Revenue Administration and Taxation Reforms

The Problem

While the history of modern taxation in Nigeria started with the Stamp Duties Proclamation in 1903 in the then Northern Protectorate – which later became part of amalgamated British Colony of Nigeria – it was the Native Revenue Proclamation of 1906 that systematises all existing pre-colonial taxes, thus bringing into place a new regime of tax rates. The amalgamation of the Northern and Southern Protectorates to form the colonial federation of Nigeria in 1914 led to the Native Revenue Ordinance, 1917, which was extended from the northern territories to the western and eastern territories in 1918 and 1927, respectively.

Since then, there has been a steady progress in the tax regime with various attempts to modernise, expand, reform, and improve the process, procedure, and sanctions inherent in the system of taxation in Nigeria. In 1943, the Nigerian Inland Revenue Department was carved out of the Inland Revenue Department of British West Africa. This Department was later renamed the Federal Board of Inland Revenue under the Income Tax Ordinance, No. 39 (1958). This was followed by the Companies and Income Tax Act, No. 22 (1961), which established the Federal Board of Inland Revenue, FBIR. The Act also created a Body of Appeal Commissioners to resolve tax-related disputes. In 1993, the Finance (Miscellaneous Taxation Provisions) Act No. 3 and Decree No. 104 established the Federal Inland Revenue Service (FIRS) as the operational arm of the FBIR and reviewed the functions of the Joint Tax Board (JTB), respectively.

However, the history of tax administration in Nigeria changed dramatically in 2007 with the granting of financial and administrative autonomy to the Federal Inland Revenue Service through the passage of the Federal Inland Revenue Service (Establishment) Act 2007. This milestone in the history of taxation and tax administration was a result of the recommendations of the Study and Working Groups on Nigerian tax system. The implementation of the harmonised report of the two groups first began in 2004.

This marked a new era in the history of both the legal and institutional processes of tax administration in Nigeria, bringing to place a scale and scope of modernisation and reform practices that, hitherto, had never been attempted in the history of taxation in Nigeria. The reforms include organisational restructuring of the federal and state authorities, the enactment of a national tax policy, reforms in funding, legislation, taxpayer education, dispute resolution mechanism, taxpayer registration, human capacity building, automation of key processes, refund mechanism, and several other areas of reforms.

Reform Actions

Restructuring the Regime of Taxation

The Study Group (2002) on the Nigerian Tax System, and the subsequent Working Group (2003) which reviewed the work of the former, helped to develop a new national tax policy. The Study Group concluded that Nigeria needed a national tax policy hinged principally on the foundation of fostering national development. Such a policy would constitute a means of (i) attracting foreign direct investment; (ii) consolidating several policy documents into a single document for easy reference; (iii) blending various opinions on taxes of different kinds, as well as the issues surrounding those opinions; and (iv) providing direction and focus on general tax practice.

Consequently, the Study Group recommended, among other things, that:

1. Tax should be regarded as a citizen's obligation to the Nigerian state for which he or she expects in return good governance, the provision of security, clean water, and other social amenities.
2. Only career tax administrators, who are public servants, not ad-hoc consultants or agents, should collect tax.
3. Tax efforts and focus should be shifted from direct taxation to indirect taxation.
4. The number of taxes should be small in number, broad-based, and yield high revenues.
5. The machinery of tax administration should be configured to be efficient and cost effective.
6. All the three tiers of government should be free to set up their own administrative machineries for taxes under their jurisdiction, subject to the national minimum standards.
7. The various tiers of government must avoid the hitherto common internal double taxation by the federal, state and local governments.
8. In furtherance of the desire to reduce the tax burden on individual Nigerians, the national tax policy should be geared towards a low tax regime.

Organisational Restructuring

The implementation of the harmonised report of the two Groups started in 2004. To achieve the objectives of the reforms, the conclusion was reached that a structure 'that facilitates work flow from bottom to up, with work designed around work teams' was required. The pre-2004 structure was inadequate for this task. It not only bred inefficiency, indiscipline, and fraud, it was so chaotic that it sorely limited the revenues that were derived from taxation all over the country.

