Intergovernmental Relations in Tax Administration in Nigeria

A Consolidated Scoping and Gap Analysis of Tax/IGR Administration Reforms in Jigawa, Kaduna and Kano

PERL-ARC Brief | February 2017

Introduction

The need for the Federal Government of Nigeria and its state governments to mobilise internal revenues has become inevitable owing to dwindling revenue from oil. The National Economic Council Retreat of March 2016 had within its 71 Resolutions, a dedicated theme on Revenue Generation and Fiscal Stability. The Technical Report of the Retreat has suggested that for Nigeria to attain the average revenue to GDP ratio of similar economies, it has to increase its tax revenues by 300% from the less than 7% to 20% of GDP, and that at least 70% of its revenues must come from non-oil sources to ensure sustainability and forestall the country's exposure to shocks in oil prices.

Meanwhile, a number of interventions have been undertaken in the various tax related reforms in partner states by programmes funded by DFID and other development partners. These include the State Partnership for Accountability Responsiveness and Capability (SPARC), the State Accountability and Voice Initiative (SAVI), the Growth, Employment and Markets in States (GEMS3), and Enhancing Nigerian Advocacy for a Better Business Environment (ENABLE). And now the approach of the Partnership to Engage, Reform and Learn (PERL) is to support Internal Revenue effort with partners, and support DFID's strategy to support the federal and state governments to improve their capacity to increase revenues in the long-term.

In response to this need and current demand, PERL embarked on an IGR scoping assignment to identify gaps that would provide opportunities for potential support by development partners. Domestic revenue mobilisation is not only useful in augmenting dwindling revenues from oil, but also provides a more stable and sustainable source of revenues, with the potential to increase voice and mutual accountability in governance.

Approach and Methodology

The scoping study of Intergovernmental fiscal institutions, provides observations and feedback on a broad scan of intergovernmental relations around taxation and revenue between sub-national level governments and federal agencies – including the Nigeria Governors Forum (NGF), Joint Tax Board (JTB), Federal Internal Revenue Service (FIRS), Federal Ministry of Finance (FMoF) and Revenue Mobilisation Allocation and Fiscal Commission (RMAFC). The field work for this was undertaken between 30th January and 7th February 2017.

The study sourced information from the discussions with federal agencies, development partners and state governments and concentrated on PERL's three partner states of Jigawa, Kaduna and Kano, and the Federal Government, whilst considering intergovernmental leveraging.

Distinct IGR scoping assignments were undertaken in Jigawa, Kano and Kaduna States. The assignments reflect discussions with the State Governments' Ministries of Finance and Economic Planning, and Internal Revenue Services. Discussions were held with development partners and programmes including, DFID's PERL Programme pillars (ARC, ECP and LEAP), GEMS3 and ENABLE. The work undertaken by previous programmes - SPARC and SAVI were considered in relation to capacity assessments and IGR strategy work within the states. The field work in Jigawa, Kaduna and Kano States were undertaken between 8th February and 13th February 2017.

A. Intergovernmental Fiscal Institutions Scoping

Highlight of IGR assessment

NEC Resolutions on Revenue Generation and Fiscal Stability
It was recognized that falling oil prices have made the mono-economy based on oil less and less attractive; thus, making it crucial for Nigeria to look to other revenue sources to sustain her growing economy to achieve fiscal stability and sustainability. The National Economic Council (NEC) in its March 2016 retreat identified seven thematic areas with 71 resolutions. Revenue Generation and Fiscal Stability was identified as theme No.6. Discussions on theme identified possible strategic initiatives that will enable government to increase internally generated revenues and diversify the economy away from oil (see NEC Technical Retreat Report – "Nigerian States – Multiple Centres of Prosperity", March 21st & 22nd, 2016) The scoping study finds that the states may require support to be able to implement the relevant NEC resolutions.

