NIGERIA GOVERNORS' FORUM

The 'State' of Tax Reforms in Nigeria

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This study benefited from the incisive comments of Dr. Mark Abani.

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Abbreviations and Acronyms

BMGF	Bill and Melinda Gates Foundation
COVID-19	Coronavirus disease
CRC	Consolidated Revenue Code
DRM	Domestic Resource Mobilisation
FAQ	Frequently Asked Questions
FCT	Federal Capital Territory
FGD	Focus Group Discussion
FGN	Federal Government of Nigeria
GDP	Gross Domestic Product
HCD	Human Capital Development
HNWI	High Net Worth Individual
IGR	Internally Generated Revenue
IPSO	Irrevocable Standing Payment Orders
IRS	Internal Revenue Service
JSRC	Joint State Revenue Committee
JTB	Joint Tax Board
LGA	Local Government Authority
MDAs	Ministries, Departments and Agencies
NGF	Nigeria Governors' Forum
NIBSS	Nigeria Inter-Bank Settlement System Plc

NIMC	National Identity Management Committee
PAYE	Pay As You Earn
PIT	Personal Income Tax
POS	Point of Sale
SAPRG	State Action Plan on Revenue Generation
SFTAS	States Fiscal Transparency, Accountability and Sustainability
SIRS	State Internal Revenue Service
SOP	Standard Operating Procedure
TIN	Tax Identification Number
USSD	Unstructured Supplementary Service Data
VAIDS	Voluntary Assets and Income Declaration Scheme

Director General's Message

Established in 1999, NGF is a non-profit, non-partisan association of the 36 democratically elected governors of Nigeria. Its vision is to promote inclusiveness, democratic values, good governance, and sustainable development at the sub-national level. By virtue of its mandate, the Forum has evolved to become a veritable platform that leverages the potentials of States to address critical issues of national importance.

The activities of the Forum are driven by its administrative and technical arm, the NGF Secretariat, a policy hub that gives direction and meaning to the NGF. The Secretariat is also a resource centre for sub-national data and policies.

Today, the visibility of economic, social, political, and environmental challenges, and the expectation for immediate action from citizens places a heavy burden on State governments for timely action, including the need for domestic resource strengthening. Tax reforms have become powerful tools for closing the domestic financing gap, promoting business growth, and improving state capacity and state-society relations.

This work contributes to the NGF's role in facilitating a coordinated approach for domestic resource mobilisation in all 36 States of the federation.

Asishana Okauru Esq.

September 2022

Abstract

In the last decade, Nigeria has experienced an unprecedented level of tax reform. Unlike at the federal level, the trigger at the state-level was not from a business community call for a better business environment, but from the impact of failing oil revenues which had destabilised the budgets of state governments during the mid-2014 - 2016 fiscal crisis. By 2017, all State governments had reached a consensus on the importance of domestic resource mobilisation (DRM), following the set up two DRM-focused technical assistance programmes within the Nigeria Governors' Forum (NGF) Secretariat.

The most progressive reforms have focused on tax consolidation and codification through the passage of a Consolidated Revenue Code (CRC) in nearly all states to end multiple taxation, although more than half of them have not yet been able to achieve full administrative and financial autonomy as enshrined in their revenue laws - the primary reform that disentangles them from the bureaucracies and controls of the civil service.

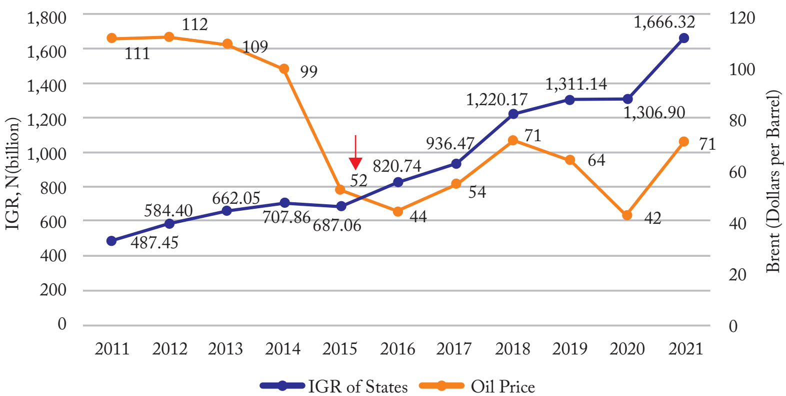
Where tax authorities have been fully supported by their state governors, administrative changes have led to increased digitalisation, taxpayer compliance, and tax revenues, although the scope of collection remains generally challenging for taxes on mining and quarrying activities, land use and property. Ultimately, tax authorities are playing an active role in defining the fiscal headroom of state governments and the state-society relations. Through tax-for-service programmes, they are helping to build much-needed public trust and legitimacy.

Tax reforms are associated with strong resistance from vested interests, from elites who may bear the greatest burden of taxation and public institutions that benefit from a dysfunctional revenue system. Going forward, the quality of support for these reforms can be maximised when underpinned by highly potential 'inflection points' (where possible), such as during periods of fiscal crisis or political transition; a well-designed pathway of change informed by a comprehensive political economy analysis; established linkages with the state-society relations to gain long-term internal and public support; and when driven as a whole-of-government reform.

1.0 Introduction

In the last decade, there has been increased global interest in developing country domestic revenue mobilisation, in particular taxation . The push has reflected a concern to better fund public spending and the renewed recognition of the centrality of taxation to state building and broader state-society relations. This has also been the case for state governments in Nigeria, especially following the mid-2014 - 2016 oil crisis which saw government revenues (% of GDP) decline by nearly half from 11% in 2014 to 6% in 2016. The fiscal crisis later evolved into the country's first recession since 1995, due to a combination of economic factors which were national in scope, including the poor state of trade and revenue diversification, degree of dependence on oil exports, size of fiscal and external balances, and policy responses. The impact of the crisis was more than previously recorded, and was fundamental to kickstarting a set of government responses targeted at mobilising domestic revenues, amidst indications that many states had not done enough to reduce their dependence on centrally-collected revenues. In the inflection year of 2015, the total internally generated revenue (IGR) of states declined from N708 billion in 2014 to N687 billion before picking by 19% to N821 billion the year after (figure 1).

