

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

(Established in 1982, Chartered by Act 76 of 1992)

A Member of:

Association of Professional Bodies of Nigeria (APBN), West African Union of Tax Institutes (WAUTI),
Association of African Tax Institutes (AATI) and International Tax Directors Forum (ITDF),

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November 12, 2012

His Excellency

The Executive Governor of Abia State
Government House
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Abia State

MEMORANDUM ON INPUT INTO THE ABIA STATE GOVERNMENT 2013 BUDGET

The Chartered Institute of Taxation of Nigeria was established in 1982 and Chartered by Act No. 76 of 1992 now Cap C10 Laws of Federation of Nigeria 2004 to regulate Tax Practice and Administration in the Country.

In line with the Institute's statutory objective, it has taken a detailed review of the previous budgets of the state and has noted its pitfalls as regards tax administration and regulations. We hereby forward herewith the recommendations of our Institute as regards improved revenue generation and tax administration in the State for your necessary consideration.

While we give the assurances of the Institute's readiness to serve the nation in its efforts to reform the Nigerian tax system, we remain,

Yours faithfully

The Chartered Institute of Taxation of Nigeria

Abayomi Jayeoba, FCTI

Registrar/Chief Executive



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INSTITUTE OF TAXATION
OF NIGERIA**

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**MEMORANDUM ON INPUT
INTO THE ABIA STATE
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1. INTRODUCTION

The Chartered Institute of Taxation of Nigeria (CITN) was established in 1982 and Chartered by Act No. 76 of 1992 to regulate Tax Practice and Administration in the country.

The Chartered Institute of Taxation of Nigeria has over the years been an advocate for reforms in the Nigerian Tax System. The Institute was part of the 2003 Study Group on the Review of the Nigerian Tax System which was inaugurated by the then Federal Minister of Finance. Further to the report of the Group, a private-sector driven Working Group was constituted in 2004 to review the recommendations of the 2003 Study Group which invariably gave birth to eight tax reform bills, most of which had been passed into law while the remaining few are still going through the legislative processes at the National Assembly. It also led to the formulation of the National Tax Policy document which has been approved by the Federal Executive Council.

In line with the Institute's statutory objective, it has taken a general review of the previous budgets of local governments, the pitfalls, deficiencies and lacuna as regards tax administration and regulation in Nigeria and wish to propose the following for consideration in the preparation of the 2013 Budget for Abia State. CITN has to repeat most of the issues raised in our memorandum to your State in 2012 because they were not reflected in the policies of your administration during the year.

Solid economic systems are a function of sound fiscal and monetary policies structured to drive growth in critical sectors of the economy such as energy, transportation, financial sector e.t.c. Taxation is a vital component in this chain as it helps to define the shape and direction of government's policies, which usually drives economic development. It is a fact that any serious-minded government desirous of attracting meaningful development to its economy must accord taxation its rightful place. It is only when this is done that a robust and sustainable development can be achieved.

1. Tax Policy and the State Government Development Goals

It is important that the state government continues to develop appropriate fiscal policies to facilitate the achievement of government objectives towards the attainment of Vision 20:2020 especially in the areas of:

Power Generation,

- ii. Security,
- iii. Transportation, and
- iv. Employment Creation.

Given the significant role of taxation in nation building, we recommend that there should also be a parallel Vision 20:2020 for tax in the state. The goal will be to make Nigeria one of the top 20 countries in the world on the ease of paying taxes by the year 2020.

2. What Abia State should do

We once again recommend the following in **Abia State** :

i. AUTONOMY AND PROFESSIONALISATION OF THE STATE INTERNAL REVENUE SERVICE

There is the need to have professionals within the tax system to drive this all important sector of the nation's economy. It is our belief that government policies and programmes in the area of increased revenue generation can be best implemented with a State Internal Revenue Service that is autonomous and consisting of professionally competent chartered tax administrators in accordance with the law of Federal Republic of Nigeria. The granting of autonomous status to Abia State Internal Revenue Service will enable it equip, train and re-train competent staff who will in turn apply the skills and knowledge acquired to increase the internally-generated revenue of the state. The state government should be looking for alternative sources of funding if it is to diversify its economy and place little or no reliance on monthly allocation from Abuja.