Fiscal Sustainability Plan (FSP)
Further to the NEC Resolutions, the Federal Ministry of Finance also developed a fiscal sustainability plan for states with five strategic objectives and 22 action plans with responsibilities for federal and state governments. These plans, agreed to by all the state governors, were aimed at achieving key elements of fiscal accountability and transparency, increase in public revenue, rationalisation of public expenditure, public financial management reforms and sustainable debt management. The strategic objective number 2 of the FSP – increase in public revenue – has five action plans aimed at *"… the need to create a sustainable system of revenue generation for the states by increasing independently generated revenues and improving the viability of states as "stand-alone" entities that can on the back of their own revenues, raise capital and receive support from development institutions" (see Fiscal Sustainability Plan – Fiscal Framework for Sub-National Governments in Nigeria, Federal Ministry of Finance, May 2016).* The scoping study identifies varying levels of implementation and compliance with the FSP action plans by states studied; and need for implementation support and a mechanism for monitoring compliance.

Nigeria Governors' Forum (NGF) - A major recent initiative relevant to tax and revenue reforms, being managed through the NGF is the development of an IGR dashboard. The dashboard provides the NGF with a key advocacy and engagement tool to discuss IGR performance with its members for peer learning and experience sharing. The NGF plans to present monthly reports to Governors, and using healthy competition between Governors, hopes to encourage improved performance, target achievements and advocate increasing needs for fiscal sustainability. The scoping assignment indicates possible communication gap between some state governors and their representatives attending the NGF activities.

The Joint Tax Board (JTB), established under section 86 of the Personal Income Tax Act (PITA) 1993, exercises powers over national tax policies in Nigeria; and ensures the promotion of uniformity, both in the application of the enabling Act and in the incidence of tax on individuals throughout Nigeria. The scoping study indicates that there is opportunity for increased coordination between the NGF and JTB that can provide a 'two pronged' complimentary engagement at the levels of State Governors and State Revenue Board Executive Chairmen; and identifies a gap between state officials responsible for the implementation of tax administration and related reforms who attend JTB meetings and their state governors.

Federal Internal Revenue Service (FIRS) collects federal taxes, and chairs the JTB. Its engagement with the states is through the JTB. FIRS is supporting automation in the Accountant General of the Federation's Office and some federal MDAs to facilitate the collection of Withholding Tax (WHT) and VAT. The Service has supported the exchange of data on taxpayers through the tax identification system (TIN), though a number of states are yet to comply with the exchange of data.

States can leverage significantly on the capacity of the FIRS to improve their tax/IGR processes and systems.

Federal Ministry of Finance (FMoF) Technical Services Department (TSD) - the FMoF has interest in the National Tax Policy; and had previously worked with FIRS to understand how to shore up the IGR sources. During the scoping meeting, it was indicated that the report on the FMF and FIRS collaboration needs to be 'dusted up and updated'.

Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) – Revenue mobilisation is a core mandate of the RMAFC; consequently, the Commission is interested in the IGR generated by states both for the purposes of enhancing state internal revenues and as a basis for federation revenue allocations to states.

Summary of Gaps and Opportunities

#	Potential gaps/ support areas	Opportunity
1	NGF and IGR dashboard advocacy.	Support to NGF in engagement with Governors on IGR Dashboard.
2	NGF-JTB linkages	Support to building and maintaining formal and informal institutional links between the two agencies.
3	JTB technical support	Capacity building/ technical support on key issues relating to Tax and IGR initiatives applicable to all SGs.
4	Establishment of an Office of Tax Simplification which shall be responsible for ensuring continuous improvement to tax legislation and administration.	Capacity building, support of best practice for Office of Tax Simplification. This could be along the lines of the UK Tax Simplification Office: https://www.gov.uk/government/organisations/office-of-tax-simplification
5	FMoF to work with the Legislature to ensure that the requisite changes to tax laws are enacted together with the appropriation Act of the same year.	Capacity building of both Ministry and legislature on the requirements. Link to ECP at both Federal and State level.
6	Revenue Mobilisation Allocation and Fiscal Commission (RMAFC)	Support states to maximize monthly allocations through increasing IGR.
7	Legacy GEMS3 work at the federal level linked to new engagement opportunities with JTB.	Support through JTB and NGF. Presumptive Tax Regulation implementation support and sensitization at FCT; Support for National Tax Policy Implementation; Taxpayer sensitization.
8	The Open Government Partnership (OGP)	PERL supports the OGP process, which is expected to lead to increased engagement of citizens in the budget process, increased transparency, efficiency and effectiveness in the tax system, improved awareness amongst citizens (beneficiaries, CSOs) on selected key government activities and improved engagement between government and citizens in selected service delivery sectors.