Figure 1: The inflection point of tax reforms



The sharp revenue slump during the period also revealed a previously overlooked risk - oil exports and oil revenues were more volatile than oil prices. The volatility of both items was 47% and 43% respectively vs 33% for oil price when measured for the period 2010 - 2017.[2] The domestic revenue mobilisation (DRM) response, besides the set of federally administered bailouts issued in 2016, was eventually seen as the long-term lifeline of state governments. The pathway of change for states was unlike the reform-stimulus at the federal level where tax reforms had long taken off in response to a national concern that the prevailing tax structures had not only imposed large costs on the national economy by distorting economic decisions, but that many were either unfair, unnecessarily complex, or highly subject to avoidance and evasion.

Today, tax reform has become the agreed means of stabilising government revenues, supporting the independence of governments from natural resource revenues and foreign aid, and improving the country's business environment. It is the only long-term strategy to finance development (government administration, infrastructure, and social services); support private sector growth (through the removal of tax impediments e.g., multiple/double taxation); and strengthen public legitimacy through structured tax for service programmes.

[2]Fjeldstad, O.H (2013) Taxation and development: a review of donor support to strengthen tax systems in developing countries, Public Admin. Dev. 34, 182-193 (2014)

2.0 Objective, Scope, and Methodology

This study reviews the tax reform environment since state governors took collective action on DRM.[4] It investigates key reforms implemented by state governments within the context of the 2019 State Action Plan on Revenue Generation (SAPRG)[5] put together by the Nigeria Governors' Forum (NGF) and the Joint Tax Board (JTB). On the 28th of October 2019, the SAPRG[6] was signed by state governors, under the auspices of the NGF in a joint meeting of the NGF and the JTB. It was conceived as a strategy to engender political support from State governors and a structured approach to implement twelve (12) actions targeted at six (6) objectives, including ending multiple/double taxation, making the most of the State Internal Revenue Services (SIRS), improving taxpayer compliance, blocking revenue leakages, unlocking new revenue sources, and improving revenue budgeting and reporting.

The findings of this report are based on the results of assessment questionnaires administered to the IRS of the 36 States and the Federal Capital Territory in March 2022 and a focus group discussion with 10 states which held in August 2022. The synthesis also covers elements of

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[3] Nabena D. (2019) Managing Volatility in Nigeria. Nigeria Governors' Forum. Available here: https://nggovernorsforum.org/images/For_Upload/Managing%20Volatility%20in%20Nigeria_.pdf

[4] In 2017, with the support of the Bill and Melinda Gates Foundation, NGF instituted an IGR Dashboard and a HelpDesk technical assistance programme to promote the use of evidence to inform tax reforms, to strengthen decision-maker engagement, and the capacity of tax authorities to adopt practical reforms that have worked domestically and internationally. The growing body of knowledge in the tax space since 2017 has helped bridge the gap in political commitment and capacity across States in the country, particularly among the 'catch-up' states.

[5] NGF & JTB (2017) State Action Plan on Revenue Generation. Available here: http://ngfrepository.org.ng:8080/jspui/handle/123456789/1114

[6] Governors also committed to the SAPRG at the end of a 2-day meeting on Human Capital Development (HCD) convened by the Aliko Dangote Foundation, Bill and Melinda Gates Foundation (BMGF) and the NGF in November 2019 in Seattle Washington, US - now referred to as the Seattle Declaration.

the COVID-19 response for tax authorities[7] - a response plan prepared in April 2020 in response to the pandemic. With a completion rate of 95%, the next section provides a synthesis of the practice of tax reform in 34 states[8] and the FCT. Chapter 4 captures the key findings of the focus group discussion with 10 states[9] while chapter 5 presents major conclusions and takeaways from the two-part study.

3.0 Main Findings from the Survey

The tax reforms assessed are grouped under the six (6) main objectives of the SAPRG as follows:

3.1 Ending Double /Multiple Taxation

Amidst the high demand for tax revenues, one of the major public concerns that has ensued is the risk of tax proliferation – either within a government administration or across tiers of government. Double taxation is implied when there is an imposition of tax on the same income, asset or financial transaction at different times within a single tax period, while multiple taxation is implied when a taxpayer is taxed multiple times by multiple jurisdictions in a federal system or by multiple agents of a government.

[7]NGF (2020) COVID-19 Response for Tax Authorities. Available here: http://nggovernorsforum.org/index.php/resources/category/9-publications?download=303:ngf-covid-19-response-for-tax-authorities-pdf

[8]Abia, Adamawa, Akwa Ibom, Anambra, Bauchi, Bayelsa, Benue, Borno, Cross River, Delta, Ebonyi, Edo, Ekiti, Enugu, Gombe, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Lagos, Nasarawa, Niger, Ogun, Ondo, Osun, Oyo, Plateau, Sokoto, Taraba, Yobe, and Zamfara.

[9]Abia, Akwa Ibom, Borno, Cross River, Edo, Gombe, Kaduna, Kwara, Lagos, and Plateau.

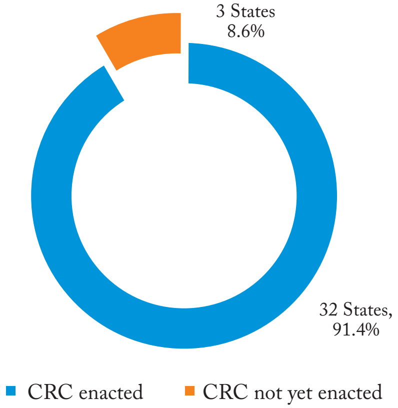
Within the legal context, one of the primary tools for streamlining taxes and curtailing the rise of 'nuisance' taxes is the establishment of a consolidated revenue code (CRC), sometimes called a harmonised tax law, to exhaustively cover the system of laws or a particular area of law, through a process of codification. The CRC ensures that the government's effort to raise tax revenues does not lead to the proliferation of arbitrary or duplicative taxes.