It is important to let Your Excellency know that only members of CITN are backed by law to be appointed the Chairman of the State Internal Revenue Service. The Federal Inland Revenue Service and Lagos State Internal Revenue had become autonomous and our members appointed as Chairmen. The duo are reaping the benefits of taking such action and Abia State should not be left out in this tax revolution wind that is gradually blowing across the country.

ii. APPOINTMENT OF SPECIAL ADVISER ON REVENUE AND TAXATION

Your Excellency, it is strongly advisable you start thinking of creating a position of Special Adviser on Revenue and Taxation in the Office of the Executive Governor. The Adviser must be a tax expert who will assist your administration to formulate tax policies and supervise implementation of same to ensure Government objective of increasing revenue from taxation is achieved. Ekiti and Lagos State Governors had created this important portfolio and it is working well.

iii. CREATION OF TAXATION COMMITTEE IN THE STATE HOUSE OF ASSEMBLY

In the same vein, the State House of Assembly should as a matter of urgency, create taxation committee as part of the standing committees of the House. The function of the committee is to introduce tax bills and ensure the rapid passage of same in the House. Abia State Government should take advantage of this opportunity at being the first State in the region to give taxation a special attention and consequently, diversify the economy of the State.

3. INCREASING THE REVENUE PROFILE OF THE STATE

The taxes and levies contained in the Taxes and Levies (Approved List for Collection) Act, Cap T2, LFN, 2004 should be fully exploited most especially by Local Governments and supported by State Government. In addition, the following levies should be introduced by the State Government to boost its revenue which should be supported by appropriate legislation:

(a) LEVY ON KILLING OF ANIMALS

There had been unchecked and uncontrolled killing of bush animals for meat and no levy or charges were being imposed by the State Government. In the advanced economies of the world where internal revenue is taken seriously, no

person can go into the bush to kill animals without a licence or payment of a fee. Also the exercise will protect the endangered species and encourage tourism. In order to boost the revenue of the State, Government should as a matter of urgency pass into law and make it a criminal offence the killing of animals without fee and offenders fined.

(b) LEVY ON FELLING OF TREES

In the same vein, there had been wanton destruction of the environment through un-coordinated felling of trees thereby exposing the eco-system to erosion and degradation. The State Government should also pass into law the abrogation of felling of trees and burning of bushes without authority and the imposition of appropriate fee. This will increase the internal revenue of the state and assist in protecting the environment.

(c) PARKING FEES AND FINES

Government should designate certain roads as no-parking areas and employ personnel to enforce compliance. Also certain areas should be designated parking areas with payment of appropriate parking fee. In addition, causing obstruction on the roads like abandoning faulty vehicles on the roads should attract fines or charges which will add to the internally generated revenue (IGR) of the state.

(d) SANITATION FINES

As at now, some States declare a certain day of the week as sanitation day and ask people to stay at home to clean their environments; CITN believes this is unnecessary and should be stopped. This is because cleaning of environment should be a routine duty of a good citizen and a sanitary inspector should be engaged to go round and ensure environments are kept clean and to give powers to impose fines or charge them to mobile courts. This will increase the IGR of the State.

(e) ERECTION OF TOLL GATES ON STATE ROADS

The State Government should start thinking of erecting toll gates on some commercially-viable roads constructed by the state government. This will increase the revenue profile of the state and revenue derivable from this venture can be ploughed back into road construction and maintenance. Moreover, strong internal control system should be established to ensure the revenue from the tolls is not diverted.

(f) DEVELOPMENT OF TOURISM SITES

The state government should exploit the tourism potentials of the state through identification and development of the tourism sites to international standards in order to attract tourists to the state. Apart from the job creation tendency, the revenue accruable to the hospitality industry will increase which will increase the taxes payable to government. In addition, government should ensure that the state is clean to attract tourists.

(g) POLLUTION FINES AND LEVIES

There is a widespread believe by scientists that emission of gases and industrial wastes contribute to global warming and pose a danger to the world ecology. Therefore, as a step to reduce this environmental pollution, the State Government should come up with a policy on the control of these alleged causes of global warming in order to protect the environment and from fines or levies, revenue accruable to state government will increase.

(h) INCENTIVES FOR INVESTORS

In addition to the incentives under the Companies Income Tax Law, each state government should come up with attractive incentives to investors which will encourage them to come to Abia State to invest. These include but

not limited to provision of land, waiver or payment for registration fees etc and should be examined critically so as not to create leakages.

(i) ESTABLISHMENT OF FARM SETTLEMENTS

The state government should as a matter of urgency look into the establishment of farm settlements to encourage young school leavers go into mechanised agriculture so as to boost food production and create employment in the state. Government should also buy farm inputs like seedlings and distribute to farmers at subsidised prices or free. In addition, Government should assist farmers to access agriculture loans and guarantee such where the need arises. This scheme will increase revenue accruable to state government through taxes payable by the farmers.

(j) FUNDING OF SPECIFIC INDUSTRIAL RESEARCH

Government should cultivate the habit of funding research into specific resources available in the state for example, research into the scientific or industrial use of solid minerals in the state in order to convert such mineral deposits into industrial production. Government should make use of some research centres and university teachers in the state.

