

OFFICE OF THE ACTING PRESIDENT

PRESS RELEASE

HOW TAX-PAYING NIGERIANS CAN CURB CORRUPTION, MAKE GOVTS RESPONSIBLE, BY OSINBAJO

SPEECH DELIVERED BY HIS EXCELLENCY, PROF. YEMI OSINBAJO, SAN, GCON, THE ACTING PRESIDENT OF THE FEDERAL REPUBLIC OF NIGERIA AT OPENING OF THE VOLUNTARY ASSETS AND INCOME DECLARATION SCHEME AT THE BANQUET HALL, STATE HOUSE ON THURSDAY JUNE 29, 2017

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“According to the Federal Inland Revenue Service, the total number of tax payers in Nigeria is just 14 million. Of this number, 96% have their taxes deducted at source from their salaries under the P.A.Y.E system while just 4% comply under Direct Assessment. So the vast majority of Nigerians do not pay taxes.”

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PROTOCOL

Let me welcome you to a very happy and exciting morning. I looked all over the room and I see that there are several people here who have promised to pay more taxes and I was making my notes diligently because when we leave here, we'll be asking a few questions about how much tax people have being paying.

Taxation has always been the basis of raising public revenue in practically every society. It was so normal that one American thinker said that two things are certain; death and taxation. Without a doubt, in many parts of the world, two things are considered certain; death of course is certain, and then taxation.

But one other fellow who I suspect is a Nigerian added to those words of wisdom; he said tax and death are certain but at least death is only once but tax is every year.

In Nigeria, historically, every one of the old regions recognised taxation and it's interesting that practically every region sponsored all its programmes with tax money. The first region to recognise formal tax was the Northern region and thereafter, the South and last being Southeast. When I mentioned this to a very good Governor friend of mine who is from the Southeast that how come the Southeast came last in taxes, he said that "we were the smartest of all. (General laughter)

But because people paid taxes, the level of political and social consciousness was high. I was reading some notes on free education in the West and it's so interesting that free education in the West was paid for mainly from taxes of the people. The people were mainly farmers but they paid taxes in order to be able to pay for a programme such as free education. Many resisted the payment of taxes for free education. But when you look at the history of it, it was a very painful exercise, it was widely resisted even in the West. People didn't want to pay taxes but the result of the payment of taxes was one of the most successful free education programmes in the world. It is still cited as one of the most successful.

One thing that it showed was that when people pay taxes, they pay attention to what government is doing. There's a level of social and political consciousness which people have when they pay taxes. So when people say that this is tax payers money that you are spending in that way, it is evident that it's because this money is coming from their pockets that they are able to question political authority, question people who say there're representing them and question government programmes as well. Taxation leads to a situation where the people hold the government to account.

A few years ago as Attorney General in Lagos State, I had a very interesting experience. There was a man who worked with me and was in the administrative cadre. He was the secretary of the Thrift Society; this is a society where people pay a certain amount of their salary every month into a pool and they take it in turns to draw from that pool. It's called 'ajo' in some places but it's a thrift type of society.

One day, I heard that the man had disappeared but his wife and children had been arrested and I was quite surprised. As it turns out, the man who was supposed to collect his own portion of the money came to collect it and discovered that this fellow had run away. Why? Because the fellow couldn't account for the money. So the man told other members of the thrift society and they apprehended his wife and children and took them to the police station.

It was while they were there that the report was made to me. It struck me that here was a situation where people decided that they had to go against this person by law because the man had made way with resources and they didn't even wait for the man to come back because they went to arrest his wife and children.

When you compare that for instance with a man who becomes a local government chairman and didn't even have an okada when he was campaigning, and becomes local government chairman today and the next day he's riding around in a jeep which he says he bought by the blessings of the almighty God. When that happens, you hardly find people going to arrest or tackle him. Why? Because people don't feel it's their money. It is not tax payers' money. They just say it is money, government money.

But when people pay taxes, there is no way they will allow the kind of corruption we find in the public space today because people will say it's their money and will hold public officers to account. I think it's very important from the point of view of accountability and from the point of view of holding those of us in government to account.

This is part of the reason we are trying to reset our whole attitude to tax and the Nigerian economy. Because when you look at what has happened with oil, obviously nobody paid any more attention to taxation and of course with the coming of the Military, there

seemed to be enough money, so taxation was almost completely ignored.

So what we found, by and large with oil money diminishing, was tax wasn't coming to speed at all. We are just not making as much money from non-oil revenues and today we are faced with a situation where if we don't ensure that people pay taxes, we will certainly not be able to sustain social services or any kind of services for the growing population of our people.

The Nigerian tax system is based on global best practice, so it's a progressive tax system ensuring that those who have high incomes contribute more while those with lower incomes contribute less.

Considerable progress has been made with taxing those in salaried employment; generally speaking, those who earn salaries that are known in the formal setting pay taxes. Those are the people we know who pay taxes. Outside of that group of people, there are many high net worth individuals, self-employed professionals and companies that are able to evade full tax payment due to the historical inability of tax authorities to assess their true income.

According to the Federal Inland Revenue Service, the total number of tax payers in Nigeria is just 14 million. Of this number, 96% have their taxes deducted at source from their salaries under the P.A.Y.E system while just 4% comply under Direct Assessment. So the vast majority of Nigerians do not pay taxes. That's just the sum and substance of this. This is at variance with the structure of our economy where we are estimating that almost 70 million Nigerians are economically active. This means that just 20% of people engaged in one form of business or the other are registered and paying taxes.

