



NO HARASMENTS, HAPPIER



#BeBoldForChange



# TAX SUCESS STORIES









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# 3









## RESULTS

**£542,555,556**

of additional income achieved

**3,786,525** number of  
beneficiaries with improved

**949,650** number of poor  
enterprises recorded a  
positive change in income  
of 15% or more

**553,738** number of women  
enterprises recorded a  
positive change in income  
of 15% or more

**58,544** enterprises recorded  
additional investment

**56,660** enterprises recorded  
additional sales





**IMPROVING THE BUSINESS  
ENVIRONMENT IN NIGERIA  
THROUGH TAX REFORMS**



The Growth and Employment in States programme (GEMS3) is working to make it easier to do business in Nigeria. A key part of this work is identifying and reducing instances of multiple taxation imposed by Federal, State and local Governments. Removing multiple, illegal and nuisance taxation will allow businesses to grow, leading to greater employment, thus reducing poverty. The GEMS3 tax reforms have been implemented in over 14 states in Nigeria including Cross River, Delta, Edo, Jigawa, Kaduna, Kano, Lagos, Niger, Ogun and Plateau.

A range of interventions including tax harmonisation and presumptive tax implementation have resulted in additional income of over £267,000,000 for enterprises and reached over three million beneficiaries. These results have been generated through a combination of approaches including streamlining and harmonising tax rates and levies; the automation of tax payment systems; and the facilitation of regular and productive dialogues between revenue collectors and the private sector.

GEMS3 is funded by the UK's Department for International Development (DFID).

### Benefit to taxpayers



Elimination of nuisance and multiple taxes



Fair and legal tax rates



Reduced harassment and extortion



Simplified and transparent tax payment system



Reduction in cost of doing business



Awareness of civil rights and responsibilities

### Benefit to the Government



Increased internally generated revenue (IGR)



Blocked tax revenue leakages



Reduced cost of collection



Better tax revenue administration and system



Improved tax compliance



Skilled revenue staff

### Expected results for taxpayers and Government



Increased public services for businesses - Tax for service



State-wide LGA harmonised law



Simplified, transparent, and efficient collection system



Strengthened tax complaint and resolution mechanism



Increased taxpayers' education/awareness campaign



Increased PPDs (improved relations btw tax authorities and taxpayers)



## Mending Bad Relations

It has been difficult times for quite a while for tailors in Kaduna State. Apart from the bad economic situation and the routine infrastructure shortages that are affecting the whole country, the tailors have not received any particular support from the government (i.e. awarding government contracts to local tailors or creating special supporting policies for them); tailors had a general feeling of being short changed and there was a clear lack of awareness on tax rates and levies which have posed as a threat to business owners.

During the sensitisation activities of several trade unions and organisations, GEMS3 staff became aware of the issues that were being faced by the tailors' association and all other trade unions in general.

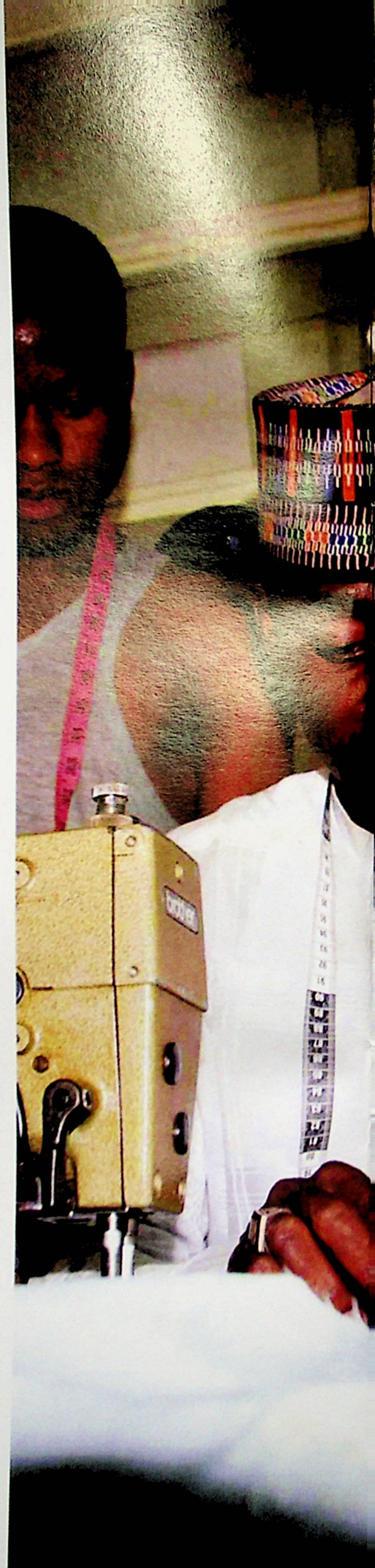
In light of this, a public private dialogue was organized and facilitated by GEMS3 between government officials and several trade unions and organisations. It was attended by over five hundred people and His Excellency Mallam Nasir El Rufai, the Governor of Kaduna State, was also present.

