Increasing Tax Revenue

KPMG in Nigeria

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According to the World Bank Group, Nigeria currently ranks 145 out of 190 economies on the ease of doing business and 171 on Paying Taxes Indicator. The Presidential Enabling Business Environment Council (PEBEC) has been very instrumental in Nigeria being ranked among 10 of the most improved economies in the world. This demonstrates that there is significant opportunity for the country to move up on the ranking table if the right polices and measures are implemented.

The tax-to-GDP ratio in Nigeria is estimated at 6% compared to an average of 17% for sub-Sahara African countries. The main deduction from this low ratio is that tax revenues do not play any significant role in funding government projects. The dire need to change this negative situation became more urgent when oil price fell from the high of USD120 per barrel to USD30 or thereabouts. Given the low revenue from oil (as a result of shut-in production arising from the activities of Niger Delta Militants, the Government had to resort to massive borrowings to fund both recurrent and capital expenditure. Though the Debt to GDP ratio of about 24% is generally considered reasonable relative to other countries, the major concern is debt service to Income ratio of about 50%. In other words, 50% of every 1USD earned in revenue is being used to settle debts. This situation is definitely not sustainable in the long run without any significant increase in revenue.

Consequently, Government is exploring every option to enhance tax collection. Currently, the Federal Ministry of Finance is involved in the Voluntary Assets and Income Declaration Scheme (VAIDS) from which it hopes to generate USD1 billion. This initiative is a form of limited tax amnesty, which will provide waiver of interest/ penalty and exemption from criminal prosecution to the taxpayers that self-report undeclared or under-reported income in the preceding 6 years.

The program, which has a 9-month window, will end in March 2018. Government is also reconsidering imposition of surcharges on luxury items such as private jets, luxury yachts/ cars, business and first class plane tickets, champagnes, wines and spirits and mansions within the Federal Capital Territory. Interestingly, the previous administration had announced these luxury taxes with pomp and circumstance in 2014.However, there is little or no information on how much revenue the Government has generated from its implementation.

One of the cannons of taxation is convenience, which requires tax to be levied in a manner and at a time that is convenient to the taxpayer to pay. The Federal Inland Revenue Service (FIRS) has implemented e-filing of tax returns and e-payment to address this issue. Though there are still some teething problems, I believe that these will be resolved soon.

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If electronic filing and payment of taxes program is successfully implemented, Government will be able to achieve economy in tax collection.

Despite the current initiatives that Government is embarking upon to increase tax revenue, there are still one or two initiatives that can easily be implemented. One such initiative is for the various tax authorities to direct registered real estate agents and property consultants (members of the Association of Estate Agents in Nigeria) to withhold tax, at a specified rate, from the rental income collected on behalf of their principals. It will be necessary for Government to also engage with the Nigerian Institution of Estate Surveyors and Valuers (NIESV) in this regard. The tax withheld must be remitted within the statutory period of 21 days of collection of the rent.

I believe that a significant proportion of rental income is not reported for taxes by the owners. This proposal will, at least, ensure that Government derives a significant share of revenue from unreported rental income as estate agents manage most properties on behalf of their clients. Most importantly, it is very easy to implement as it does not require any change to the current tax legislation.

To ensure that the realtors do not withhold and keep the taxes withheld, government must direct all registered realtors to prepare and file monthly returns of rental income collected on behalf of their principals, the amount collected, the property address and the tax withheld. Where the property owners are corporate bodies, the tax withheld should be payable to the FIRS. In any other case, it should be payable to the relevant State Internal Revenue Service where the owner is resident.

The failure and inability of Government to reconstitute the Tax Appeal Tribunal (TAT) has denied the various tax authorities the much needed tax revenue. Many Taxpayers have filed cases at the TAT Registry pending the time those cases are heard. Under the current tax provision, payment of the taxes in dispute is in abeyance until decisions are reached on them. Consequently, the tax authorities are not in any position to earn revenue from any of those disputed cases. Government should, therefore, recognize that the sooner the TAT is reconstituted, the better its ability to derive more tax revenue.

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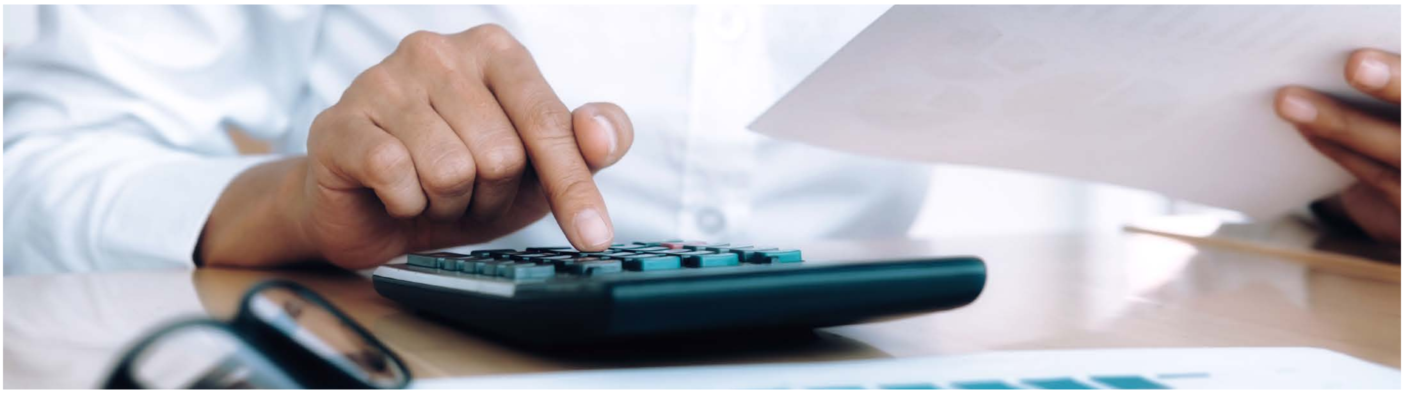
Consequently, attention of tax authorities should shift from short term to long term when it comes to revenue generation. Every tax authority must equip its employees with the knowledge and capacity to deal with the complexities and demands of modern business. The current attempt to use tax consultants to do the work of revenue officials is therefore a step in the wrong direction as it does not build the capacity of the tax authority employees. A stitch in time saves nine, goes the common adage.



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