

Summary of Tax and Ease of Doing Business in the South-East Nigeria

PERL-ARC Brief | April 2017

Introduction

Taxation is a key factor in the business environment. It can be an incentive or disincentive to businesses and entrepreneurship. To understand how taxation affects ease of doing business in the South-East (SE) region of Nigeria, and to enable stakeholders to proffer suggestions to improve taxation contribution to the ease of doing business in the region, PERL supported an assessment on the impact of Taxation (tax policy and tax administration measures of the Southeast states and Federal Government of Nigeria) on Ease of Doing Business in the Southeast of Nigeria.

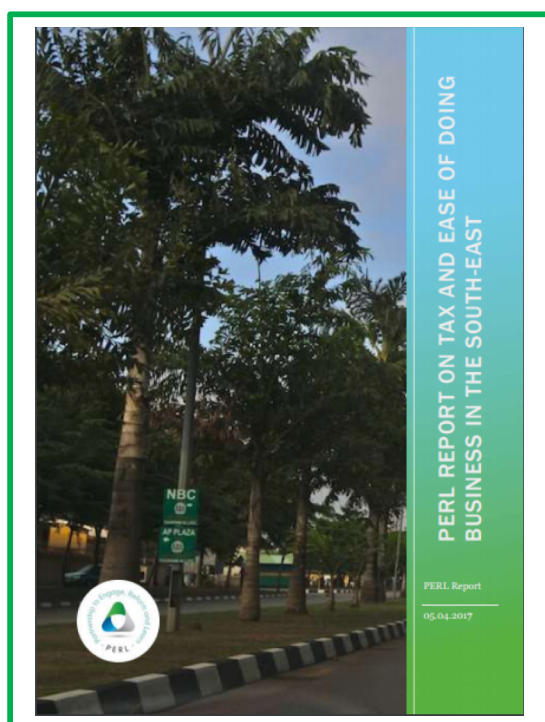
The report of the assessment drew data and information from primary and secondary sources of information, specifically relying on interviews with key government officials involved in revenue administration in the five states, non-state actors such as Chambers of Commerce, CSOs working on ease of doing business, Traders' Associations and publications on tax laws, administration and ease of doing business.

This Brief is a summary of the **PERL Report on Tax and Ease of Doing Business in the South-East of Nigeria**. Therefore, it does capture all the views of the sources of information and all the findings of the report. Please consult the full report for detailed information on the subject matter.

Objectives of Study

The specific objectives of the assessment are:

- Determine the tax policy and tax administration measures of the Federal Government and their impact on the ease of doing business in the SE;
- Determine tax policy and tax administration measures of the states in the SE region, and identify their implications for ease of doing business in the region;
- Ascertain the extent to which tax policy and administration measures have impacted the ease of doing business in each of the five SE states;
- Determine actions that can be taken by the states/region to address the negative impacts, as well as improve the positive aspects of the tax policy measures on the ease of doing business.



Approach and Methodology

The Report on Tax and Ease of Doing Business in the South-East of Nigeria was produced with information and data from key government officials involved in revenue administration in the five states, non-state actors such as Chamber of Commerce, CSOs working on ease of doing business, Traders' Associations and publications on tax laws, administration and ease of doing business. (The list of persons interviewed is in Annex 10 of the report).

The activities carried out in the course of the assessment include:

- A review of the tax policy and tax administration measures of the Federal Government and their impact on the ease of doing business in the SE zone;
- A review of tax policy and tax administration measures of the states in the SE region, and their implications for ease of doing business in the zone;
- A scoping and gap analysis of the tax policy and administration measures in the SE,
- Identification of good practices for region-wide learning and replication;
- Identification and profiling of tax stakeholders across the SE zone;
- Identification of key tax issues that impinge on ease of doing business; and
- Establishment of actions that can be taken by the states/region to reduce the negative impacts of and improve the positive aspects of the tax policy measures.

Summary of Key Findings

The assessment shows that while some tax policies and measures in the five SE states (e.g. harmonised demands served on business for some taxes, levies and charges by Imo State Board of Internal Revenue) are positively impacting on the ease of doing business, there are also a significant number of policies and measures that are impacting negatively on ease of doing business.

The quality of revenue administration in some states have negative impacts on the investment climate and private sector development. For example, some states operate without all the required legislation, ineffective BIRs, limited autonomy and heavy reliance on contractors to collect tax.