Salisu Musa has been a tailor for twenty-three years now and has been self-employed for seventeen years. He is a family man with six children and currently a leader of the association of tailors called "Comrades". He explained that the association chose this name to depict brotherhood and common purpose. He trains nine staff at his shop which is located in one of the busiest parts of Kaduna South, Kwanar Chanchagi.

The tailors' association and other tailors outside the association faced recurring issues of harassment for not complying with multiple taxation served by touts. Salisu's shop has been locked up a few times resulting in little or no business, loss of revenue and compulsory payment for the re-opening of his shop. Among these problems, he suffered power cuts on a regular basis and was deeply saddened by seemingly fruitless efforts in reaching the government.

### ***Salisu training some of his staff at work***

GEMS3 was able to bridge the communication gap by organising a public private dialogue where Salisu, who represented the tailors' association along with 15 other members, was able to voice his concerns on long standing issues directly to the Governor. In this PPD, GEMS3 also explained the rights and obligations of the tailors and clarified all their doubts about what taxes to pay, to whom, and when. GEMS3 also explained the concept of Tax for Service in which some of the revenue generated from taxes was directed to projects in favour of particular communities. Once the tailors had the full information on the exact rates to pay and understood their responsibility towards the government, they agreed to pay their taxes and committed to subsequent payments. During this positive and constructive dialogue, the association brought up to the attention of the Governor how some Kaduna government orders for official uniforms were being awarded to other companies across Nigeria and abroad. This was not recognizing the hard work and good quality creations of the local tailors.







At the PPD, the Governor of Kaduna State suggested a follow up discussion which involved the association meeting the Commissioner of Finance. In this audience, the pleasure of the tailors' association materialized with the government awarding a contract to the local tailors to provide twenty thousand school uniforms for public schools. Presently this has been completed and fully paid for by the government.

Thanks to the sensitisation and awareness activities performed by GEMS3 to the tailor's association about their rates and rights, Salisu went from paying N4000 yearly to now paying N2000. Unemployment has additionally been tackled thanks to the contract received by the government which generated an interesting number of new jobs for the tailors. In addition, the improved business environment for Salisu together with his cost savings, have enabled him to invest in new equipment including specialized computerised designs technology. Most especially, Salisu and his association are satisfied with the relationship that has been mended between them and the government; they now feel relevant that their voices are being heard and their business environment has improved greatly.

***"Not only has GEMS3 educated us on our rates and rights, they have helped bridge the relationship and communication gap that existed between the government and the tailors' association"***  
***Salisu Musa (Head of Comrades Tailors Association Kaduna State)***



**MDA rates harmonised**

**Assisted implementation of presumptive tax regulations**

## **AWARENESS**

**More than 2,500 revenue officials trained**

**Awareness campaigns:**

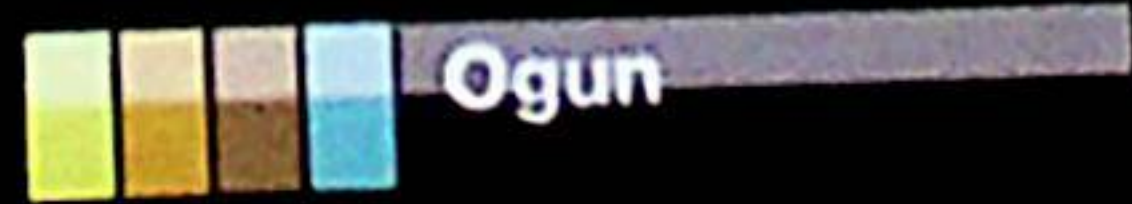
**Workshops for LGAs and other work through Ministry of Local Governments (MoLGs)**