The reorganisation of the FIRS to ensure efficiency and effectiveness commenced in September 2004 with new administrative structure. Departments and units were created for effective management of tax operations. As a follow up on these initial steps, the FIRS management, after due consultations with internal stakeholders, identified seven strategic flanks upon which to drive the reform agenda. The seven strategic flanks are: funding/autonomy; capacity building (improved structure and staffing); process re-engineering (human resources, finance and procurement processes); audit oil and gas/large taxpayers; taxpayer education; strengthen investigation and enforcement; automate tax collection. There were also the quality assurance and change process coordination division. The latter was one of the key organs created to drive the reforms by ensuring that all planned and systemic activities were implemented in the best possible way in terms of quality.

In June 2007, the management of the Service introduced the 'group system' structure in which roles and functions cascade from the group levels to departmental levels down to unit levels and finally to individual levels. The restructuring that saw the introduction of the group system made away with 'divisions'. Under the current arrangement, groups are headed by coordinating directors who report to the executive chairman. The groups consist of several departments headed by directors and the departments are comprised of units and sub-units down the line. The five groups that emerged from this are (i) Corporate Development Group (CDG); (ii) Support Services Group (SSG); (iii) Tax Operations Group (TOG); (iv) Compliance and Enforcement Group (CEG); and, (v) Chairman's Office Group

(COG). However with effect from March 2012, the Corporate Development Group (CDG) was renamed Modernization Group (MOG) in order to focus on our modernization projects and ensure our processes are technology enabled in all spheres of the organisation's activities. The Compliance and Enforcement Group was renamed Standards and Compliance Group (SCG) in alignment with its roles and functions, while Tax Operations Group became known as Field Operations Group (FOG) to enhance focus on taxpayer's needs. New departments were also created such as the Risk Management Department, charged with the responsibility of reviewing and addressing internal and external risks to the Service.

The Nigerian National Tax Policy

A presidential committee was inaugurated in July 2005 to drive the recommendations of the Study and Working Groups on the development of a national tax policy. The Committee appointed a Technical Sub-Committee on the National Tax Policy headed by the Executive Chairman of the Federal Inland Revenue Service and charged it with the responsibility of developing the background policy document. In 2010, the final draft of the National Tax Policy was submitted to the Federal Executive Council. While the draft incorporated contributions from various stakeholders, the fundamentals of the draft were based on the harmonised report of the Study Group and Working Groups. The Federal Executive Council adopted the National Tax Policy on 20 January 2010. The National Tax Policy defines tax as 'a financial charge or levy imposed upon an individual or legal entity by a State or a legal entity of the State; it is a pecuniary burden laid upon individuals or property to support government expenditure'.

The key economic thrusts of the National Tax Policy as a tool for national economic development include:

1. Stimulating the growth of the Nigerian economy by using tax revenues to develop basic infrastructure such as power, roads, transportation, and other such infrastructure which will stimulate economic growth
2. Direct stimulation of certain sectors of the economy which are identified to be important for the creation of employment opportunities for Nigerians
3. Regulating and strengthening financial and economic structures and for correcting market imbalances and economic distortions
4. Income redistribution, such that tax earned from high-income earners is used for the provision of infrastructure for the lowest income earners. Taxes shall act as a means to create a social security net.
5. Stimulating domestic and foreign investment

Tax Legislation: FIRS Autonomy

The Presidential Technical Committee identified critical areas of amendment and provided justification for the amendment proposed in the existing laws. Between 2005 and 2011, six of these bills were passed by the National Assembly, while two are still pending. Perhaps the most critical in these new laws is The Federal Inland Revenue Service (Establishment) Act 2007. The Act grants the FIRS autonomy from the civil service bureaucracy, chiefly in the areas of funding and human resource management.

