

Building the Social Contract: Taxation in Nigeria

Nigeria is undergoing an unprecedented shift in the way that the state and federal governments approach taxation. The Government of Lagos State and Governor Babatunde Fashola have received a great deal of attention for impressive performance in boosting both tax revenues and social services since 2005. Lagos State, however, is not the only place where change is afoot. Indeed, tax reform has been undertaken in states and local government areas all over Nigeria.

Our team wanted to better understand the conditions that make tax reform work. When are citizens willing to pay taxes? Do Nigerians believe that citizens have an obligation to pay tax, or do they say that taxes only need to be paid if a person supports the government? Our survey asked a number of questions about how urban Nigerians understand taxation, when they are more or less willing to pay taxes, and how taxation is affected by insecurity and violence.

Findings

Research by Professor Lebas (with C.Bodea) finds that three factors are especially important in explaining when state governments will succeed at tax collection.

- **Community relations.** If individuals rely on ethnic, religious, or vigilante groups to provide security or services, they are unlikely to rely on the state. Reliance on these networks reduces individual support for the state's right to tax by 27 percent.
- **Services Delivery.** Residents of communities that had received concrete services delivery are 26 percent more likely to believe in the government's right to collect taxes. Services delivery increases public support for paying taxes.
- **Contact with the State.** Individuals who had met with government officials – even those who reported contact with *corrupt* officials – are more likely to believe that citizens should pay taxes. Investment in government monitoring capacity is likely to shift attitudes in the direction of tax compliance.

These attitudes about taxation have concrete effects on whether people will pay taxes. Nearly 1200 of our 2750 respondents volunteered the information that they did not pay taxes, which gives us some information about tax evasion in Nigeria.

- **Actual Tax Payment.** Individuals who believed that citizens have an obligation to always pay taxes were 20 percent more likely to actually pay tax. Where citizens believe in the state's right to collect tax, governments find it easier to collect tax revenue.

Policy Implications

What does this mean for policy reform in Nigeria? Our research suggests that state governments might focus their efforts in four directions:

- 1) **Improve the capacity and perceived fairness of tax collection institutions.** Fear of penalty remains the strongest means of motivating tax compliance.
- 2) **Enhance services delivery, especially of tangible or visible services.** Our research suggests that building new schools, health clinics, public boreholes, or other infrastructure is more effective than improving existing assets. Even if the quality of existing services improves, this does not have a strong effect on individuals' willingness to pay tax.
- 3) **Take measures that reduce citizens' reliance on non-state networks for security or enforcement of business contracts.** We would guess, for instance, that the 2002 ban on ethnic militia increased the ability of state governments to collect tax. More steps might be taken to reduce the influence of non-state actors, whether these be ethnic militia, *hisbah*, or other vigilante groups.
- 4) **Undertake public education campaigns that reinforce a citizen's obligation to pay taxes.** These "civic virtue" campaigns have proven effective in other countries, and our research suggests that attitudes about taxation have a concrete, independent effect on tax payment.

Target Audience: Federal and State Tax Regulatory Authorities, policy makers, academia, civil society organizations etc

Researcher Team:

- Adrienne LeBas, American University
- Nic Cheeseman, Oxford University
- Professor Etannibi Alemika, University of Joss

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