## **IMPROVED TAX PAYMENT SYSTEMS**

**Harmonised demand notices implemented in 67 LGAs**

**Direct lodgement/customised tellers implemented in 26 LGAs**







# **BENEFITS OF POINT OF SALE SYSTEM**

**📍 Calabar South Local Government**



**BEFORE**

**REDUCED  
REVENUE**



**NOW**

**INCREASED  
REVENUE BY 440%**

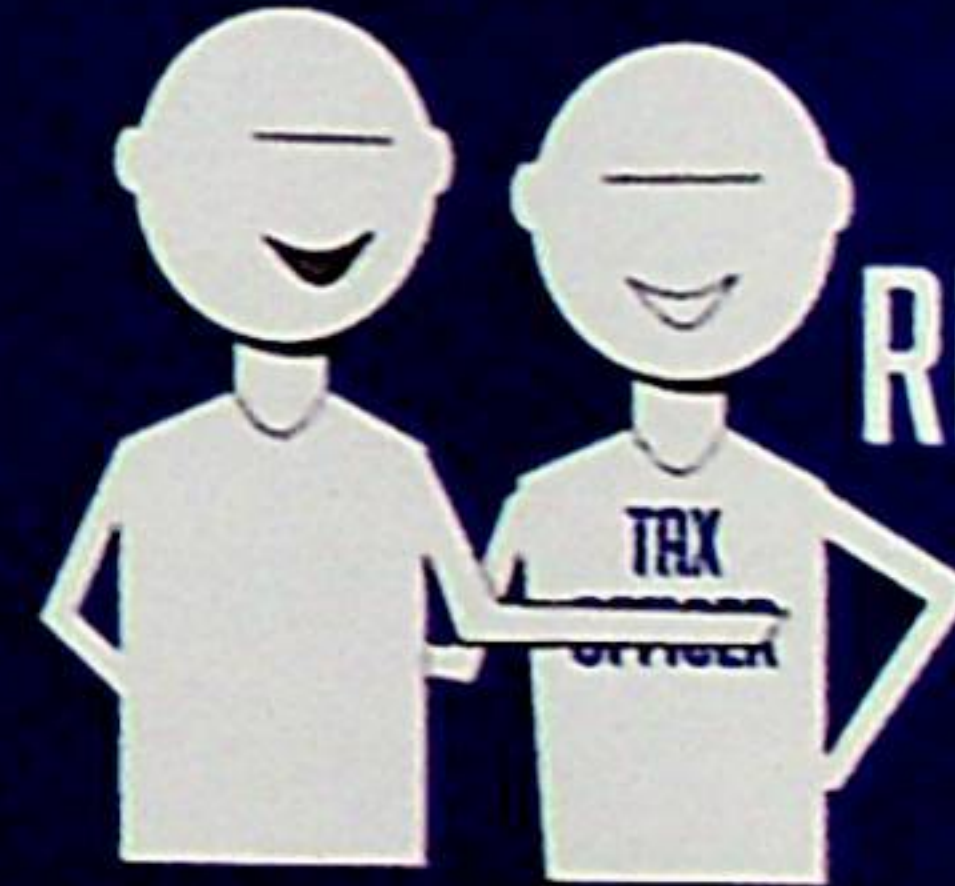


**DISTRUST  
IN MANUAL PAYMENT SYSTEM**



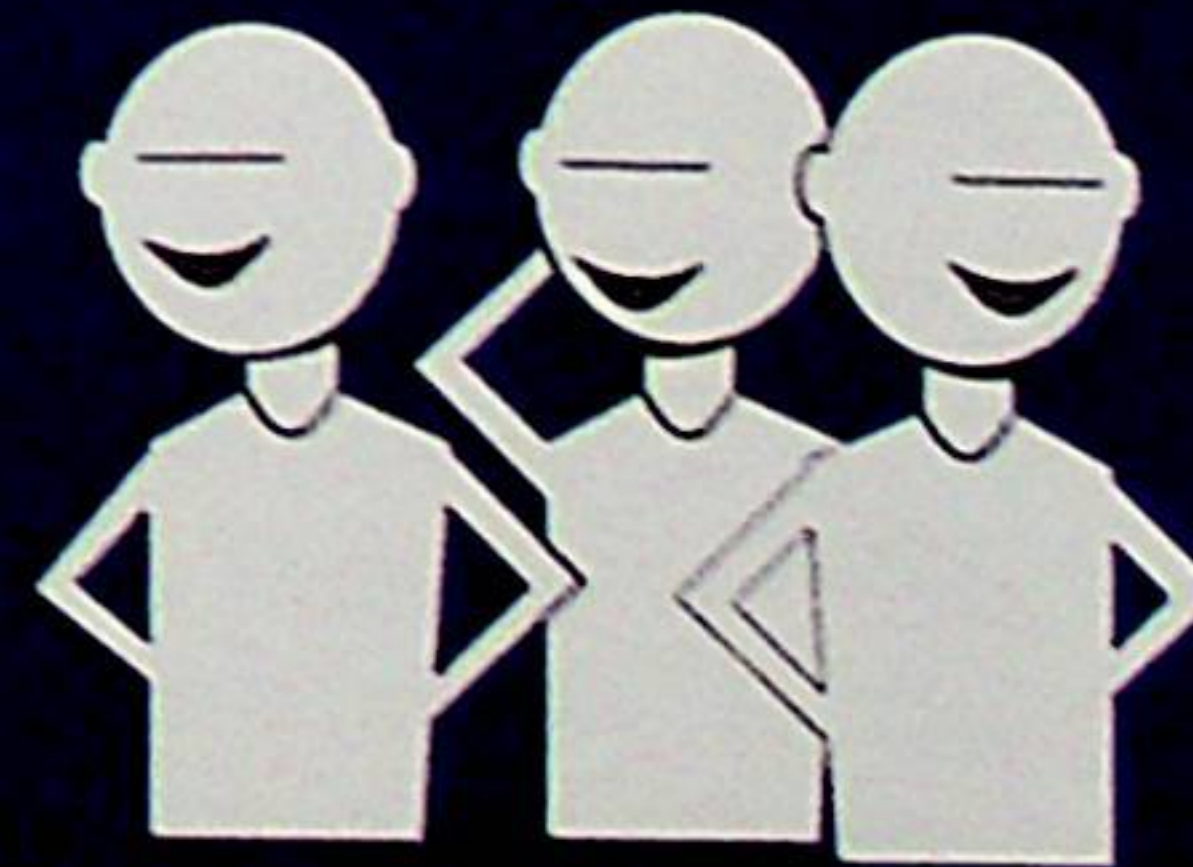
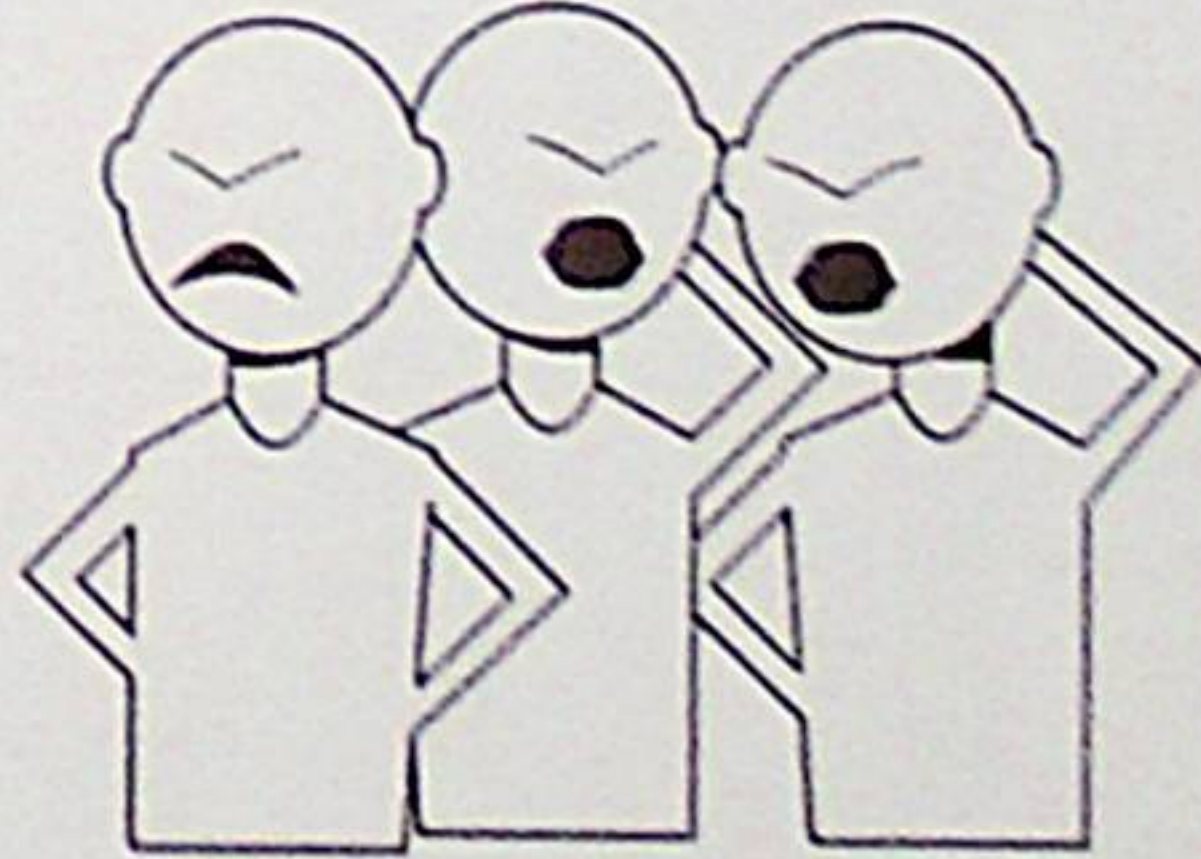
**TRANSPARENCY  
IN PoS  
PAYMENT SYSTEM**