32 States have implemented a revenue code covering all State-level IGR sources, as prescribed in the Taxes and Levies (Approved list for Collection) Act 2004 (as amended 2015), and other revenues collected by the state and local governments, including presumptive taxes, indirect taxes and levies (such as road charges, hotels charges etc.), fines, fees and charges collected by ministries, departments and agencies (MDAs). The CRC brings all revenues (tax and non-tax) into a single legal document, or clearly linked legal documents.

The CRC was first introduced by three (3) states in 2018, with Kaduna, Kogi and Plateau as the forerunners, 16 states followed in 2019, 10 additional states in 2020 and a total of 32[10] by mid-2022. Widespread adoption of tax consolidation became apparent following the launch of the World Bank States Fiscal Transparency, Accountability and Sustainability (SFTAS) programme in 2019, which adopted the reform as a disbursement-linked indicator for accessing performance-based grants. But not all cases of CRC have led to tax harmonisation. In fact, some of these laws are consolidated but not harmonised; while the taxes and rates may be clear, there are still overlaps effective leading to multiple taxation.

[10] Abia, Adamawa, Akwa Ibom, Anambra, Bauchi, Bayelsa, Benue, Borno, Cross River, Delta, Ebonyi, Edo, Ekiti, Gombe, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Nasarawa, Niger, Ogun, Ondo, Osun, Oyo, Plateau, Sokoto, Taraba, Yobe, and Zamfara.

Figure 2: The rise of tax consolidation and codification



Lessons from states have shown that implementing the CRC ensures that the following practices are put in place:

i. All states have a modern tax law, usually post 2010.

ii. All sources of revenue and rates are approved by the House of Assembly and signed into law by the Governor. This includes revenues from MDAs and the local government authorities.

iii. The SIRS is the sole collecting and accounting agency for all state taxes.

iv. All revenues are paid into a single revenue account.

v. All laws, revenue sources and rates are freely accessible on the state's (or IRS) website and are used in practice by tax authorities.

vi. The law has a schedule of all the taxes and revenues of the state collectable by the SIRS

vii. An established process for updating the schedules.

In addition to the adoption of CRCs, 30 States have within the last three (3) years reviewed their tax rates, levies, and charges for obsolescence, legality, lacuna, duplication, and practicality. 30 States have published these new schedules on their state or IRS website, while 23 States have adopted a harmonised tax collection arrangement with their local government authorities. In Bauchi, Borno Ebonyi, Kaduna, and Niger, all taxes and levies are collected by the SIRS on behalf of the local governments - a practice that has helped consolidate tax collection and reduce the incidence of double taxation. In other States, there are more nuanced arrangements, usually in line with the tax powers of the state and local government. All states have prohibited by regulation the use of consultants in the collection of PIT.

The new administrative arrangement created by the CRC has helped improve tax administration and coordination between the tax authorities and collecting agencies (MDAs). Tax authorities now have a bird's eye view of all collecting agencies (MDAs), all taxes, levies, fees and fines, points of collection, including mobile money agents. Taxpayers are also able to track when new taxes are introduced, obsolete taxes retracted and when the rates of fees, fines and levies are reviewed.

Half of the states have in the last two (2) years, domesticated at least one new tax, levy, fee, or fine, including either a consumption tax, entertainment levy, land use charge or property tax. Amidst this upsurge in new taxes, tax authorities have had to hold regular sensitisation and training events with their collecting agents and taxpayers on the implication of such changes.

3.2 Making the most of the IRS

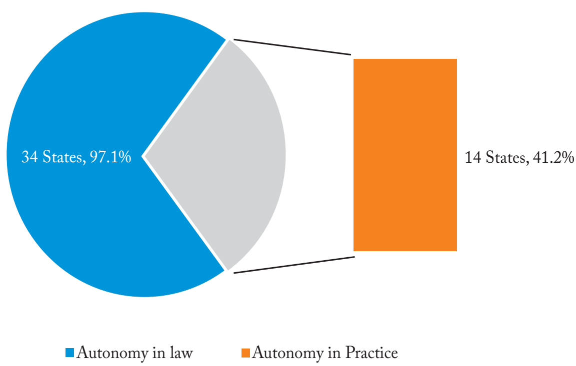
Administrative and financial autonomy is perhaps the most important driver of tax administration. The reform is usually the take-off point from which all other institutional reforms are launched and sustained, because it empowers tax authorities to be free from civil service controls. In 2019, an NGF study which reviewed data for 20 States,[11] comparing their

[11]Bauchi, Benue, Borno, Cross River, Delta, Edo, Ekiti, Enugu, Gombe, Jigawa, Kebbi, Kwara, Lagos, Nasarawa, Niger, Ogun, Ondo, Osun, Plateau and Taraba.

institutional arrangement and source of funding for the periods 2015 - 2018 revealed that autonomy was a necessary, though not a sufficient condition to mobilise revenues sustainably. The report had showcased Kwara, Zamfara and Bauchi states as three high performers that recorded over 100% growth in their IGR following the implementation of full autonomy. Since then, records have shown similar performances for additional states.

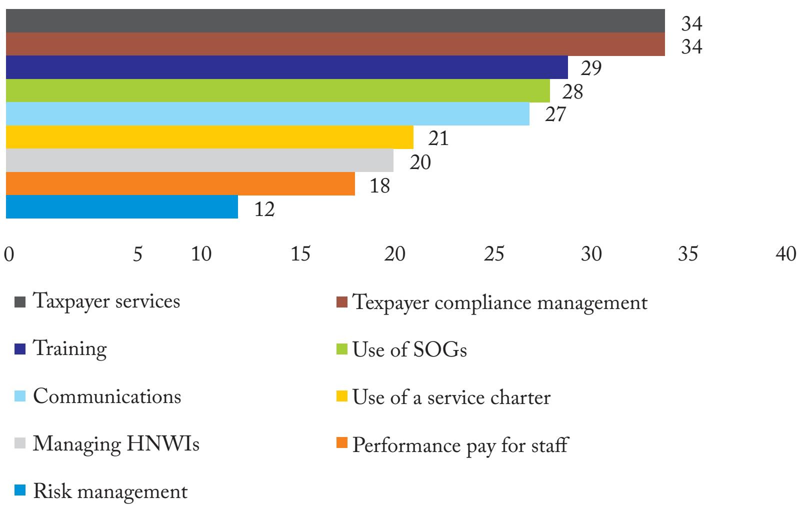
The latest data shows a sustained push for independence for tax authorities in the country, although in practice, only 14 of them have enforceable powers. In the majority of States, the sections of the revenue laws that give the tax authorities independence have become 'dead letters' or 'desuetudes' due to a long period of disuse. To address this challenge, at least 20 States have developed a transition plan for full autonomy. Transition to full autonomy has been one of the most challenging reforms because it requires a breakaway from the civil service structure - away from the state's general budgeting framework, human resource management and infrastructure procurement. This reform path requires strong political support from the state governor and a well-designed transition plan that will be implemented by a change management team.

