

# Tax Collection and Government's Responsibility Under an International Economic Recession

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Being a paper presented by

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# The Challenge

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*“Our economy, as with open economies across the world, is not immune to the challenges in the global financial markets arising from the acute contraction of credit and liquidity in the international financial markets.” -*

President Umar M. Yar’dua

# Prevailing International Conditions

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- Global Output and International Trade has slowed down since 2008
- Commodity prices declined sharply in the 2<sup>nd</sup> half of 2008 as credit froze, consumer demand fell and unemployment rose
- With factory closures around the world, energy prices (crude oil, natural gas and coal) suffered the sharpest reverses

# Global Conditions: Local Impact [I]

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- Unprecedented decline in the price of oil (from record highs of US\$147 in July 2008 to US\$35 in January 2009);
- Reduced production levels in the oil sector caused by ongoing strife in the Niger Delta negatively impacts on overall revenue performance;

# Global Conditions: Local Impact [II]

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- Year-on-year headline inflation exceeded single digit projections and was as high as 14.7% in October 2008. Exceptional food inflation actually reached 19.2% in 2008.
- Excess crude/foreign reserves had to be used to supplement distributable revenues in the Federation Account

# The Reality of Recession [I]

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- Exchange Rate: From N117 to N146 [Official] to N170+[Unofficial]
- OPEC-quota: From 2.292MBPD to 1.888MBPD
- Global Oil Price: Currently moving from \$45 to <\$40.69

# The Reality of Recession [II]

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Drastic Fall in Total distributable revenue:

- N746.745b in May 2008
- N435.40 in January 2009
- N285.58b in February 2009  
- Min. of State (Finance)

# The Reality of Recession [III]

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- 2009 budget for grid enhancement & reinforcement reduced by NAT ASS from N3.55b to N800m
- 2009 budget vote for gas pipeline projects cut from N6.5b to N1.1b

# Implications for States Revenue [I]

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- **Reduction in IGR from the State's major sources**, i.e., income tax (both PAYE and direct assessment), land transactions, capital gains tax, stamp duty, vehicle licensing and planning permits due to the high inflation rate and possible staff retrenchment and overall reduction in economic activities

## Implications for States Revenue [II]

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- Other inflow into the Fed. Account (e.g., from EXIM) and VAT proceeds adversely affected as production slows & purchasing power diminishes;
- Devaluation of naira as a result of scarcity of foreign exchange and weakening demand for primary goods makes procurements costlier

# Implications for States Revenue [III]

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- Inflow of foreign investment/credit and PP Partners will be further constricted
- The viability and efficiency of Local Government Councils will be most adversely affected

# Challenges for the Government

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- Reduction in expected revenue
- Possibility of budget under-performance
- Inability to deliver on electoral promises

# The Akwa Ibom Challenge

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"My Vision for a Greater Akwa Ibom State is a socio-economic blueprint that will touch the lives of all Akwa Ibomites and fellow Nigerians positively, including the less privileged; and transform our rural communities into the engine room of Nigerian industrialization"

– H. E. *Godswill Akpabio*

# Akwa Ibom in Perspective

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- Akwa Ibom has higher GDP than some African Countries, e.g. Mali, Guinea, Niger, Togo, Gambia and Cape Verde;
- Akwa Ibom is among the 5 States with the highest Gross State Product (GSP);
- Akwa Ibom is among the 5 States with highest IGR potential

# Taxation in Economic Recession

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Government revenue & public sector expenditure is vital for revival but:

- Taxation should not add to the burden on business and citizens
- Emphasis should be on the ‘untaxed’ or ‘under-taxed’ sector
- Revenue agencies must lower costs & increase efficiency

# Realities of IGR in Nigeria

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- Personal Income Tax is underutilized - emphasis is on the easiest target - salary earners;
- Yield from personal income tax by direct assessment is on the whole less than 10% of the yield from the PAYE system
- Self employed persons outnumber those in paid employment by a ten to one ratio;
- Self employed (including directors of close companies) earn four times more than others;

# Maximizing Tax Collection in Recession [1]

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## **Reform of the administrative machinery**

- Autonomy of State Board of Internal Revenue is a key factor
- Tax administrators deal with the best companies, professionals, high net worth individuals and should operate at same level
- Enactment of Revenue Administration Law to ensure independence and efficiency  
e.g. FIRSEA & LSRAL.

# Maximizing Tax Collection in Recession [2]

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## **Simplify laws, regulations & procedures**

- Presently, our tax law and procedure are overly complex;
- Simplification may be achieved by designing a very straightforward form for personal income tax returns in recognition of the fact that most taxpayers in the informal sector do not have proper records
- An uncomplicated tax table may be produced to enable such taxpayers assess themselves with ease

# Maximizing Tax Collection in Recession [3]

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## **Sensitization of taxpayers**

- Hold up expected benefits and encourage credible role models to participate
- Media sensitization of taxpayers is not only to remind them of their legal and moral obligation
- It should give useful information about time limits, payment procedure, complaints process & others measures to ease compliance.

## Maximizing Tax Collection in Recession [4]

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- Review other revenue sources (land transactions, planning permits, vehicle licensing, etc, to increase efficiency
- Identify and plug loopholes & leakages
- Set targets and constantly review performance
- Encourage and reward progress

# Maximizing Tax Collection in Recession [5]

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## Encourage compliance

- Access of taxpayers to help and guidance is a key form of encouragement
- Teams of trained tax officials may be sent out daily not only to check defaulters but to give information which would assist and encourage compliance

# Maximizing Tax Collection in Recession [6]

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## **Enforcement and punishment of defaulters**

- Enforcement is a great challenge to effective revenue generation
- This involves prosecution of tax defaulters and evaders
- The invocation of interest, penalties, distraint and other default provisions of the law.

# Maximizing Tax Collection in Recession [7]

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- Integrity and accountability of tax system**
  - Eliminate or minimize cash handling by Revenue Officers or any Govt. staff
  - Direct payment/lodgment into designated Bank
  - Introduction of 'E-Pay'

# Maximizing Tax Collection in Recession [8]

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## **Establishment of Linkages & Check Points**

- Establish contact points & information exchange within Government MDAs- Lands Dept., Probate, Housing, Transport, etc.
  
- Anyone who is not tax-compliant is barred from doing business with Government or enjoying government facilities

# Maximizing Tax Collection in Recession [9]

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## Feed Back Mechanism

- Tax Administration is not a one-way traffic
- Need for Feedback mechanism from the Tax Payers
- These include; Revenue Summit/Stakeholders Conference; Revenue Complaints Unit

# Maximizing Tax Collection in Recession [IX]

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- Of course, the foregoing is by no means exhaustive
- Remember

*“Opportunities multiply as they are seized”*

-Chinese Proverb

# CONCLUSION

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- In the final analysis, as we seek greater efficiency in revenue generation ...

Our focus should primarily be on cutting waste, especially in the area of recurrent expenditure and non-essential capital projects, and seeking greater efficiency in funds management, so that Government is able to keep up vital works and services and carry on with priority and high impact capital projects.



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# Thank you.

**Ade Ipaye**

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