**FRICTION  
BETWEEN TAX  
COLLECTORS  
AND TAX PAYERS**



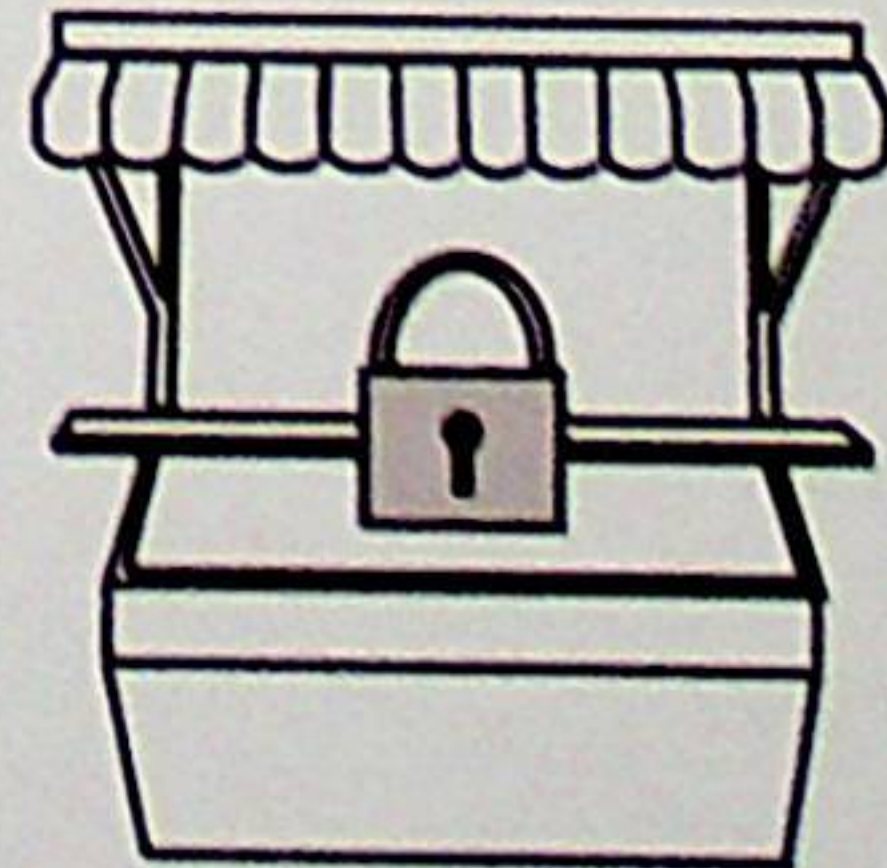
**IMPROVED  
RELATIONSHIP  
BETWEEN  
TAX COLLECTORS  
AND TAX PAYERS**

**COMPLAINTS  
FROM NUMEROUS TAX PAYERS**



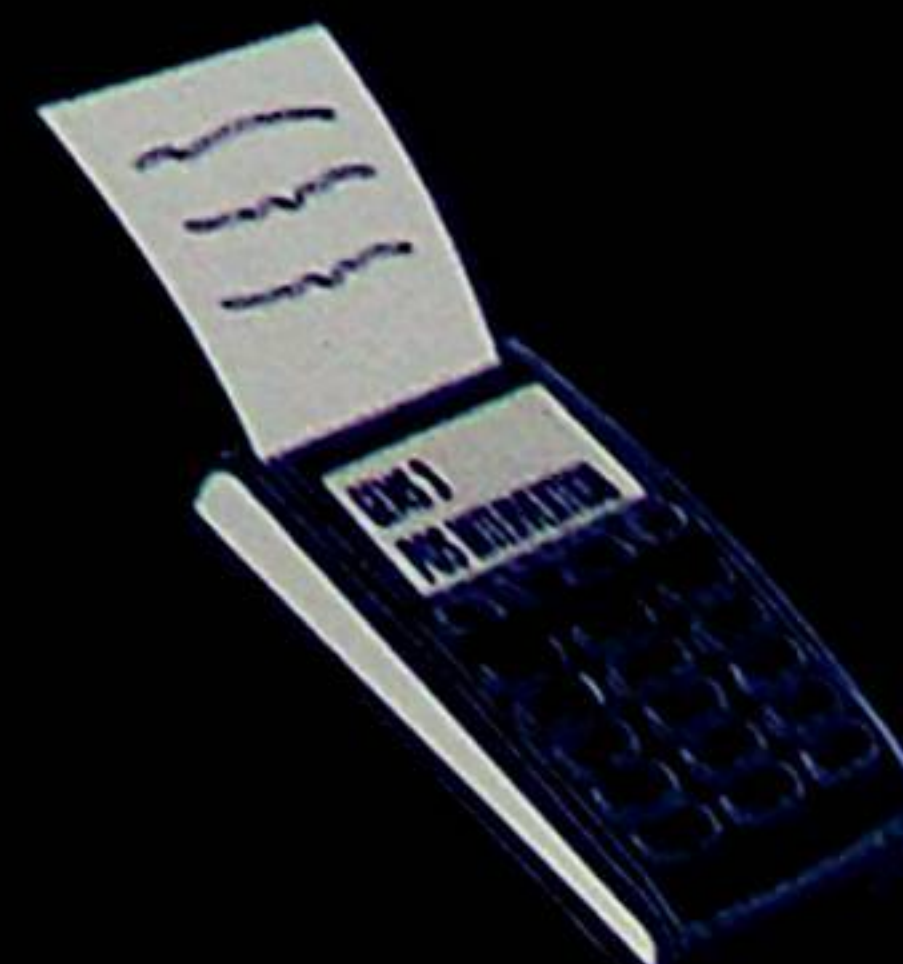
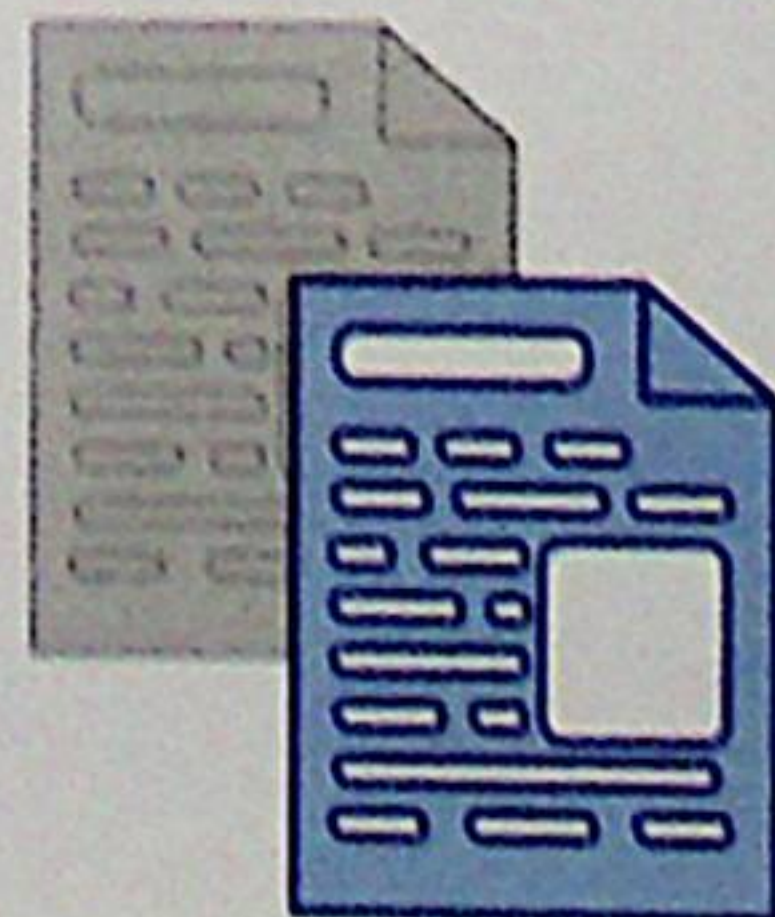
**REDUCED  
COMPLAINTS  
FROM TAX PAYERS**