A. Impact of Federal Government Tax Policies and Measures on Ease of Doing Business in South East

- Federal level taxes have an impact on the ease of doing business in the SE. The Company Income Tax (CIT) applies only to incorporated companies and the rates are uniform across the country. But businesses in the SE complain that while the rates may be the same, the procedure in which

the Federal Inland Revenue Service (FIRS) reaches its assessments are not realistic. They also complain that inadequate information is given about the lower rates that apply to certain types of small businesses – resulting in smaller businesses being disproportionately taxed.

- Value Added Tax (VAT) applies to all businesses not just incorporated companies and because there is no lower threshold in the law, traders and businesses complain that small and micro businesses are often bullied into accepting to pay VAT in situations where these reduce their cash flow and distort the playing field between business that are charged and similar business that seem to avoid the VAT payments.
- There are other costs encountered by businesses such as the costs of accountancy and internal audit, filing tax returns and making payments. These taxes are administered by the FIRS, and directly not within the control of the state governments in the region.
- The lack of taxpayer information, the difficulty for businesses to easily obtain Tax Identification Numbers (TINs) and the lack of information about how the TIN can help, make business wary of registration.
- The onerous process for obtaining refunds or credit for Withholding Tax (WHT) deducted are some of the tax issues that affect businesses in the SE.
- In response to complaints about the remoteness of offices and difficulties in submitting forms, FIRS now allows firms to choose an office that is convenient to the taxpayer to ease the burden of travelling long distances to file tax returns or make payments. FIRS has also introduced a number of online services making it easier to file and pay taxes due. These are made possible by the roll out of FIRS Integrated Tax Administration System (ITAS) to all 145 offices in the federation; and companies can now file their CIT and VAT returns at the FIRS tax office nearest to their places of business, or choice of location or online.

B. Impact of South East State Governments Tax Policies and Measures on Ease of Doing Business

- The emerging issue is that the quality of revenue administration in some states is still at a level that will negatively impact on the investment climate and private sector development. For example, some states operate without all the required legislation, ineffective BIRs, limited autonomy and heavy reliance on contractors to collect tax.

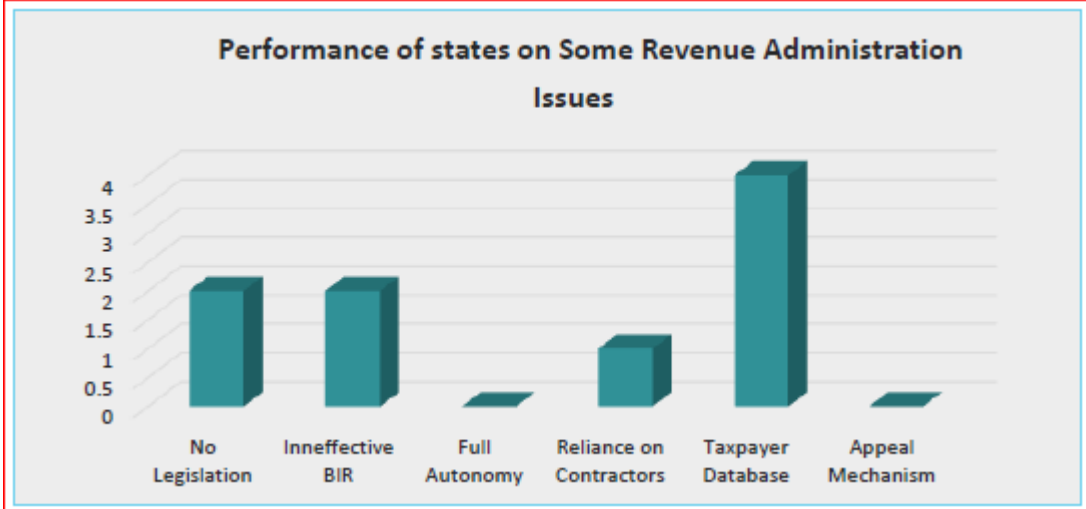


Figure 1: Performance of states on some revenue administration issues

- Business organisations and associations raised complaints about the tax policies and measures being used by governments that negatively impact on the ease of doing business in the region, such as, aggressive collection methods, lack of clarity of the taxes, levies and charges that apply to businesses and no promotion of current federal incentives, such as the minimum corporation tax and the potential for pioneer status.
- There is no evidence of thought about introducing state level incentives to drive business growth such as special ‘investment zones’ which will ultimately grow business and provide more revenue for the state governments.
- Multiple taxation by local and state governments, lack of clarity on the amount of tax payable, lack of adequate public complaints and conflict resolution mechanisms, and activities of illegal private collectors of revenue are major challenges that have serious implications for investors as these challenges create uncertainties about the potential return on their investments.
- None of the states in the SE has any clear tax or IGR related incentives to promote inward investment, and even where there are ‘one-stop investment shops’ information is not easily available (e.g. on their website) about the tax and related charges business should expect.