B. IGR Scoping in Jigawa State

What has been done?

A number of interventions have been undertaken in the area of tax related reforms in the PERL partner states both by SPARC, SAVI, GEMS3, ENABLE 2 and other development partners, as well as the state governments themselves.

The scoping assignment shows that though the JSBIR did not appear to have made progress by implementing the IGR strategy developed in partnership with SPARC, the state has been implementing some actions with SLOGOR and GEMS3 support. SLOGOR has helped the state to draft an omnibus revenue bill that includes the enabling laws for a modern Tax Administrative system, laws for various taxes such as presumptive tax and consumption tax and the harmonisation of the rates, fees and levies, including those of MDAs and LGAs. GEMS3 has also helped with aspects of the Presumptive Tax regime, and with drafting an MDA tax harmonisation bill, and passage of Jigawa State LGA Tax Harmonisation Law. The complexity of the existence of the two bills (the Omnibus Revenue Bill and the MDA Harmonisation Bill) is currently under discussion. Once resolved, this will allow for the reforms in the state to continue.

Highlight of IGR assessment

The IGR profile of Jigawa State is obscured by the approach to recording revenue, which is not traditionally recognised as IGR; this includes revenue sources such as grants, reimbursements and loan repayments, and may inflate IGR figures. Nevertheless, while the performance of the JSBIR remains poor and collections are well below target in some years, the revenue trajectory is upward. The variance between the budget and actual shows large swings that indicate some measure of unrealism in target setting.

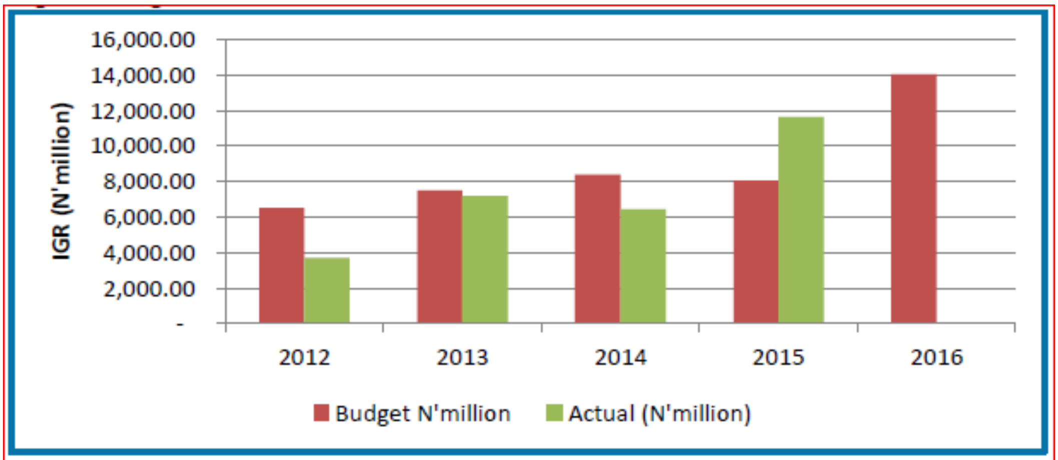
State Government revenue administration processes - JSG have introduced the Treasury Single Account (TSA) approach, with all revenues being paid into a single account and expenses handled similarly. They have also introduced a single capital expenditure account to keep control of spending and ensure that money not spent is not squirrelled away.

JSBIR reports its revenue to the MFEP, while payments are made into the Jigawa State single revenue account. The MDAs report their income monthly to the MFEP. Of this, the bulk seems to come from the Ministry of Justice and from Jigawa Agricultural and Rural Development Agency (JARDA); the potential for further IGR improvement for these two MDAs should be considered.

Jigawa State Internal Revenue Service (JIRS) - officials explained that although the Tax Administration law had been passed (2010) the Board was not yet autonomous, further hampering their progress.

