

Voluntary Assets and Income Declaration Scheme (VAIDS)

Taxes, after all, are the dues that we pay for the privileges of membership in an organised society. -Franklin D. Roosevelt



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By Taiwo Oyedele

Context

It is often said that tough times call for tough measures. For Nigeria and its tax system, these are not just tough times but extra-ordinary times going by the key indicators from tax to GDP ratio, to non-oil revenue, budget deficit, debt servicing cost, internally generated revenue by states and so on. In addition to the direct symptoms, the poor tax revenue problem contribute to other macro-economic challenges such as high interest rate, poor sovereign credit rating, and even agitation for resource control among others.

Nigeria's tax revenue profile is at a crisis level and we must find a turning point or we are bound for the tipping point with dire consequences.

This calls for an urgent, drastic and robust response by all stakeholders. The convenient narrative is to say people don't pay tax because government is corrupt whereas in reality, and based on empirical evidence, the reason why government is corrupt is partly because people don't pay tax.

It has been indisputably established that when citizens pay their taxes correctly, they are more engaged and therefore hold their leaders accountable. So we have a much bigger problem with tax than anything else. Here are some numbers, and as the saying goes "numbers don't lie".

Table – Comparison of tax data	Nigeria	South Africa
Population (2016)	182.2M (NPC)	55.6M (Stats SA)
Labour force (2016)	79.9M (NBS)	21.8M (Stats SA)
Unemployment rate (2016)	13.9% (NBS)	26.6% (Stats SA)
Registered individual taxpayers	14M (JTB)	19M (SARS)
Top taxpayers paying N10m or more	943 [FGN/JTB]	950,000 (SARS, Derived)
Total tax revenue (all levels)	N6T [NBS, Derived]	R1.07T (N27T) [SARS]
Personal income tax revenue (2016)	N802B [NBS]	R390B (N9.7T) [SARS]
Tax to GDP ratio (all taxes)	6% (FGN)	26.2% [SARS]
Personal income tax to GDP ratio	0.8% [Derived]	9.5% [SARS]
Ease of paying taxes ranking (2017)	182 /190 (World Bank)	51 / 190 (World Bank)

The revenue problems

Nigeria is generally regarded as an “oil rich” nation and everything seems to centre on or around it including national budgets. This illusion of wealth means we are fixated on how to share our small national cake rather than focus on how to bake a bigger one. If the tax system had been working well, oil revenue should be miscellaneous income not the main revenue. The United States of America for instance produces over 9 Mbpd compared to just over 2 Mbpd by Nigeria yet the US is not generally referred to as an “oil rich” country – well the reason is not far-fetched, the economy runs on tax revenue, not oil.

In 2016, total tax revenue collected by all levels of government in Nigeria was about N6 trillion compared to about N27 trillion in South Africa – more than Nigeria’s oil and tax revenue combined. Altogether with oil revenue, Nigeria generates about N10 trillion (circa \$33B). Even without corruption, this amount is barely enough to fund transportation alone (roads, rail, water and air travel infrastructure and maintenance). So, more than anything else, the problem is that not many of us pay the right amount of tax as required by law. The tax net is small and the tax base is even smaller and seems to be shrinking year in year out.

The tax compliance challenge

From the table only 14 million people are registered with all 36 tax authorities and the FIRS out of almost 80 million workforce. This is even smaller than South Africa (SA) with less than one-third of Nigeria’s population and higher unemployment rate. Out of the 14 million, 96% are captured through the PAYE tax system while only 4% (or 560,000) file returns through direct assessment as self-employed and high net-worth individuals (HNIs). Within the direct assessment population, only 943 people pay N10m or more in personal income tax (including 214 who paid N20 million or more) compared to about 950,000 in SA. To pay N10 million in income tax, one needs to earn about N50 million annual income (or about N100m to pay N20m tax). Interestingly all the 943 people are resident in Lagos except 2 in Ogun state. It is not surprising that Lagos state accounts for almost 40% of total IGR collected by all 36 states, more than all other states combined excluding Ogun, Rivers and Delta. But even Lagos is only just scratching the surface. While the rest of the world worry about tax avoidance, where people do smart stuff to minimise their tax bills within the law, ours is audacious tax evasion and outright disregard for the law that is so pervasive, it is more difficult to find those who have paid the right amount of tax than evaders. It’s like hiding in plain sight or at best behind a single finger. One would

expect that it should be quite easy to find tax evaders in the “hide and seek” game but unfortunately the “seekers” are in blindfolds and shackles. The blindfolds being the lack of reliable data or tax intelligence and the shackle is lack of political will to enforce the law especially for the elephants in the room – politicians, HNIs, wealthy religious leaders etc.

