IPTI Xtracts

Property Tax and Assessment News from Around the World

NIGERIA - January 2018

Taxation: Some lessons from BRICS for Nigeria

In 2010, South Africa was invited to join BRIC (Brazil, Russia, India, China) and many wondered why Nigeria was not picked ahead of South Africa, considering its population size, abundant oil and gas resources and strong growth prospect. Today, BRIC has become BRICS (Brazil, Russia, India, China, South Africa), a group of five newly industrialised or developing economies which sought to have closer economic, financial and political ties among themselves and to use their combined influence to shape the world's socio-economic and financial narratives. The countries of BRICS are drawn from four continents, namely, South America, Europe, Asia, and Africa, and they are the largest or among the largest economies in each of their regions.

Indeed, Nigeria could have learnt and benefitted a great deal from membership of the association, particularly in the area of taxation. Only recently, BRICS's tax authorities signed a taxation cooperation memorandum. Among other things, the agreement is expected to foster greater cooperation among members on taxation efficiency, capacities, policies, collection, improving consultation procedures on taxation, and encouraging information exchange on taxation. These are areas Nigeria could have gained critical insight and knowledge.

Nigeria continues to struggle with its tax system and administration. The country's tax authorities are still burdened with obsolete tax laws, dearth of technology in tax administration and consequently inefficiencies in tax collections and poor compliance levels. The Nigerian tax system, according to experts, is still largely "characterised by complex distortions and inequitable taxation laws" fostered by a "multiplicity of rates and unnecessary exemptions." Many of the country's tax laws are obsolete and out of tune with current reality. It is not surprising therefore that the country's tax-to-GDP ratio is a mere six per cent. BRICS' economies, on the other hand, earn an average tax-to-GDP ratio of 24 per cent (Russia's tax collection is 19.5 per cent of its GDP, China 20 per cent, India 17.7 per cent, South Africa 26.9 per cent, and Brazil 34.4 per cent). PricewaterhouseCoopers (PwC) tagged Nigeria's six per cent "abysmal".

However, Lagos State seems to have taken a few pages out of BRICS' tax book and the state is reaping the benefits. Aside from the deployment of technology, the state is working with its House of Assembly to upgrade its tax laws for simplicity, equity, certainty, relevance, and efficiency. Recently, a public hearing was held by the state House of Assembly on a bill to repeal the 17-year-old Land Use Charge Law and enact a new one that will consolidate all property taxes in the state (tenement rate, neighbourhood improvement tax, land rates) into one tax, the Land Use Charge Law.

The legislators promised at the hearing to undertake an impact assessment of Lagos State tax laws with a view to amending and or enacting new ones, where necessary, to meet the present and urgent tax needs of the state. The new Land Use Charge Law was comprehensive enough to satisfy the basic requirements of a good tax. By collapsing the multiple property tax law in the state into one law, the government has simplified the law. The new law will be equitable and standardised; assessment of tax due is to be calculated based on the property type and the market value, unlike the old law where valuation is arbitrary and the taxpayer is not certain of his tax obligations. All this, coupled with deployment of e-filing, is expected to help the efficiency of the law.

Lagos already boasts of about 30 per cent tax compliance rate. This is far better than the country's six per cent and even higher than BRICS' average of 24 per cent. It is expected that the new tax administration, with up-to-date tax laws, will further boost this compliance figure and provide the Lagos State Government with additional resources to tackle its developmental agenda.

But most importantly, there appears to be a clear trust by residents in the state government to deploy tax revenue judiciously. For long, Lagos residents, and indeed Nigerians, had complained that the impact of government was hardly felt. That is no longer the case in Lagos. The state government has demonstrated good faith and has shown that it can be trusted with taxpayers' money to deliver people-oriented and impactful projects. The government is investing in a modern and efficient transport system: rail (Okokomaiko-Marina; Iddo Terminal-Alagbado); Automated Guideway Transit (Ikoyi-VI-Ajah line); Bus Rapid Transit plying routes across the state; channelisation of the waterways (construction of jetties and provision of ferry services); road rehabilitation, upgrades and maintenance. It is equally investing heavily in social infrastructure; upgrading schools, health facilities and working hard to protect the environment.

Compliance remains a major challenge to unravel for Nigeria. At the 2017 Stanbic IBTC/Standard Bank West to East Africa Investors' Conference, the Minister of Finance, Mrs. Kemi Adeosun, told the audience that the country's "tax burden is not being shared fairly… being carried by those who are least able to afford it." According to Adeosun, the country "only has 14 million taxpayers out of about 70 million people that are economically active." And even at that, a "majority of that 14 million are people who have their taxes deducted at the source, largely lower income workers." Very few voluntarily file tax returns.

The hallmark of a strong tax system/administration includes its simplicity for citizens to understand their tax obligations; equitability: relevance to reflect current realities; efficiency; enforceability, with mechanisms for compliance; and transparency, free from ambiguities and uncertainties. The country's tax system, unfortunately, fails many of these basic criteria. The BRICS' economies have very dynamic tax systems that are constantly reviewed to ensure relevance. As well, they deploy functional electronic filing systems to ensure standardisation and efficiency.

The World Bank/PwC report, Paying Taxes 2018, which analysed and compared tax systems in 190 countries, shows that Nigeria has a lot to gain by learning from the BRICS' economies in terms of consolidation of its taxes to remove multiplicity and extensive use of technology for efficiency, which will no doubt help boost compliance. Paying Taxes 2018 shows that businesses in China pay taxes on a total of nine items, including profit tax, labour tax, and other tax payments. In Russia, it is nine taxable items; South Africa seven items; Brazil 10 items; and India 13 items. In Nigeria, businesses contend with a whopping 59 taxable items. The Director of Research and Advocacy of the Lagos Chamber of Commerce and Industry, Dr Vincent Nwani, at a forum organised by the Initiative for Public Policy Analysis, revealed that his group counted "up to about 80 different types of taxes" in some sectors. The effect, Nwani said, is to force many businesses (and individuals) to evade tax payments by going "invisible".

Expectedly, the average hour spent on filing tax returns on the many taxes in Nigeria is equally high; it takes 360 hours or 15 days. In Russia, 168hrs/seven days is all a taxpayer needs; 207hrs/8.6 days in China; 210hrs/8.7 days in South Africa; and 214hrs/8.9 days in India.

At 59 taxable items, Nigeria has one of the highest tax charges in the world. This is a major contributor to its regular poor performance in the yearly Ease of Doing Business index. Thus, an urgent reform is needed to consolidate the multiple taxes and streamline them for convenience and simplicity.

The method of computing many taxable items in the country's tax system is often opaque and needs to be standardised. Many state and local council levies have no standard rate or valuation method; the charges are often arbitrary. For instance, tenement rates, ground rents, and property taxes are often charged without recourse to the property in question. Thus, a commercial property and another residential one in a neighbourhood may be charged similar property rates or two properties of equal status in a neighbourhood may attract different rates.

When a "tax burden is not shared fairly" and "only 14 million out of 70 million" pay taxes, then such a tax system lacks equity and clearly negates the basic 'ability to pay' principle of taxation. Such a tax system needs strengthening. Brazil, India and China operate a progressive tax system, where a taxpayer's tax burden rises with income. So, those who earn more pay more.

Tax regulation must be cost effective to both the government and the taxpayers. The BRICS economies regularly streamline their tax systems, administration, and procedures to make them more efficient and ensure everyone is captured in the tax net.

No doubt these initiatives will increase tax revenue in the short term. However, long term gains will only be possible if the tax system is reformed alongside technology adoption.

Olamilekan, public policy analyst, Lagos