Tax Appeal Tribunal

The Federal Inland Revenue Service (Establishment) Act 2007 establishes the Tax Appeal Tribunal to settle disputes arising from the operations of the Act, as well as the administration of the legislations listed in the First Schedule to the Act. The Tribunal was inaugurated on 5 February 2010. All eight zones of the TAT commenced sitting in the first quarter of 2011. The cases before the Tribunal include new and old cases that were initially pending before the Body of Appeal Commissioners and the Value Added Tax Tribunal.

Modernisation

Against the background of the resolve to modernise the FIRS in other to remain relevant and virile in the face of economic realities, the Service adopted a programme of reforms along seven strategic flanks. These include: funding FIRS/Acquiring autonomy; strengthening investigation/enforcement; auditing oil, gas and large taxpayers; providing taxpayer education and services; re-engineering and automate collections/tax administration system; building capacity in the areas of structure, staffing and specialisation; and, re-engineering and automating human resource processes, finance and procurement. These were followed by aggressive anti-corruption campaign, revised code of ethics and performance management/result orientation. The Modernisation Department was created in November 2005. The department's primary function is to provide a focused attention on all modernisation projects. This has led to monumental changes and proposed initiatives in the operations of the Service, in particular, and tax administration in Nigeria, in general. In March 2012, the Corporate Development Group (CDG) was renamed Modernization Group in order to focus on our modernization projects and ensure our processes are technology enabled in all spheres of the organization's activities. The MOG comprises of three Departments, namely: Information and Communication Technology (ICT), Programme Management Office-Tax (PMO-T) and Programme Management Office – NON TAX.

Automation of Key Processes

To increase productivity and reduce defects the Service introduced initiatives aimed at automating core business processes. These initiatives include among others:

1. Integrated Tax Administration System (ITAS):
   The ITAS project essentially aims at standardizing and automating our tax processes, to make them efficient, transparent and supportive of good service delivery, voluntary compliance and increase in tax revenue on a sustainable basis.
   It is built to readily integrate with third-party data bases for easy enhancement/widening of the tax net, with a taxpayer registration module that is complemented by the pan-Nigeria taxpayer registration system of the Joint Tax Board (the UTIN).

2. Unique Taxpayer Identification Number (U-TIN)
   The U-TIN Project is a pan-Nigeria taxpayer database with unique taxpayer identification numbering and biometric capabilities. It is aimed at fostering common standards between FIRS and States and protecting the tax bases of the collaborators by preventing tax shopping.

3. E-Tax Pay;
   E-Tax Pay is an electronic payment channel provided in collaboration with commercial banks in the country aimed at providing alternative tax payment channels.

4. Direct/Auto VAT Collection
   This initiative aims at improving collection of non-oil taxes by deducting VAT at source wherever it is charged across the sectors of the economy.

5. FINANCE AND EXPENDITURE MANAGEMENT
   a. Automation of Finance and Procurement Functions (SAP/FiCO)

The SAP/ Finance and Procurement Automation project is aimed at automating the Finance and Procurement Functions of the Service from budgeting to funding and reporting, including Stores and Assets management.

b. The Government Integrated Financial Management Information Systems (GIFMIS)

   The Service aims through this to enhance visibility and transparency around tax collection/payments by Ministries, Departments and Agencies of Government (MDAs), and thereby curtailing, if not eliminating the problem of delayed and non-remittance of taxes by MDAs and the resultant build-up of tax arrears, which has been a perennial pain point for the Service.

6. Human Capital Management
   Automation of the Human Capital Management Function using SAP.
   This project aims overall at transforming the HR processes of the Service to effectively engage with the quest for a modern Tax Administration.

7. Records Management and Document Tracking Project
   The RMDT project aims at modernizing records and documents handling and life-cycle management in the Service.

Compliance and Enforcement

Following the continues structural re-organisation of the Service, the Compliance and Enforcement Group (CEG) was renamed Standards and Compliance Group (SCG) in 2012 in alignment with its roles and functions which is to develop, reengineer, sustain and implement policies and programmes through standard setting, operational guidelines, monitoring, automation, interpretation of Laws, tax treaty arrangements etc. that would propel the Tax Administration to attain and retain international best practices in optimum revenue yield and voluntary compliance.