Figure 3: The thorny road to autonomy



As pointed earlier, administrative autonomy is usually the precursor to broader organisational management reforms within the SIRS. In the last two years, practically all the tax authorities assessed have implemented at least one institutional reform to strengthen their taxpayer compliance and taxpayer services units. These functions are geared towards fostering the SIRS-taxpayer relationship; and they require a set of activities, beginning with increasing the number of professionals, implementing comprehensive collection systems (e.g., payment and withholding systems in the accountant general's office) and building capacity through training and recruitment in core tax administration functions such as registration, filing and payment enforcement, debt collection, audit, taxpayer services, and processing of appeals. Capacity-based reforms, including training programmes, are active in 29 States, with the use of standard operating procedures (SOPs) and change management tools such as guides, templates, and process maps.

Figure 4: The institutionalisation of tax authorities



Reforms targeted at introducing performance pay for tax officials have been relatively stagnated (adopted in only half of the states), due primarily to the nonenforcement of the revenue laws that give financial independence to the tax authorities. The use of service charters which help establish service pledges, service standards, the rights and obligations of taxpayers, complaints, redress mechanisms as well as service fees, are change management tools that have gained traction in 21 States.

20 states have taken leaf from the Voluntary Assets and Income Declaration Scheme (VAIDS) which was introduced by the federal government in 2017 with the creation of specialised units to manage high net worth individuals (HNWI) - most of them evolved from the state teams that oversaw the implementation of the VAIDS programme. 23 states[12] reported that they have a strategy to engage with and manage HNWIs. Each SIRS has its thresholds for profiling taxpayers who fall under this category.

Cross country data shows that HNWI units are usually manned by highly skilled staff who understand the issues faced by the HNWI segment and those advising them. Many countries have reported increased taxpayer satisfaction and increased tax revenues following the establishment of HNWI units (whether centralised or regional) and dedicated contact points.[13] In the United Kingdom, members of the HNWI unit meet regularly with tax advisers from the large accounting firms for the purpose of improving voluntary compliance.

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[12] Abia, Akwa Ibom, Bauchi, Edo, FCT, Kogi, Lagos, Ogun, Ondo, Adamawa, Anambra, Borno, Delta, Ebonyi, Ekiti, Enugu, Gombe, Jigawa, Kaduna, Kebbi, Niger, Oyo and Yobe

[13] Organisation for Economic Co-operation and Development. (2009). Engaging with high-net-worth individuals on tax compliance. OECD Publishing.

3.3 Improving Tax Compliance

The assessment also measured the responsiveness of the SIRS to meet some of the most pressing needs of taxpayers, including closing the deficit government trust and legitimacy. Following the hit of the COVID-19 pandemic in 2020 which led to major disruptions for both governments and businesses, all tax authorities deployed tax relief programmes to support individual taxpayers and businesses. These included the extension of the date of filing for the 2019 annual returns, waiver or reduction on penalties and interests on tax liabilities, rebate/discount on taxes paid by new taxpayers, payment of taxes in instalments, and online issuance of tax clearance certificates to minimise human interaction. These provisions were designed to help businesses and families achieve some respite in financial stability, plans to return to work, and savings.

Since the end of the relief programmes in 2021, some states have continued to give taxpayers the opportunity to pay their taxes in instalments. Ironically, most states did not report any significant impact of the 2020 tax relief programmes on tax compliance. The unweighted impact of the relief programmes raises concerns about the scope of the programmes, level of taxpayer communication and the level of customer support provided to taxpayer (including guidance to staff and taxpayers). In the State of California, a frequently asked questions (FAQ) page[14] and help lines were created specifically for the purpose to ensure taxpayers were practically supported to receive the assistance they needed.

Another tax compliance-centred reform that has gained traction is the

[14]State of California: Franchise tax Board (2020). COVID-19 frequently asked questions for tax relief and assistance. Available at: https://www.ftb.ca.gov/about-ftb/newsroom/covid-19/help-with-covid-19.html

introduction of tax-for-service spending by tax authorities. 22 tax authorities[15] expend their budget to provide targeted services to specific taxpayer groups such as market traders, unions, and motor park operators/users. Such services are of moderate cost to the SIRS, and they are usually targeted at infrastructural improvements and social services such as building toilet blocks, providing overhead water tanks or boreholes, removing refuse, construction of drainage, group life or accident insurance for motorcycle riders and security lighting in commercial centres where specific taxpayer groups operate. Tax-for-service spending are used as an incentive to promote public trust and tax compliance and can be used as place cards to solidify state/LGAs tax collection arrangements. These initiatives are mini versions of the state-wide programmes advocated by the NGF to exhaustively capture for example, all informal sector taxpayers who do not have any form of health insurance.[16]

In addition to developing a tax compliance strategy from the social contract perspective, identifying and mitigating taxpayer non-compliance is another reform area that has gained momentum in the last few years. Low tax compliance is demonstrated by high tax resistance, based partly on the premise that every economic sacrifice must give economic benefit in exchange, and based partly on tax evasion motivations, or for lack of knowledge of tax obligations or unintentional errors. 22 states reported that they have created a register of non-compliant taxpayers. This list covers taxpayers who fail to timely file their tax liabilities and taxpayers