Linkages between IGR, Budget/Planning and Service Delivery - The ability of the Jigawa State Government to fully implement its expenditure budgets has been hampered by insufficient funding. Therefore, generating more revenue is central in ensuring that budget is realistic and implemented as intended (i.e. budget credibility).

Figure 1: Jigawa State IGR Performance 2012-2016



Source: Jigawa State Audited Accounts

Summary of Gaps and Opportunities

#	Potential gaps/ support areas	Opportunity
1	Lack of capacity within JIRS	The JIRS does not have legal backing for full autonomy nor the capacity to scale up to the challenges of implementing the planned omnibus revenue law which would give it autonomy and introduce new taxes with related implementation processes and procedure.
2	The lack of sufficient and updated Revenue laws	The Omnibus Revenue Bill though not ideal provides an opportunity to put the right legal frameworks in place to allow reform of the IGR environment.
3	Data management and linkages between IGR and budget/planning and service delivery.	There are confusing and conflicting data available, and the lack of data to publish associated with the lack of guidance about reporting requirements could benefit from being addressed.
4	Working with development partners	The opportunity here lies in synergy and cost effective development partner input with less overlap.
5	Gaps between Federal interventions and State institutions	To take advantage of offering by the Federal agencies that will drive forward the state IGR – see also Federal summary.

C. IGR Scoping in Kaduna State

What has been done?

In Kaduna State, a number of interventions have been undertaken in the area of tax related reforms by SPARC, SAVI, GEMS3, ENABLE 2 and other development partners, as well as by the state government.

SPARC support was provided to Kaduna State Government in the development of an IGR strategy in 2013. A report dated October 2013 set out the findings of a critical analysis of the challenges that limited Kaduna IGR; from this documentation, an IGR improvement strategy was developed. The work concluded with an engagement event to discuss and validate the findings and strategic recommendations. SPARC provided discrete tax automation strategic advice to KADIRS in March/ April 2016. This was provided at the request of DFID and focused on strategic considerations relating to ownership, oversight and project management structures for revenue and tax automation.

SAVI did not undertake any targeted IGR work in Kaduna State.

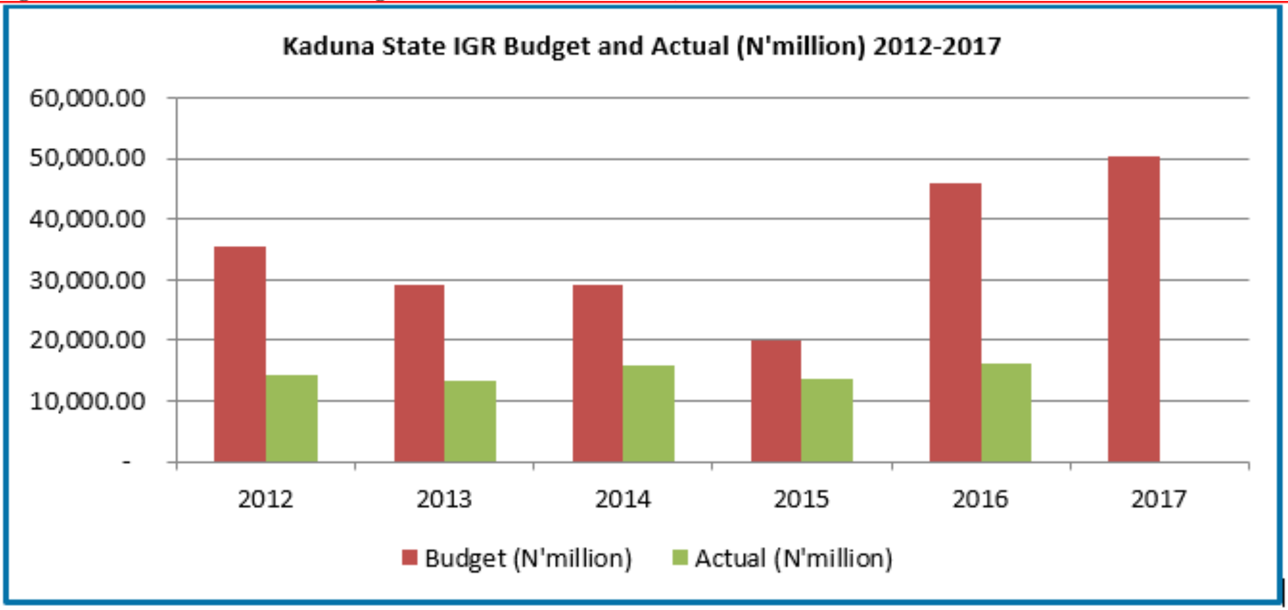
GEMS3 has been involved in significant amount of LGA sensitizing. Initially, there were no enabling laws within local governments, and most were managed through rules set out in individual LG bye-laws which resulted in multiple taxation. GEMS3 assisted in the development of a Harmonization Law 2014 which reduced taxes to 20 across all LGAs.

