

8
11 January 2010

His Excellency the Executive Governor
Lagos State
Government House, Alausa
Ikeja

Re: Unique National Taxpayer Identification Number Study Visit to India

Further to your letter of December 8, 2009 on the above subject matter, we wish to thank His Excellency, the Executive Governor, Lagos State for nominating and sponsoring Dr. K.O. Hamzat, Honourable Commissioner for Science and Technology and Mr. A.R. Ipaye, Special Adviser on Taxation and Revenue for the study tour to India, to understudy the Indian Tax Identification Number System. Kindly note that the visitation was done between December 17 to December 23 2009.

We hope the visitation to India will provide you with additional information to conclusively decide to fully support this national project.

In the meantime, let me use this opportunity to first clarify that this project is being driven by the Joint Tax Board (JTB) which has the Executive Chairman of the FIRS as Chairman, with members from the 36 (thirty six) State Governments. The decision to have JTB lead the project was taken to ensure the project is seen as a fully national one, involving all national and sub-national governments.

Second, permit me to further allay your concerns which were also expressed by some of your colleagues during the presentation of the JTB at the Nigeria Economic Council meeting that held on 14 July 2009. Further to our presentation and better understanding of the project, the Council approved the project for implementation. Sir, concerns as stated in your letter are restated below, with our responses to issues raised.

CONCERN #1

Huge Investment on Computer Equipment, Software and Personnel Training

The JTB notes that the Lagos State Government has indeed made huge investments especially in the area of tax administration over the past ten years. Indeed, the Federal Inland Revenue Service and a few other state governments have likewise made huge investments. The JTB wishes to highlight that these investments would be to your advantage in the implementation of this project. One of the considerations for pilot site implementation will be the classification of revenue authorities into those that have made huge investments, those that are planning to make such investments and those that are yet to start at all. Clearly, the change management challenges for states like Lagos state would be a lot less than for others. More importantly, is to note that this project plans to leverage on what

the
already exists. For States like Lagos State and the Federal Inland Revenue Service, we will enumerate what you have already done and take advantage of the areas where standards are compatible. The detail design which would be shared with all stakeholders prior to implementation will seek to address all related issues including amongst others mode of migration of the legacy system to new platform.

It is for this reason that one of the very first steps after the approval of the project was to embark on an enumeration exercise of all the States to determine what exists already. We have visited thirty four (34) of the thirty six (36) states with the exception of Lagos and Kaduna States.

CONCERN #2

Lagos State has issued electronic tax clearance cards with unique identification numbers, the validity of which may be affected by the proposed national structure

JTB agrees that Lagos State has issued identification numbers to about 4.5 million taxpayers. However, even the World Bank Project Advisor in his report which triggered the need for this national project made various observations – represented in the extract of the report on Appendix 1. Specifically he mentioned amongst others, that *“There is strong reason to believe that the TIN being issued is not unique as the parameters used for establishing uniqueness are inadequate”*.

Observations on the status of taxpayer registration systems in the various tax authorities presented at a Joint Tax Board meeting of April 28 to 30, 2008 at Royal Tropicana Hotel, Kano. At this meeting, the JTB resolved to initiate and conclude the UTIN project. The communiqué of the resolution of JTB of 28 to 30 April 2008 attached – Appendix 2, attests to this fact.

CONCERN #3

Lagos State is cautious in committing to the changes that the proposal portends

Sir, we fully understand the need for caution where the change was not in the interest of Lagos State. However, in this case, caution this project will enhance the Lagos State tax system. We are proud of all that you are achieving in Lagos State and can only work to support and add value to what is being done.

CONCERN #4

The viability or otherwise of establishing and maintaining a national structure as proposed or of finding a way to share existing taxpayer information with other authorities across the country on a reciprocal basis

The most viable, effective and efficient way to share existing and new taxpayer information among all tax authorities across the country on a reciprocal basis, is the harmonization of taxpayer identification and registration processes, standards, procedures, Infrastructure and Systems. The UTIN project is the JTB vehicle to achieve the desired harmonization. The administration of the taxes will continue to be done by the existing tax authorities respectively and the existing tax laws will continue to govern tax administration in Nigeria.

