in some instances higher than those of more developed economies.

v Concern is whether African nations can sustain this impressive economic performance or whether they will regress.

v The answer to this, lies in part on the ability of African nations to build strong systems and institutions, which can serve as the platform for constantly delivering the required level of growth pr development.

v As earlier stated there is no single institution holds more promise in this respect than the tax system for the various reasons highlighted above.

v The tax system in Africa if properly harnessed is capable of not just providing revenue for sustainable development in Africa, but is capable of putting up Africa as a model to be emulated.

v It is with this focus that we must consider the benefits of developing an African culture of tax compliance.

v Africa holds all the potential and promise it requires to develop its people, processes, systems and institutions.

Conclusion

v The challenge is whether we have the will to do so. My belief is that we do and the first step in this journey is to develop a system of compliance so unique and tailored to our needs, so that we can cater for our challenges in an increasingly sophisticated and linked global economy without ignoring our peculiar circumstances.