ENABLE is a business environment reform programme based on advocacy and dialogue through 4 main agents: Government MDAs to support and develop private sector policy; CBOs and CSOs to engage constructively on issues and engage Government; the media to build skills to investigate business issues in an objective manner; research institutes to provide evidence for advocacy and policy.

Highlight of IGR assessment

During recent assessments, IGR performance in Kaduna State has been assessed as weak. Total actual collections fell between 2014 and 2015, and although 2016 collections showed an overall increase, performance statistics fell against a highly optimistic budget which has almost doubled between 2015 and 2016.

Figure 2: Kaduna State IGR Budget and Actual 2012 - 2017



Notes: 2016 IGR actual based on annualization of Q1-3 performance per MoF Returns.

Kaduna Internal Revenue Service (KADIRS) - KADIRS collects all taxes on behalf of Local Governments. It is the sole revenue collecting agency. The Kaduna State Tax (Codification and Consolidation) Law 2016 was passed on 1st March 2016. Implementation of the Law has included the establishment of the main KADIRS Board; the inauguration of 23 Local Government Revenue Committees; and better funding of the KADIRS through the accretion of not less than 5% of tax revenue collected by it.

State Joint Revenue Committee and Local Government Council Revenue Committees

- Section 45 and 46 of the Law establishes 'for each Local Government Council of the State the Local Government Council Revenue Committee (LGCRC) (referred to in this Law as the "Revenue Committee")
- Section 47 establishes a State Joint Revenue Committee (SJRC)

The SJRC and LGCRC are both new committee structures, and as such, should provide useful entry points for PERL and other development partners. The SJRC appears to be the equivalent of the Federal Joint Tax Board in the State, and therefore presents a significant opportunity to utilize these committees as entry points for addressing reforms in areas of transparency and reporting, and also provide linkages to work performed by the Federal JTB.

The LGCRC provides the opportunity for enhancing transparency and citizen awareness. The committee could provide a vehicle through which local taxpayer dialogue could be held. The LGCRC are expected to work with KADIRS Area Offices, collecting both state and LG taxes, and the LG revenue collectors

The **Kaduna Geographic Information Service** (KADGIS) was established by Law No. 15/2015 and came into operation in December 2015. KADGIS was established as a parastatal in the Office of the Governor, and inaugurated in April 2016 by the Governor. KADGIS is expected to significantly increase the registration of land titles in the state, where most properties do not have Certificates of Occupancy. As a major capital project of the current government, KADGIS is also expected to make a significant contribution to improving internally generated revenue (IGR) in the state.

Linkages between IGR and Budget/Planning and Service Delivery - the Kaduna State Government has consistently over-stated its IGR budget. The realism of the budget can be examined both against the historical collection performance and also against the move by the State Government towards zero-base budgeting. The expected challenge is that if the state is unable to deliver on the

IGR budget, one critical component affecting the State Government's ability to implement its expenditure budget, there will be a negative impact on service delivery.