The Tax Operations Group (TOG) was also renamed Field Operations Group (FOG) to enhance focus on Taxpayers needs and to manage the taxpayer population and their compliance with revenue laws in accordance with the FIRS Establishment Act. The Field Operations Group shall be responsible for delivery, implementing FIRS business plan for taxpayer registration, filing, payment, service audit and collection enforcement functions. The Field Operations Group (FOG) is expected to implement in full, all policies, programs and procedure as developed by SCG.

Taxpayer Services

In 2007, the taxpayer education service function was moved to the Fields Operations, Policy and Programmes Department. In June 2007, the Internal Affairs Department was created and TPS functions were moved to the new department. The Internal Affairs Department later relinquished taxpayer services to the Corporate Communications Department. Prior to the merger, the Taxpayer Service Unit had two broad roles and responsibilities, which were programme development, monitoring and evaluation, and taxpayer education policy and strategy. These were executed through the (i) initiation and monitoring of taxpayer education policy; (ii) preparation of manuals, brochures and circulars for field officers; (iii) representation of the unit on taxpayer service matters in other departments; (iv) publication of issues relating to the taxpayer identification number; (v) monitoring the effective implementation of both electronic and print media publicity; (vi) distribution of relevant printed educative/informative materials to taxpayers; (vii) drafting and distribution of executive briefs, matters arising and general correspondence; and (viii) performance of any other duties assigned to it.

Following restructuring of the Service in 2012, Taxpayer Service unit was upgraded to a department to put in place and entrench relevant policies, processes and programmes that will engender effective and efficient taxpayer service as an integral part of tax administration within FIRS. The department is responsible for developing policies and evaluating the provision of taxpayer service in the field offices and also identifying taxpayers need and developing strategies to meet these needs.

Entrenching a Strong Ethical Code

Prior to the reform era, there was no policy framework of ethics or values defining the operations of FIRS staff. However, in December 2005, the Values and Doctrine Division was established. The division, which was built on the foundations laid by the 'Whistle blower' Unit, was established with the aim of projecting the image of the Federal Inland Revenue Service in positive light. The new division was placed directly under the FIRS Chairman with a mandate to ensure that all FIRS staff adhere strictly to the rules and regulations of the Service as well as the provisions of the public service rules, financial regulations and other guidelines and administrative circulars of the federal government. Also, in 2004, the Investigation and Intelligence Division was created. The division consisted of three units namely Intelligence, Criminal Investigation and Civil Investigation Units. The division adopted the surprise-spot-check strategy in achieving its mandate of checking corrupt practices amongst staff. Through this strategy some staff members were apprehended over charges ranging from illegal possession and/or processing of documents (including Tax Clearance Certificates) and illegal tax consultancy services for taxpayers.

Capacity Building

The Learning and Development Department was created in 2007 to deliver qualitative, functional, and professional training and improve the skills and capacity of members of staff to enable them drive the vision and mission of the Service. The restructuring of various organs of the Service, which is still on-going, is to ensure that skills and competencies are pooled and harnessed within the requisite structures needed to drive the goals and objectives of the Service. The mission statement of the Learning and Development Department is to deliver qualitative, functional, and professional development of staff, to support their ability to deliver the Service mandate at all times, and to equip staff to meet the challenges associated with delivering the Service mandate in terms of value, culture, professional, and personal development. The key objective of the department is to strive for the emergence and sustenance of a learning organisation by providing the much-needed environment that is conducive to continuous learning across the Service.

For a holistic management and development of staff the FIRS management in 2012 reintegrated the learning and Development Department (L&D) with the Human Capital Management Department (HCMD) and was renamed Human Capital Management & Development Department (HCMDD).

As the pace of change continues to increase in the Service, training and staff development becomes paramount in ensuring organizational success and it was on this note that the FIRS Management built a training school, which was commissioned on the 7th April 2014 by the CME/HMF. All training related functions were taken away from HCMDD to the FIRS Training school for better coordination and implementation.

