RE-ENGINEERING STATE TAX ADMINISTRATION STRATEGIES, SYSTEMS AND PROCESSES: LESSONS FROM LAGOS STATE

BY

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Lagos State by various international assessments is a mega city/state with over 75% its current population living in Metropolitan Lagos. With a population estimate in the region of 18 million, Lagos is the largest urban agglomeration in Africa and the black world (1999 UNCHS). In spite of the relocation of the Federal Capital, Lagos State remains Nigeria's and indeed ECOWAS and Sub-Saharan Africa's economic and commercial hub.

Lagos, as the commercial and cultural heart of our beloved country, is a magnet for aspirational Nigerians from every nook and cranny. We all know that Lagos bears the largest social and infrastructural burden of any of the states of the country and yet is proportionally least served in terms of national revenue. Lagos is least favoured in the re-distribution of national wealth to which it is the largest contributor after oil -corporate income taxes, VAT (58% of vatable bank transactions take place in Lagos), customs duties and port charges, fuel and electricity consumption, etc. It contributes in goods, services and jobs over 35% of national GDP. And yet the principle of derivation is not applied to Lagos. We are rich in opportunities and potentials but certainly not rich in revenue from the federal allocations. With our determined effort over the past ten years, internally generated revenue in Lagos State has come a long way. But I can tell you, we are still very far away from the comfort zone. It is of course significant that we have moved from a monthly
average of \(=N=600\) million in 1999 to \(=N=14\) billion, but compared to our challenges, we still have a very long way to go.

**Reform of the Lagos State Tax Administration (Since May 1999)**

One of the major objectives of the last Administration in Lagos State, under the able leadership of His Excellency, Asiwaju Bola Ahmed Tinubu, was to optimise the State’s tax potentials by achieving a very substantial, if not total, coverage of its taxpayer base. In simple terms, to bring all taxable persons into the tax net. To actualize this goal, Tinubu’s administration initiated the State’s Tax Administration reform process. As part of the re-engineering process the tax payment process was reviewed and all payments to the Board were to be made directly to designated revenue collecting banks by the taxpayers. Payments into the Government coffers were electronically linked to data bases that issued electronic receipt to taxpayers and closely monitored by an independent consultant to the State. Personal electronic tax clearance cards (e-TCC) were introduced for the first time in Nigeria and indeed in Africa. Tax collection was made more transparent to the taxpayers as they could access their records via the internet, and this made tax payments, more convenient and transparent to the taxing public. At the same time the government did comprehensive review of activities and events over the past years to look into the past process and revenue generation activities of the Board. This led to the appointment of new management in November 2005. At the introduction of the new Board, the position of the Chairman was upgraded to that of a Permanent Secretary, reporting directly to the Executive Governor. Some staff of the Board who could not fit into the vision of the new board were redeployed to other Ministries within the Civil Service.

To catch up with the international trend in the world, the Lagos State Government presented a bill to the Lagos State House of Assembly to
make the Board of Internal Revenue autonomous and self accounting. This bill was passed to law in January 2006. Thereafter, with the passage of the law, other staff were given the option to remain with the Board. From staff a strength of 1,300, about 70% opted to remain in the Civil Service and were transferred to other Ministries and Departments. Others who are keen to pursue a career in taxation administration were offered employment by the autonomous Lagos State Internal Revenue Service (LIRS) and disengaged from the Civil Service. With the new autonomy, LIRS continue to report directly to the Governor. Furthermore, LIRS staff members are equipped with state of the art facilities and put through a comprehensive training schedule. Among other things, this has necessitated the creation of a training school for regular in-house training. To sustain these developments, the Board is assured of its own line of revenue with statutory rights to propose a budget figure up to 10% of the total collection for the preceding year. The same Law also sets up the Local Government Revenue Committees and the State Joint Revenue Committee.

At a glance, these changes with the strategies which will be discussed shortly, led to a substantial increase in Internally Generated Revenue from a monthly average of \(=N=600\) Million in 1999, to \(=N=3.5\) Billion in 2005 and now \(=N=14\) Billion in 2009.

**Strategies**

1. **Tax Payer Education and Enlightenment**

   As a major step, we organized a Taxation Stakeholders’ Conference in 2007. The conference was interactive, provided forum for the State’s Executive Council to discuss with representatives of the Chambers of Commerce, Professional Groups, Financial Institutions, Traditional Rulers, Trade & Market Associations etc on the government expectation from them, various means and efforts to radically reform revenue administration in the State. The conference also gave us the opportunity to receive candid feedback of comment
and suggestions on infrastructure/economic developmental efforts of government from participants. In view of its huge success and importance as an interactive medium, the Taxation Stakeholders’ Conference is now an annual event of the Lagos State Government. The 3rd edition of the conference is schedule to hold on Tuesday 8th of December 2009.