Summary of Gaps and Opportunities

#	Gaps/ Potential support areas	Opportunity
1	IGR and Budget Realism	Strengthen core budget processes
2	NEC Resolutions, and Fiscal Sustainability Action Plan.	Support to Kaduna State Government in reporting against resolutions and action plans.
3	KADIRS	Selective support and strengthening. Improved transparency and opportunity to link revenue performance to service delivery at the LG level.
4	State Joint Revenue Committee and Local Government Council Revenue Committees.	The SJRC and LGCRC are both new committee structures and as such should provide useful entry points for PERL. Capacity building and support to implement functions as identified in the law.
5	KADGIS	Strengthen reporting and transparency.
6	Linkages between IGR and Budget/Planning and Service Delivery	Strengthen linkages
7	Tax harmonization and sensitization work previously undertaken by GEMS3.	Opportunity for deepening and broadening sensitization at the LG level undertaken to date by GEMS3.

D. IGR Scoping in Kano State

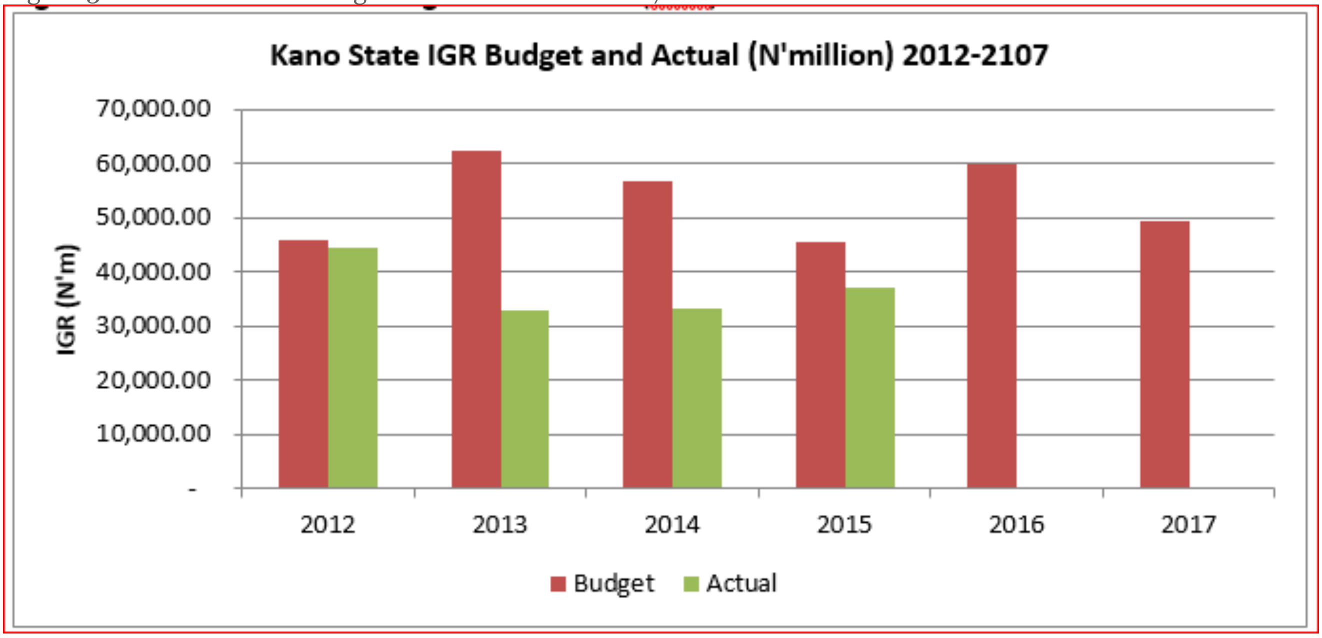
What has been done?

SPARC worked on core governance areas of IGR and related strategies across its ten focal states which included Kano State. SAVI worked on citizen mobilisation against multiple taxation in Kano State. GEMS3 worked on tax harmonization to reduce multiple taxation both at the local and state government levels, tax legislations, and presumptive tax. ENABLE2 has worked to create spaces for dialogue between small businesses and government and supported the Public Private Dialogue approach by GEMS3 in Kano State.

Highlight of IGR assessment

Internally generated revenue is coordinated through KIRS, and with the new 2016 MDA Revenue Harmonisation Law, the KIRS is getting more information about the revenue generating profile of the entire state. KIRS is taking a number of actions to support the increased and expected further increases in IGR.