The figure below summarizes the perception businesses’ in the SE have about state governments’ responses to the various complaints by businesses.

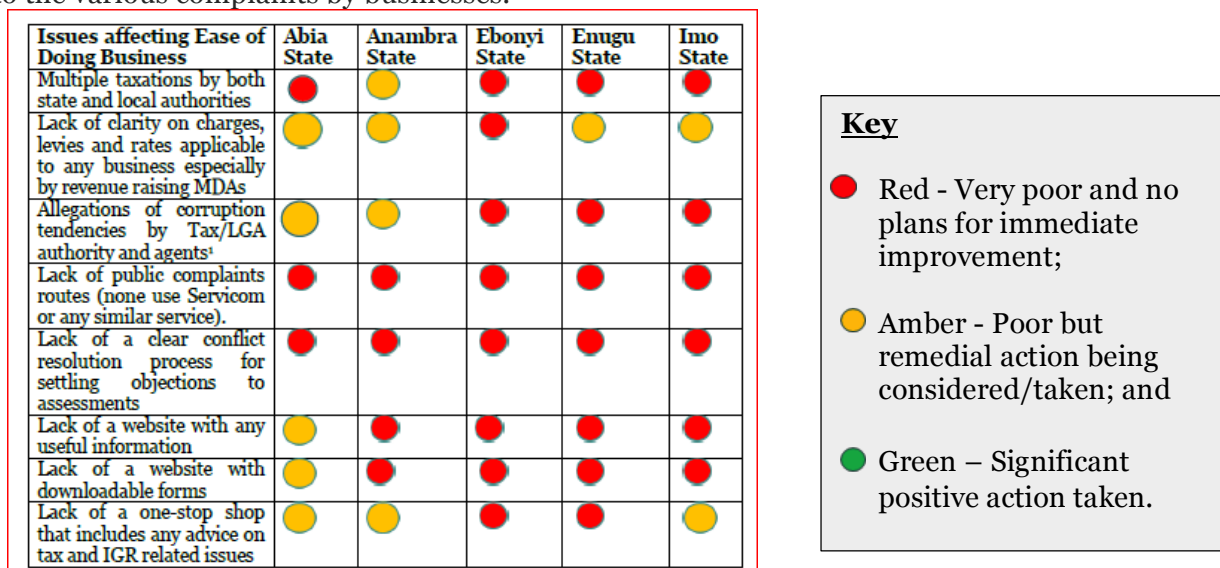


Figure 2: The Perception of the State Governments’ responsiveness to tax related issues by Businesses

Recommendations:

The following recommendations are proposed to address some of the identified challenges that can derail the SE State Governments’ aspiration to have a rapidly growing economy:

- Eliminate illegal and arbitrary collection of funds by private individuals in markets particularly in Onitsha, Nnewi and Abakaliki;
- Ensure better collaboration between state and LGAs to eliminate the incidence of multiple taxations in Abia, Ebonyi and Imo States;

- All the five SE States should ensure that tax appeal tribunals or similar bodies are in place to provide avenue for tax dispute resolution;
- Introduce the Presumptive Tax regime which is specifically aimed at the MSMEs that form a bulk of the businesses in the SE;
- States should explore the possibility of exploiting the existing tax incentive schemes and promote regional tax and IGR incentive schemes for businesses in the zone;
- Ensure more business engagement by the state and provide needed information on websites and media where more appropriate;
- Professionals in the BIRs should ensure tax laws are applied consistently so that businesses do not suffer arbitrary taxes and have clear complaint and objection routes when they feel aggrieved or disagree with assessments;
- Ensure professionalism in the collection (direct bank payment system) linked to automation on a robust platform, that provides efficiency and effectiveness and counters leakages;
- Ensure clear linkage between taxes paid and services received with associated taxpayer education and enlightenment at all stages so that businesses can understand how the taxes and charges they pay are providing them with some benefits, even if indirectly;
- Ensure that the revenue administration agencies (i.e. BIRs) are fully functional with administrative and financial autonomy so that they can respond to the changing needs of taxpayers while ensuring that all pay their fair share;
- Develop detailed operating manuals and where possible put these on websites to ease business engagement;
- Ensure that tax and related information is clearly provided through the ‘One-Stop Investment Shops’ where they exist;
- To achieve these recommendations, states should consider seeking for technical assistance from development partners and other stakeholders;
- Use CSOs and other non-state stakeholders to sensitize tax payers of their rights to appeal.

To request for the full report, kindly send a mail with full name, organisation and a statement on what the report will be used for to:

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Partnership to Engage, Reform and Learn (PERL);

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