(k) USING UNIQUE TAX IDENTIFICATION NUMBER (UTIN) OR TAX CLEARANCE CERTIFICATE TO TRANSACT BUSINESS WITH GOVERNMENT

State Government should come up with a policy of making the UTIN and/or tax clearance certificate a condition to transact business with the State Government, for example, the issuance or renewal of vehicle particulars, enrolment of pupils into government and private institutions and operating bank accounts etc. This will create tax awareness and ensure taxpayers perform their civic responsibilities which in turn will increase government revenue.

(I) SIMPLIFIED PROCEDURES

When compliance procedures are cumbersome, potential tax payers become frustrated and delinquent. Procedures therefore should be simplified and harmonised especially through documentation, access to tax officials and prompt action.

(m) TAXPAYER EDUCATION

Tax revenue institutions have the arduous responsibility of marketing an unpopular social service. If people are not sufficiently educated about their civic responsibilities as taxpayers, they are likely to resist the imposition of any taxes. We should teach people their rights and obligations.

4. *Tax Technology* - The State Government should simplify tax compliance by allocating fund in the 2013 Budget for full automation of tax administration and compliance process to reduce compliance burden. This will also reduce human interaction and the attendant corrupt tendencies by some officials. In addition, the Unique Taxpayer Identification Number project approved by the FEC and currently being implemented by the Joint Tax Board should be expedited with a view to simplifying tax compliance by ensuring, for instance, that WHT credits are automatically credited to taxpayers' records. There should also be adequate profiling of taxpayers (individuals and corporate bodies) to aid enforcement of compliance.

5. *Tax Refund* - As envisaged in the National Tax Policy, adequate fund should be made available to the State Internal Revenue Service (SIRS) to make valid refunds to taxpayers. If taxpayers are not refunded excess tax paid, it will discourage voluntary compliance and encourage tax evasion.

6. **Multiplicity of taxes: Abolition of Local Government illegal road blocks**
We call on the state government to abolish all forms of illegal tolls collected by Local governments as this only amount to multiplicity of taxes which is the bane of any productive tax system. There is no provision in the tax statute whereby Local Government employees are empowered to mount road blocks to collect taxes. This practice could discourage investors and increase the cost and inconveniences of doing business in Nigeria.

7. Earmarked Taxes:

There should be a policy statement of the State Government on the need to stop Earmarked Taxes and Business Levies at all levels. Taxes like Tertiary Education Tax, Fuel Tax, Police Tax, Health Tax, Corporate social Responsibility Tax, etc should not be encouraged as it leads to multiplicity of taxes which is the bane of an effective tax system. It increases firms' cost of doing business as well as the government's cost of revenue administration and it damages investors' confidence.

8. TAX LAWS:-

(a). The laws guiding the administration of taxation should be up to date to meet current business development and economic realities in a changing world. Taxation is not and should not be used for government revenue alone it must be used to regulate the economy, among others. By this, tax laws should be reviewed annually as part of the Annual Appropriation Acts with effect from 2013 financial year. South Africa and United Kingdom are examples of countries having annual changes of tax rates and allowances in their Annual Appropriation Acts. This will help remove obsolete provisions of the laws.

(b). Centralisation of Approval of New Tax Laws: With effect from 2013, all new tax bills from Federal, States and Local Government should be approved by the Central Tax Agency - the **Joint Tax Board** before such bills are presented to the Houses for debate. This is the German scenario. This will eliminate to a greater extent conflicts after such laws would have been passed while reducing the incidence of multiplicity.

9. State Government Budgetary Process

Government should have a clear vision of what a budget is intended to achieve in a particular year and the modus operandi of achieving same.

The zero-based budgetary methodology should be introduced into the Government financial system whereby both recurrent and capital estimates of each MDAs within the states are subjected to scrutiny and justification before they are included in the budget for the year by the state government.

There should be no arbitrary allocation of estimates to MDAs, rather there should be a scientific assessment of the needs of each MDA and their

congruence with the overall goals and objectives of Government before funds are appropriated.

- (iv) Government should progressively reduce the ratio of recurrent to capital expenditure in order to make more funds available for capital projects which will touch the lives of ordinary Nigerians, to achieve this, State Governments should pursue fiscal policy that will lead to internally-generated revenue being used for recurrent expenditure while the funds from Federation Account should be used for capital expenditure.

While we give the assurance of the Institute's readiness to serve the state government and the entire nation in their efforts to reform the country's tax system, we remain,

Yours faithfully

The Chartered Institute of Taxation of Nigeria

A handwritten signature in black ink, appearing to read 'Abayomi Jayeoba', with a stylized flourish at the end.

Abayomi Jayeoba, FCTI
Registrar/Chief Executive