Figure 3: Kano State IGR Budget and Actual 2012 - 2107



State Government revenue administration processes - using the Kano State MDA Revenue Harmonization Law 2016, the KIRS and Kano State Government have implemented the recommendation that the MDAs should have a Single Revenue Account; this has started to bring some transparency to the collection and reporting process. However, it is clear from the report produced by the KIRS of the Non-Tax (MDA) single account that not all the MDA revenue has been captured.

KIRS is the body officially given the responsibility to generate, largely through collection, all IGR in the state, which includes tax and Non-Tax revenue, with the exception of federal revenue allocations. KIRS is vital to the governance of Kano State because its operations ensure steady revenue for the funding of state's programme of activities and service delivery. Though the Kano State Revenue Administration Law 2010 has been in existence, it is only since mid-2016 that the full aspects of the Kano State Revenue Administration law have been implemented giving the KIRS full autonomy.

The KIRS has also put in place a number of innovative approaches to improve on taxpayer engagement, such as putting in major markets a Mini Tax Office which will enumerate taxpayers, make assessments (especially using Presumptive Tax) and act as payment collection points. The KIRS has also started to engage with private sector stakeholders such as the owners of Private Schools where they hope to harmonise the taxes and levies collected and ultimately bring these organisations into the main stream with benefits to both sides including the elimination of double taxation.

KANGIS (Kano Geographic Information System) is an organization setup by the Kano State Government. There is no law backing the operations of KANGIS and it exists as a key agency of the Ministry of Lands. The main sources of revenue are from processing fees and charges for service charged by the Ministry of Lands.

Kano State Water Board - Officials explained that historically Kano State does not charge commercially for water, therefore their tariffs are very low, and revenue collected does not cover their running costs. Their expenditure, however, is high with energy consuming up to 80% of their running costs – much more than wages.

Linkages between IGR and Budget/Planning and Service Delivery - The ability of the Kano State Government to fully implement its expenditure budgets has been hampered by insufficient funding. The major issues interfering with and blocking the linkages include:

- Most Budget processes are paper-based which take a lot of manpower and time;
- Poor fiscal control – overspending which arises from poor internal controls and very little effective communication between MDAs and MoF, Accountant General, and MoPB;
- Lack of effective engagement by civil society – they direct all questions to MoPB rather than to the appropriate MDAs; and
- Most MDAs are silent on their IGR, and while the new single revenue account should go some way to addressing this, not all MDAs are on board yet.

Summary of Gaps and Opportunities

#	Potential gaps/ support areas	Opportunity
1	State Joint Revenue Committee	Support to Kano State Government through the JTB and support of the Joint State Revenue Committee.
2	KIRS	Support for the ongoing reforms. PERL support to KIRS helps embed OGP Commitment 4: Adoption of common reporting standards and the Addis Tax initiative aimed at improving fairness, transparency, efficiency and effectiveness of the tax system.
3	KANGIS	While there may be limited role for intervention in the technical area of KANGIS work, support in advocating the services that KANGIS can provide to other MDAs for purposes of enumeration of taxpayers and assets will assist in achieving more realistic budget IGR figures and increase the number of taxpayers.
4	Linkages between IGR and Budget/Planning and Service Delivery	The blockages are not unique to any institution but is more about inter-ministerial relationships, processes, and common understanding.
5	Gaps between Federal interventions and State institutions.	To take advantage of offering by the Federal agencies that will drive forward the state IGR – see also Federal summary.
6	IGR and Budget Realism	While there has been an improvement in the 2017 budget realism, learning for 2016 experiences; it is clear that the IGR aspects of the budget are still not realistic, especially for the key revenue MDAs such as the Water Board and KANGIS but probably true of all MDAs.
7	NEC Resolutions	A number of key areas are identified for potential PERL entry points and support related to the NEC Resolutions. These include Public Policy Dialogues with taxpayer and representative organizations.
8	Fiscal Sustainability Action Plan	A number of key areas are identified for potential PERL activity and support related to the Fiscal Sustainability Action Plan.
9	Development Partners	There are clear opportunities for coordination and 'cross-fertilization' between programmes, especially with SLOGOR where duplicate work may already be taking place.

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