GEMS3 TAX AT WORK

The Growth and Employment in States programme (GEMS3) is funded by the UK's Department for International Development and works to create an enabling business environment in Nigeria. This is achieved through interventions in tax, land and investment.

To support the creation of an improved business environment in Nigeria, the tax pillar of GEMS3 identifies and reduces instances of double/multiple taxation evident at the Federal, State and local levels. Removing multiple, illegal and "nuisance" taxes will enable businesses grow, diversify the economy and protect rights of small and medium business owners. GEMS3's tax interventions are being implemented across fourteen states (Cross River, Delta, Ebonyi, Edo, Jigawa, Kaduna, Kano, Katsina, Kogi, Lagos and Zamfara as well as Niger, Ogun and Plateau in partnership with GIZ).

GEMS3 works with private and public stakeholders at National, State and LGA levels to reduce the burden of multiple taxation through a four pillar strategy:

- **Legislation**
- **Payment systems**
- **Payment incentives**
- **Tax payer awareness**

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GEMS 3 Growth & Employment in States (GEMS3) Support Improved Business Environment

1. **Harmonised Tax Legislation**

GEMS3 has assisted ten states (Cross River, Edo, Jigawa, Kduna, Kano, Katsina, Kogi, , Jigawa, Plateau and Zamfara) draft and enact statewide harmonised tax laws. These laws cover types of revenue (and their rates) to be collected by local governments in the State. A review/amendment of the Lagos state 2010 law is also currently being supported. GEMS3 also assisted local governments in passing bye-laws which support the State-level process, particularly in Cross River where bye-laws have been passed in 3 of the State's 18 LGAs. GEMS3 has also provided assistance with the implementation of presumptive tax regulations in Cross River, Kaduna, Kano, Niger, Ogun and Plateau states which have helped produce fair tax rates.

The development of such legislation commenced with public private dialogues (PPDs) which identified areas of most concern to the public and private sector. This included comparison of local government revenue practices with the types of revenues legally allowed under the Nigeria's constitution and the Federal tax law that supports it. Tax specialists worked with State governments (Board of Internal Revenue Service, Ministry of Finance, Ministry of Justice, Ministry of Local Government, state executive council) and State Houses of Assembly to draft and progress harmonised tax laws through to their enactment.

As tax harmonisation laws covering local governments have been completed, GEMS3 has addressed double/multiple taxation at state government level, covering both the State Boards of Internal Revenue and the MDAs. MDA laws have been passed in Kaduna, Kano, Kogi and Plateau states. The MDA rates have also been harmonised in Cross River.

2. **Tax/Levy Payments systems**

GEMS3 reviewed the process for revenue collection in each local government the programme supported. This was to ensure revenue collectors were properly authorised, identifiable (to avoid unauthorised collectors) and to progressively remove non-government agents from revenue collection roles. Steps were taken to introduce harmonised "demand notices" informing businesses of the types and amounts of local government taxes and levies required to pay as outlined in harmonised laws.

GEMS3 also worked with lead banks to introduce "customised tellers" which enabled businesses make tax/levy payments through direct bank lodgements. In situations where bank payments were not practical (e.g. the amounts involved are small or there are no convenient bank branches), the programme partnered with LGAs, banks and switch companies to allow payments to be made by PoS ("Point of Sale") devices. This allowed for payments to be made online by debit/credit cards or offline by cash.

To date, PoS payment systems have been formally launched in 34 LGAs and are active in 11 LGAs across 5 states (Cross River, Kaduna, Kano, Jigawa and Lagos states). It is estimated around 20,000 businesses are now paying local government charges using PoS technology. This has resulted in reduced leakages, increased IGR and businesses having greater confidence their payments are reaching government accounts.

