

# FAIR TAX MONITOR

## NIGERIA



## TJN-A

The Tax Justice Network-Africa (TJN-A) is a Pan-African organisation and a member of the Global Alliance for Tax Justice (GATJ). TJN-A promotes socially just, accountable and progressive taxation systems in Africa.

## CISLAC

Civil Society Legislative Advocacy Centre (CISLAC) is non-governmental, nonprofit legislative advocacy, information sharing and research organization, arising from the felt need to address defects in the legislative advocacy work of civil society and open the window through which legislators can also access civil society groups. It aims to strengthen the work of Civil Society on Legislative Advocacy and bridge the gap between legislators and the Civil Society.

## OXFAM

Oxfam is an international confederation of 19 organizations working together with partners and local communities in more than 90 countries. Around the globe, Oxfam works to find practical, innovative ways for people to lift themselves out of poverty and thrive. We save lives and help rebuild livelihoods when crisis strikes. And we campaign so that the voices of the poor influence the local and global decisions that affect them. In all we do, Oxfam works with partner organizations and alongside vulnerable women and men to end the injustices that cause poverty.

## SIDA-

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# EXECUTIVE SUMMARY

Tax revenue plays a vital role in financing government spending on essential public services such as education and health care. In order to obtain sufficient tax revenues, a solid tax system should be in place that is simple, transparent, fair and accountable. It should leave little room for tax evasion and tax avoidance.

The way taxes are collected is of great importance. Taxes can contribute to reducing economic inequalities - if collected in such a way that the broadest shoulders carry the highest burden. Unfortunately, this is often not the case in developing countries where tax administration is underdeveloped and those with low incomes often end up paying the bill.

The goal of the Fair Tax Monitor (FTM) is to strengthen advocacy activities on equitable and fair taxation at local and global levels. It provides an overview of national tax systems, identifies the main challenges within these systems and charts new courses of action that will lead to fair tax systems.

Nigeria's tax collection performance is very poor at the moment. Tax revenues make up just 5-6% of GDP, which is remarkably low for a country with one of the biggest economies of the continent and also by comparison to neighboring countries. Especially non-oil revenues have much potential to increase: they only make up 3-4% of GDP. The dependence on oil revenues makes Nigeria vulnerable to the volatility of oil prices and explains the drop in total tax revenues when oil prices took a nosedive around 2014-2016. However, this means that the potential to increase tax revenues is very high. Recently, the government has made an attempt to expand the tax base by implementing the Voluntary Assets and Income Declaration Scheme (VAIDS). This has been quite successful: 6 million taxpayers have been added, totaling 19.3 million taxpayers in 2018. Still, this is extremely low for the country with 77 million taxable people. Also, despite the relative success, tax amnesty programs like VAIDS can have questionable mid- & long-term effects such as providing an incentive for tax evasion, putting compliant taxpayers in a worse position and reducing tax morale - which would be counterproductive. According to a Nigerian Economic Summit Group (NESG) survey conducted

in 2018 the low tax morale has multiple reasons, including the lack of trust in tax officials and a lack of information on tax.

Other pressing issues that Nigeria is dealing with at the moment include but are not limited to:

- Over-reliance on indirect taxes
- Badly governed and non-transparent tax exemptions – Nigeria lost out on approximately \$3.3 billion due to questionable exemptions
- Corruption
- Burdensome regulatory practices around tax registration
- Lack of a gender perspective and explicit gender-based discrimination
- Insufficient spending on essential social services - below the minimum of internationally established goals such as the Maputo Declaration benchmark
- Lack of transparency within tax administration

Aside from assessing the system and indicating the challenges, the report provides policy recommendations applying to each problematic area of the tax system. These recommendations include the following:

- Increase the progressive nature of certain taxes (PIT, VAT);
- Shift focus on non-oil revenues;
- Apply a gender lens to certain topics;
- Reduce the regulatory burden of moving from informal to the formal sector, increasing the tax net;
- Strengthen tax exemptions regulation;
- Actively combat illicit financial flows (IFFs) by criminalizing actions of middlemen facilitating them;
- With regard to spending, the main recommendation is to stick to the internationally established standards with regard to education, health and agriculture.

# SECTION ONE: **INTRODUCTION**

## BACKGROUND

The Fair Tax Monitor (FTM) project started in December 2014 as part of the CRAFT (Capacity for Research and Advocacy for Fair Taxation) program.

It was developed by Oxfam Novib (ON) in collaboration with Tax Justice Network-Africa (TJNA) and other partner organizations in the pilot countries: Bangladesh (SUPRO), Pakistan (Indus Consortium), Senegal (Forum Civil) and Uganda (SEATINI).

It was initiated as a pilot project to develop a common research framework and an online advocacy tool, and to subsequently test them in practice in the selected focus countries. The project foresees regular updating and becoming a reliable source of information and analyses on fiscal policies and practices, especially related to equitable and fair taxation.

## PURPOSE OF RESEARCH

The Fair Tax Monitor's overall goal is to strengthen the advocacy activities at the local and global levels on equitable and fair taxation.

It provides an overview of national tax systems, identifies the main challenges they face and charts a new cause of actions that will lead to fair tax systems.

The tool provides reliable evidence for the advocacy and lobby work of our



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partners, which strengthens their position and increases their credibility as well as their influencing power.

Furthermore, the FTM compares key elements of tax systems and thus complements the activities of Oxfam's global 'Even it Up!' campaign as well as the realisation of TJN-A's activities at the African level.

## RESEARCH METHODOLOGY

The Fair Tax Monitor uses the country's data reports and the methodology initiated by Oxfam Novib and her sister-organizations.

The country reports collect information uniformly and provide analyses of the same issues across countries. Therefore, the methodology is equally applied in the analysis of data collected in the different country reports, which subsequently allows for a comparison between different aspects of national tax systems.

The methodology is based on the experience of both local and international organizations, and simultaneously builds on the knowledge of experts in global tax policies. All documents are available on the Make TaxFair website.<sup>1</sup>

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The structure of the methodology used to analyse the data is rooted in the Common Research Framework (CRF) and is divided into six thematic categories used for evaluation.

These categories are meant to cover the main issues that tax systems in developing countries face today, and to reflect the idea of a fair tax system. The categories included in the FTM's methodology to evaluate the tax systems are:

- i. Progressive Tax System
- ii. Sufficient Revenues
- iii. Well Governed Tax Exemptions
- iv. Effective Tax Administration
- v. Pro-Poor Government Spending
- vi. Accountable Public Finances

To properly assess the above-mentioned categories and to be able to compare the data between the countries, each category is divided into several topics for which a series of scoring questions are designed.

The scoring questions were formulated as binary (yes/no) questions and their structure is adjusted so that a scoring point is assigned to a positive answer and no scoring point to a negative answer.

In this way, it is possible to work with both qualitative and quantitative data and to combine them in constructing the final score for each category.

<sup>1</sup>[www.maketaxfair.net](http://www.maketaxfair.net).

The scoring scale is defined from zero to ten; zero representing an unfair component of a tax system and ten representing a fair component of a tax system. The final scores are rounded up for practical purposes, but the exact scores are available in the methodology sheets for each country. The scale is also divided into five coloured intervals corresponding to scores (0 to 2), (3 to 4), (5 to 6), (7 to 8) and (9 to 10).

## LIMITATIONS OF THE STUDY

The study has limitations due to personnel, time, and access to respondents.

More importantly the research suffers from lack of data in some aspects, especially as it has to do with tax collection processes, tax administration staff statistics and workforce details, enforcement of tax laws and penalties, records of large tax evaders, and public perception of the tax system.

Bureaucratic processes in the civil system pose a serious challenge to this study in gathering relevant information about effectiveness and efficiency of tax administration. These limitations affected how some sections of this document are reported.

## DELIMITATIONS OF THE STUDY

This report as well as the entire FTM project focuses on tax policies and practices, and by deliberate choice, pays only limited attention to issues relating to public expenditure. It therefore does not aspire to provide in-depth analyses of all features of the fiscal systems.



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## SECTION TWO: **OVERVIEW OF NIGERIA TAX SYSTEM**

## OVERVIEW OF NIGERIA TAX SYSTEM

The low level of revenue collection is an indication that the

### **NIGERIAN TAX SYSTEM IS NOT FAIR ENOUGH**

when compared with international and regional best practices



The Nigerian tax administrative architecture is

### **GENDER BIASED**



### **TAX EVASION & AVOIDANCE**

remain the greatest problems plaguing tax administration in Nigeria.



Nigeria loses

**\$2.9BILLION**

annually due to tax incentives granted to multinational corporations

The implementation of tax incentives in Nigeria is undermined by

### **WEAK INSTITUTIONS**



The Nigerian tax system is perceived to be unfair and inequitable by the people, eroding

### **TAXPAYER'S VOLUNTARY COMPLIANCE LEVELS,**

encouraging tax evasion and resulting in a less effective tax system"



The Personal Income Tax Act (2004) was very discriminatory and

### **UNFAIR TO WOMEN**



There is a dismal performance of just

**1% VOLUNTARY TAX**

compliance in Nigeria

### **TAXPAYERS' VOLUNTARY COMPLIANCE LEVELS ARE ERODED**

which encourages tax evasion and produces a less effective tax system.

## HISTORICAL EVOLUTION OF NIGERIA TAX SYSTEM

The Nigerian tax system originates from the 18th century, when traditional rulers and local law enforcement agents collected money from their citizens, in order to finance development programs in their communities.

The modern taxation system however, can be traced back to the year 1904, when personal income tax was introduced in Nigeria as community tax.

The amalgamation of Southern and Northern Protectorates in the year 1914 led to the adoption of the native Revenue Ordinance of 1917 – formerly implemented in the Northern region – as tax policy for both regions in the years 1918 and 1927.<sup>2</sup>

Since then, there has been a steady progress in the tax regime with various attempts to modernize, expand, reform and improve the process, procedure and sanctions inherent in the system of taxation in Nigeria.

## THE LANDMARK TAX REFORMS

Since 1986, the Nigerian government has embarked on several tax reforms. Some of the objectives of the tax reforms include:

- (i) To accelerate improved service delivery to the public;
- (ii) To boost non-oil tax revenue;
- (iii) Efforts at consistently reviewing the tax laws to reflect fairness, in order to curb the incidence of tax evasion and avoidance;

# 1904

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# 1917

The amalgamation of Southern and Northern Protectorates in the year 1914 led to the adoption of the native Revenue Ordinance of 1917

<sup>2</sup>Ola, C.S., (2001). Income Tax Law and Practice in Nigeria. Heinemann Educational Books (Nigeria) Plc, Ibadan.

(iv) To improve the tax administration, so as to make it more responsive, reliable, skilful and taxpayer friendly; and

(v) To bridge the gap between national development needs and funding.

Instructively, some of the reforms that have been embarked upon by the Nigeria government since the inauguration of Nigeria's tax system include:

S/N	PERIOD OF REFORM	TAX REFORMED
1	1904 & 1926	Introduction of Income Tax
2	1939	The Stamp Duties Act
3	1945	Granting of Autonomy to Nigeria Inland Revenue
4	1957	Raisman Fiscal Commission
5	1958	Formation of Inland Revenue Board
6	1959	Promulgation of Petroleum Profit Tax Ord. No.15
7	1961	Promulgation of Income Tax Management Act (ITMA)
8	1971	Industrial Development (Income Tax relief) Act
9	1979	Promulgation of the Companies Income Tax Act
10	1993	Value – Added Tax (VAT)
11	1993	Promulgation of PIT Decree 104, replacing ITMA
12	1993	Education Tax Act
13	2001 & 2004	Approved National Tax Policy (amend previous Tax Acts)
14	2007	Federal Inland Revenue Service Establishment Act
15	2012	Introduction of Tax Identification Number (TIN)
16	2017	Approved New NTP (amend previous Tax Acts)



1

To accelerate improved service delivery to the public

2

To boost non-oil tax revenue;

3

Efforts at consistently reviewing the tax laws to reflect fairness, in order to curb the incidence of tax evasion and avoidance;

4

To improve the tax administration, so as to make it more responsive, reliable, skilful and tax payer friendly

5

to bridge the gap between national development needs and funding.



As the tax laws change, the administering body FIRS (Federal Board of Inland Revenue) also witnessed corresponding changes. It is a fact that the business community is so dynamic and gives no room for stagnation in the face of technological developments, while the government needs to generate more revenue to meet the day to day running of the country.

Consequently, there is the need for constant review of tax laws and its administration.

The tax reform of 2004 was introduced with the stated purpose of addressing the flaws of various previous Tax Acts that had made the tax system regressive and inefficient in Nigeria. This tax reform was part of the National Economic Empowerment and Development Strategies (NEEDs).

The objectives of the tax reform were to:

- (i) Achieve a fair tax system that will include reposition of Federal Inland Revenue Services for greater effectiveness and efficiency in meeting the revenue demands of government;
- (ii) Improve integrity and ethical standards;
- (iii) Safeguard taxpayers' rights through professionalism, taxpayer education; and
- (iv) Fair hearing, adjudication of cases and prompt refund mechanism.

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Effectiveness of taxation standards is often measured by tax-to-GDP ratio; so far the ratio in Nigeria is abysmally low. The tax-to-GDP ratio data by the World Bank ranges only from 2003-2013 but shows that it fluctuates around 2-3% throughout the decade. It is far less impressive compared to other countries on the continent where the ratio remains between 14% and 27%.

The IMF latest country report on Nigeria reveals that it is not only tax collection that is poor: general revenue collection is a point of concern too. It has dramatically dropped between 2011 and 2017.

The report by IMF shows that total revenue to GDP ratio (including oil and non-oil revenue) has dropped from 17.7% to 5.1%, mainly due to declining oil revenues. The volatility of oil prices and the subsequent impact it has on Nigeria's ability to raise public revenue is one more reason to focus efforts on collecting more non-oil tax revenues.

The recently approved National Tax Policy (NTP) of 2018 establishes fundamental principles and reinforces the need for tax laws and administrative practices to promote economic development. The NTP addresses: (i) the low tax-to-GDP ratio; (ii) multiplicity of taxes and revenue agencies; and (iii) poor accountability for tax revenue.

The revised NTP, which replaces the previous 2012 NTP, sets out guidelines, rules and modus operandi to regulate taxation in Nigeria going forward. The NTP was designed to address some of the main challenges of the Nigerian tax system, which are diagnosed as:

# 2.3%

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# IMF

The IMF latest country report on Nigeria reveals that it is not only tax collection that is poor: general revenue collection is a point of concern too.

- 1** Lack of framework for the taxation of informal sector and high net worth individuals (HNWIs);
- 2** Fragmented database of taxpayers and weak structure for exchange of information by and with tax authorities;
- 3** Multiple taxation by all tiers of government;
- 4** Insufficient information available to taxpayers on tax compliance requirements;
- 5** Poor accountability for tax revenue collection and expenditure
- 6** Use of aggressive and unorthodox methods for tax collection
- 7** Failure by tax authorities to honor refund obligations to taxpayers;
- 8** The non-regular review of tax legislation, which has led to obsolete laws, that do not reflect current economic realities
- 9** Lack of strict adherence to tax policy direction and procedural guidelines for the operation of the various tax authorities.

With these issues in perspective, the key recommendations from the 2018 NTP include:

- Shift towards greater reliance on indirect taxes which are easier to collect and administer and more difficult to evade;
- Gradual convergence of Capital Gain Tax and Personal Income Tax rates with the Corporate Income Tax rate, to reduce opportunities for tax avoidance;
- Elimination of multiple taxation by various tiers of government;
- Categorization of tax incentives by economic sector, and restriction of such incentives exclusively to economic activities that are considered to facilitate national development;
- Regular comprehensive review of the Nigerian Tax System (laws and administration) and monitoring of the implementation of the NTP by the Federal Ministry of Finance on an ongoing basis.

## THE LANDMARK TAX REFORMS

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## TAX ADMINISTRATION IN NIGERIA

Nigerian tax administrative architecture is designed for the management of the tax system through tax regulations and legislation.

The tax administrators are entrusted with assessing and collecting taxes from individuals and companies, in such a way that the correct amount is collected efficiently and effectively with minimum tax avoidance or tax evasion.