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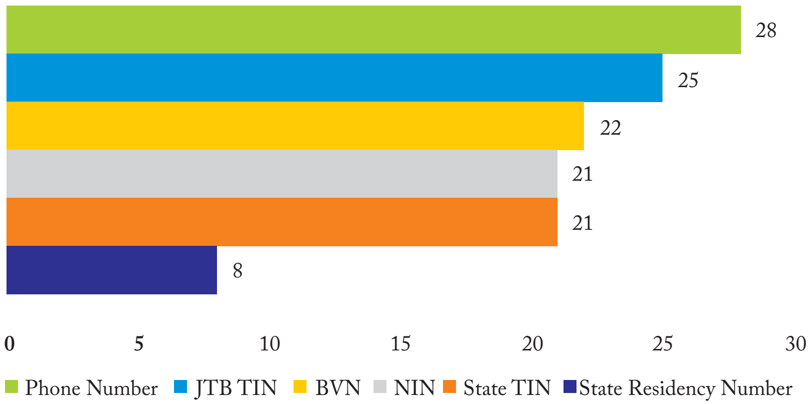
[15] Abia, Adamawa, Akwa Ibom, Bauchi, Bayelsa, Borno, Delta, Edo, Enugu, FCT, Gombe, Jigawa, Kaduna, Katsina, Kebbi, Kwara, Lagos, Niger, Ogun, Ondo, Oyo, Sokoto, Taraba, and Zamfara.

[16] Nabena, David; Ajogbasile, Olanrewaju; Abdulwahab, Ahmad; Abiola, Zubaida; Olorunshola, Abdulazeez; Oreh, Chinekwu; Akanbi, Olubunmi; and Olatunji, Marvellous (2021). Setting the Social Minimum through a Tax for Service Programme: An Analysis of the Perceptions of Informal Sector Workers to Pay Taxes in Exchange for Free Minimum Basic Healthcare in Nigeria. Nigeria Governors' Forum, Abuja. Available at: https://ngfrepository.org.ng:8443/handle/123456789/4457

who report inaccurate information (usually on the basis of past audits). This database can be reconciled with MDAs for profiling, audit, and enforcement purposes, as reported by half of the states. Additionally, 25 states have taken measures to curb non-compliance in the informal sector by collaborating with trade unions and associations who help by providing relevant information about the nature of the business of their members and giving legitimacy to the tax collection process.

To strengthen the ease of tax compliance and eliminate the points of leakages, nearly all states operate a consolidated revenue account in which all tax receipts are paid into. With the cooperation of state MDAs, 30 tax authorities have put in place a financial regulation to guide this treasury single account system.

Figure 5: The search for a unified taxpayer ID

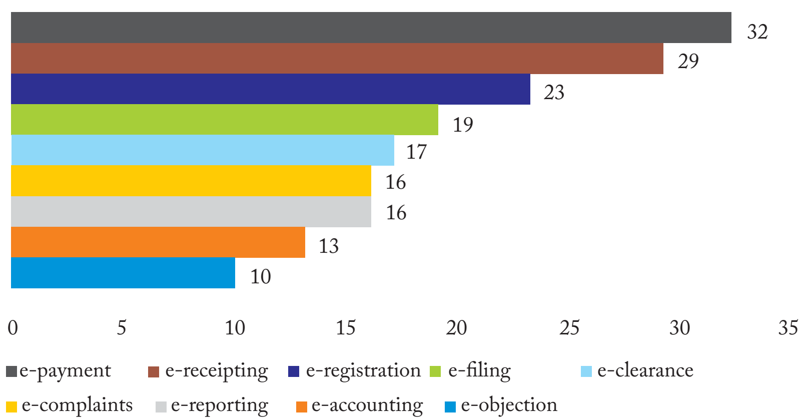


Reforms to improve taxpayer identification are still evolving, including moves to integrate taxpayers' data with third-party databases of institutions such as the Central Bank of Nigeria (CBN), the Nigeria Inter-Bank Settlement System Plc (NIBSS) and the National Identity Management Commission (NIMC). Across the board, customer phone numbers are the most used taxpayer identifier - adopted in 28 states, followed by the JTB Tax Identification Number (TIN) used in 25 states.

Interestingly, 8 states[17] have adopted their state-issued residency number as a means of taxpayer identification. The drawback of this system of multiple identifiers is that in most cases, it is an enabler of non-compliance. An integrated identification system is still necessary especially for businesses that operate in multiple states.

Digital penetration in tax processes has been greater in service areas such as e-payment, e-receipting and e-registration where 32, 29 and 23 states respectively reported that they have automated these processes. In fact, for the corporate segment, all the states have adopted cashless payment channels to enforce the payment of PAYE online, while 29 states have adopted the use of point of sale (PoS) machines or USSD channels for the informal sector workers. Digitalisation in accounting and objection processes have however lagged, highlighting a disruption in the taxpayer service journey. A healthy tax administration is one which builds trust and provides great customer experience, where it is easy to get things right, and hard to get things wrong, one which minimises the cost of administration, and one which continually evolves to reduce taxpayers time to comply.

Figure 6: The road to digitalising taxpayer services

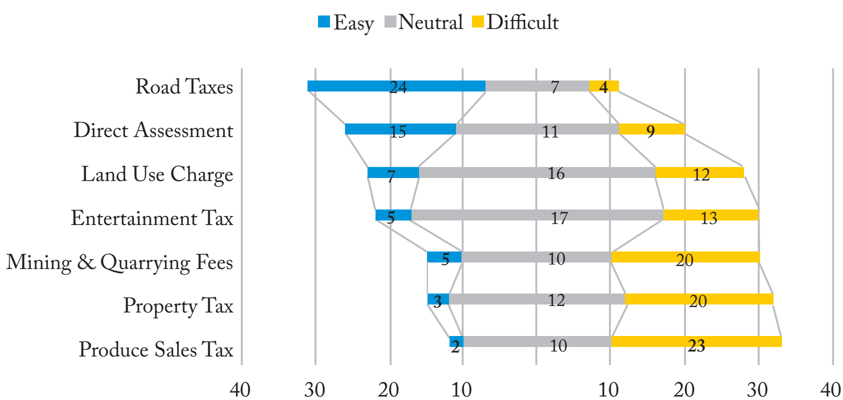


[17] Abia, Anambra, Bayelsa, Delta, Enugu, Kaduna, Ondo, and Taraba.