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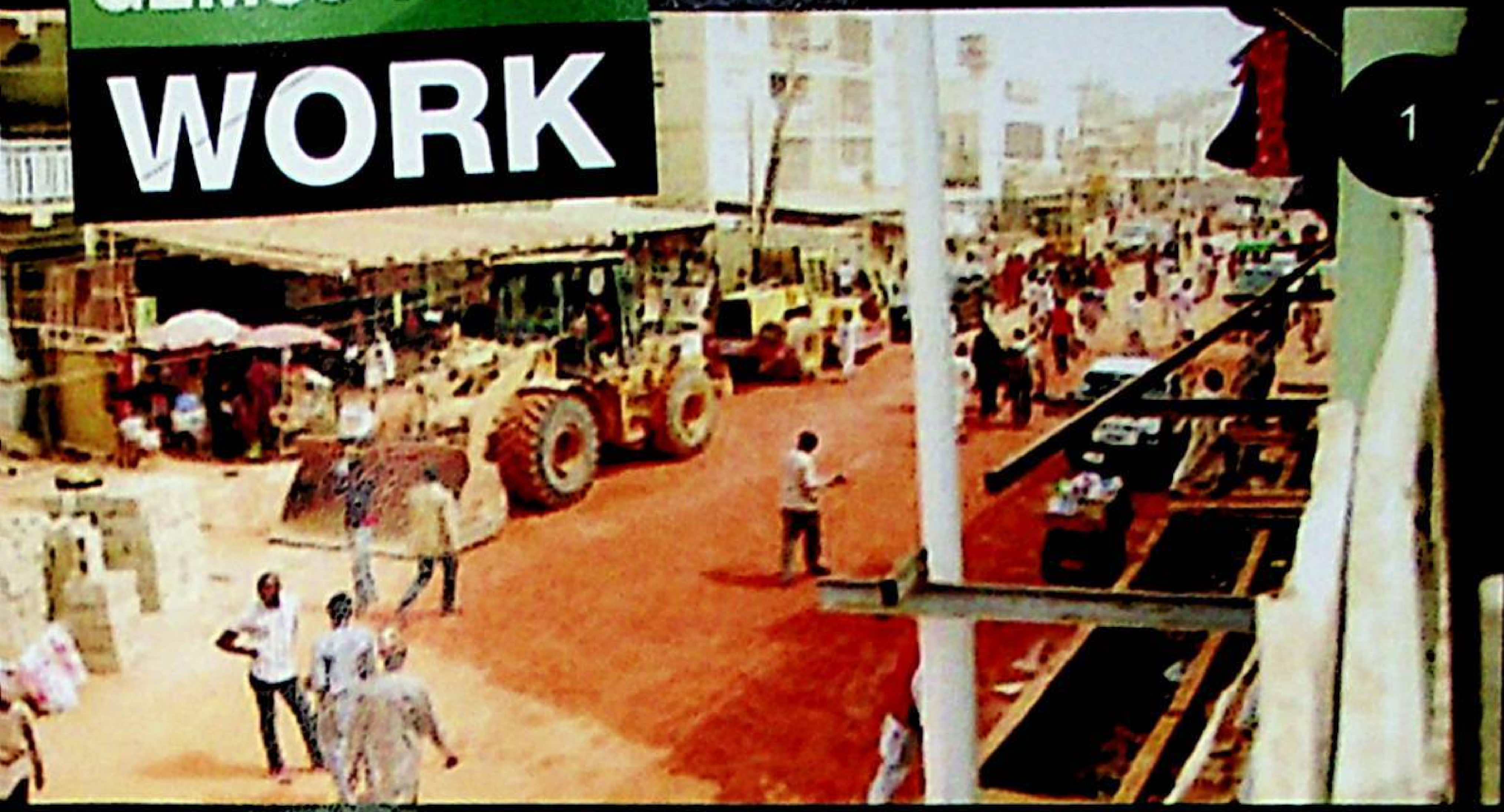