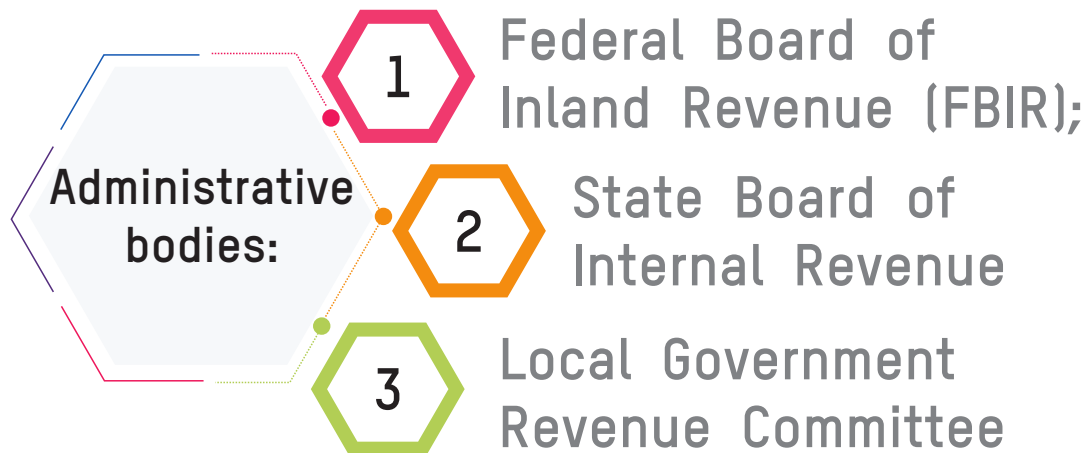
In Nigeria, there are three main administrative bodies: Federal Board of Inland Revenue (FBIR); State Board of Internal Revenue (SBIR) and Local Government Revenue Committee (LGRC). The FIRS and SIRS are the operational arms of FBIR and SBIR vested with authorities to administer personal and company income taxes at the three tiers of government respectively.

These authorities are under the watchdog of the Joint Tax Board (JTB) which is saddled with the responsibility to promote uniformity in application of tax laws among the three tiers of governments and to advise government in respect of double taxation treaties.

However, the 2017 National Tax Policy, section 5.1(v), insists that the JTB should go beyond an advisory role: 'there shall be an Establishment Act for the Joint Tax Board towards strengthening and repositioning it to contribute meaningfully to the development of the Nigeria tax system through broader mandate beyond its current advisory role.'



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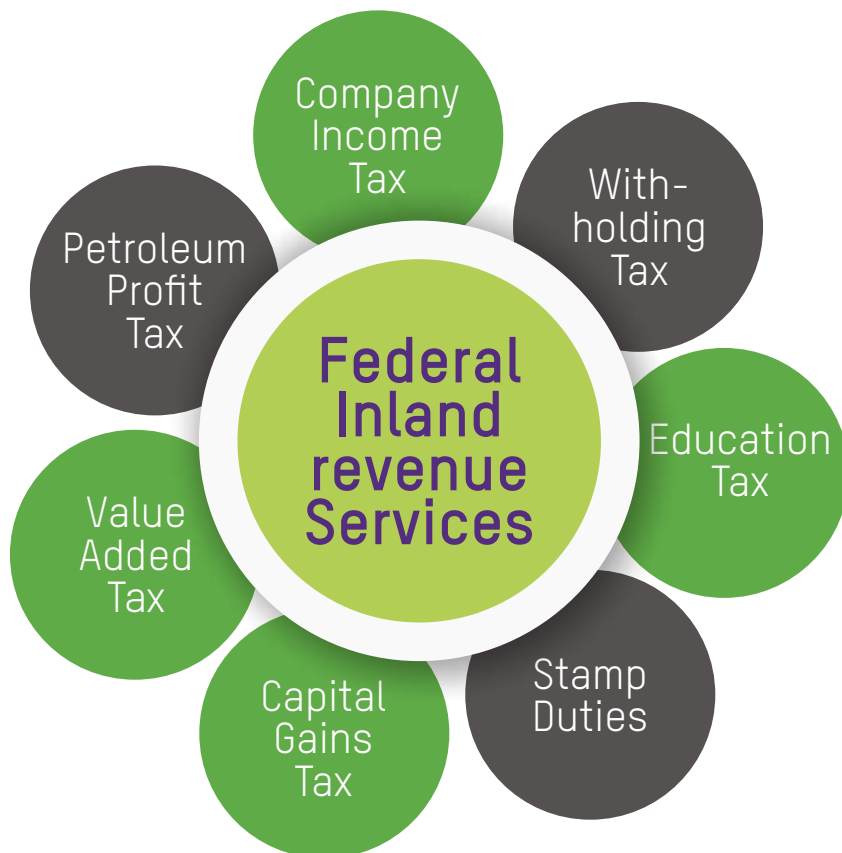
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## TAX COLLECTION IN NIGERIA

The Federal Inland Revenue Service (FIRS) administers taxes that are paid by companies, ensuring that all taxes collected are duly remitted to the Federal Government. FIRS tax collection covers the following: Companies Income Tax (CIT); Petroleum Profit Tax (PPT); Value Added Tax (VAT); Withholding Tax on corporate bodies (WHT); Educational Tax (EDT); Stamp Duties on corporate bodies (STD); and Capital Gains Tax on corporate bodies (CGT).



The Federal Inland Revenue Service (FIRS) administers taxes that are paid by companies, ensuring that all taxes collected are duly remitted to the Federal Government.



The State Internal Revenue Service (SIRS) administers Personal Income Tax. Depending on the specific taxing powers of each state, there are other types of tax that are administered by the SIRS.

The SIRS is responsible to State government in terms of accounting and remitting these collected taxes to the coffers of the State government. SIRS tax collection covers the following: Personal Income Tax; Capital Gains Tax on individuals; Stamp Duties on individuals; Withholding Tax on individuals; Business Premises levy; Hotel occupancy and Restaurant Consumption Tax; Social Service Contribution levies, Direct assessment for unorganized sectors; Road tax; Pools betting and lotteries tax; and others.

The Local government also administers taxes through the committees set up within their powers. They collect taxes, set rates and fines posted under its jurisdiction and are responsible to the Local government for all taxes collected, including:

- Shops and Kiosks rates;
- Tenement rates;
- On and Off Liquor License fees;
- Slaughter slab fees;
- Marriage, birth and death registration fees;
- Naming of street registration fees, excluding any street in the State Capital;
- Right of Occupancy fees on lands in the rural areas, excluding those collectible by the Federal and State Governments;
- Markets taxes and levies excluding any market where State finance is involved;
- Motor park levies;

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- Domestic animal license fees;
- Bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanically propelled truck;
- Cattle tax payable by cattle farmers only;
- Merriment and road closure;
- Radio and television license fees (other than radio and television transmitter);
- Vehicle radio license;
- parking penalties;
- Public convenience, sewage and refuse disposal fees;
- Customary burial grounds permit fees;
- Religious places establishment permit fees; and
- Signboard and Advertisement permit fees.

## TAX COLLECTION IN NIGERIA

The security and welfare of the people is declared as the primary purpose of Government in the 1999 Constitution of the Federal Republic of Nigeria. Globally, social security arrangements are collective remedies against adversity and deficiencies, ranging from pensions to disability compensations, as well as death benefits. Over the years, Nigeria has tried various social security systems - however, these have not been implemented satisfactorily. Prominent social security schemes in Nigeria set up by the Federal Government include:

Workmen's compensation scheme (1987-2011): established under the 2004 National Health Insurance Scheme Act. The objective was to ensure that workmen were compensated for injuries suffered in the course of their employment. This initiative is a positive step - however, NHIS has not secured universal coverage of adequate access to affordable healthcare by workmen in Nigeria. This act was repealed in 2011.

Nigeria Social Insurance Trust Fund (1961, 1993-2003): Established in 1961 as National Provident Fund with the aim of protecting employees in the Nigerian private sector who were mostly in non-pensionable employment. Under the scheme, a portion of employees' emolument was deducted and remitted to the NSITF.

Pension scheme (1954-2004): Governed by the Pension Act, this scheme deducted and paid into pension funds a portion of the emoluments of public servants. Pensioners have been known to struggle to access the funds. In view of the seeming shortfalls of the above schemes, the federal government has moved to revamp the social security system by

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introducing new legislation and setting up new institutions. The renewed vigour infused has led to significant improvements and provides a glimmer of hope for workers in Nigeria.

The Pension Reform Act (2004-2014) is a recent legislation enacted by the Federal Government to reinforce the social security framework in Nigeria. The PRA was enacted to improve the NSITF and public sector pension regimes. Under the PRA, the custody of pension funds is transferred from NSITF to private sector companies - Pension Fund Custodians (PFCs). The PRA also provides some checks and balances by vesting administration of the pension funds on other bodies - Pension Fund Administration (PFAs).

Other laudable improvements under the PRA include the introduction of mandatory life insurance for employees and strict guidelines on investment of funds, thereby protecting the pension assets. This consequently enhances the success and longevity of the scheme as employees/contributors are able to access their contributions after a long period of time.

The Pension Reform Act (2014 until present) repeals the 2004 Pension Reform Act and establish new guidelines on governing and regulation on the administration of the uniform Contributory Pension Scheme (CPS) for both the public and private sectors in Nigeria.

The highlights of the improvement include: upward review of the contributing pension scheme; increased powers for Pension Commission; and creation of a Pension Protection Fund. It covers medical treatment in

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case of accident involving no disability, rehabilitation, and payment of compensation for disabilities and death.

The mandate also covers treatment and payment of compensation to employees who suffer from occupational diseases contracted in the course of employment. Additionally, it is supposed to cover all employers and employees in the private and public sectors of Nigeria. An obligation is imposed on all employers to contribute 1% of their payroll costs to the NSITF, with a view to enhance proper implementation of the funds.

There is consensus that the above initiatives are significant steps in the right direction. The enforcement and implementation should be complemented with sustained public enlightenment campaign. Furthermore, cases of malfeasance in pension fund management should attract the full rigour of the law in terms of prosecution and punishment.

Above all, the relevant regulatory agencies (NSITF, Pension Commission) should continue to demonstrate strong degree of commitment to ensure sustained efficiency in the system bearing in mind that once confidence is lacking, people will find ways to avoid contributing, even though their need for social protection may be very high.



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## TAX INCENTIVES AND ITS IMPACT ON REVENUE COLLECTION

A 2015 report highlights the inefficiency of Nigeria's tax incentives where it submits that the country loses N580 billion (or \$2.9billion) annually through tax incentives to multinational corporations. To put this in perspective: the health budget was only one third of this amount in 2015.

The Action Aid report looks at the impact of corporate tax incentives in the Economic Community of West African States (ECOWAS). The study revealed that Nigeria, Ghana, and Senegal combined lose up to \$5.8 billion every year. Extrapolating the revenue loss to the same percentage of the GDP of the other 12 ECOWAS countries, the total revenue losses to the ECOWAS region would reach \$9.6 billion per annum.

The report further noted that a number of studies, including a recent one published by the IMF, demonstrates that tax incentives are not the priority for investors; rather, they look for infrastructure, education and the quality of the workforce.

Therefore, Nigeria needs to rework its strategies and set its economic priorities right by investing in agriculture, manufacturing and infrastructure rather than waste its hard-earned resources on unproductive and redundant tax incentives.

### **N580 BILLION**

Nigeria loses N580 billion (or \$2.9billion) annually through tax incentives to multinational corporations.

### **\$5.8 BILLION**

Nigeria, Ghana, and Senegal combined lose up to \$5.8 billion every year.

Nigeria needs to rework its strategies and set its economic priorities right by investing in agriculture, manufacturing and infrastructure rather than waste its hard-earned resources on unproductive and redundant tax incentives.

SECTION THREE:  
**DISTRIBUTIONS OF TAX BURDEN AND  
PROGRESSIVITY**

## TAX BURDEN AND PROGRESSIVITY

### A FAIR TAX SYSTEM

is one that is progressive and serves as a mechanism to **REDISTRIBUTE INCOME** so that the broadest shoulders carry the highest burden.



### PERSONAL INCOME TAX

IS PAYABLE DIRECTLY TO THE STATE GOVERNMENT WHERE THE TAXPAYER IS RESIDENT AND THEREFORE NOT COMPUTED ALONG WITH OTHER REVENUE TO THE FEDERAL GOVERNMENT;



### P.I.T ADMINISTRATION

PITA 2004 ESTABLISHED A MINIMUM RATE OF 0.5% IN NIGERIA, RAISED BY THE 2011 AMENDMENT ACT TO 1%, WHICH CAN REACH A MAXIMUM OF 24% DEPENDING ON THE INCOME OF THE TAXPAYER;

**30 PERCENT** TAX EVASION



FIRS estimates that about 30% of companies in Nigeria are involved in tax evasion and also 25% of registered companies in the country are not paying tax;

From the bracket structure (1% to 24 %), Nigeria PIT appears progressive. However, including more brackets for top earners & higher rates for wealthy individuals, as well as raising the exemption threshold make the system more progressive; Additionally, the exemption threshold should be a fixed amount rather than a percentage, since the latter benefits the richest disproportionately.



### FIRS

FIRS has failed to provide a well-functioning tax investigation machinery for detecting offenders.

This section examines how progressive the Nigerian tax system is, using some selected taxes as case studies. The main interest here is what impact taxes have on income/wealth distribution and inequality.

Selected taxes are examined with the intention of determining how fair they are to all, especially the poorest of Nigerian society. Learning provided by the research will provide a good basis for policy recommendations towards a fairer and more progressive tax regime in the country.

The 2017 National Tax Policy aims to rely more on indirect taxes which are easier to collect and administer and more difficult to evade, but traditionally more regressive.

Therefore, the government should shift their focus towards effective direct taxation. Indirect taxes (VAT, excise duty) hit both the poor and the rich, but the poorest are affected the most as they spend a larger proportion of their income on basic goods.

Thus, indirect taxes are regressive by nature. On the other hand, direct taxes (PIT, CIT) are linked to a taxpayer's ability to pay, and hence are progressive.

Nigeria collected 2.86 trillion from value-added tax (VAT) between 2015 and 2017. The country collected 767 billion in 2015; 828 billion in 2016; and 972 billion in 2017, signifying a growth of about 25 per cent in that period.



## PERSONAL INCOME TAX (PIT)

PIT is collected by the State Government. In 2004, the PITA established a minimum rate of 0.5%, however a 2011 amendment act increased the minimum rate to 1%. The maximum rate is set at 24%, depending on the income of the taxpayer.

The foregoing shows that a graduated tax rate ranging from 1 % to 24% applies to all categories of salary earners. PIT is a yearly tax collected from individuals and is imposed on different sources of income like labour, pensions, interest and dividends. Revenues from the Personal Income Tax are an important source of income for government.

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Taxable Income	Percentage
1st Income<CRA	1 %
Up to N300,000	7 %
Next N300,000	11 %
Next N500,000	15 %
Next N500,000	19 %
Next N1,600,000	21 %
Above N3,200,000	24 %

Source: Author's Presentation, 2018

The Consolidated Relief Allowance is available to all taxpayers and the following is considered exempt income:

- i. National Housing Fund contributions;
- ii. National Health Insurance Scheme contributions;
- iii. Life Assurance Premium;
- iv. National Pension Scheme;
- v. Gratuities available to all resident taxpayers.

The Personal Income Tax Act (PITA) extends for Nigerians a Consolidated Relief Allowance (CRA) of N200,000 or 1% of gross income (whichever is higher) plus 20% of earned income. The remaining income is taxable in accordance with the tax rates shown above.

#### **POLICY RECOMMENDATIONS**

- From the bracket structure (1% to 24 %), Nigeria PIT appears somewhat progressive. However, it could improve a lot on this area. We suggest including more brackets for top earners & higher rates for wealthy individuals, as well as raising the threshold exemption to make the system more progressive.
- The Consolidated Relief Allowance (CRA) should be reviewed as its current formula (exempted amount of the highest of N200,000 or 1% of earned income, plus 20% of gross income) benefits the wealthier citizens that earn the most income in Nigeria. A more progressive exemption would be a flat allowance (either including, or additional to the specific exempt item).

The Consolidated Relief Allowance (CRA) should be reviewed as its current formula (exempted amount of the highest of N200,000 or 1% of earned income).

## PRESUMPTIVE TAX

Presumptive tax was introduced in Nigeria in 2015. It is therefore too early for a trend analysis of the share of presumptive tax in total tax revenue. Presumptive tax is not a type of tax per se, but a method of assessment of income of individuals who are in the informal business.

These include for instance market men/women, artisans, and micro, small and medium scale enterprises. The informal sector is recognized as activities outside of a government regulated contractual relationship of production and is divided into productive, service and financial sectors.