The proposed action plan

On 29 June 2017, the Acting President, Prof. Yemi Osinbajo, formally launched the Voluntary Assets and Income Declaration Scheme (VAIDS), an initiative designed to encourage voluntary disclosure of previously undisclosed assets and income for the purpose of payment of all outstanding tax liabilities.

Direct benefits

The main objective of VAIDS is to increase the number of taxpayers in the tax net and raise revenue for government. Specifically, it is expected to increase Nigeria’s tax to GDP ratio from the current 6% to between 10% and 15%, broaden the national tax base, curb tax evasion and discourage illicit financial flows.

Indirect benefits

Beyond the direct benefits, high tax compliance rate and improved tax revenue will invariably lead to:

- **Good governance** – there is a direct correlation between tax compliance and good governance. This is because citizens take more interest in governance and hold their leaders accountable.
- **Better quality of life** - even if you can afford to provide for yourself and your household, it is far more affordable if provided centrally using tax money. A functional pipe borne water is better than a million individual boreholes.
- **Reduction in the size of black and informal economy** - by transitioning them into the formal economy, which is better regulated and can serve the people better.
- **Robust national planning** - invariably, a lot of useful data is provided through tax compliance which can be used for sound economic policies and national planning.
- **Sovereign credit rating** – if the country’s revenue base is diversified, and more reliant on tax rather than oil, lenders will see Nigeria as more credit worthy and hence our sovereign credit rating will improve leading to lower borrowing rate/cost. This will also result in lower interest rate within the economy to promote growth.

- **Stable exchange rate** - better credit rating means more inflow of foreign exchange which will inevitably strengthen the Naira.
- **Inflation control** – government will have less need to borrow as a means of controlling inflation. Tax will take care of this. It's like issuing zero coupon, non-repayable government instruments. Monetary Policy Rate can then be reduced to drive down interest rate and real sector players will be able to access funds.
- **Savings and investment** - lower interest rate will lead to a more likely positive real returns on savings once inflation is lower than interest rate. This will also make the capital market more buoyant.

How will the scheme operate?

Structure: The Scheme would be implemented by the Federal Inland Revenue Service (FIRS) in collaboration with all 36 State Internal Revenue Services and the FCT IRS.

Framework: The legal basis for the Scheme is an Executive Order signed into law by the Acting President and a Memorandum of Understanding signed between the federal and state governments.

Duration: The Scheme will commence on 1 July 2017 for a period of 9 months.

Incentives: Taxpayers who make full and honest declarations will enjoy waiver of interest and penalty, immunity from prosecution, confidentiality of information supplied, exemption from tax audits for the periods covered by the disclosure and flexible payment of tax due.

Scope and applicable taxes: The Scheme is applicable to all persons (individuals, companies, executors, trustees, partnerships etc) that are liable to tax in Nigeria. Taxes covered include Companies Income Tax, Personal Income Tax, Withholding tax, Petroleum Profits Tax, Capital Gains Tax, Value Added Tax, Stamp Duties, Tertiary Education Tax and NITDA levy.

Non declaration: Taxpayers who fail to participate in the Scheme will be investigated and if found culpable will be subject to criminal prosecution. A

'name and shame' list of tax evaders will be published. Government will rely on tax intelligence gathering, whistle-blowing and various international conventions and multilateral agreements to obtain information required for prosecution of defaulting taxpayers or those who make false declarations. An international forensic and asset tracing company has been engaged to support this process.

Tax awareness: There will be sensitisation for taxpayers and the general public. About 7,500 Community Tax Liaison Officers (CTLLO) are being recruited and trained for this purpose. Effective from 29 June 2017, every Thursday will be declared as '**Tax Thursday**' to focus on tax matters.

Conclusions

Given the current state of the economy in the face of huge revenue challenges, ballooning budget deficit and rising debt servicing cost, this measure is expedient to change the country's tax narratives. According to an IMF survey, it is difficult for any country to achieve sustainable development with a tax to GDP ratio under 15%. Tax is however not a stand-alone issue, there must be economic prosperity for individuals and businesses to pay tax. So this Scheme should go hand in hand with the Economic Recovery & Growth Plan, implementation of the new National Tax Policy and efforts aimed at enabling the business environment. Other measures should be put in place to compliment the Scheme including a comprehensive tax law reform, simplification of tax compliance, transparent reporting of tax revenue and utilisation.

All taxpayers should embrace this opportunity to correct any areas of non-compliance with their tax obligations and going forward hold government accountable for effective utilisation of revenue collected. Politicians should lead the way in remediating their tax affairs. All stakeholders need to work together for effective implementation. The proposed Bill on tax amnesty currently before the House of Representatives should complement and provide more legal backing for the VAIDS.

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