Domestic and International Cooperation and Collaboration

Collaboration with external stakeholders has been part of FIRS culture for a long time. However, the new orientation that is an intrinsic attribute of the reforms agenda has placed greater emphasis on collaboration. This orientation seeks to re-focus the Service as, not just the government's 'cash cow', but as a 'customer-centric' organisation. The taxpayer is perceived not just as a source of revenue, but also as a client whose satisfaction is central to the organisational goals of the Service. Against this backdrop, the Service has maintained and renewed its relations and cooperation with relevant domestic institutions. For instance, the cooperation with the Joint Tax Board (JTB) has resulted in the development and management of the tax identification number (TIN) Project.

The Service has also cooperated with The Tax Appeal Tribunal (TAT), The Nigeria Customs Service (NCS), The Central Bank of Nigeria (CBN), Federal Ministry of Finance, Corporate Affairs Commission (CAC), The National Assembly (NASS), The Nigerian National Petroleum Corporation (NNPC), The National Salaries, Income and Wages Commission (NSIWC), Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC), The Economic and Financial Crimes Commission, banks, and other government MDAs and other tax agents as well as taxpayers who are the most important.

Apart from the Nigerian stakeholders, the FIRS interfaces with a number of international development partners in order to achieve excellence in its operations. These partners include the United Nations Development Programme, the Department for International Development, the World Bank, and the International Monetary Fund. The Federal Inland Revenue Service has also assumed the status of a key player in some international organisations, which include the Commonwealth Association of Tax Administrators (CATA), African Tax Administrators Forum (ATAF) and Value Added Tax (VAT) Administrators in Africa (VADA), Organisation for Economic Cooperation and Development (OECD), and the United Nations.

Nigeria has Double Taxation Agreement with nine (10) countries. The Service has also prepared and transmitted a memorandum to facilitate the domestication of DTA with four (4) countries namely; Qatar, India, Kenya, and Singapore to the Coordinating Minister for the Economy and Attorney General and Minister of Justice. Meanwhile DTA negotiations are on-going with South Korea, Spain, Sweden and Mauritius.

Strategic Performance Management

In the pre-reform era, a division of the Human Resource Management Department was responsible for planning, research, and statistics (PRS). In June 2004, the PRS and ICT Units were merged to form Planning, Research and Information Technology Department with an expanded mandate covering information technology, planning, research and statistics, procurement and due process, bank collection services, collection accounting and coordination, monitoring, and reconciliation. The organisational restructuring that took place in the Service in 2007 led to the de-merger of planning, research and statistics functions from ICT functions leading to the creation of separate departments to drive both functional areas. Since its creation in 2007, the Planning, Research and Statistics Department has been the key driver of planning in the Service.

In the area of Corporate Strategic Planning, in 2005, the management produced the 2005-2007 Medium-Term Corporate Plan. The second Medium-Term Corporate Plan was developed in 2008 spanning the period 2008-2011 while the third medium term plan covers the period 2012-2015. Both documents laid out where FIRS aspires to be and how it intends to get there. Specifically, corporate planning was intended to help drive the Vision and Mission of the Service by, (i) providing a roadmap outlining the current status of the Service and where it aspires to be; (ii) providing a framework for the FIRS management on areas of focus in tax administration as well as key initiatives/strategies to embark upon; (iii) providing a benchmark against which actual performance can be measured and reviewed; and, (iv) outlining tasks, goals and objectives for all stakeholders within the Service. The major goal of the 2005-2007 Medium Term Strategic Plan that covered the proposed programmes of the organisation for the same period was ‘to triple 2004 revenue collection by 2007’. The major focus of the 2011-2015 is to complete the modernization of the Service and to make taxation to play a central role in enabling government achieve its targets.

Joint Tax Board

The Joint Tax Board keyed into the reform process by defining a new vision. This included a resolve to be innovative, dynamic, and proactive in its assigned functions of advising, monitoring, implementing, and evaluating an efficient and uniform tax and revenue generating systems for the benefit of the nation. In pursuit of the above vision, the Joint Tax Board embarked on institutional and operational reform, which included organisational restructuring at both administrative and operational levels.