Each State will own and maintain its taxpayer database while a copy is maintained at the JTB datacenter, access by States and Federal Inland Revenue Service (FIRS) will be on a read only basis. The centralized JTB database will enable sharing of information among tax authorities, this will improve tax assessment, collection, accounting, widen and deepen the tax base, reduce multiple taxation thereby increase revenues accruing to all tax authorities in Nigeria. The most proven way to improve tax assessment is to have access to more information on taxpayers nationwide.

CONCERN #5

Given the level of technological development and power adequacy, complexities of keeping a national system running gives cause for concern

Sir, power is not a problem for only national structures. It is a problem everywhere to the smallest unit possible. Power availability, adequacy and redundancy are built in as an integral part of the project infrastructure design. The JTB which represents all taxing authorities will manage the UTIN system after its implementation. The JTB of which Lagos State is a member will set the rules and regulations guiding the running of the structure.

We have in Nigeria and other developing countries, several national structures which are running in spite of power. There are ways to mitigate problems arising.

CONCERN #6

Duplication of the National Identity Management Commission (NIMC) effort in identifying Nigerians

YE, the UTIN project does not duplicate the NIMC effort in identifying Nigerians. Rather, linking the two systems will enable the needed synergy for authentic identity verification and validation. To further achieve this, a Director of NIMC is one of the members of the UTIN Project Steering committee to ensure proper coordination of the activities of both systems, and implementation of what is in the best interest of Nigeria.

The Unique Taxpayer Identification Number project will go beyond individual taxpayers, to identify other active taxpayers – corporate, non-governmental organizations, enterprises et al, including both Nigerian, non Nigerian and non-resident taxpayers. Accordingly, there are several reasons why the national identity card scheme can not be used for the purpose of identification of taxpayers:

- the NIMC database does not cover limited liability companies and business entities;
- the NIMC database does not cover associations, communities, partnerships etc;
- the NIMC database has records of dead persons, who are no longer taxpayers;
- the NIMC database does not cover all taxpayers.

NEXT STEPS

We are optimistic that the India study tour will assist your representatives in understanding the workings of the UTIN system. The Direct Income Board of Taxation has a centralized Permanent Account Number System used by all their tax authorities for taxpayer identification only. We expect your representatives to advise your administration accordingly. The India model is at the heart of what we are doing in Nigeria, because of the

success of its Tax Registration project in a federating and developing country like Nigeria. We also note that other federating countries have similar systems and Nigeria is just aligning to meet best practice in tax administration that would also support improvement in revenue generation. Lagos is critical to the success of this project and we anticipate that Lagos will become a major champion of this project.

We are taking Nigeria's tax practice into the next level- that is the global best practice in tax administration.

Lagos State Government is please invited to buy-in to the project, invite the UTIN project steering committee for enumeration of its existing infrastructure and systems as has already taken place in 34 other states, and release its project counterpart funding of the project.

We will be pleased to provide a detailed presentation on the project should additional information be required.

Please accept the assurance of my highest regards.