As part of her Public – Private Sector Partnership, LIRS organized a stakeholders’ conference for professionals on the 17th of April 2008. The Conference brought the leadership of professional groups and prominent members of each professional body in the State to meet with the Lagos State Executive Council and the Management of LIRS. During the working session, participants were taken through the contribution of professional associations to the revenue profile of the state, Government’s expectation from the professionals, and the process of filing tax returns.

LIRS also had an interactive session with members of Market Associations, General Merchants (Importers and Exporters) and Skilled Technicians on Tuesday, 1st July 2008. LIRS tax theme song produced by King Sunny Ade, featuring Show Man, the late Oliver de’Coque and King Sunny Ade was launched at the occasion. These renowned artists sang in Hausa, Igbo, Yoruba and English on the need for residents of Lagos to pay their taxes (The Song’s DVD will be given out). This year, we’ve met with operators in the hospitality industry, religious leaders, prominent members and leaders of the Legal and Pharmaceutical professions.

Constant and unprecedented Taxpayer education and public enlightenment (first of its kind in Africa) on the need to and how to go about paying taxes have been sustained, both in print and electronic media. Prominent citizens, religious leaders, royal fathers, sports personalities, captains of industry and notable actors and actresses were enlisted and engaged in LIRS tax campaign drive. Please not that none of these eminent individuals asked for nor were
paid to participate in the various adverts. Documentary of various
development projects which showcase the judicious use of Tax
payers’ Money titled ‘Changing face of the Centre of Excellence’ is
aired on Television Stations.

2. Payment Process, Transparency and Convenience

Our Revenue Agency continued its policy of making tax payment
convenient. In partnership with collecting Banks, taxes are paid
directly into Government coffers at any of the over 1,200 bank
branches. Automated receipts are issued immediately upon
payment. The collecting banks also have resident bank officials in 36
LIRS Tax Stations across the State to facilitate tax payment.

3. Introduction of Self Assessment

We also introduce self assessment scheme, first of its kind in the
whole of Africa. The self-assessed individual obtains the assessment
form free of charge from LIRS offices and designated banks branches,
assesses himself by reference to a table which shows various income
brackets, the allowances and tax payable in respect of each and pay
his tax at any of the over 1,200 bank branches and 36 LIRS Tax
Stations across the State. The tax payer gets his automated receipt
immediately and within 48 hours after payment, can pick up his
Electronic Tax Card from the branch of the Bank where the tax
payment was made.

4. Tax Payment Closer to the People

In line with our strategy of taking tax payment closer to the people,
40 Mini tax offices have now been established and are in operation
in the major markets across the State. We hope to increase the
number of mini tax offices for wider coverage. LIRS Tax Education
and Enlightenment Team (TEET), consisting of 40 teams depart from
the Head Quarters, in organized fashion every day of the week, including weekends when the need arises, visit markets, companies and business establishments within the State, check for tax compliance, enlighten and educate the tax payers. Regular meetings are also held with Market leaders to resolve issues and ensure compliance.

5. Creation of New Operational Units

To improve the efficiency of our administrative structures and move closer to our target of total compliance, new operational units manned with well trained staff have been created within the LIRS. Our Accounts Relationship Management Unit analyses trends in each sector of the Nigerian Economy and for ease of compliance monitoring, an officer is assigned to each sector. Presently, we have officers responsible for Oil & Gas, Aviation, Manufacturing, Banking, Insurance, Other Financial Institutions, Engineering, Health, Professional Services, Public Sector, Trading and Construction. The Informal Sector (Professional) Unit was established to meet the peculiar tax assessments of members of various professional associations (Lawyers, Accountants, Engineers, Architects etc) who are in private practice.

6. Enforcement

The LIRS has the full support of the State Government, my office and the office of the Governor of Lagos State to implement the Law which includes the power to distrain defaulters as conferred on the Board of LIRS by the Personal Income Tax Act. We ensure that all the required notices are given and it is only when no response is received from the defaulter that we take enforcement action. This year, LIRS had cause to levy warrant of distrain on a total of 228 companies and establishments in the State.
We have also started pursuing the criminal provisions of the law with a view to bringing to book individual officers or directors that are responsible for tax default.

7. LIRS Collaborations with other Ministries, Departments and Agencies (MDAs)

We have in place confirmation of payment on second level by LIRS for certain revenue generating agencies when individuals approach these agencies for business transactions. I host a bi-monthly meeting with officials of all major revenue generating agencies in the state. At this meeting, revenue performances are critically examined against targets, solutions are found for emerging problems and debates are held on best practices. This new found synergy among the revenue agencies have reflected positively on general performance.