Main Achievements

Some of the achievements of the Federal Inland Revenue and Taxation Reforms are as follows:

1. The target and actual collections for the non-oil taxes have been continuously on the increase.
2. The targets and actual collection for oil taxes have not been steady. (This is informed by the unstable nature of world market crude oil prices. The factors that influence global oil prices are beyond the control of the Nigerian government or any of its agencies.)
3. The 2004 collections of non-oil taxes more than doubled but did not triple as initially conceived, but they are higher than the amended 25% increase on yearly basis.
4. The target and collection for non-oil started to compete favourably with oil taxes such that in 2009, collection of non-oil taxes was higher than collection of oil taxes.
5. The gains and benefits of the reforms manifested instantly, such that the actual collection figure in 2004 was more than the actual collection figures for the two previous years combined. One of the greatest indications of the positive results of the monumental changes created by the 2004 reforms is the fact that, just four years into the reforms, the actual collection of ₦2.972 trillion in 2008 alone was over and above the cumulative collection for the eight year period from 1996-2003 which amounted to only ₦2.682 trillion. The tax collection further increased to ₦4.8 trillion by 2013.

Key Challenges

1. There are still many corporate organisations that are not captured in the database and there are some that are in the tax base but do not pay tax. More than 75% of small scale business operators have the penchant for tax evasion.
2. The manner of revenue allocation and distribution is affecting issues pertaining to collection of taxes. For as long as perceptions remain as to the level of equity or otherwise in the manner of revenue distribution, the tax administration system may not be as optimal as expected as benefits of collaboration in terms of improved revenue to the state are not directly felt as much as expected.
3. Tax identification number system is yet to be operationalised across the nation.
4. Until recent reforms to introduce an industry-wide waiver regime, there was a lack of transparency in the operation of the waiver system, which lost government revenue.

Assessment of Reform Initiatives

Judged against the 10 assessment criteria, the reforms brought about significant improvement in revenue administration.

S/No.	Assessment Criteria	Result of Assessment
1.	Have the reforms improved the quality and quantity of public services?	The reforms have improved tax administration in Nigeria thereby improving performances of Federal Inland Revenue Services (FIRS).
2.	Do more people now have access to services, including disadvantaged groups such as women, young persons, and people with disabilities?	No information to assess this.
3.	Have the reforms reduced the cost of governance?	The reform particularly automation of key processes reduced abuses and made for efficiency and thereby reduced cost.
4.	Have the reforms made the service more affordable for citizens	Not Applicable
5.	Have the reforms reduced corruption?	The automation introduced through the reforms has reduced corruption.
6.	Have the reforms reduced unnecessary bureaucracy and red tape?	Taxation reforms have reduced bureaucracy and red tape in the assessment, collection, and reporting of taxes.
7.	Are the reforms likely to lead to improved development outcomes?	The National Tax Policy hinged principally on the foundation of fostering national development. Improvements in tax administration will lead to increase in revenue. Funds are available to implement development projects and provision of services in national budgets.
8.	Are things improving, staying the same, or getting worse?	Things are improving. As a result of the reforms, target and actual collections for the non-oil taxes have been continuously on the increase.
9.	Where things are improving, will those improvements endure?	Entrenching ethical codes, automation of processes and involvement of stakeholders will ensure sustainability of the gains of the reform. There is also legal backing to the new FIRS.

S/No.	Assessment Criteria	Result of Assessment
10.	Where things are not improving, what should be done?	Not Applicable.

Proposed Next Steps

1. Strengthen and deepen FIRS.
2. Operationalise the taxpayer identification number (TIN) – linked to other national registration systems (such as the Corporate Affairs Commission (CAC) requirement for opening business bank accounts, social security numbers, payroll ID) - by FIRS and State Board of Internal Revenue.
3. Increase the number of corporate organisations in the revenue database.
4. Improve capacity for tax policy analysis.
5. Improve processes for imposing sanctions/penalties for tax defaulters.
6. Develop and approve a comprehensive framework for administration and monitoring of waivers and exemptions.