3.4 Unlocking New Revenue Sources

Across the major contact-intensive taxes, road taxes were reported as the easiest taxes to collect, followed by direct assessment from informal sector workers. Direct assessment from informal sector workers have been made easier to collect with the use of the presumptive tax framework which was introduced in 2015 as the method of assessment where for all practical purposes, the income of the taxpayer cannot be ascertained, or records are not kept in a retrievable manner. The presumptive tax regime is supported by section 36(6) of the Personal Income Tax (Amendment) Act 2011 and has now been captured in the CRC of States. In all states, informal sector taxpayers are classed by type of business, size, structure, location etc in order to provide a fair and scalable model of applying their tax liabilities. To ensure maximum uptake, the application of the presumptive tax requires significant level of stakeholder engagement and public enlightenment campaigns.

Figure 7: Ease of tax collection



According to states' self-assessment, the ease of collecting road and presumptive taxes contrasts with the difficult in collecting land use charge, property tax and mining and quarrying fees. Tax collection in these sectors have been largely untapped - until recently; and they have ranked among the industries where reports of multiple taxation have grown, given the positions of the federal and state governments on land and mineral ownership. Under the Constitution, all mines, and minerals, including oil fields, oil mining, geological surveys and natural gas are under the exclusive preserve of the Federal Government of Nigeria (FGN). The Land Use Act on the other hand, vests all land in the territory of each State (except land vested in the federal government or its agencies) solely on the Governor of the State in trust.

Like the mineral sector which is guided by the Nigerian Minerals and Mining Act of 2007, land use charge and by extension property tax take their leaf from the Land Use Act. Some argue that the constitutional framework for tenement rate has hindered some states in their attempt to redesign their property tax, coupled with the lack of a comprehensive law on property taxation, lack of jurisprudence as well as lack of review of the Land Use Charge Laws. The layering of multiple taxes or fees by the constitution between the state and local government in the case of property taxes can be seen as an administrative hurdle, including for taxpayers who make multiple payments on the same base. Progress in this area has been measured, 31 States have so far drafted new regulations to establish the institutional arrangements required to effectively apply the Land Use Charge Laws in their jurisdictions. These new regulations are necessary because existing Land Use Charge Laws have not been specific enough to ensure the medium to long term active use of geospatial data in the preparation and issuance of demand notices on a real time basis. Over 4 million property records in urban areas have so far been collected across the 36 states. These records are accessible in electronic format to most revenue authorities, and they can be used to improve the collection of property tax.

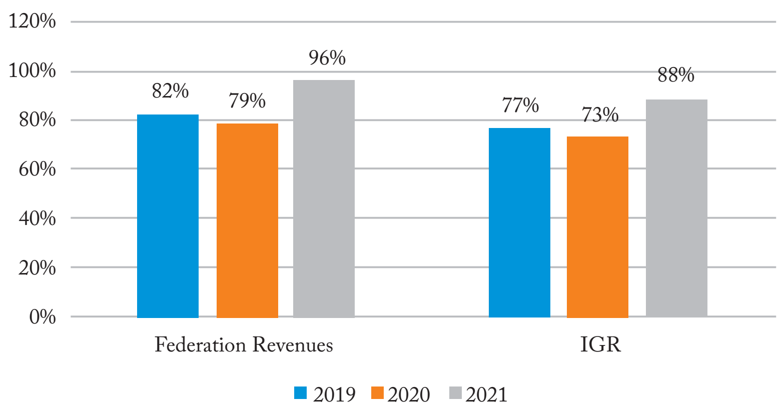
New regulations will help achieve the following objectives:

1. All related MDAs will be identified and integrated into the ecosystem, with proof of circularization.
2. Data can be used in the calculation of tax for demand notices.
3. Demand notices can be amended to include geotags (and, optionally, photos).
4. Data are available in real-time and can be shared with stakeholders, especially the SIRS.
5. Measured penalties can be established for default.

3.5 Strengthening Revenue Budgeting and Reporting

The last set of reforms are focused on improving the credibility of state budgets. The objective is to improve the performance of IGR budgets which reached a notable milestone of 88% on average across the 36 States in 2021 (figure 8). Higher revenue performances mean realistic budgets and more effective use of government resources. Although this single identifier masks the variation that exists from state to state, the trend reinforces the active role of tax authorities in meeting the revenue goals of states.

Figure 8: Progress on setting realistic IGR goals



Based on states' self-assessment, 32 states have adopted the use of a revenue budget and reporting template to guide MDAs target setting during the budget preparation cycle. In Ondo State, the IRS plays a leading role in the state's treasury board meetings, where MDAs present their revenue projections.

4.0 Focused Insights on the Implementation of Tax Reforms

This section focuses on the findings of a second level study to provide additional insights on the implementation of tax reforms across the states. A focus group discussion was conducted with 10 purposely selected heads of SIRSs to provide in-depth understanding of the key impact areas of key reforms, as well as the burning issues that impede the effective implementation of these reforms. The findings recognise that each tax administration has its peculiar transformation journey, with different starting points, experiences, systems, and objectives. The lessons of the FGD were prioritised into the three (3) umbrella reforms required by state governments, in line with their pathways of change. The details reflect on what can be learned by peers, what works, what is right at a given time and what is optimal. The focus group discussion was controlled using the following outline:

The key umbrella reforms that shape tax administration at the state-level:

1. Codification of all IGR sources in a law or set of laws through the Consolidated Revenue Code (CRC)
2. Administrative and financial autonomy
3. Tax-for-service spending by tax authorities

The primary impact areas of tax reforms:

1. Tax revenue
2. Number of taxpayers
3. Taxpayer service
4. Organisational management

Finally, the burning issues faced by tax authorities in the implementation of tax reforms:

1. Political
2. Legal
3. Sociocultural
4. Resource management (finance, people, technology, operations)

Using the outline, the second level data obtained through an active experimentation with the focus group and participatory discussions showed the results illustrated in figures 9 and 10.