Presumptive tax is collected through the Presumptive Income Tax Assessment (PITAS), one of the Nigerian government's strategies for creating a tax system that encourages compliance. In particular, the 2017 National Tax Policy notes that PITAS can assist tax authorities to effectively deal with individuals who have previously failed to comply with tax laws due to the informal character of their business.

Under PITAS, the tax authorities assess the tax payers' perceived income, instead of charging taxes based on a taxpayer's self-assessment. This happens for instance by estimating value of assets, looking at bank statements, or by comparing the tax payer's business with similar type of businesses whose records are available.

There are also a number of policies that governments may utilize to attract the informal economy to registration, such as: reducing tax rates for SMEs; reducing regulatory burden (accounting and tax filing processes should be simplified); or providing social security benefits or employment protection. While it is in the interest of equity that all taxable persons – individual or corporate – should be taxed, whether they are formal or informal, it is against the principle of fairness if much effort is spent in getting small business and individuals into the tax net while the big businesses are allowed to evade and avoid taxation.

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Img Source:<https://leadership.ng/2018/02/15/firs-shuts-tax-defaulting-firms-lagos-kano-ph/>

## POLICY RECOMMENDATIONS

In order to lure informal businesses into registration, these policy changes should be applied:

- 1 Reduce tax rates for SMEs
- 2 Reduce regulatory burden (such as simplifying accounting and filing processes)
- 3 Provide social security benefits and employment protection

## COMPANIES INCOME TAX (CIT) - CORPORATE INCOME TAX

The Companies Income Tax Act (CITA) 1979 has its root in the Income Tax Management Act of 1961. The CIT is paid to the federal government, collected by the FIRS. It is a direct tax imposed on the profits of companies or incorporated entities in Nigeria.

It also includes the tax on the profits of non-resident companies carrying on business in Nigeria. Corporations in Nigeria enjoy an extensive use of exemptions and incentives.

These expenditures have eroded the CIT base, resulting in low CIT revenues, reaching only 1% of GDP (compared to the OECD average of 2.9%).

In filing for CIT, audited financial statements are statutorily required, with the engagement of external auditors to prepare and certify the accounts to be submitted. The returns should also be accompanied by the tax and capital allowances computations on qualifying assets of the company.

As the requirement for filing does not discriminate between small, medium or large taxpayers, many taxpayers see CIT as complicated and burdensome tax, difficult to understand and to comply with. SMEs suffer because they do not have the structure to comply with the complex requirements of the CIT legislation.

### TAX RATE

The rate of CIT is 30%, applied on total profits of the taxpayer. However, a minimum tax may be imposed on companies having no taxable profits or even making losses. Companies in the first four calendar years of business, agriculture related or with foreign equity capital of at least 25% are exempt from minimum tax.

The minimum tax payable is calculated as follows:



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- If the company's turnover is 500,000 or below, minimum tax is the highest of:
  - 0.5% of gross profits
  - 0.5% of net assets
  - 0.25% of paid-up capital, or
  - 0.25% of turnover of the company for the year
- If the company's turnover is higher than 500,000, the minimum tax charged is the highest of the calculations listed above plus 0.125% of turnover in excess of 500,000

The withholding taxes that were deducted and paid on behalf of the taxpayers are allowed to be offset from the computed tax liability. Withholding taxes in excess of the tax liability can either be carried forward for future utilisation or refunded.

## TAXABLE INCOME

### a. Nigerian resident companies:

CIT is payable by all entities incorporated in Nigeria on profits accruing in, derived from, brought into or received in Nigeria. Such profits shall be deemed to accrue in Nigeria wherever they have arisen (worldwide) and whether or not they have been brought into or received in Nigeria.

These include profits in respect of any trade or business, rent on use of property, dividends, interest, royalty, discounts, charges, annuities, fees for services rendered and other sources of annual profits or gains.

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b. **Non-resident companies:**

For non-resident companies engaged in any form of trade or business in Nigeria, the profits shall be deemed to be derived from Nigeria for tax purposes:

- a. If that Company has a fixed base of business in Nigeria, to the extent that the profit is attributable to the fixed base;
- b. If it does not have a fixed base in Nigeria but that trade or business or activities involves a single contract for surveys, deliveries, installations or construction, the profit from that contract is adjusted by the Board to reflect an arm's length transaction.

#### PENALTIES FOR DEFAULT IN PAYMENT AND FILING OF CIT RETURNS

A CIT payment not made by the due date attracts a penalty of 10% of the tax amount plus interest at the CBN (Central Bank of Nigeria) Monetary Policy Rate (MPR) – which currently stands at 14% – plus spread to be determined by the Finance Minister. CIT returns not submitted by the due date attract penalty of 25,000 for the first month of default and 5,000 for each month the default continues.

In practice, and in spite of the above prescriptions, FIRS stated that about 30% of companies in Nigeria are involved in tax evasion and also 25% of registered companies are not paying tax. Strict enforcement of CIT laws and policy provisions remain a major challenge, as effective enforcement machinery is currently lacking.

The CIT Act simply defined offences but the tax administration (FIRS/FBIR) – which is saddled with the responsibilities of enforcing this Act – has failed



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to provide a well-functioning investigation machinery for detection of offenders, something essential for prosecution of tax fraud.

The lack of sufficient capacities in tax administrations has reduced the probability of detection, which influences the decision of a taxpayer as to whether to comply or not.

There is no checks and balance system that can give effect to the provisions of the CIT Act considering the bureaucratic corruption with respect to government funds. There is a need for effective checking of accounts, otherwise corruption will have a chance to harm development.

Even the fines and terms of imprisonment prescribed for different categories of offences under the CIT Act are so inadequate in contemporary Nigeria that they tend to encourage rather than discourage the commission of these offences.

The CIT Act, as it is presently, gives a lot of room for tax evasion and many companies have exploited it to their own advantage. The failure of the FBIR to indict and prosecute companies for the offences stated under the CIT Act has further exacerbated the problem.

Company income tax is the highest contributor in non-oil tax revenue. Overall, it is second only to Petroleum Profits Tax. CIT is a significant source of tax revenue to government and therefore an important tool for social and economic development of the country. However, compared to GDP, the contribution of CIT revenue remains low. Interventions are required in the area of checking evasion or avoidance of this tax, especially when it is widely held that the highest violators of this tax are the big companies owned by government officials, their associates or financiers. Additionally, reducing tax incentives and exemptions would contribute to a higher CIT base.



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## POLICY RECOMMENDATIONS

- To prevent tax administration corruption the following strategies should be adopted:
  - (i) Review of monitoring and supervision structures within the FIRS / FBIR, especially by separating administrative/political functions from technical audits;
  - (ii) Make tax administration officials legally accountable and with competitive salaries;
  - (iii) Utilize digital information and technology to reduce corruption opportunities.
- Taxpayers see CIT as complicated and burdensome tax, difficult to understand and to comply with. This has a strong impact on SMEs, as they suffer from a lack of structure to comply with the complex requirements. The development of a separate CIT system with a reduced regulatory burden and inferior tax rate would increase SMEs formalization and economic development.



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## VALUE ADDED TAX (VAT)

VAT is a tax on consumption, borne by the final consumer of goods and services as it is included in the price paid. These include goods and services supplied in Nigeria or imported. The tax is at a standard rate of 5%.

It is collected on behalf of the Government by businesses and organizations that are registered with the FIRS. All existing manufacturers, distributors, importers and suppliers of goods and services are required to register for VAT.

It is imposed on the supply of goods and services which is finally borne by the final consumer, but collected at each stage of the production and distribution chain. Every taxable firm has to issue a tax invoice for every single transaction with a VAT element in it.

There are two broad categories of goods and services on which VAT is applicable, namely: locally supplied goods/services (except goods and services that are specifically exempted); and imported goods/services. All exported goods and services are zero-rated, meaning that no VAT is collected from foreign buyers.

VAT is charged on goods/services imported into Nigeria, irrespective of customs and the VAT registry of the importer. In this case, the VAT chargeable is in addition to custom duties and other charges that may have been paid.

The following goods are VAT exempt:

- (a) Medical and pharmaceutical products;
- (b) Basic food items;
- © Books and educational materials;
- (d) Newspapers and magazines;
- (e) Baby products;



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- (f) Commercial vehicles and their spare parts; and
- (g) Agricultural equipment & products and veterinary medicine.

Four categories of services are also exempted:

- (a) Medical Services;
- (b) Services rendered by Community Banks, Peoples Banks and Mortgage Institutions;
- © Plays and performances conducted by educational institutions as part of learning and
- (d) All exported services.

Exemption of essential goods and services especially in the education and health sector are seen as steps towards fairness of the VAT regime in Nigeria.

Goods that are zero-rated include the following: non-oil exports; commercial aircraft and spare part imports; certain humanitarian initiatives; machinery and equipment used in the solid minerals sector; exports; agricultural equipment; commercial vehicles; basic foodstuffs; postal; residential rents; medical and pharmaceutical supplies; education and related materials; a limited range of financial services; books and newspapers.

VAT is considered regressive since the 5% of basic products (for example, 1 Naira of VAT on food) is comparatively more expensive for poor people than for rich people. As a result, the poor pay a higher share of their income in VAT than the rich – therefore making it regressive. Over reliance on indirect taxation is a major structural issue of the tax system, presenting a strong barrier against the reduction of inequalities. Moving towards a greater reliance on progressive direct taxation would help to decrease extreme inequality and alleviate poverty.

# 5%

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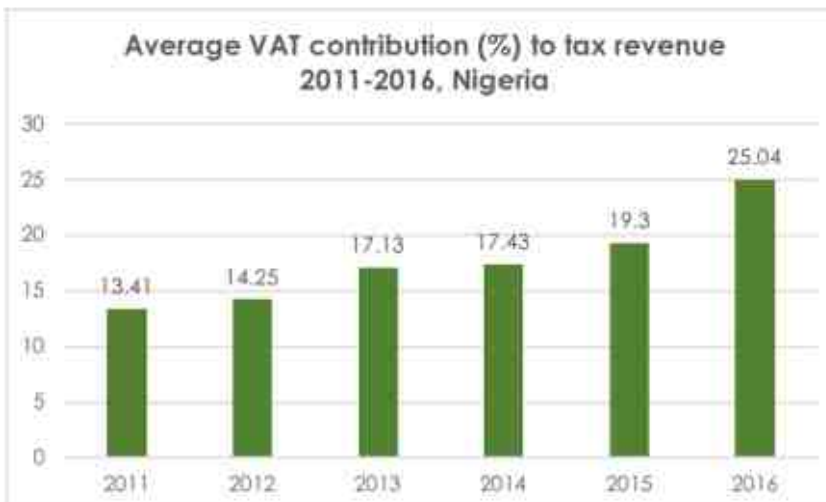
A study on the perception and attitude on VAT in Nigeria shows that the VAT system is overwhelmed with problems.

Examples include failure of VAT registration, evasion through delaying remittance or failing to remit VAT proceeds collected, diversions of received VAT and inability to give proper account utilized proceeds, poor VAT collection, lack of enforcement and follow-up system by the administrators, and lack of comprehension by taxpayers of the VAT system, caused by failure of the Government and tax authority to adequately publicize.

The figure below shows the trend of VAT contribution to total tax revenue in Nigeria between 2011 and 2016, based on FIRS data. It shows the contribution increasing from 13.41 % in 2011, to 19.30 % in 2015 and 25.04 % in 2016.

With this outcome, VAT emerges as the second largest contributor to non-

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oil taxes in Nigeria, second only to CIT.

OECD data shows that Nigeria's VAT to total tax ratio of 17.43% (in 2014) is notably smaller compared to its ECOWAS peers in the same year, where the average was 32.28%.

An IMF study revealed that VAT in Nigeria raises only 0.9 % of GDP in revenue in 2016. The VAT yield has stagnated at this level for more than a decade. It is very likely that this is due to the relatively low rate of 5%, while the regional average VAT rate is 16.8%. One way to increase revenues in a progressive way would be to make a distinction between basic goods and luxury goods – and apply differentiated rates.

The IMF report further noted that Nigerian VAT does not have the features of a modern consumption tax. The current system disallows credit on capital goods and services, making it a gross product VAT (and de facto, a turnover tax) which penalizes investment and makes Nigerian manufacturing and related sectors uncompetitive relative to foreign suppliers.

The lack of a VAT registration threshold, coupled with a large informal sector, implies that the number of potential VAT taxpayers is very large—making it difficult for the tax authorities to monitor and control effectively. While hard data is not available, the study also suggests that filing compliance levels are between 15% and 40%. Low compliance rates and multiple exemptions are the main contributors to the ineffectiveness of VAT collection.

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## GENDER SENSITIVITY OF TAX SYSTEM

A close look at the Nigerian tax system suggests that the system is unfair to women and girls, and in spite of being an active participant in the Sustainable Development Goals (SDGs) – which among others promises to 'achieve gender equality and empower all women and girls' – the country seems to be making little or no effort to address the several areas of gender biases in its tax system.

For instance, the 2004 Personal Income Tax Act explicitly discriminated against married women with respect to tax reliefs and allowances by making the husband the sole claimant of children's allowances at the expense of the wife, even if they were both generating similar income in full-employment. This was based on the assumption that men are breadwinners of the family. This singular act unjustly denied women who are actually the breadwinners of their family equal access to tax relief on children.

The 2011 amendment of the Personal Income Tax Act eliminated this specific discrimination against women in paid employment. Irrespective of the taxpayer's gender, anybody in paid employment in both private and public sectors is now entitled to the Consolidated Relief Allowance (CRA). The CRA replaced the Personal Allowance, Children Allowance, Dependent Relative Allowance, Leave Allowance and others.

Goods and services that promote health, education and nutrition mostly and frequently consumed by women often attract more taxes, placing a higher tax burden on women. This imbalanced Value Added Tax (VAT) system is another endemic challenge to the women's earning and well-being. In 2004, the Nigeria Living Standards Survey report showed that over 50% of the expenditure by female headed households was on non-food items. By this observation it creates the potential for women to bear a larger burden of VAT.

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In the same way, the coercive enforcement of direct assessment and other levies at the State and local levels on SMEs inflicts more hardship on women than their male counterparts, as women are overly represented in the informal economic sector.

Though there are no statistics or official reports to back this up, it is widely held that the growing incidence of multiple taxation, fees and levies in the informal sector, especially at grassroots level (local government replacing ITMA) lays more tax burden on poor and self-employed women in the sector.

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## PUBLIC PERCEPTION OF TAX SYSTEM

If a tax system is perceived to be unfair and inequitable by the people, taxpayers' confidence in the tax system is eroded and this dissuades tax compliance and produces a less effective tax system. This assumed relationship between tax evasion and tax perception is the reason why tax policy makers take interest in public perception and tax fairness, which is recognised as a major attribute of a good tax system.

A recent study revealed that perception of taxpayers of the Government (not just of the tax system alone), has a significant impact on how they comply with personal income tax, concluding that perception and attitude of taxpayers have a more fundamental impact on tax compliance than deterrent tax measures.

The number of total taxpayers in Nigeria has increased quite impressively. In 2017, only 14 million out of 70 million Nigerians paid taxes. This number has increased to 19 million in 2018 and it is still growing. Even though this

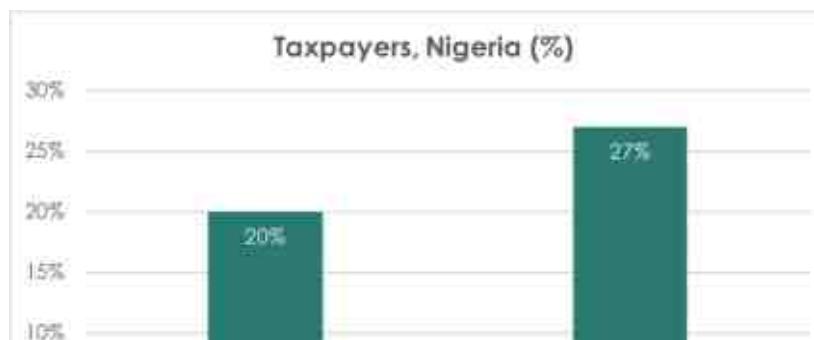
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increase is remarkable, there is still plenty of work to do be done in terms of compliance.

A survey conducted during a stakeholder forum later revealed why Nigerians do not pay tax: 70% said because people cannot see where the money goes, due to the lack of quality public services and broader investment; 22.5% said it was due to unclear tax rules and compliance being difficult; and 7.5% said it was due to poor enforcement by tax authorities.