Ifueko Omoigui Okauru MFR
Executive Chairman, FIRS

Appendix 1: Extracts from the report of Rajiv Singh – World Bank Advisor

- *The Lagos State BIR is already allotting Tax Identification Numbers, though known by different names, to their taxpayers;*
- *Lagos is allotting TIN to the taxpayers as a facility for making payment of taxes. The main purpose of the application being handled in case of Lagos (by Alpha Beta Consultants) is to monitor collection and provide collection data to Government and the State BIR;*
- *Even though Lagos State BIR is issuing TIN to their taxpayers, manual Tax File Numbers are being issued too. The Lagos State BIR is still using Tax File Numbers in their tax offices as Payer ID issued are neither being used by the BIR nor is there any direct connectivity or application system for its use by field offices;*
- *A company which is assessed by FIRS and whose branches all over Nigeria in the 36 States are liable to pay taxes under PAYE and With Holding Tax will be getting at least 37 TINs in all from FIRS and the 36 State BIRs when all of them start issuing TIN;*
- *In addition, since the system is mainly designed to cater to the requirement of monitoring collection, each one of them will continue to have one each Tax File Number from Directorate of PAYE and With Holding Tax from each of the State BIR when their cases are taken up for audit. Thus each company will have additional 36 or more Tax File Numbers;*
- *In case of individuals also they are being given separate number in the beginning of the year when their employer files return of income etc likely to be drawn by their employees and one when at the end of the year when they submit return for direct assessment;*
- *In a State, which has been issuing TIN for last seven years the number of TINs issued appears to be high compared to the population probably on account of the fact they have been issued TIN separately for different types of payment and thus raising doubts of multiple allotment of TIN to same person;*
- *The TIN is being issued with priority based on nature of transactions and not persons;*
- *There is no check alphabet or digit in the Payer ID of Lagos;*
- *Payer ID issued by Lagos State BIR indicate the type of person liable to pay tax;*
- *It is seen that TIN is being allocated to companies and individuals. However, as per Section 2 of Personal Income Tax Act, 1993(as amended) taxes are levied on the following types of persons:*
 - i) *Individuals*
 - ii) *Partnership firms'*
 - iii) *Trustees*
 - iv) *Communities*
 - v) *Families*
- *From the details of information based on which TIN is being generated, it is seen that the sole parameter checked to prevent duplicate allotment to same company or registered body and to establish uniqueness is the registration number issued by the Corporate Affairs Commission. If someone by mistake or deliberately quotes a wrong registration number the company may get another TIN;*
- *In case of individuals it was informed that uniqueness is being established based on name and Identity Number issued by any of the three Identity Types, namely, National Identity Card, International Passport or Driving License. Since one can*

choose to use any of the three and if one uses National Identity Card in one application and Driving License in other application he is bound to get separate TIN in both the cases. This does not ensure uniqueness;

- All the systems also do not appear to handle cases of
 - i) similar sounding names written in different spelling or
 - ii) names of persons having similar Initials and same date of birth in case of twins or
 - iii) a boy and a girl having similar name or
 - iv) a person who has changed his/her name either as a result of marriage or otherwise.
- There is strong reason to believe that the TIN being issued is not unique as the parameters used for establishing uniqueness are inadequate;
- In course of discussions it emerged that reliance on PAYE is as high as 61% to 75% in most of the states. People have been obtaining tax clearance certificates based on their salary income only. It cannot be believed that in a country with thriving economy with large scale developments in building constructions and ownership of expensive cars, investments in shares and stocks etc, large number of people (other than companies) do not have income from business and enterprise. It cannot be believed that people do not have any other income other than salary income as very few returns were found to be filed by individuals;
- If obtaining of TIN, quoting of TIN in specified transactions and filing of information returns of such transactions is made mandatory, it will definitely result not only in widening of tax base but deepening of tax base;
- Exchange of information between States and between FIRS and States will facilitate information based assessment of income of companies and individuals which will result in widening and deepening of tax base. Information on VAT available with FIRS if passed on to State BIRs will result in higher income being assessed in the hands of individual taxpayers. Similarly, information on business income of individual/enterprise available with State BIRs if passed on to FIRS will result in better levy of VAT by FIRS;
- There are no registers or manifests of persons liable to file returns of income or who have filed returns and who have not filed returns. TIN will assist in identifying non filers and stop filers;
- Transaction based or type of tax based registration for TIN is not desirable as it may lead to multiple allotment of TIN to same person;
- TIN should be used to uniquely identify category or type of person such as Individuals, Companies, Partnership Firms, Trustees, Families, Communities as prescribed under Section 2 of PITA, 1993(as amended)