To facilitate the assessment of individuals transacting businesses with other Government Ministries, Departments and Agencies, LIRS has assessment desks in offices of the State’s Land Bureau, Lagos State Traffic Management Authority (LASTMA), and the State High and Magistrate Courts. In Lagos State, part of the resolution requirements for traffic offence is evidence of tax payment and individuals that seek to stand as surety in court for any bail able offence must show evidence of tax compliant before such request could be granted by the trial judge.
8. Review of Tax Payment Remittance of Organisation within the Tax Net

The Board conducts annual audit of all companies within our tax net. In line with this, the State Government gives, on a yearly basis, Special Award to deserving individuals and corporate organisations in recognition of the level of their Personal Income Tax Compliance. Some of the past recipients and who are still tax complaint, in the corporate category include MTN, CITI BANK and COCA COLA. In the individual category, Chief Emeka Anyaoku, the former Secretary General of the Common Wealth, Chief Olusegun Osunkeye, former Chairman Nestle Nigeria Plc and Chief Molade Okoya-Thomas were recognised and awarded. We thank them and those who pay their taxes as and when due.

The performance of most companies is extremely poor in discharging their statutory duty of deductions and remittances of taxes from their employees and contractors. Many of them do not deduct the correct amount of taxes prescribed by the law. There are several cases of allowances surreptitiously paid to staff without subjecting them to tax. In addition, we have several cases of expatriate staff whose emoluments and identity are not disclosed in the companies' tax returns. Many companies even deduct PAYE and withholding taxes but fail to pay over to Government. Those that eventually pay hardly ever do so within the time prescribed by law. In most cases what they pay is less than was actually taken from employees and contractors. These anomalies are usually detected at the point of tax audit. The Tax Audit liability established and paid in the last two years averaged =N=15 Billion annually. I strongly believe that some of these organisations would have under remitted taxes in your state. It is instructive to note that during the years analyzed the tax rates and types did not change. For these reasons, the Lagos State
Government does not grant any waiver of interests and penalties due on back taxes.


As part of efforts aimed at bringing tax knowledge to the younger generation and inculcate taxpaying culture in them, LIRS organizes a yearly essay competition on taxation for secondary schools students. Winners of the LIRS Secondary School Essay Competition on Taxation are recognized and their prizes given during the annual Taxation Stakeholders Conference.

10. Political Will

My fellow colleagues, this aspect lies solely with you and is under your prerogative. The Lagos State Government and my office are fully committed to implementing the tax law in terms of the amount to be paid and the enforcement process. And by the way my office is subject to these laws. Persons and Organisations seeking audience with my office are first screened for tax compliance by LIRS. In a situation where they fail the compliance test, the audience will be refused and the affected individuals or Organisations directed to pay their taxes.

Conclusion

Over the next two decades, Lagos State needs to spend at least ₦390 Billion ($3 Billion) to expand and improve its water supply network. ₦2.6 Trillion ($20 Billion) to provide a qualitative and efficient network of roads and drainage; ₦1.3 Trillion ($10 billion) for power supply; ₦650 Billion ($5 billion) for information and computer technology; and ₦1.2 Trillion ($9.3 billion) for inter-modal transportation system. Other services like waste disposal
management and expansion/maintenance of the sewage system will cost an additional ₦351 Billion ($2.7 billion). In spite of these and many other enormous challenges, we cannot comfortably make a total annual budget in excess of ₦405 Billion.

With the support of the some good people of Lagos State, who have responded positively by paying their taxes as and when due, the reengineering of Lagos State Tax Administration Strategies, Systems and Processes have resulted in sharp increase in Internally Generated Revenue (IGR) (from a monthly average of N3.6billion per month in January 2006 to an average of N14 billion per month now, an increase of over 300%) Improved quality of service delivery to taxpayers, a wider taxpayer base, increased rate of voluntary compliance, accurate and timely payment of taxes. I must quick to add that we are far from the Promised Land, but we hope to get there.

It can be seen from the foregoing that the challenge of re-engineering the tax administration strategies and systems of any government is a multifaceted one which must be confronted with thorough going dedication. It necessarily involves a huge outlay of financial and human resources, political will and adaptability to change. To be successfully accomplished, this task must keep the taxpayers constantly in view, treating them as valued customers to be cultivated and convinced. At the same time, it must incorporate a policing attitude in recognition of the fact that natural inclinations often tends towards keeping one’s full earnings rather than paying any part of it to government.

No matter the effort and sacrifice it entails, peoples’ buy-in can be secured when that linkage is vividly established between taxation and development.
Thank you for listening.

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Governor of Lagos State
INTERNALLY GENERATED REVENUE (IGR)

2005 42,283,061,598.19
2006 61,684,478,036.31
2007 83,019,617,502.92
2008 129,563,177,150.12
2009(JAN- AUG)* 108,193,528,473.15

The State IGR now averages
= N = 14 Billion monthly.