The government should focus on restoring the social contract between the government and citizens, being more transparent, so that people will know where their tax money ends up.

## TAX PAYERS, NIGERIA (%)





## POLICY RECOMMENDATIONS

- It is important to shift the overall taxation burden to direct taxes (CIT, PIT and others) rather than increasing collection through indirect taxes (VAT). The Nigerian government needs to decrease its reliance on indirect taxes since they are regressive, and need to ensure that the tax burden is carried proportionally. A more progressive system relying on direct taxes would alleviate the burden from the poor and place it on the wealthier.
- Allowing input tax credits for intermediary inputs and capital expenditures. A proper VAT with a functioning input tax credit could neutralize business' motivation to lobby for direct and indirect tax preferences, portrayed as compensatory measures for the inability to offset input tax credits against output tax.
- Introducing an annual turnover threshold (for example, of US\$40,000) for VAT registration. VAT thresholds ensure that only medium and large companies are subject to VAT, and thus small and micro businesses are excluded. As a result, SMEs can develop their economic activity without VAT-related regulatory burden and the tax administration can better focus on the larger companies.
- Develop a comprehensive base that includes in principle all goods and services, using only a few and well-targeted exemptions. Exemptions should only be provided for the public provision of non-commercial goods and services, and for technical reasons when certain supplies are difficult to tax & the compliance and administrative burden associated with taxing small businesses does not justify the revenue raised. The experience of other countries has showed that streamlining exemptions could immediately and lastingly increase revenue—as for example in Uganda, where revenues went up by 1% of GDP after streamlining exemptions during 2013–14, or in Rwanda,

whose tax-to-GDP ratio increased by 2.9% between 2010–14, in part due to revisions of the investment code in 2012 to reduce exemptions.

- VAT in Nigeria could be made less regressive by making a distinction between luxury and essential goods and services, therefore applying differentiated VAT rates. Progressivity would be increased if luxury goods have a higher VAT rate, regular goods the standard rate and essential basic goods a zero-rate/exemption

## TAX BURDEN AND INEQUALITY IN NIGERIA

The 2017 Oxfam International Inequality Report on Nigeria concludes that the Nigerian tax system is largely regressive, with the burden of taxation mostly falling on poorer companies and individuals.

Meanwhile, big multinationals receive questionable tax waivers and tax holidays, and make use of loopholes in tax laws to shift huge profits generated in the country to low tax jurisdictions. In some cases, these tax waivers have been captured by the economic and political elites who use it for political purposes.

The Oxfam report also revealed that every year Nigeria loses \$2.9 billion of potential revenues to questionable tax incentives, three times the country's total health budget in 2015. Other revenues are lost because some companies shift profits to shell offices in tax havens and countries with low tax rates.

In order to still meet revenue targets, the government opts for aggressive taxation of the informal sector. This sometimes leads to imposing differentiated taxes according to needs. As a result, SMEs and workers in the informal sector face multiple taxation. This unfortunately puts a big burden on the people who are least able to pay.

Conspicuous gaps in taxation, an inefficient tax structure and a high level of non-compliance compromise any redistributive effort which progressive income taxation might produce. In actual sense, it has resulted into an increase in inequality in the country and casts huge doubt on their function and purpose as an instrument of economic policy.

This is significant given that, while a tax system may be designed to redistribute income by taxing all earnings at progressive rates, high evasion, avoidance and delinquency levels can distort the impact of tax

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laws. This affects both horizontal equity (since individuals with the same payment capacity do not bear the same tax burden) and vertical equity (since those with higher incomes have greater access to evasion and avoidance strategies).



## SECTION FOUR: REVENUE SUFFICIENCY AND TAX LEAKAGES

## TAX REVENUE STATISTICS (TREND AND COMPARATOR)

The figure below shows a declining trend of tax revenue to GDP up to 2013 coming to as low as 1.48 % of GDP for that year. The World Bank has not provided any official data on recent years (2014 to date) at the time of compiling this report.

However, according to Nigeria's former Minister of Finance, Kemi Adeosun, the tax-to-GDP ratio has improved since 2013. At the 2017 Spring Meetings of the IMF-World Bank in Washington DC, he mentioned that Nigeria has a tax-to-GDP ratio of 6% - but this is still one of the lowest in the world.



The poor performance of tax revenue collection is largely attributed to the weaknesses of Nigeria's tax system, where tax evasion, tax avoidance, illicit financial flows and money laundering are the chief causes of the low ratio.

The Voluntary Assets and Income Declaration Scheme (VAIDS) was designed to increase tax revenue by encouraging voluntary disclosure of any previously undisclosed income liable for tax and to bring as many people as possible into the tax net. It resulted in \$5 million extra revenue (about 1.8 billion), but this was only 10% of the expected amount.

The scheme nevertheless has created an impetus for a new Executive Order (EO 008) on Voluntary Offshore Assets Regularisation Scheme (VOARS).

According to the new order, eligible persons who hold offshore assets and income are expected to declare voluntarily within 12 months and pay either a one-time levy of 35% or the applicable taxes plus penalties and interest. This is targeted at broadening the tax base in Nigeria.

Tax amnesties must be utilized with caution, as the repeated utilization of amnesty programs actually creates incentives for further tax evasion and punishes compliant taxpayers. As a result, tax morale drops and overall compliance rates can be expected to drop in the near future.

Government revenue in Nigeria is divided into two broad sections – oil and non-oil revenue. The 2016 budget puts the gross oil revenue at 3.04 trillion and gross non-oil revenues at 2,347.96 billion with the following details as at end-December 2016 as shown in the table below.

## VAIDS

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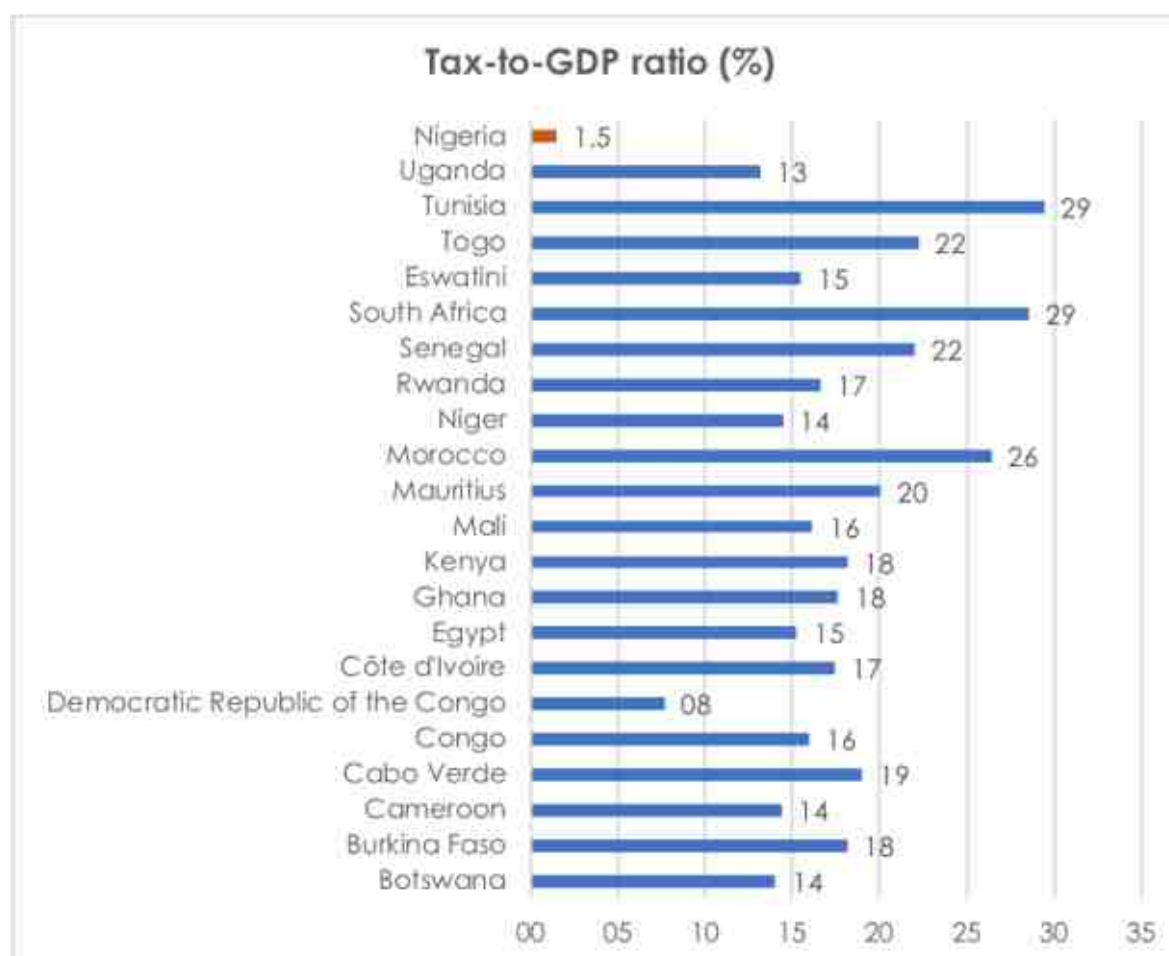
## 35%

eligible persons who hold offshore assets and income are expected to declare voluntarily within 12 months and pay either a one-time levy of 35%

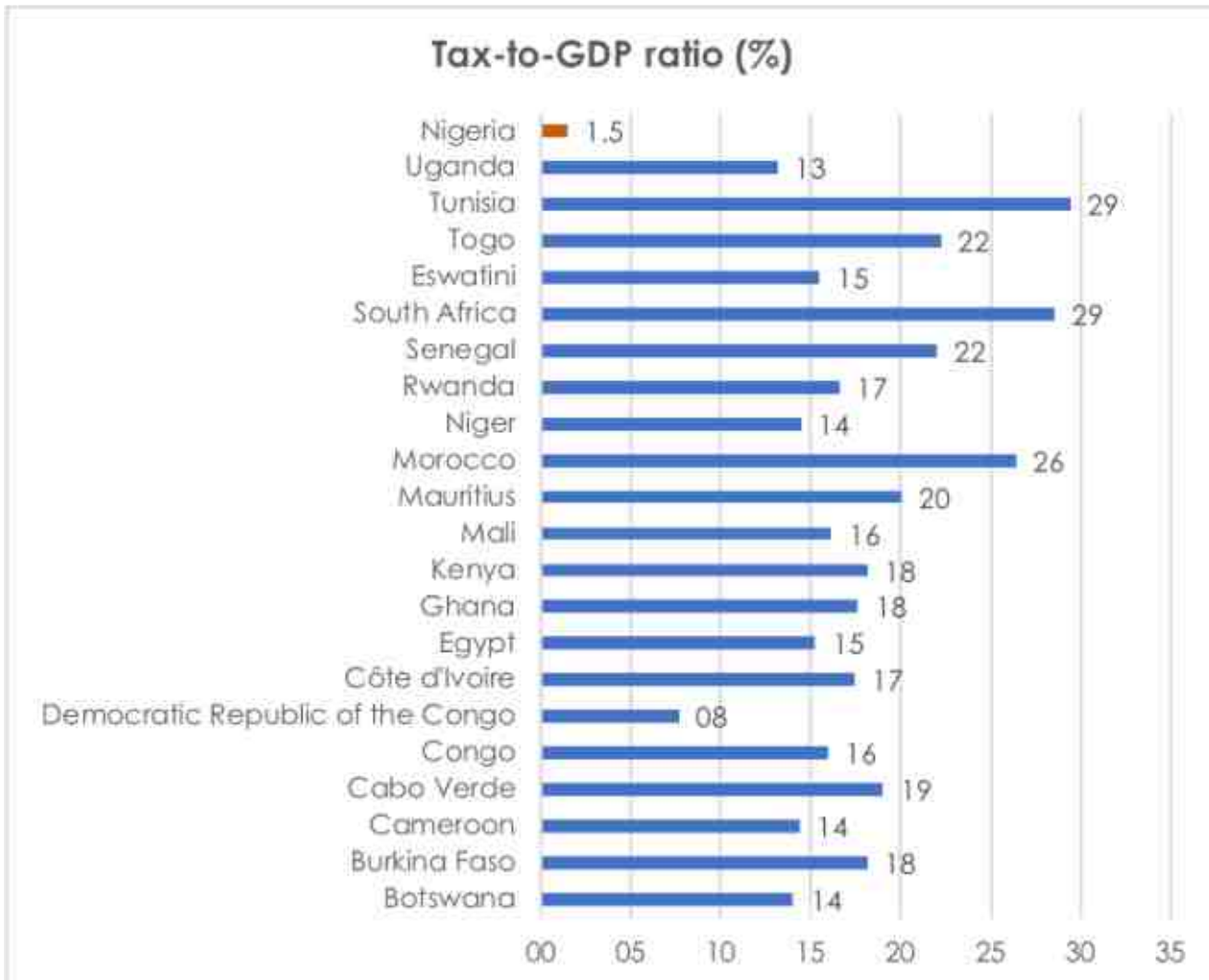
Table 5.3: 2016 Revenue Structure

S/N	Oil Revenue N' Billion		Non-oil revenue N' Billion	
1	Petroleum Profit & Gas Taxes	857.54	Value Added Tax	811.00
2	Other Oil & Gas Revenue	5.95	Company Income Tax	988.44
3	Crude Oil Sales	1.453.24	Customs & Excise Duties	506.84
4	Gas Sales	42.19	Special Levies	41.69
5	Royalties (Oil & Gas)	334.80	Solid Minerals and Mining Revenues	9.92
6	Rent	0.31	Dividend by Companies / Investments Funded by FAAC	197.00
7	Gas Flared Penalty	1.42		

The figure below is the comparator chart for tax-to-GDP ratios for African countries in 2016. Since there is no data available on Nigeria any more recent than 2013, this number has been used instead. It is astounding how the country with the biggest economy in the continent raises by far the least tax revenues.







Revenue Statistics - African Countries :  
Comparative tables. Nigeria's data from World Bank  
Source: OECD Stats:

## ILLICIT FINANCIAL FLOWS (IFF)

Illicit Financial Flows refer to financial crimes, and include practices of corruption, money laundering, tax evasion, tax avoidance and trade mispricing.

This amounts to billions of dollars that are hidden and misreported, depriving national governments of revenues that could be utilized to reach the UN SDGs and alleviate poverty.

Nigeria's former Minister of Finance, at the IMF/World Bank Group meetings in Washington DC, reiterated her call on the global community to take effective actions on the issues of corruption and illicit financial flows, particularly from Nigeria and Africa as a whole. She also condemned the omissions of some developed countries, which serve as havens for proceeds of this ugly trend.

### POLICY RECOMMENDATIONS

- The National Assembly should enact a law that will criminalise the actions of middlemen – banks, auditors, accountants, and lawyers that facilitate IFF. When such professionals act contrary to existing regulations, they should be held accountable in Nigeria. This can be enforced through strengthened professional association bodies. The government should apply monetary penalties for uncooperative financial institutions or individuals. The Nigerian government should develop and enhance her international relation with other nations that are major recipients of illicit funds to strengthen asset recovery measures, and ensure that assets recovered as proceeds of corruption are used for infrastructural development.
- The Nigerian government should joint international efforts to pressure companies to publish financial information for every country in which they operate. This will allow the public and national tax administrations to see if they are paying their fair share of tax in those countries.

...billions of dollars are hidden and misreported, depriving national governments of revenues that could be utilized to reach the UN SDGs and alleviate poverty.

The Nigerian government should develop and enhance her international relation with other nations that are major recipients of illicit funds to strengthen asset recovery measures.

- The Nigerian government should implement strong controlled foreign company (CFC) rules, which prevent multinationals based in those countries from artificially shifting profits into tax havens.
- The Nigerian government should also introduce withholding taxes on risky payments (such as royalties and interests).



SECTION FIVE:  
**CORPORATE TAX EXEMPTIONS:  
GOVERNANCE & TRANSPARENCY**

## TAX INCENTIVES

Tax incentives are not necessarily harmful. If properly designed and well-managed with transparency, they can enhance economic growth. However, the implementation of fiscal incentives in Nigeria is undermined by weak institutions, weak macroeconomic environment, poor infrastructural facilities, inadequate policy monitoring and evaluation, poor regulatory/supervisory framework, corruption, country risk and unfavourable political climate.

Nevertheless, the most striking challenges are the lack of transparency and fairness in the process of taking decisions on fiscal incentives in Nigeria.