**LOSS OF SALES  
TRADERS LOCK THEIR SHOPS  
TO PAY TAXES OUTSIDE THE  
MARKET**



**UNINTERRUPTED  
SALES  
TRADERS ARE ABLE TO PAY  
TAXES FROM THEIR SHOPS**

**RECEIPTS  
DUPLICATION  
INCREASED POTENTIAL  
FOR FRAUD**



**AUTOMATED  
RECEIPTS  
LIMITED POTENTIAL FOR  
ALTERATION OF PoS PRINTOUTS**



## Hope for an Improved Tax System - The Story of Calabar South LGA

In the southern part of Cross River State, lies the densely populated Calabar south Local Government Area (LGA). It is one of the pilot LGAs selected by GEMS3 - the DFID funded business environment improvement programme - in Cross River for the tax harmonisation intervention with the aim of improving the overall business environment in that area.

In 2013, the LGA had a reputation for unexplained tax leakages, duplication of taxes, friction between revenue collectors and tax payers, numerous tax payer complaints, harassment and extortion from tax payers by touts etc. This situation was not alien to the Calabar South LGA. The Foreign Investment Advisory Service (FIAS) study of 2008 noted that Nigerian businesses are subject to as many as 100 different taxes, charges, fees and levies at the local government level. Three top constraints identified by the study were multiplicity of taxes, the tax payers lack of knowledge of their rights and responsibilities and poor tax law enforcement. Multiplicity of taxes was considered a major tax issue across the States in Nigeria. Apart from its damaging effects to the economy, it increases the cost of doing business, creates opportunities for corruption, and promotes a general discouragement in local trade and investment.

It was against this backdrop that the Calabar South LGA administration, took interest in the automation of tax payments in the LGA. With the support of GEMS3, an automated tax payment system via Point of Sale (PoS) machines was successfully launched using the Calabar South LGA as a pilot location. This was in collaboration and with the ICT support from the Cross River SmartGov agency. PoS are able to increase the system accountability while reducing leakages, cost of collection and cost of compliance. This creates an increased confidence in the system hence improving voluntary compliance by tax payers. This success was short lived however due to the suspension of the PoS system by the subsequent administration that failed to embrace the new change because PoS blocked leakages hence seen as detrimental to their personal interest.

In January 2016, the new Chairman of the LGA decided to re-visit the use of the PoS system. This was hinged upon a desire for transparency and accountability in handling government revenue and the need to increase IGR through a more efficient process. In addition to this, the traders having seen the benefits of paying taxes through the PoS coupled







with improved tax knowledge as a result of extensive public enlightenment campaigns by GEMS3 resisted the discontinuance of the use of PoS and demanded for its re-introduction. Following this renewed high level buy-in from both public (the LGA) and the private sector, GEMS3 team provided light touch support for the re-launch of the PoS usage in the LGA. In addition to the relaunch, GEMS3 supported the training of the revenue collectors, the convening of several public private dialogue sessions (PPDs) between revenue officers and taxpayers, the deployment of revenue collectors with the PoS machines to market squares and business premises, and the instant issuance of receipts for tax payments made.