Figure 9: Stylized impact of tax reforms

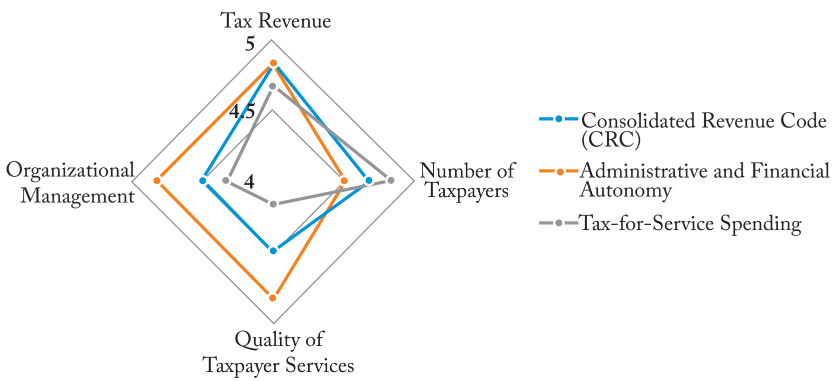
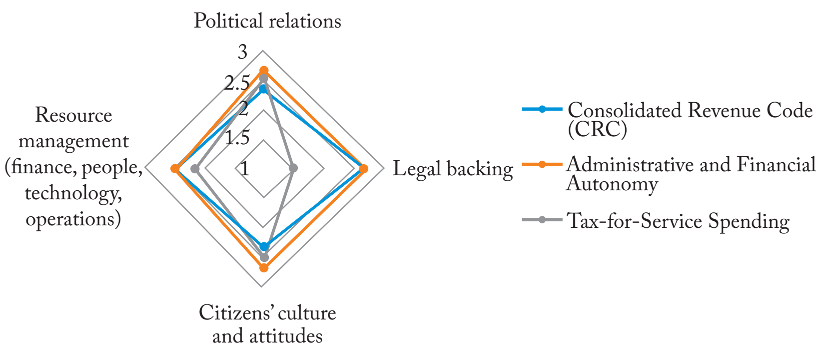


Figure 9 shows that the impact of each reform varies. For tax authorities to raise more revenues, improve their internal organisational management and raise the quality of taxpayer services, they must pursue the full implementation of administrative and financial autonomy. Tax-for-service spending are required on the other hand to build public trust and legitimacy for the tax administration system and consequently to encourage tax compliance from a wider tax base (especially the informal sector).

The implementation of CRCs displayed the most neutral impact. This was due to the fact that the reform was viewed as a baseline in most cases, but with the end goal of delivering higher revenues for the government. In fact, the consolidation and harmonisation of tax laws and rates in each jurisdiction provides the basis for an organised tax environment, especially in a country like Nigeria where the state and local government have separate tax jurisdictions. In the immediate term too, the CRC brings to light all previously unreported revenue lines.

Figure 10: Burning issues that impede the implementation of tax reforms



Like the impact bracket analysis, administrative and financial autonomy featured predominantly as the reform largely impacted by the four (4) burning issues. This reform requires legal backing that empowers the tax authority to be the sole revenue collecting and reporting agency; it requires strong political commitment from the executive (governor of the state) which should provide a posture for all MDAs to align with the central goal; it requires the mobilisation of people, technology systems and processes to drive tax administration and; it requires a favourable disposition of citizens to give the authority the public mandate to administer taxes without fear.

The implementation of CRCs is also nearly as challenging. Beyond the legal process of consolidation through the state house of assembly, it requires the harmonisation of all state and local government tax rates (including all levies, fees. and fines) and the elimination of duplicate taxes. The cooperation of MDAs and local government administrations is critical to the design and implementation of an effective CRC. Such institutional arrangements include the Joint State Revenue Committee, IGR sub-committee, Local Government Revenue Committee, Inter-Ministerial Committee, etc. CRCs are also resource dependent because they are based on a continuous cycle of updates and public sensitization. They are more challenging to implement where tax authorities do not have adequate manpower to track and review the impact of all the provisions of the tax law and the schedule of rates.

Tax for service spending on the other hand is viewed as the least difficult to implement and the most flexible reform because it is adjustable to the needs and the development stage of tax administration in the state. For instance, in some states, they are established as mini programmes run by the tax authorities; in others, they are linked to capital projects (including IGR-backed Irrevocable Standing Payment Orders (IPSOs) which provide additional guarantees to contractor obligations); while in many others, they do not exist. Noticeably, there are also cases where the fiscal policy position of the state links IGR as the primary source of financing for recurrent expenditures. Each state ultimately adopts such programmes in response to citizens' culture and attitude towards the tax authority and the state, the availability of resources and the relationship between the SIRS and state-wide MDAs.

4.1 Key learnings from the FGD

The main lessons from the discussions are outlined below:

4.1.1 Codification of all IGR sources in a law or set of laws through the Consolidated Revenue Code (CRC)

i. Several state-level tax reforms depend on the implementation of the CRC. States specifically noted that the CRC is a means to achieving good tax administration, although requiring complementary initiatives. The CRC ensures that the state is able to properly define the tax jurisdictions and powers of the state and local government (including who to collect, what to collect and when to collect) to reduce/eliminate double/multiple taxation. Through the CRC, taxpayers and tax advisers are provided with the most comprehensive document(s) on taxpayer obligations, include the set of taxes, levies, fees, and fines that apply to each taxpayer.

ii. Prior to the passage of CRCs, many local governments (including states) were not fully aware of the revenue lines that were under their jurisdiction. The exercise led to the closure of revenue leakages and increase in revenues.

iii. The CRC demonstrates the level of government openness and transparency as it ensures that all laws, revenue sources and rates are freely accessible on the state's (or IRS) website and are used in practice by tax authorities.

iv. The implementation of the CRC strengthens inter MDA cohesion through bodies such as the IGR Committee or the Joint State Revenue Committee (JSRC), modelled after the Joint Tax Board (JTB), as a platform for interaction among the operational arms of revenue administration in the State (including local governments). This committee helps create an environment where friction is minimised between the state and local governments, and MDAs are integrated into state-wide policies and reforms (including regulatory guides). In jurisdictions where the state-local government relationship is not cordial, local governments have been known to challenge in court, the powers of the state to collect taxes on its behalf. Such cases arise when the state collects local government taxes and vice versa without an established memorandum of understanding that establishes a central and mutually beneficial collecting and sharing mechanism.

v. For the CRC to be forward looking, sections of the law(s) and the schedule of rates should be regularly reviewed and revised, taking account of the feedbacks from consultative arrangements with MDAs, individual taxpayers, specific taxpayer groups, tax advisers and the business community.

vi. With the consolidation and harmonisation of taxes and tax rates, the SIRS is in a better position to integrate digital payment systems in line with the obligations of taxpayers to promote tax compliance.