The newly reviewed National Tax Policy states that incentives are sector-based and not granted arbitrarily, stating that the benefits to the Nigerian economy exceed the cost of taxes foregone.

In theory, incentives are reviewed regularly through executive orders to confirm if they are serving the expected purpose, but Tax Justice Network (TJN) reports that the review done on pioneer status companies in 2017 was insufficient: instead of checking whether the incentives were useful, the government only checked whether the companies were mature or not.

TJN also recommends an examination of the discretionary powers so that if incentives are handed out, they should be based on evidence and concrete objectives. This, together with the fact that 60% of Nigerians still live with less than \$1 a day, signals that incentives should be under stricter review to avoid cases of ineffective and redundant foregone revenue.

Official FIRS numbers suggest that the entire tax system is fraught with crippling challenges of weak enforcement, corruption and outright evasion.

Tax incentives are not necessarily harmful. If properly designed and well-managed with transparency, they can enhance economic growth

The newly reviewed National Tax Policy states that incentives are sector-based and not granted arbitrarily, stating that the benefits to the Nigerian economy exceed the cost of taxes foregone.

the most striking challenges are the lack of transparency and fairness in the process of taking decisions on fiscal incentives in Nigeria.

The records show that about 30% of companies in Nigeria are involved in tax evasion and also 25% of registered companies in the country are not paying tax. Taxpayers often opt to negotiate with corrupt tax administration staff in return for gratifications and reduced sums to the coffers of the government.

This is despite the sanctions imposed by the same CIT Act for such conduct.

For instance, in 2016 the Nigeria Senate issued Nigeria Liquefied Natural Gas (NLNG) a one-week ultimatum to produce all details showing its distribution of dividends and the payment of taxes to the Nigerian government since it commenced business.

This was after a report by Action Aid Nigeria revealing how Nigeria lost \$3.3 billion (about 650.1 billion) in seven years to questionable tax exemptions granted by the government. The report highlighted the loss by the Nigerian government through the pioneer status regime questionably granted to the company.

The NLNG was not only exempted from paying 30% corporate income tax on its profits for five years, but the company also refused to commence payment after the period of exemption lapsed. The report said the exemption also covered a range of other taxes, including about \$141 million (about 27.8 billion) as education tax earmarked by the government for the advancement of education in Nigeria.

This case shows that the fiscal incentives granted with the hope of stimulating investments into the country's economy are eroded with poor governance and lack of transparency, especially when the Central Bank has confirmed that there is no cost-benefit analysis to justify the

## CASE STUDY

### NLNG

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### \$141MILLION

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This case shows that the fiscal incentives granted with the hope of stimulating investments into the country's economy are eroded with poor governance and lack of transparency,

exemptions and when there is no check on the discretionary powers residing with the Executive in granting exemptions.

A 2013 report of the Central Bank demonstrates that fiscal incentives can be very successful in countries with strong institutions, good infrastructural facilities, adequate regulatory and legal framework as well as good enabling environment.

These factors have ameliorated the cost of doing business and attracted investments to those countries. Similarly, it was noted that fiscal incentives could enhance economic growth and development if well anchored and articulated.

Unfortunately, Nigeria does not enjoy these pre-requisites, leading to harmful incentives that bring little economic development to the country.

In Nigeria, tax incentives for corporations vary depending on the industry. The process is as following: after registration with the Corporate Affairs Commission (CAC) and the FIRS for TIN and VAT, the company begins to operate under the Companies and Allied Matters Act.

The enabling tax law is the Companies Income Tax Act (CIT Act), except for companies that operate in the petroleum sector, which fall under the Petroleum Profit Tax Act (PPTA). Pioneer Companies fall under the Industrial Development (Income Tax Relief). More specific incentives are listed below:

### 1. Agriculture

- An agricultural company with turnover of less than 1 million will pay CIT at 20 % (instead of 30 %) for the first five years;
- Exemption from minimum tax;

fiscal incentives can be very successful in countries with strong institutions, good infrastructural facilities, adequate regulatory and legal framework as well as good enabling environment.

Unfortunately, Nigeria does not enjoy these pre-requisites, leading to harmful incentives that bring little economic development to the country.

In Nigeria, tax incentives for corporations vary depending on the industry.

- Non-restriction of the capital allowance claimable on purchased property, plant and equipment; and
- 10 % Investment Allowance on plant and machinery

## 2. Manufacturing

- A lot of manufacturing activities are under the pioneer industries and products. Companies that would enjoy pioneer status were only those that ventured to invest in industries that were either non-existent at all, or the country did not have sufficient presence for its economic development e.g. mining and processing of coal; processing and preservation of meat/poultry and production of meat/poultry products;. However, the companies in the manufacturing sector still have other tax incentives;
- A manufacturing company with turnover of less than 1 million will pay CIT at 20 % (instead of 30 %) for the first five years;
- Rural Investment Allowance of between 15 % and 100 % of the cost incurred in providing facilities/infrastructure in rural areas;
- 15 % Investment Tax Credit on replacement of obsolete plant and machinery;
- 10 % Investment Allowance on plant and machinery; and
- Accelerated capital allowance of 95 % in the first year of replacement of industrial plant and machinery.

## AGRICULTURE

A lot of manufacturing activities are under the pioneer industries and products.

## MANUFACTURING

An agricultural company with turnover of less than 1 million will pay CIT at 20 % (instead of 30 %) for the first five years.

## GAS

Enhanced investment allowance of thirty-five % on assets acquired, or a 3-year tax holiday which is renewable for 2 years if there is satisfactory performance;



### 3. Gas

#### Gas Utilization (Downstream Operations)

- Enhanced investment allowance of thirty-five % on assets acquired, or a 3-year tax holiday which is renewable for 2 years if there is satisfactory performance;
- An annual allowance of ninety % plus an additional investment allowance of fifteen % after the tax-free period (not available if company opts for the enhanced investment allowance incentive);
- Tax free dividends during the tax holiday, subject to certain conditions;
- Plant, machinery and equipment that are purchased for gas utilization are exempted from value added tax (VAT);
- Profit from gas utilization operations is subject to tax under the CIT Act;
- Pre-production costs and investment required to separate crude oil and gas from the reservoir are tax deductible expenses.

#### Gas Utilization (Upstream Operations)

- Capital investment on facilities and equipment required to deliver associated gas in usable form is treated as part of the capital investment for oil and gas development;
- Investment required to refine crude oil and gas extracted from the reservoir into usable products is also considered part of oil field development; and

## **GAS UTILIZATION**

Gas transferred from a Natural Gas Liquid facility to the gas-to-liquids facilities is subject to zero % Petroleum Profits Tax and zero % royalty.

Plant, machinery and equipment that are purchased for gas utilization are exempted from value added tax (VAT);

- Gas transferred from a Natural Gas Liquid facility to the gas-to-liquids facilities is subject to zero % Petroleum Profits Tax and zero % royalty.

#### 4. Export

- A company engaged in wholly export trade with turnover of less than 1 million will pay CIT at 20% (instead of 30%) for the first five years;
- Export Expansion Grant;
- The profits of a company whose supplies are exclusively inputs to the manufacturing of products for export are exempt from CIT;
- The profits of a company established within an export processing zone is exempt from CIT;
- Tax-free dividends from investment in wholly-export-oriented business;
- 

#### 5. Mining

- A mining company with turnover of less than 1 million will pay CIT at twenty % (instead of thirty %) for the first five years;
- A new company engaged in the mining of solid minerals will enjoy a tax holiday of three years;
- Plant, machinery, equipment and accessories imported exclusively for mining operations in Nigeria are exempted from customs and import duties
- 

## EXPORT

A company engaged in wholly export trade with turnover of less than 1 million will pay CIT at **20% instead of 30%** for the first five years.

Tax-free dividends from investment in wholly-export-oriented business;

## MINING

A mining company with turnover of less than 1 million will pay CIT at **20 % (instead of 30 %)** for the first five years;

## 6. Services Industry

- Twenty-five % of incomes in convertible currencies derived from tourists by a hotel is exempted from tax, subject to certain conditions;
- Interest payable on any loan granted by a bank for the purpose of manufacturing goods for export are exempted from tax;
- Interest earned from agricultural loans are exempted from tax subject to certain conditions;
- Companies engaged in research and development activities for commercialization are entitled to 20% investment tax credit

## 7. General Tax Incentive

- Companies with approved business in the free trade/export processing zones are exempted from tax;
- New companies are exempted from minimum tax;
- Income from investment in bonds and treasury bills is exempted from tax;
- Interest earned on foreign currency domiciliary account in Nigeria is exempted from tax;
- Beneficiary's Investment (dividend, rent, interest and royalty) income derived from outside Nigeria and brought into Nigeria through

## SERVICES INDUSTRY

25% of incomes in convertible currencies derived from tourists by a hotel is exempted from tax, subject to certain conditions.

## SERVICES INDUSTRY

Companies with approved business in the free trade/export processing zones are exempted from tax.

government-approved channels are exempted from tax.

#### POLICY RECOMMENDATIONS

- Cost-benefit analyses to justify the efficiency of the exemptions should be carried out periodically by tax investigation department or technical audits of FIRS/SIRS;
- The procedures for granting tax incentives should undergo a thorough review, focused on transparency and governance. This should include mandatory parliamentary oversight, publication of annual tax expenditure reports, clear requirements for incentives and periodic review of expected results.
- Tax administration agencies should be empowered by law to audit and authenticate discretionary tax exemptions granted to any individual or companies by the Executive to avoid abuse of the privilege;

Interest earned on foreign currency domiciliary account in Nigeria is exempted from tax.

## TAX EVASION AND MITIGATION EFFORTS

The 'twin devils' of tax evasion and tax avoidance have created a great gulf between potential revenue and actual collection. The government has perennially complained of the widespread incidence of tax avoidance and evasion in the country as companies and other taxable persons employ various avoidance techniques to escape or minimise their taxes, as well as the deliberate utilization of fraudulent ways and means of evading tax altogether, sometimes with the active connivance of tax officials.

Tax evasion and avoidance remain the greatest problems plaguing tax administration in Nigeria. Apart from salaried employees which are taxed at source, most individual citizens and corporate legal entities in Nigeria pay inadequate taxes or no taxes at all and this has led to a substantial loss in government tax revenue.

The reasons for such behaviour could be attributed to several factors, like the insufficiencies and complexities of tax legislation coupled with taxpayers taking advantage of loopholes in the law, low tax morale, lack of transparency and accountability as well as lack of sense of civic responsibility amongst the taxpayers.

While some have blamed the situation on the authorities for not living up to expectation with regards to tax administration, others attribute it to the unpatriotic attitude of the taxpayers and most importantly, international corrupt practices which allow funds that would have been subject to taxation to be illicitly flown to safe havens in world economic capitals like US, UK, Switzerland, China, Germany and France.

Kemi Adeosun, former Finance Minister in Nigeria, presented the tax malpractices by Multinational Corporation in developing countries at the Platform for Collaboration on Tax (PCT) Conference in New York, stating that tax malpractices by multinational corporations should be designated as

Tax evasion and avoidance remain the greatest problems plaguing tax administration in Nigeria.

most individual citizens and corporate legal entities in Nigeria pay inadequate taxes or no taxes at all and this has led to a substantial loss in government tax revenue.

While some have blamed the situation on the authorities for not living up to expectation with regards to tax administration, others attribute it to the unpatriotic attitude of the taxpayers

'Foreign Corrupt Practices (FCP)'.

She explained that Nigeria was doubly affected by Illicit Financial Flows (IFF), as a result of both corruption and widespread evasion and avoidance of taxes. She requested global organizations such as the OECD, World Bank, IMF and United Nations to categorize tax evasion and avoidance of multinational companies as clear corrupt practices.

While Nigeria must accept full responsibility for preventing illicit flows, the former Minister of Finance insists that the range of measures required to check the sharp practice and the sheer volumes of funds involved are such that the recipient nations must also take measures to discourage the flows into their countries by asking more questions and taking appropriate actions.

A good example is the initiative of the United Kingdom which puts in place the Unexplained Wealth Orders (UWOs) legislation.

The specific ways by which tax is evaded in Nigeria include:

- Understating or false declaration of income receipt from trade, business, professional, vocation or employment;
- Omission to state gross amount of dividends, rents and others received in Nigeria from outside sources;
- False claims of contribution to a pension scheme;
- Reduction of tax liabilities through fraudulent tax returns; and
- Giving incorrect information in relation to any matter suffering tax liability of any taxable person.

Nigeria was doubly affected by Illicit Financial Flows (IFF), as a result of both corruption and widespread evasion and avoidance of taxes.

Nigeria's former finance minister insists that recipient nations must also take measures to discourage the flows into their countries by asking more questions and taking appropriate actions.

Customs duties are evaded when importers of goods either under-invoice or change the product description to attract lower rates of duty. A lot of goods are brought into the country through unauthorised routes. In the same way, personal income taxes are evaded when employers refuse to remit to government taxes of their employees deducted at source.

After a certain amount of time, the employer then dissolves the company or claim bankruptcy, leaving the accumulated employee taxes unpaid. Other methods of evasion of employee taxes by employers are: paying the employees in cash; filing false payroll tax returns; or failing to file payroll tax returns.

Several steps have been taken to address tax evasion, including:

- i. The introduction of the presumptive tax method;
- ii. The tightening of financial controls and surveillance;
- iii. Adoption of the 2017 National Tax Policy, with focus on the Integrated Tax Administration System (ITAS) with the tax amnesty programme;
- iv. The Voluntary Assets and Income Declaration Scheme (VAIDS) to give defaulting tax payers the opportunity for waiver of penalty and interest on their outstanding tax obligations from 2011 to 2016;
- v. The introduction of Tax Identification Number (TIN);
- vi. The Voluntary Offshore Assets Regularisation Scheme (VOARS). Eligible persons who hold offshore assets and income are expected to declare voluntarily within 12 months and pay either a one-time levy of 35 % or the applicable taxes plus penalties and interest.

These measures have yet to be proved to be successful, but at first sight they seem promising in the areas of business processing, taxpayer identification and automation of core tax processes. What has proven to be quite successful is the VAIDS. According to the FIRS chairman Babatunde Fowler, 30 billion had been recovered from individuals and corporates.

Personal income taxes are evaded when employers refuse to remit to government taxes of their employees deducted at source.

In the same way, personal income taxes are evaded when employers refuse to remit to government taxes of their employees deducted at source.

## SECTION SIX: EFFECTIVENESS OF TAX ADMINISTRATION



## TAX REVENUE SHORTFALL

According to Mr. William Babatunde Fowler, Executive Chairman of the FIRS and of the Joint Tax Board (JTB), the tax compliance level in the country is still below 10% and among the lowest in the world. He noted that South Africa has 26% and Ghana almost 16%.

The figure below reveals that Nigeria has been collecting more than projected from 2008 to 2014, but since 2015 tax collection does not reach the set target.

The drop in revenues from 2014, 2015 and 2016 can be explained by the fact that oil prices sharply declined during that period. In 2018 the country's highest annual revenue of 5.3 trillion Naira has been collected, which Fowler explains as an increasing focus on non-oil revenues, diversification of the country's economy, and decreasing cost of collection due to implementation of e-services.

An even higher target of 8 trillion has been set for 2019. Not only the strategy to focus on non-oil revenues has been successful, also the VAIDS campaign has contributed to higher tax revenues: the tax base has grown from 13 to 19.3 million taxpayers.

The tax compliance level in the country is still below 10% and among the lowest in the world. He noted that South Africa has 26% and Ghana almost 16%.

In 2018 the country's highest annual revenue of 5.3 trillion Naira was collected.



## COST OF TAX COLLECTION

According to legislation, the FIRS and the Nigerian Custom Service (NCS) are statutorily entitled to retain respectively seven and four percent of the revenue they generate as cost of revenue collection. This practice is questionable, as performance objectives for tax administration officials can lead to abusive behaviour by tax collectors and over-taxation of the most vulnerable in society. The funds are then utilized to pay salaries and other workers' emoluments.

YEAR/FIGURE	Actual in Billion Naira	Cost of Collection at 7 %
2011	4,628,500,000,000	323,995,000,000
2012	5,007,700,000,000	350,539,000,000
2013	4,805,600,000,000	336,392,000,000
2014	4,714,600,000,000	330,022,000,000
2015	3,741,800,000,000	261,926,000,000
2016	3,303,000,000,000	231,210,000,000
2017	4,000,000,000,000	280,000,000,000
<b>Total</b>	<b>30,201,200,000,000</b>	<b>2,114,084,000,000</b>
<b>Average</b>	<b>4,314,457,142,857</b>	<b>302,012,000,000</b>

The table above shows that FIRS got a total of 2.1 trillion as cost of collection in seven years, at an average of 302 billion per year. This amount is five times more than capital expenditure for health or education for 2018 budget, which clearly demonstrates a high level of inefficiency and waste of public funds.