The re-launch of the PoS payment system was strengthened by the passage of the State law on local government harmonised levies, rates and charges which suggests all LGAs in Cross River State to operate an automated system of collection among other requirements. The passage of this law established the PoS implementation in Calabar South LGA resulting in an outstanding exponential increase in IGR in comparison to manual collections. The LGA also continued to record increased figures in the months following April 2016. As a result of the tremendous increase in IGR, the Council was able to create employment for additional revenue collectors and executed some tax for service projects in the markets that helped to improve trading climate hence increased sales.

Tax payers additionally benefited from the added certainty on the taxes to pay and, since the payments could be made directly with the PoS, there were no more visits to the bank that required closing the shops, standing in long queues and missing sales opportunities.

The PoS system reduced leakages and also gave the taxpayer confidence that the money went directly to the LGA. The taxpayer immediately received the receipt upon payment so harassment was reduced.

For the LGA, this mode of revenue collection has proved efficient and transparent, saved cost of printing manual receipts, reduced cost of collection and also prevented tampering with the receipts. Overall, the IGR has increased and it has been a win-win situation for everyone. The huge successes of this payment devise encouraged the determined chairman to set up a tax for service committee which was given the responsibility of conducting needs assessment of essential services required in the markets and business premises within the LGA.

"People are very happy because in the past there was a lot of extortion from the previous committees but now things are very clear and we have confidence in the system".

Market Trader

Drawing lessons from the case of Calabar South LGA and from the recommendations of the FIAS study, multiple and numerous taxes should be reduced and streamlined across all tiers of Government. As a result of the harmonised tax law and automation of tax payments, businesses were able to pay less tax, the right amount of tax, freeing up funds for traders to re-invest in their businesses.

The story of Calabar South LGA represents hope; hope that the tax system can be improved and a win-win situation can be achieved between the Government and the Tax Payer.



# **TAX FOR SERVICE**

 **KWARI MARKET**



**Tax for service is an agreement between the State/LGAs and market associations where 20% - 30% of taxes collected are dedicated to fund infrastructural improvements within the locality. In Kano, this agreement was achieved between the Kwari market traders and the Government during a public private dialogue (PPD). The outcome of the PPD was the execution of memorandum of understanding (MoU). The Government has kept to their 'tax for service' commitment and several projects in the market are underway.**

## **Benefits of Tax for Service**



**Obligations for states/ LGAs to collect legally authorised harmonised rates and levies**



**Improved relationship between taxpayers and revenue officers**



**Community based projects are agreed by traders and government**



**Improved voluntary tax compliance**



**Better shopping experience**



**Improved facilities (e.g. borehole)**

## **Rationale for Tax for Service**

- Incentive for market traders to voluntarily pay legally authorised taxes, levies and charges
- Visible sign of state/LGAs demonstrating accountability and reinforcing social contracts with the taxpayer
- Improved business climate leading to increased trading sales



# It Pays to Pay Tax

Oil was Nigeria's most important commodity and generated 70 percent of Government revenue according to the natural resource governance institute. Dwindling oil prices from June 2014 has necessitated an increased drive to harness other sources of revenue to sustain the economy. Although State Governments are genuinely eager to grow their IGR base, most are unable to immediately harness opportunities to do so. Like other States in the country, increasing IGR is the main focus of the Kano State Government as this will promote the State's economic development and improve the business environment.

In the development of any society, the government utilises on revenue from taxes to provide basic infrastructure and social services. Payment of taxes on the other hand is the civic responsibility of citizens towards the development and administration of their City/Nation. In Nigeria however, Tax evasion remains a hindrance to the effective administration of a tax system. It is a known fact that the Nigerian informal sector contributes substantially to the national economy in terms of output and employment. Nevertheless, the informal sector makes little or no contribution to personal income taxes due to their exclusion from the tax net. This is as a result of difficulties in ascertaining their tax liabilities from improper or inadequate business records.

A few factors have contributed to the informal sector evading taxes such as

- Inefficiencies in tax administration
- High tax rates
- Double/multiple taxation
- Lack of understanding of tax processes
- Lack of public enlightenment and awareness
- Absence of social development to justify the collection of taxes

These factors have also contributed to the strained relationship between the government and tax payers.

## High Impact Tax Reforms

Consequently, GEMS3 (a DFID funded programme) partnered with the Kano State government in 2012 to implement tax reforms. The aim of the partnership was to roll out high impact tax reforms across all 44 Local Government Areas (LGAs) in the state. These included the reduction of double/multiple taxation through legislative and administrative reforms, thereby streamlining the number of taxes to be paid by individuals/businesses and simplifying the tax payment process. The resultant effect was an increase in the tax base, an increase in IGR, reduction in the overall burden on taxpayers and improved voluntary compliance. Following the full implementation of the intervention, revenue generated from all 44 LGAs increased by 127%. A major contribution to this increase is the implementation of the







personal income tax for the informal sector in 2015 which brought many into the tax net for the first time.