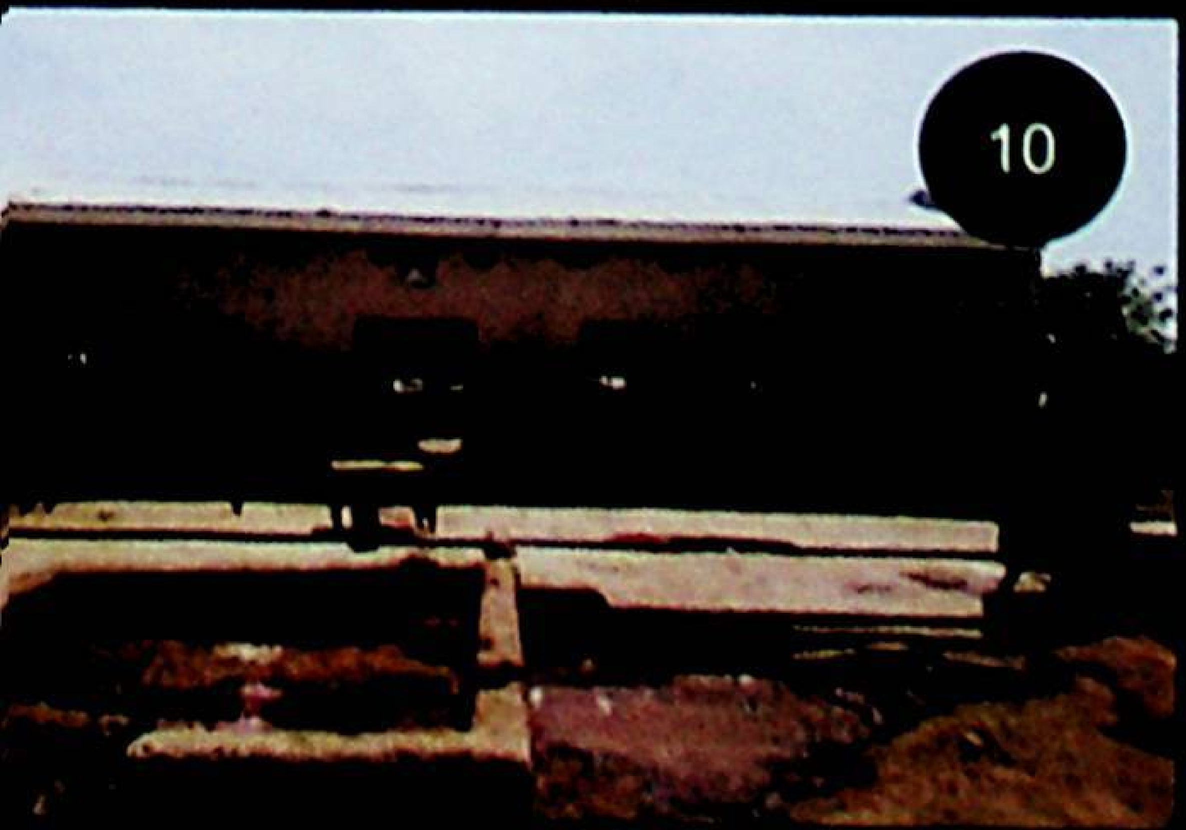

1. Road construction in Kantin Kwari market, Kano
2. Legislative session on LGA law, Kano
3. Slaughter slab construction in Kumbotso LGA, Kano
4. Construction of market stalls in Ogoja LGA, Cross River
5. Newly built toilets and borehole in Ogoja LGA, Cross River
6. Tax harmonisation activity
7. Generator provided in Dutse motor park, Jigawa.
8. Borehole provided in Sabon Garin market, Kaduna.
9. Ongoing shop construction in Kantin Kwari market, Kano
10. Slaughter house construction in Tarauni LGA, Kano
11. Drainage contsruction in Kumbotso, Kano
12. Entrance gate built in Mando motor park, Kaduna

3. **Tax Payment Incentives**
   In order to increase local government accountability to businesses, LGAs are encouraged to enter into "Tax for Service" agreements with market associations and motor park owners. This is where a percentage of revenues collected is allocated to infrastructure developments (e.g. drainage, toilet facilities, refuse removal, security lighting) in the markets/motor parks. Formal MoUs covering this initiative were completed in several LGAs, while others commenced infrastructural improvements in advance of such agreements. These improvements serve as visible signs of taxes paid to local governments used for improvements that benefit the taxpayers.

   LGA processes for dealing with taxpayer complaints/disputes were reviewed and improved. Most taxpayer complaints arise from revenue collectors demanding taxes higher than the authorised rate in the harmonised laws. The intervention targeted processes where decisions are made in a timely manner by persons independent of those complained about.

   The programme supported this by conducting a three-day staff training for revenue collectors, information officers, legal and other officers. The trainings focused on tax laws, payment and complaint processes, customer service, communication and taxpayer rights. As a result, a significant reduction in levels of harassment and extortion by revenue collectors, especially with women business owners, was recorded.

4. **Taxpayer Awareness**
   Sensitisation is the core of the programme's work. Some campaign awareness activities conducted are state-wide (radio jingles, phone-in radio/TV programmes) focusing on state-wide tax harmonisation laws. Others were at LGA-level (sensitisation workshops, market shows and town hall meeting) focusing on payment system improvements and more specific market-level engagement (PPD workshops, shop-to-shop sensitisation) focusing on tax for service agreements. The methods of providing such awareness vary with the target audience. State-wide awareness uses local TV and radio (talkbacks and jingles); LGA-level awareness uses town criers, fliers and posters while market-level engagement uses live drama and town hall meetings.

   It was observed that solely passing the harmonised tax law does not necessarily mean double/multiple taxation will be removed or reduced. There is a great need to sensitise businesses on their legal payment requirements, train revenue officials on the laws, and introduce formal complaint processes for taxpayers where laws are not being implemented. This will ensure sustainability of the intervention.

In all, the tax intervention provides a win-win situation for both the private sector and public sector. To the private sector it produces fair tax rates, reduces incidences of multiple taxation, increases rights and improves tax compliance process ensuring better business climate. For example, number of payable taxes reduced from an average of about 200 to 21 aligning with the constitutional provision. While to the public sector it impacts positively the revenue profile of states where the intervention is implemented. Analysis of IGR trends in the four pilot states (Kano, Lagos, Cross River and Kaduna) showed an upward swing in IGR after the implementation of tax harmonisation activities between the years 2013 -2015. For example, the aggregate IGR of the four states increased from N282.1Billion in 2013 to N315.0Billion in 2014. Though it declined to N309.1Billion (largely due to slowdown in economic activities in the country), the performance was still far better than that in 2013 before the completion of the reform process.