This raises the questions of why the agency actually needs that much money, and if it operates properly. Further transparency is required and a different method of funding its operations.

## POLICY RECOMMENDATIONS

- Tax administration agencies at all three tiers of government should not to accept cash payments for tax, but only digital payments. This will reduce the contact of tax officials with cash and limits possibilities of corruption and revenue leakage. Generally, a comprehensive integrity strategy is needed to avoid shady practices and payments.
- Additional revenue could be raised if the Large Taxpayers Offices (LTOs) are strengthened. SMEs can opt to join this office too according to recent policy, but organizationally, it would be better if these were only occupied with the large taxpayer segment.
- Outreach initiatives could be taken to motivate dormant registered taxpayers to start filing and paying taxes, such as sending reminders shortly before the filing dates. Data analysis and cross-matching can help identify taxpayers with active economic activities
- According to the already mentioned IMF report on Nigeria, halfway through 2017 the amount of arrears stands at 1.4 trillion ( 1.2 trillion attributable to large taxpayers). Therefore getting them into the ITAS (Integrated Tax Administration System) system for online tax returns and payment while implementing a collection and enforcement compliance improvement plan can be highly beneficial.
- Performance objectives for tax administration is a dangerous trend, which can lead to abusive behaviour by tax collectors and over-taxation of the most vulnerable in society. The Nigerian government should consider an alternative funding scheme for the tax administration which is not dependent on the amount of revenue collected.

## SECTION SEVEN: **GOVERNMENT SPENDING**



## GOVERNMENT SPENDING

This section examines how the government spends the revenues collected and whether the effects of fair tax collection are enhanced or diminished by the government spending. Education and healthcare are the main topics under review as they represent basic public services.

Pro-poor analyses of these topics are provided to determine whether the spending is targeted to reduce poverty and decrease inequality by using budgeting to redistribute the commonwealth.

The International Food Policy Research Institute found that not only in agriculture, but in other sectors too, there is a discrepancy between budgeted and actual expenditures. Nigeria fails to meet the Public Expenditure and Financial Accountability (PEFA) standard of maximal 3% discrepancy.

## COMPONENT OF GOVERNMENT SPENDING

The 2016 budget has an outlay of 6.06 trillion. This represents an increase of 35 % over the 2015 Budget provision of 5.067 trillion.

The details are:

- Statutory Transfer (inclusive of 157 billion Capital component)  
= 351.37 billion
- Capital Expenditure (excluding Share of Capital in Statutory Transfers)  
= 1.59 trillion
- Capital Expenditure (including share of capital expenditure in Statutory Transfer) = 1.75 trillion
- Debt Service including sinking fund provision =  
1.48 trillion – Recurrent (non-debt) Expenditure - = 2.65 trillion

Some of the key allocations in the 2016 budget are as follows:

Table 5.2: 2016 Budgetary Allocations

S/N	Ministry	Recurr. Exp. ₦Billion	Cap. Exp. ₦Billion	Total Budget
1	Power, Works & Housing	33.97	422.96	456.93
2	Transportation	13.67	188.68	202.34
3	Defence	312.21	130.86	443.07
4	Interior	451.942	61.71	513.65
5	Education	367.74	35.43	403.16
6	Health	221.41	28.65	250.06
7	Agriculture & Rural Development	29.63	46.17	75.80
8	Solid Mineral	9.40	7.33	16.73
9	Youth & Sports Development	72.30	3.50	75.79
10	Water Resources	7.21	46.08	53.30
11	Special Intervention Program	300.00	200.00	500.0

Source: Ministry of Finance, (2017)

The Special Intervention Program is a public project designed to assist the poorest in Nigeria, aimed at job creation, school feeding, education grants, cash transfers and enterprise programmes for 1 million market women and a few hundred thousand artisan and agricultural workers.

2016 budget of 6.06 trillion has recurrent expenditure component of 2.65 trillion (44 %) and 1.75 trillion (29 %) for capital projects. The remaining balance of 1.66 trillion (27 %) was for debt servicing and statutory transfers.

## GOVERNMENT SPENDING: HOW PRO-POOR?

Does government spending over the years have progressive and sustained impacts on poverty reduction and pro-poor growth? Budget allocation is considered worldwide as a key instrument for governments to promote growth and reduce poverty within its polity.

Government spending targeted at improving the welfare of the poor is done via provision of public services – sanitation, education and health. Looking at what type of spending is pro-poor, there is a wealth of evidence that spending on basic social services (health, nutrition, water, agriculture, education) and social protection can be progressive and reach the poor.

But the government spending in Nigeria since 2010 has not progressively reached the poor and this is why poverty is escalating on a yearly basis. Nigeria's poverty level index hit 72% in 2016. The National Bureau of Statistics said 60.9% of Nigerians in 2010 were living in "absolute poverty" – this figure has risen from 54.7 % in 2004. Nigeria emerged from recession in 2017, but poverty in the country increased slightly.

## SIP

The Special Intervention Program is a public project designed to assist the poorest in Nigeria, aimed at job creation, school feeding, education grants, cash transfers and enterprise programmes for 1 million market women and a few hundred thousand artisan and agricultural workers.



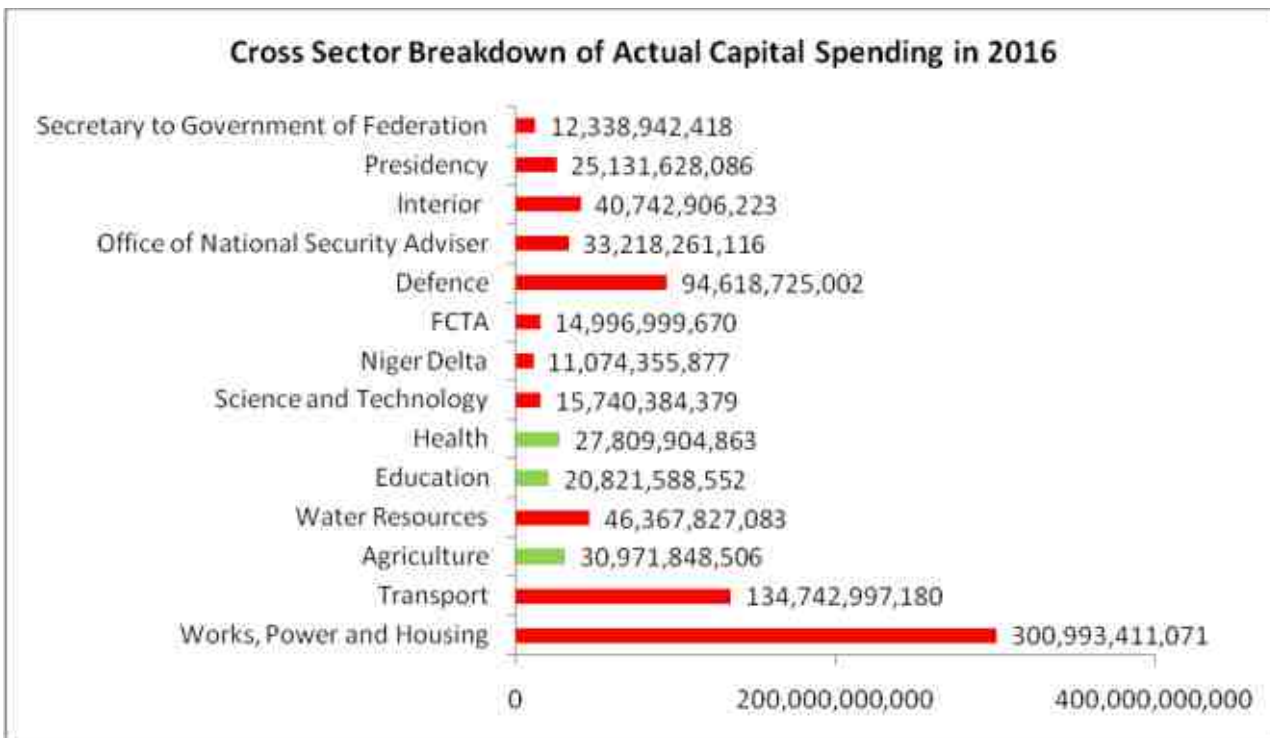
the government spending in Nigeria since 2010 has not progressively reached the poor and this is why poverty is escalating on a yearly basis.

Available data on Nigeria government's spending over the years shows that actual spending on critical sectors such as education, healthcare and agriculture is comparatively small - and its impact on poverty reduction is negligible. For instance, actual capital expenditure of The Presidency is higher than that of the entire education sector. In the same way as the office of National Security gets more financing than the entire health sector. The figure below shows the Breakdown of Actual Capital Spending in 2016



**4.13%**

Ministry of health:  
percentage of total budget  
(capital and recurrent)



Source: Budget Implementation Report, 2016 by Office of the Accountant General of the Federation and Budget Office.



## EDUCATION SPENDING

Expenditure on education is regarded as investment in human capital because it helps in skill formation and thus raises the ability to work and produce more. Government education spending is of great importance to national development and plays a critical role in promoting growth and knowledge deepening.

Given that good education is the basis for a wealthy nation and sustainable development of its citizens, and the fact that quality public services can be great equalization tool, this section analyses statistical data on government spending on education between 2011 and 2016.

The goal is to check the extent to which government spending is pro-poor and in line with domestic needs of the sector as well as how close government spending on the sector is to international prescriptions. Readers should keep in mind that Nigeria, according to UNICEF report, has 10.5 million out-of-school children - the world's highest number.

### EDUCATION AS % OF TOTAL BUDGET

Analysis of national budgets between 2011 and 2017 shows that education expenditure to an average of 8.7% of total budget. This is far below the 10-25% benchmark set by UNESCO for developing countries (Incheon Declaration). The performance peaked at 10.96% in 2015 and came to its lowest – 6.02% in 2017.

Despite the total budget having increased by a large amount between 2015 and 2016, the education budget decreased significantly, both in proportion to the overall budget and in real terms.

It is important to note that small as these amounts are, over 75% of the total education vote tabulated above goes to recurrent expenditure, leaving just 25% for capital or development programmes in the sector.



**6.65%**

**Ministry of Education:**  
percentage of total budget  
(capital and recurrent)



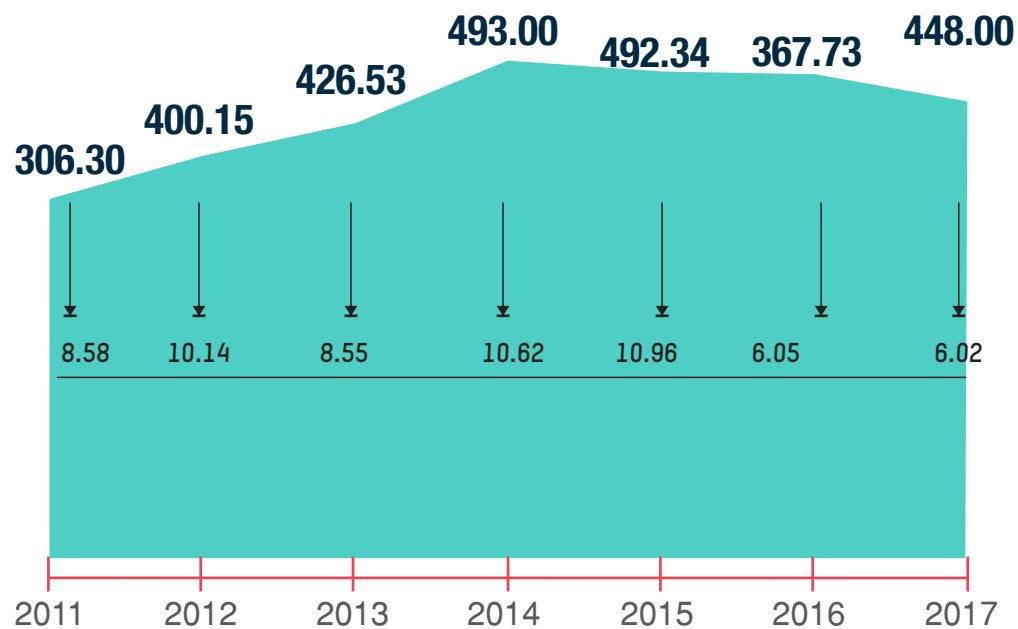
**7.13%**

**Ministry of Defence:**  
percentage of total budget  
(capital and recurrent)

Year	Total Budget	Education budget	Education budget as a % of total budget
2011	3,571,815,678,134	306,300,000,000	8.58
2012	3,945,036,061,331	400,150,000,000	10.14
2013	4,987,220,425,601	426,530,000,000	8.55
2014	4,642,960,000,000	493,000,000,000	10.62
2015	4,493,363,957,158	492,340,000,000	10.96
2016	6,077,680,000,000	367,730,000,000	6.05
2017	7,441,175,486,758	448,000,000,000	6.02

Source: Budget Reports from Budget Office Government Website

Source: Budget Reports from Budget Office Government Website



Source: Budget Reports from Budget Office Government Website

For instance, for 2017, out of the sum 448.01 earmarked for the sector, 398.01 billion or 88.84% of the vote was allocated to recurrent expenditure leaving 50 billion or 11.16% capital projects and programmes. In essence, only about 0.69% of the total budget of 7.30 trillion was actually spent on development of the education sector.

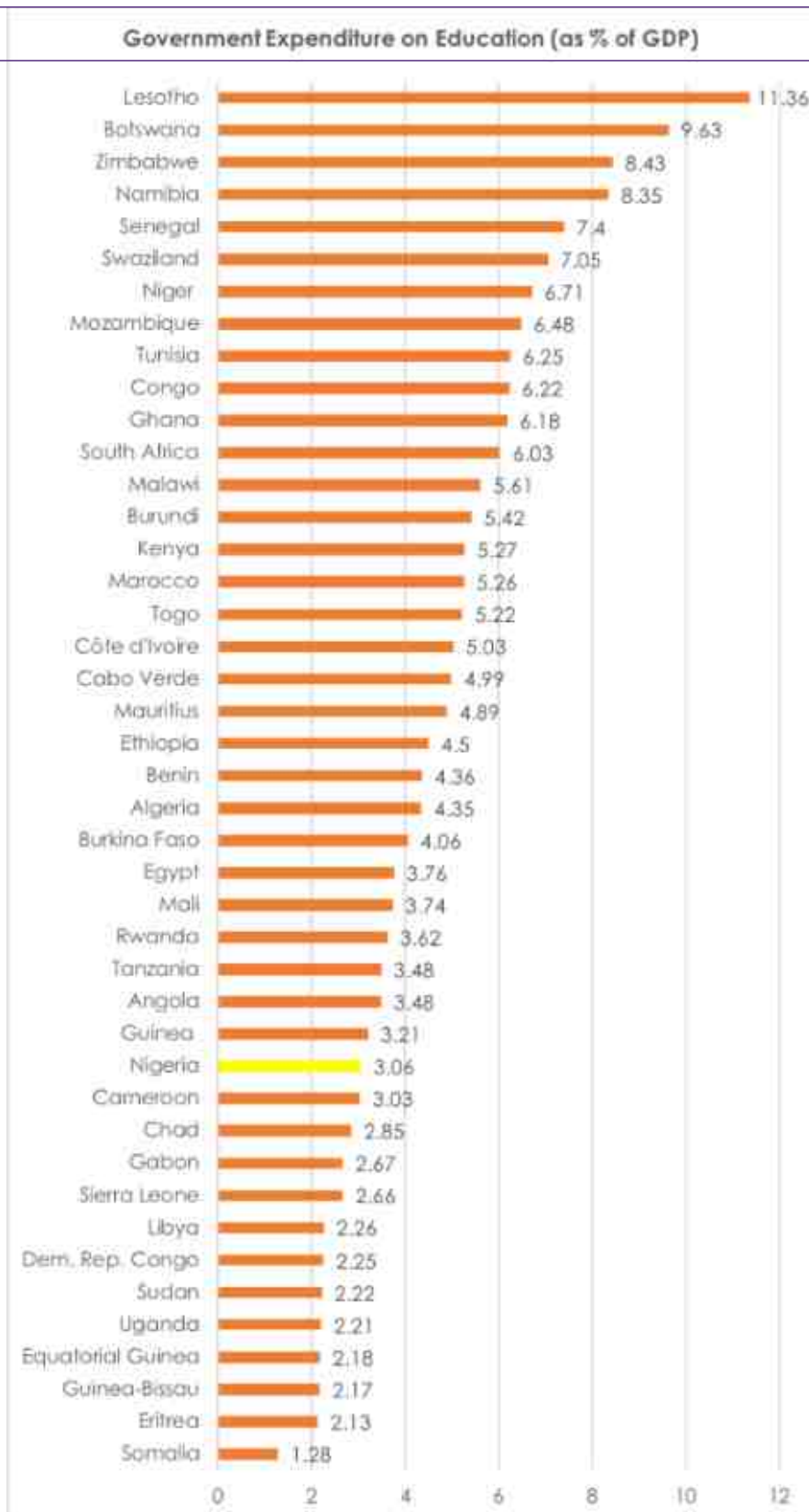
### EDUCATION EXPENDITURE AS % OF GDP

Cross country analysis shows that Nigeria ranks among the lowest countries in terms of spending on education as percentage of GDP. The figure below shows that the country topped at 3.06%: far behind Lesotho with 11.36%, Botswana with 9.63%, Zimbabwe with 8.43%, Senegal with 7.4%, Niger with 6.71%, Ghana with 6.18% and Togo with 5.22% to mention just a few.