### **Tax for Service**

GEMS3 also promoted a concept of 'tax for service' where the Government is encouraged to design and execute infrastructure projects that directly impact a sector or community. As a result, the Kano State Governor made commitments to execute community projects that will benefit taxpayers. The State Government has kept to its commitment of executing community projects that include:

- The ongoing construction work at the Kano State Kwari market, the largest textile market in Nigeria. The Government has decided to create shops for traders who conduct trading activities by the roadside thereby decongesting the market route, improving accessibility and aesthetics of the market. The construction at the Kwari market is a pilot community project, and the Government plans on modernising all markets within the State.
- In addition to this, construction of nine roads has commenced.
- Establishment of 34 mini Tax offices in different markets in the State. This provides the added benefit of non-interruption of Tax payers' business activities due to intermittent locking of shops to travel to Tax offices located outside the market premises. Future plans are underway to create an electronic platform covering taxpayer database, payment portal, tax clearance certificate issuance and more.

The Kano State Tax payers are beginning to experience the benefits of paying taxes through the implementation of the tax for service concept.

'Tax for service' has been implemented in over fifteen states through GEMS3's reforms. It serves as an incentive for taxpayers to comply with payments. The government enters an agreement with markets and motor park owners where commitments are made by State or Local Government. A certain percentage of the taxes paid by market traders and motor park operators/users are allocated to agreed infrastructural improvements. Examples include building toilet blocks, providing overhead water tanks or boreholes, removing refuse, constructing drainage/road networks and providing security in their specific business areas.





# **WOMEN WITH A VOICE**

 **MARIAN MARKET, CALABAR**



Improving opportunities for women economic empowerment is crucial to developing the Nigerian economy.



Across Nigeria, approximately **40% of women are entrepreneurs**



**Educated over 100 traders** on their rights as business owners and unlawful revenue collection



Meetings between local government and traders **improved relationships**, leading to **smoother business operations**



**Over 100 women** marched to the local government office, and sent a powerful message to those attempting to enforce unfamiliar and illegal rates

**“UK Aid and GEMS helped make our lives better by opening our eyes and giving us peace and security.”**

*Affiong S.*

FREE, RELAXE



**#BeBoldForChange**

**GEMS**



# Be Bold For Change

Poor infrastructure, unstable power supply, inadequate security, and inability to access funds are just some of the major challenges faced by business owners across Nigeria. Entrepreneurs and small businesspeople are forced to battle multiple taxation, corruption and the difficulty and high cost of obtaining business licences. These hurdles make doing business increasingly challenging, especially for women.

Across Nigeria, approximately 40% of women are entrepreneurs. Nigerian women are also four times more likely to be an entrepreneur than women in the USA, but despite this high entrepreneurial rating, the likelihood of female Nigerian entrepreneurs succeeding is hampered by cultural limitations, limited literacy and training, social discrimination and difficulties balancing business and family life.

In the 2017 global ease of doing business report, Nigeria ranked 169 out of 190 countries listed, and ranked 130 on the ease of starting a business. In the midst of such circumstances, many business owners find themselves unable to continue trading or left with crippling debts.

But new tax interventions are helping market traders, entrepreneurs and other business owners tackle these challenges. Through the Growth and Employment in States programme (GEMS3), traders throughout Marian Market have been educated about their rights as business owners, the legal level of taxation and methods of tackling harassment and unlawful revenue collection.

Previously the relationship between revenue collectors and traders was incredibly hostile, and a lack of knowledge on taxpayer rights only led to deteriorating situations. But meetings between local government and traders have improved relations, leading to smoother business operation throughout the market.

Traders experienced a short period of respite, yet shortly after agreeing terms with local government, leader of the women's trade association in Marian Market, Grace Idika, was confronted with an unfamiliar, and unlawful rate demand. With new knowledge of her rights, Grace called a meeting with more than 100 female traders to remind them this request was illegal. The traders began a campaign. 100 women, aware of their rights, marched to the local government office, and sent a powerful message to those attempting to enforce the rates. Grace Idika later received a letter informing her the rate would no longer be demanded.

She said: "I felt the government looked at traders as common people who do not know their rights. Due to this reason I saw that I have an important role to play and I have the power to make the right decisions that can bring about positive changes. I always tell the other women traders, whether there is a union or no union, we will not be taken advantage of or cheated.

"This could have only been possible through the knowledge we gained from tax sensitisation activities which took place in the market. UK Aid and GEMS3 have played a major role in making the lives of traders better by opening our eyes, teaching us the law, and giving us peace and security."





Face NOT IN Pieces "



#BeBoldForChange

GEMS

3