4.1.2 Administrative and financial autonomy

i. The implementation of autonomy for tax authorities is a transitional process because tax authorities are not inherently self-sufficient but require transitional arrangements such as the combination of state funding and cost of collection to fund the IRS, the transfer of staff from the IRS to the State Head of Service, recruitment, and the set-up of functional offices outside the premises of the state secretariat. In the early transitional phase, making the IRS funding a first line charge may be an innovative way of ring-fencing funding for the IRS and safeguarding the transition process. The process of autonomy must be backed by a transition document.

ii. Autonomy empowers the tax authority to be brought into all revenue-related meetings in the state.

iii. Autonomy disentangles the IRS from the bureaucracies and controls of the civil service. This independence empowers the IRS to be performance-driven; to hire professionals at competitive pay, procure technological requirements and implement more nascent organisational management practices.

4.1.3 Tax-for-service spending by tax authorities

i. Tax for service programmes provide a functional system of getting new taxpayers into the tax base, especially informal sector workers. The challenge however is that they may become unwieldy in a case where the number of service users/beneficiaries grow beyond the funding scope of the SIRS. The challenge of an oversized user base is the risk of push backs which could also create negative feedback and responses by existing or potential taxpayers. On the other hand, a very effective tax for service programme may also shift demand for service delivery to the SIRS if not managed as a state-wide policy.

ii. Tax for service spending is viewed by some states as the communication of the use of tax revenues by the state government. In such cases, the fiscal position of the state must be aligned with the vision of the SIRS (e.g., a fiscal policy position that IGR is dedicated to fund capital expenditure (vs recurrent expenditure which are not tangible or easily tagged) and ISPOs. In such instances, government projects are tagged IGR-funded and government interventions are better linked with taxes people pay to gain public support and compliance.

iii. In some cases, tax-for-service spending have been directed to MDAs from the cost of collection of the tax authorities, as a means of supporting their operational needs.

iv. Tax for service initiatives can yield greater results when effectively communicated to the public through the publications of the SIRS or state, as well as social media channels. Tax for service initiatives have also culminated in service charters with taxpayers.

v. Finally, regular meetings between the State governor and the business community are beneficial and are instrumental to receiving feedbacks on the challenges of taxation and how to improve the tax environment in the state.

5.0 Conclusions

In the last decade, Nigeria has experienced an unprecedented level of tax reform. Unlike at the federal level, the trigger at the state-level was not from a business community call for a better business environment, but from the impact of failing oil revenues which had destabilised the budgets of state governments during the mid-2014 - 2016 fiscal crisis. By 2017, all State governments had reached a consensus on the importance of DRM, following the set up two DRM-focused technical assistance programmes within the NGF. Governors took collective action which culminated in the signing of an action plan on revenue generation first at a joint NGF-JTB retreat which held on the 28th of October 2019 at Transcorp Hilton Abuja and later at a Seattle Declaration reached at the end of a 2-day meeting on Human Capital Development (HCD) convened by the Aliko Dangote Foundation, the Bill and Melinda Gates Foundation (BMGF) and the NGF in November 2019 in Seattle Washington, United States.

The most progressive reforms have focused on tax consolidation and codification through the passage of a CRC in nearly all states to end multiple taxation, although more than half of them have not yet been able to achieve full administrative and financial autonomy as enshrined in their revenue laws. Many states are still placidly progressing on the tax reform journey, they are hampered by their inability to self-run - a prerequisite to implement more competitive structures needed to transform their tax administration - including hiring more professionals and procuring technological requirements.

Where tax authorities have been fully supported by their state governors, administrative changes have led to increased digitalisation, taxpayer compliance, and tax revenues, although the scope of collection remains generally challenging for taxes on mining and quarrying activities, land use and property. Ultimately, tax authorities are playing an active role in defining the fiscal headroom of state governments and the state-society relations. Through tax-for-service programmes, they are helping to build much-needed public trust and legitimacy.

Going forward, these insights provide nuanced details about how the quality of support for tax reforms can be improved, including the following:

1. Tax reforms are associated with strong resistance from vested interests, from elites who may bear the greatest burden of taxation and public institutions that benefit from a dysfunctional revenue system. This is more pronounced in states where the executive does not take the lead by providing strong political support, exemplified through appropriate policies and regulatory guidelines, the provision of resource requirements and public legitimacy.

2. There are highly potential 'inflection points' for tax reforms, such as during periods of fiscal crisis or political transition. These points can be fleeting, and if the window closes before the reform is implemented, the reform will likely not go the long haul.

3. Tax reforms can best be implemented after a pathway of change (how can change happen) is designed. This should be informed by a comprehensive political economy analysis of each tax reform to unpack the incentives and interests that shape the behaviours of the stakeholders that will be involved or impacted by the reform.

4. Establishing the link between tax reforms and the state-society relations provides the legitimacy needed to gain

long-term public support. This legitimacy is not only externally given (from the public) but from within the tax/revenue institutions (internal staff who are responsible for implementing such reforms).

5. Finally, the binding constraints that stifle the success of tax reforms and the actions required to resolve them makes tax reforms a whole-of-government reform that must be driven vertically from the executive to the lowest activity officer, horizontally across multiple agencies and within the business units of each institution involved.

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