Cross country analysis shows that Nigeria ranks among the lowest countries in terms of spending on education as percentage of GDP.





In whatever way it is looked at, it is found that as important as education is to the present and future development of the country; Nigeria is spending far less than expected on education.

## Implications of inadequate funding of Education in Nigeria

The implications part from failing to function as a tool for redistribution and equalisation of wealth, Nigeria fiscal behaviour in this sector over the years has resulted in a rundown of public education in the country.

In 2016, the Vice Chancellor addressed the issue of the abysmally low funding for education. The infrastructure of the educational sector is insufficient, and the Nigerian university has suffered from inadequate budget in past 30 years.

This is reflected in the poor teaching, learning and research facilities. Moreover, universities are unable to meet the demands of staff and students, which has led to strikes by staff unions. He concluded by saying that the implications of poor funding are reflected in the current abysmal infrastructure in the system and the poor ranking of Nigerian universities in Africa and the world and there cannot be quality education without adequate funding.

Similar problems in primary education prevail. Primary schools are forced to cut down book supplies, computers and other research sources. Teachers are not being paid well, therefore this occupation is not an attractive one. Schools need funding to be able to run and to be able to give children the proper education that they deserve.

The poor state of public schools has also resulted in capital flight from the country to other countries. For instance, the Chairman Senate Committee on Tertiary Institution and Tertiary Education Trust Fund, TET Fund, Senator Binta Masi, in February 2016 said Nigeria currently spends over \$2 billion annually on school fees abroad.

More importantly, basic education which comprises of primary and secondary level that every Nigerian child has a right to, is poorly funded which has limited the scope, its accessibility, and affordability in terms of

fees of acquiring education by the poor Nigerians.

#### POLICY RECOMMENDATIONS

- Government should aim to reach its international commitments; government should actually give the education department the budget it is allocated. Not only quantitative monetary improvements should be made, also the quality of education should be improved. Advocacy to budget office and National Assembly to seek total redress of educational sector that is in the depths of despair of development and trend is highly recommended. Statistics show that there is need for a holistic review of government spending behaviour on the sector.

## HEALTHCARE SPENDING

For a country that has female obesity prevalence of 13.1 %, male obesity prevalence 4.6 %, neonatal mortality rate of 34.1 deaths per 1,000 live births, infant mortality rate 66.9 deaths per 1,000 live births, child mortality rate 104.3 deaths per 1,000 live births, HIV prevalence 2.9 % and incidence of tuberculosis 219 cases per 100,000 people the expectation should be that the country's health bill should be among the highest in the world.

In spite of the recommendation of National Health financing policy that mandated all tiers of government to allocate at least 15% of their budgets to healthcare, Nigeria is spending quite less than that prescription.

According to BudgIT, a civic organization aiming to simplify budget and public data, Nigeria spent 4.13% of its total budget on health in 2016. This is not only very little compared to the recommended amount, also compared to other African countries.

A study on a cross country review of total health expenditure as a percentage of GDP for 2014 shows that Nigeria expenditure on health for that year stood at 3.67%. The country ranks among the lowest in Africa as shown on the figure below. The country ranked a distant 38 position out of 47 African countries. Far below Sierra Leone with 11.0 %, Liberia with 10.04%, South Africa with 8.8%, Mali, with 6.86% to mention just a few.

## NIGERIA'S HEALTH CRISIS

 **34.1/1000**

neonatal mortality rate of  
34.1 deaths per 1000 live  
births

 **13.1%**

Female obesity prevalence  
of 13.1 %,

 **4.6%**

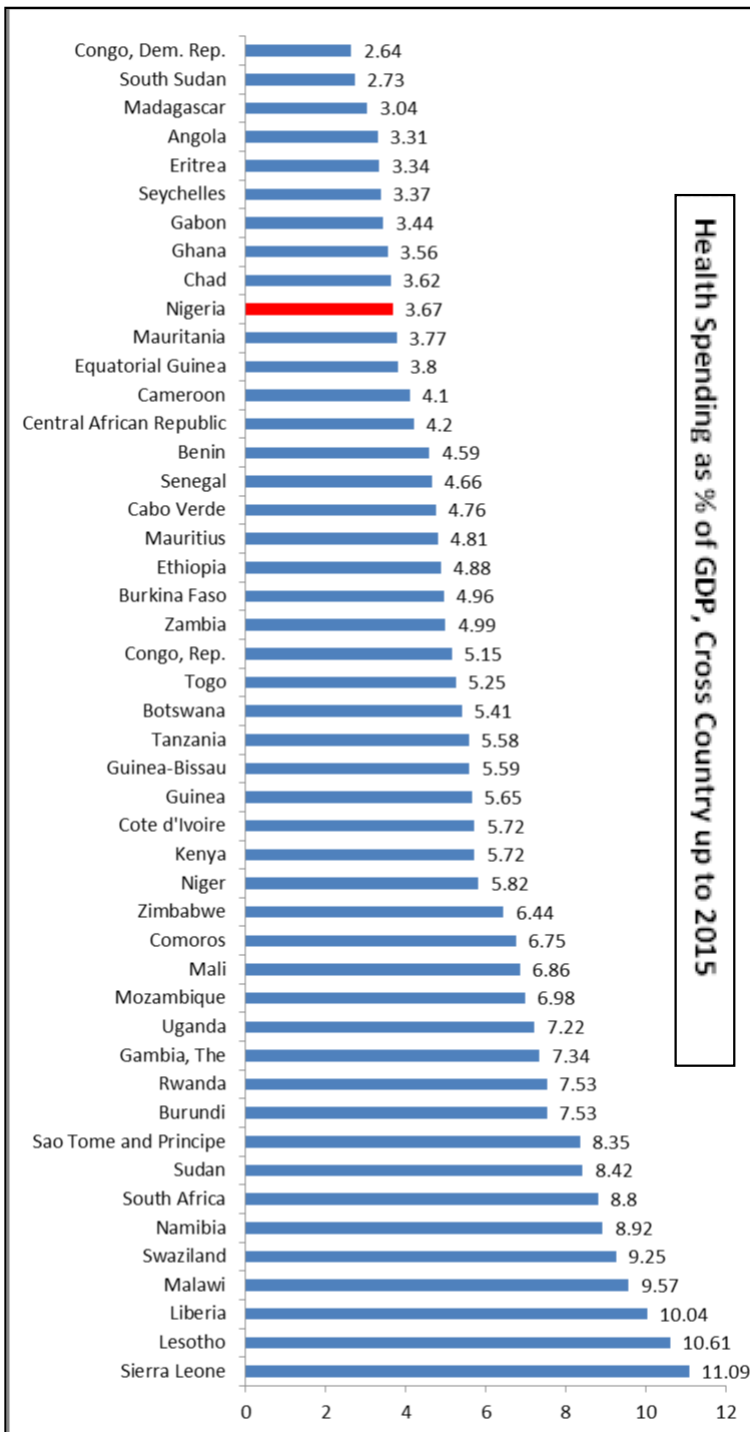
Male obesity prevalence of  
4.6 %

 **66.9/1000**

infant mortality rate of 66.9  
deaths per 1,000

 **219/100,000**

incidence of tuberculosis 219  
cases per 100,000 people



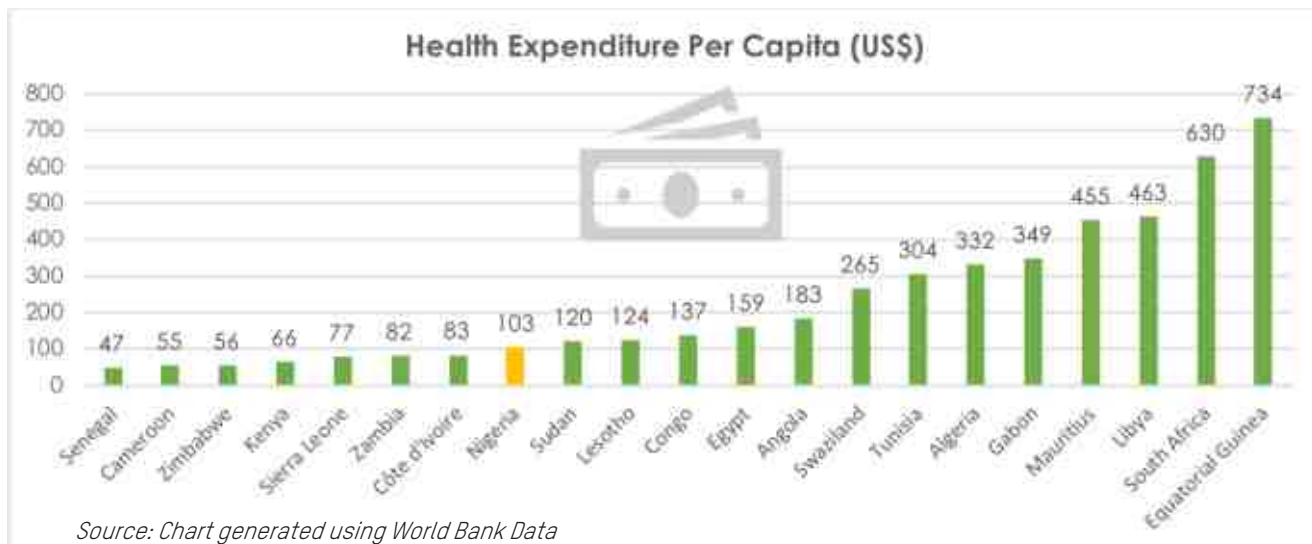
Secondly, sector analysis of 2016 actual capital spending shows that, as shown on the figure below, special intervention program and Ministry of Interior's votes are twice than that of the Ministry of Health.

The figure below shows health expenditure per capita (US Dollar) in selected African countries. This figure is inclusive of both public and private expenditure. Nigeria is also found to be among the lowest on the chart with 103USD per capita compared with South Africa with 630 USD, Gambia 734 USD, Gabon with 349 USD.



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Further analysis of public capital expenditure on the health sector between 2011 and 2016 reveals that sector capital budget came to an average of just 1% of its annual budgets while actual spending came to an average of 0.54%. The table below presents further details on government spending on health sector during the period.

YEAR	2011	2012	2013	2014	2015	2016	Total
Total National Budget ₦'trillion	3.57	3.95	4.99	4.64	4.49	6.06	27.72
Amount Budgeted ₦'billion	51.83	66.83	71.23	51.28	23.52	35.43	300.12
Amount Released ₦'billion	29.76	47.59	36.17	21.77	13.83	22.65	171.77
Amount Cash backed ₦'billion	29.76	36.46	36.17	21.70	13.83	22.65	160.57
Total Utilisation ₦'billion	21.37	34.83	34.05	20.74	13.03	20.82	144.85
Actual capital spending % of total budget	0.59%	0.90%	0.68%	0.45%	0.29%	0.34%	0.52%
budget utilisation	41%	52%	48%	40%	55%	59%	

## POLICY RECOMMENDATIONS

- Specific provisions include increasing government funding to international standards, prioritization of Primary Health Care (PHC) and rural poor in funds allocation and increasing allocative efficiency by redistributing resource allocation between levels of care to ensure adequate allocation to preventive and promotive care.
- In the same way, the budget office and national assembly should be sensitised on the need to implement the provisions of National Health Financing Policy 2006. The policy seeks to promote equity and access to quality and affordable health care, and to ensure a high level of efficiency and accountability in the system through developing a fair and sustainable financing system.

The overall goal of government expenditure on health is to ensure that adequate and sustainable funds are available and allocated for accessible, affordable, efficient, and equitable health care provision and consumption. In specific terms, the directive of the policy that federal, state and local governments to allocate at least 15% of their total budgets to health in line with the 2000 Abuja declaration should be respected.

## AGRICULTURE SPENDING

In Nigeria, as in most developing countries the poorest segment of the population gets its livelihood from agriculture, therefore, government intervention in this sector is a mechanism to address social inequality and poverty through strategic interventions that redistributes the commonwealth.

For instance, and as indicated in The 2012 UN Report on State of Food and Agriculture, smallholding farmers usually face extreme poverty and weak property rights, have poor access to markets and financial services, are vulnerable to shocks, and have limited ability to endure risk.

It therefore makes economic sense that the Nigerian government should spend some percentage of its tax revenue annually to redistribute public values in favour of the poorest through focused public policy interventions to address poverty in its agrarian population. Strategies in this direction usually include direct transfer of cash through soft loans, food, and other in-kind transfers; subsidization of production costs for poor farmers; and gearing agricultural research toward improving the productivity of smallholders.

Country members of the New Partnership for Africa's Development (NEPAD) initiative on agriculture (Comprehensive Africa Agriculture Development Programme (CAADP), including Nigeria, pledged to allocate at least 10% of their national budgets to the agricultural sector in an effort to boost the growth of the sector by at least 6% annually.

The Africa-wide Annual Trends and Outlook Report looked at the trends and patterns in public agricultural expenditures, and in particular examined how countries are performing against the Maputo Declaration benchmark. The discovery was that compared to many African countries, Nigeria's government expenditure in agriculture as a percentage of total government expenditure and in proportion to agricultural GDP is small.



the poorest segment of the population gets its livelihood from agriculture, therefore, government intervention in this sector is a mechanism to address social inequality and poverty through strategic interventions that redistributes the commonwealth.

As depicted in the figure below, of the total government expenditure of Nigeria, the share of the agricultural sector is only 3.8%—on average—for the period between 2000 and 2010. This figure is less than the continental average of 5.4%, the West African average of 7.4%, and the 10% target set by CAADP. Nigeria is way behind countries like Burkina Faso (18.3%), Niger (15%), Mali (14.7%), Senegal (11.4%), and Benin (5.9%), as well as countries in other parts of the continent, including Malawi (13.6%), Ethiopia (11.9%), and Zambia (10.8%). Nevertheless, compared with the 1.8% share registered for the period between 2000 and 2005, the 3.8% share of agriculture in total government spending is an improvement



**3.8%**

Of the total government expenditure of Nigeria, the share of the agricultural sector is only 3.8%—on average—for the period between 2000 and 2010.

Table 6.4: Summary of Capital Vote on agriculture 2011-2016

Year/budget	2011	2012	2013	2014	2015	2016	Total	Average
Total National Budget ₦trillion	3.57	3.95	4.99	4.64	4.49	6.06	27.72	4.62
Amount Budgeted ₦billion	31.40	48.19	50.65	35.55	8.79	46.17	220.75	36.79
Amount Released ₦billion	21.50	32.47	24.99	15.46	4.45	30.98	129.87	21.64
Amount Cashbacked ₦billion	21.50	26.38	24.99	15.46	4.45	30.99	123.79	20.63
Total Utilisation ₦billion	12.57	26.14	24.91	15.12	4.25	30.97	113.96	18.99
Actual spending as percentage of total budget	0.35%	0.66%	0.49%	0.32%	0.095%	0.51%	41%	0.41%

Source: Budget Implementation Reports for the years 2011 up to 2016, produced by Office of Accountant General of the Federation and National Budget Office.

The statistics on the table above shows that actual capital spending on Agriculture over the period is 0.41%. Budgeted average over the same period stood at 0.80% of total average budgets of ₦4.62 billion. This is far below the 10% minimum index recommended by AU through its CAADP initiative on Agriculture. The figure also shows a difference of 48% shortfall in between budgeted and actual spending.

#### POLICY RECOMMENDATIONS

- In Nigeria increased support to small-scale agriculture is essential to addressing poverty and inequality. Increased investment, review of government incentives, elimination of bottlenecks and corrupt practices and strengthening of agricultural insurance and credit schemes are critical to achieving more inclusive agricultural growth.



**0.41%**

actual capital spending on Agriculture over the period is 0.41%. Budgeted average over the same period stood at 0.80% of total average budgets of ₦4.62 billion.



## . SECTION EIGHT: **TRANSPARENCY AND ACCOUNTABILITY**

## TRANSPARENCY POLICY ON TAX

There is a need for more transparency and accountability of the tax system in Nigeria, as well as in other African countries. During the 2017 international conference of the Africa Tax Administration Forum (ATAF) in Abuja, it was agreed that the continent needs to ensure transparency and information sharing among member states.

African tax administrators were asked to address issues relating to Base Erosion and Profit Shifting (BEPS) and increase transparency in resource mobilisation. It was explained that information sharing involves establishing automatic information exchange as the new global standard for cooperation in tax matters and ending legal secrecy of ownership of companies and trusts, especially those based in tax havens.

Speaking on his experience in Lagos State, the current chairman of FIRS Babatunde Fowlers highlighted the importance of transparency: 'the way we do business in Lagos. Our staffs do not touch cash. All taxes are paid straight into state coffers. We do not, as a revenue generating organ, have access to the monies we collect.'



Procedures and eligibility for tax incentives and exemptions are contained in various tax laws but their implementations are shrouded in secrecy,

## AVAILABILITY OF TAX INFORMATION AND DATA

Some tax information or guidelines are available online. For instance, tax payment guidelines are available online. Revenue generated statistics are available on the websites of FIRS. Procedures and eligibility for tax incentives and exemptions are contained in various tax laws but their implementations are shrouded in secrecy, raising concerns about the integrity of the regime. However, register of tax payers as well as that of tax agents are not available to the public.

## FREQUENCY AND CREDIBILITY OF AUDIT OF THE TAX AUTHORITIES

An assessment of tax audit regime in Nigeria by Deloitte Nigeria acknowledged that tax audits remain an area in which further improvement is still required.

It submits that a very significant challenge around tax audits by FIRS has been how to ensure timely completion. In fact, very few tax audit exercises in Nigeria commence and get concluded within twelve months, as most span for years before closure.

The study revealed that inadequate independence of the supreme audit institution, poor accounting environment, lack of executive capacity, the unsatisfactory performance of Public Accounting Committee (PAC), and the poor use of technology all pose serious challenges facing tax audit as an effective accountability tool in Public Private Partnership (PPP) arrangements in Nigeria.

From these challenges the following recommendations arise:

### POLICY RECOMMENDATIONS

- The strengthening of the independence of the supreme audit institution
- Bestirring the PAC to match its responsibilities
- Improving the accounting environment.

very few tax audit exercises in Nigeria commence and get concluded within twelve months, as most span for years before closure.

lack of executive capacity, pose serious challenges facing tax audit as an effective accountability tool in Public Private Partnership (PPP) arrangements in Nigeria.



## OPEN BUDGET INDEX CHECK ON BUDGETARY TRANSPARENCY

Nigeria's score on the Open Budget Index (OBI) 2017 is 17 on a scale of 1 to 100. This is a low performance compared to many other Sub-Saharan countries.

The OBI considers countries that score above 60 on this index as providing sufficient budget information to enable public engagement in an informed manner. Nigeria still has a long way to go to reach that. The explanation for this low score is that Nigeria provides the public with scant budget information.

The OBI assesses whether 8 key budget documents are available to the public online in a timely manner, and whether they are useful and comprehensive enough. 4 out of 8 documents are published late, not online, only for internal use or not at all produced. The ones that are publicly available online on time, are very limited in usefulness and comprehensiveness.

For public participation in the budget process, Nigeria's score stood at 13 on the scale of 1 to 100 while Ghana, South Africa and Uganda are 22, 24 and 28 respectively. On budget oversight, Nigeria's score is 56/100, compared to South Africa's 46 and Uganda's 38. These methodologies and many others measure budget transparency and Nigeria's performance is abysmally low in most of the indexes when compared to other Sub-Saharan African countries: The figure below shows further details of the OBI scores for Sub-Saharan Africa.



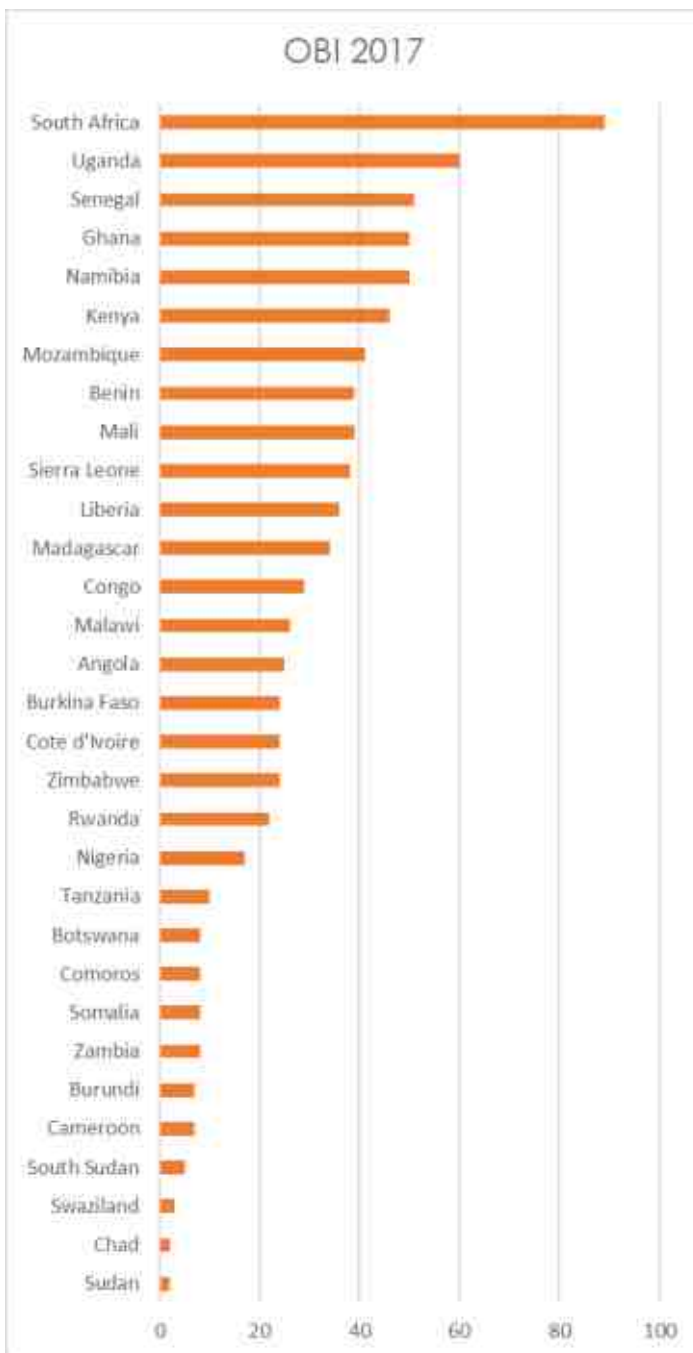
**17/100**

Nigeria's score on the Open Budget Index (OBI) 2017 is 17 on a scale of 1 to 100. This is a low performance compared to many other Sub-Saharan countries.



**56/100**

On budget oversight, Nigeria's score is 56/100, compared to South Africa's 46 and Uganda's 38.



Source: *The International Budget Survey - OBI Rankings (2017)*

## ANALYSIS OF REPORTED CASES OF CORRUPTION IN TAX ADMINISTRATION

The human rights lawyer rights lawyer, Mr. Femi Falana (SAN), has listed 10 alleged corruption cases that can fetch the Federal Government not less than \$74.5bn ( 2.5trn) if recovered. Among these cases were these three:

01

- The sum of \$9.6bn in over-deducted tax benefits from joint venture partners on major capital projects and oil swap contracts. The NNPC is said to have recovered the said sum of \$9.6bn but has not remitted it into the Federation Account.

02

- The \$1.9bn is the outstanding sum out of the \$2.5bn which Mobil ought to pay the Federal Government for the renewal of three oil blocks. Instead of paying \$2.5bn, Falana said, "Curiously, the \$600m paid by Mobil was accepted by the Federal Government," sometime in 2009.

03

- The sum of \$13.9bn which telecommunication company, MTN "illegally transferred" out of Nigeria to a tax haven abroad.

It is remarkable that despite frequent mentions of tax evasion cases in Nigeria, there are only few court cases against defaulters. This is contrary to the claims by Kemi Adeosun, the former Honourable Minister of Finance, that the foreign countries should tighten the noose on international tax crime.

The US, Germany, France and Italy various times imposed hefty fines on MNCs that were involved in scandals (Halliburton, Siemens and Malabu Oil) but their local subsidiaries and Nigerian officials who perpetrated the scams escaped with a slap on the wrist or no censure.



despite frequent mentions of tax evasion cases in Nigeria, there are only few court cases against defaulters.

### FEMI FALANA

Mr. Femi Falana (SAN) listed 10 alleged corruption cases that can fetch the Federal Government not less than \$74.5bn ( 2.5trn) if recovered.

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Former president, the late Umaru Yar'Adua, whimsically “pardoned” Siemens despite the German firm having been fined \$248 million by a Munich court in 2007 for a bribery scandal in Nigeria.

#### POLICY RECOMMENDATIONS

An independent body should have legal powers to audit the collections and expenditures of tax agencies, with the findings being made public and debated in National and State Assemblies.

## SECTION NINE: **CONCLUSIONS**

## SUMMARY OF POLICY IMPLICATION

This section is written bearing in mind the purpose of the research which is mainly to serve as an advocacy tool for influencing policy changes that will make the tax system in the country fairer to all and reduce the inequality gap. Based on the issues raised in this work and the various discoveries unearthed by this study, the study therefore puts together the following policy instruments that will contribute to a fair and equitable tax system in Nigeria.

1. To end the gender bias in the tax administration architecture, the composition of Board members of FIRS and SIRS should be 50% male and 50% female and this should also be applicable to the operational arms, management cadres of all revenue agencies.
2. The tax system should be reviewed and amended to be more equitable to women as drivers of SMEs; most especially PIT Act (direct assessment) on unorganised sector needs to be amended to ensure they achieve gender equity, legitimate, and consistent with the government's commitment to gender equity.
3. From the bracket structure (1% to 24 %), Nigeria PIT appears progressive. However, including more brackets for top earners & higher rates for wealthy individuals, as well as raising the threshold exemption should be developed to make the system more progressive; Additionally, the personal allowance should be a fixed amount rather than based on a proportion of the income of the particular individuals.
4. Taxpayers see CIT as complicated and burdensome tax, difficult to understand and to comply with. This has a strong impact on SMEs, as they suffer from a lack of structure to comply with the complex

requirements. The development of a separate CIT system with a reduced regulatory burden and inferior tax rate would increase SMEs formalization and economic development.

5. To prevent tax administration corruption the following strategies should be adopted: (i) review of monitoring and supervision structures within the FIRS/FBIR, especially by separating administrative/political functions from technical audits; (ii) make tax administration officials legally accountable and with competitive salaries; (iii) utilize digital information and technology to reduce corruption opportunities.
6. It is important to increase direct tax net rather than increasing burden of indirect tax e.g. VAT. This is how a progressive tax system could be established and more expenditure would be possible on essential public services e.g. education, health and social protection etc.
7. Outreach initiatives could be taken to motivate dormant registered taxpayers to start filing and paying taxes, such as sending reminders shortly before the filing dates. Data analysis and cross-matching can help identify taxpayers with active economic activities
8. VAT in Nigeria could be made less regressive by making a distinction between luxury and essential goods and services, therefore applying differentiated VAT rates. Progressivity would be increased if luxury goods have a higher VAT rate, regular goods the standard rate and essential basic goods a zero-rate/exemption;
9. VAT exemption for building materials that will have a direct positive bearing on middle and poor class segments of the population to

make rent cheaper and reducing house deficit in Nigeria;

10. The procedures for granting tax incentives should undergo a thorough review, focused on transparency and governance. This should include mandatory parliamentary oversight, publication of annual tax expenditure reports, clear requirements for incentives and periodic review of expected results.
11. The National assembly should enact a law that will criminalise totally the actions of middlemen – banks, auditors, accountants, and lawyers that facilitate IFF. When such professionals act contrary to existing regulations, they should be held accountable in Nigeria. This can be enforced through strengthened professional association bodies;
12. Government should aim at reaching its international commitments; the government should actually give the educational sector the budget it is allocated. Advocacy to budget office and National Assembly to seek total redress of educational sector that is in the depths of despair of development and trend is highly recommended. Statistics show that there is need for a holistic review of government spending behaviour on the education sector;
13. The overall goal of government expenditure on health is to ensure that adequate and sustainable funds are available and allocated for accessible, affordable, efficient, and equitable health care provision and consumption. In specific terms, the directive of the policy that federal, state and local governments to allocate at least 15% of their total budgets to health in line with the 2000 Abuja declaration should be respected;
14. Increased support to small-scale agriculture is essential to addressing poverty and inequality. Increased investment, review of



government incentives, elimination of bottlenecks and corrupt practices and strengthening of agricultural insurance and credit schemes are critical to achieving more inclusive agricultural growth. The Maputo Declaration (CAADP) pleads for 10% of total budget which is ambitious for Nigeria but would be ideal; and

15. There is need for the Nigerian government to fast-forward action on the new National Tax Policy approved and clamp down on corporate crimes. New legislation and rules to cope with current realities should be enacted along with introduction of cutting-edge technology. The National Assembly should enact a law to punish the “enablers” of tax evasion such as lawyers, accountants and bankers, and should be made to face fines of up to 100 per cent of tax evaded.

To move the country forward, Oxfam and its partners need to work assiduously in all three areas of advocacy inherent in all the above recommendations. Oxfam Nigeria should leverage on its already existing coalitions which it has built over the years to ensure that positive results are achieved in the key recommended actions proposed above. Given how deep rooted the challenges of the country tax system are, there is need for Oxfam and its partners to be active in all three areas of advocacy:

1. Adopting the policies instruments put forward by this study;
2. Refining existing harmful and ineffective policies discussed in this study; and
3. Ensure policies that are fair to all and equitable as shown in this study should be implemented and enforced.

## AREA OF ADVOCACY AND INFLUENCING

This report has produced a list of policy recommendations that can contribute to a fairer tax system. Advocacy efforts can be employed specifically to target the following policy recommendations:

- Advocate for more progressivity: This includes a differentiation between VAT rates for basic goods and luxury products, as well as the Consolidated Relief Allowance (CRA) structure to be adjusted to make PIT taxes more progressive. A more progressive exemption would be a flat allowance (either including, or additional to the specific exempt item).
- Advocate for more government transparency: The government needs to publish cost-benefit analyses to justify the efficiency of tax exemptions & an independent body should have legal powers to audit the collections and expenditures of tax agencies, with the findings being made public and debated in National and State Assemblies. When tax administration becomes more transparent, this can counter corruption and boost tax morale among citizens.
- Advocate for an increase of government spending on education, health and agriculture. Strive for a minimum of 10% of total budget expenditure on education, a minimum of 15% on health, and a minimum of 10% on agriculture.

## RECOMMENDED OPTIONS

Beyond coalition and network building, there is need to build a stronger front to combat the evils of the tax system in Nigeria. To achieve results, Oxfam Nigeria should work with the entire CSO and media community to enhance citizens' capacities, skills and perception to demand change and stand by their decisions. Oxfam Nigeria and its partners will need to be more proactive influencing policies in Nigeria by ensuring that it is active in all policy influencing activities which includes:

- Building coalitions, partnerships and networks around targeted policy change;
- Developing a shadow policy or come up with an alternative policy process;
- Engaging in policy dialogue at all levels;
- Helping in the interpretation of a policy;
- Initiating a framework for a new policy;
- Leveraging change through campaigns on an existing policy;
- Monitoring implementation of a policy;
- Participating in policy planning formulation;
- Reviewing content, process, participation and structure of a policy;
- Transforming policy priorities and actions to meet citizens' needs, especially citizens who are discriminated against by existing policy actions.