There is a detailed analysis of those paying taxes and the statistics really are quite alarming. Despite having some of Africa's wealthiest people whose lifestyles are the subject of global admiration, only 214 Nigerians pay taxes of N20 million or more each year. For the non-mathematicians amongst us, a personal tax bill of N20 million implies a personal income of 80 million. Even in this room and I'm not looking anywhere in particular, I'm sure I can count at least another 214 people that earn more than 80

million a year. That group of 214 excludes many names and of course there are so many people who can pay well over 20 million.

Another worrying observation is that the 214 who shall remain nameless are all based in Lagos State. There's another figure that talks about those who pay over N10 million and that comes to 914 or so, but that number, all except 2 are from Lagos State, the other two are from Ogun State, which by the way is my State. To be honest about this, what we are to believe is that nobody is earning over 80 million in a year or even less than that in other States. Don't forget that these are people who are directly assessed.

I was privileged alongside our President, President Muhammadu Buhari to travel the length and breadth of this nation and can assure you that there is a fairly equal spread of high net worth people in this country. Before any one attempts to cover their embarrassment with an indication of how much taxes are paid through their companies, as a lawyer I'm well positioned to inform you that such explanations are not tenable.

There must always be a correlation between personal income taxes and personal lifestyle. Personal assets can only be financed by income that has been subjected to tax. No company's expenses should account for the cost of a jetset lifestyle or luxury personal apartments. Neither can any company account for the estimated 320 million pounds that Nigerians pay in overseas school fees in the United Kingdom alone annually. Such expenses are "non-allowable deductions for company income tax purposes".

Let me explain this complicated thing I have just said: if you have children abroad and you're paying good money or if you have a very nice apartment where you live, a lot of those personal lifestyle things cannot be covered up under company's expenses because they are your personal lifestyle issues. Those are not allowable, you can't deduct them from your company expenses. As a lawyer I know you really can't dodge taxes in that way.

So those who have been doing so, some of who are here, at least be assured that it is not permissible and you can't hide those kinds of expenses under your allowable expenses in your company.

Now let me make it clear that this problem is not exclusively confined to the rich. At all levels of income, there is evasion of

taxes. Many people have multiple income sources but declare just one. Tax is not a tip given to government according to how we feel. It's an obligation and a civic duty. It is very clear that in the past, Nigerians have used tax evasion techniques to minimise personal tax burden but the problem is not limited to individuals. Data that is available at our disposal suggests that tax evasion is equally prevalent at the corporate level, indeed more so. Many companies have distorted the ancient accounting concept of double entry and now maintain two or three sets of books; one for the tax man showing low revenues and high expenses, another set showing the reverse for internal views. Others collude with corrupt tax officials over the years to fraudulently understate their obligations to government. Some have charged VAT and not remitted it to the FIRS. Others have deducted taxes from employees' salaries and have pocketed the funds.

Tax evasion is not a uniquely Nigerian practice, some multinationals have used profit shifting to rob Nigeria of its share of the revenues generated from within this nation. You've heard that Nigeria's tax to GDP ratio is just 6% and this is one of the lowest in the world. We must change this.

For the last 15 months, a high level team has been working with the Ministry of Finance, undertaking a major data mining exercise. The project was called project Light House and has been able to search various databases including but not limited to Bank Verification Numbers, Corporate Affairs Commission, Nigerian Financial Intelligence Unit, Land Registry Records, Vehicle Registration Records, Immigration and Travel Records and of course mainly Whistle Blower tips to track financial outflows. The project has also engaged, on retainership, one of the world's leading asset tracing firms. Nigeria has also solicited and obtained input from various nations who have availed us with data under the many conventions and treaties that they've signed. The project has been able to create accurate financial profiles of many thousands of Nigerian companies and individuals which shows levels of non-compliance.

Tax evasion is not just a civil matter, it is also is a crime. I think that we all must be familiar with the fact that in many countries of the world where tax revenues are used, it is because of the level of tax compliance which is enforced by law.

There is a global movement to tackle the problem of illicit financial flows which includes tax evasion. Nigeria is now party to the automatic inclusion of information which comes into effect in 2018. This means that Nigeria will automatically have information required to successfully pursue tax evaders across the world. Specifically, we will have access to details of the beneficial owners of assets held abroad including those in tax havens.

The level of non-compliance suggests a fundamental problem across the nation and at all income levels. This has influenced our decision to recruit and train the 7500 Community Tax Liaison Officers who we saw a few minutes ago and some of whom we've heard from today. These young graduates will go back into every community and educate us all on the tax system and the duty it imposes on every economically active citizen.

We must recreate our original society structure where every citizen pays their fair share of tax from their produce even long before the creation of money. To this end, we have agreed that every Thursday starting from today and for the next one year will be declared "Tax Thursday".

We expect the FIRS and every State Government, of which we will be asking for the collaboration of Governors of the States, to organise sensitization events to raise awareness of the tax system which will result in massive enrolment of new tax payers. We must enrol at least 4 million new tax payers and increase the level of payment amongst the 14 million already registered.

We expect that all State Governors will personally meet this initiative and support the work of the Community Tax Liaison Officers, CTLOs, by personally participating in programmes every Thursday. I also request that the CTLOs are supported by other state officials to ensure that they are accepted and welcomed in our shopping malls, markets, airports, schools, places of worship and community gatherings.

It is our collective duty to ensure that every adult citizen knows his or her duty to this nation. It's interesting that despite differences in language and culture and even political persuasion, the subject of payment of taxes unites all Nigerians. Nigerians of all languages and tribes will demonstrate a remarkable degree of national unity when asked why they fail to pay taxes. In chorus they will declare

in various tongues and dialect – we don't pay because Government is not providing the services or ask, what are they doing with the taxes anyway? How do we know that the taxes will not be diverted?

Some people say that we are already pseudo Local Governments anyway and provide all these services ourselves and still pay some levies. However, this is a false economy because collectively through the tax system, we can achieve more with greater cost efficiency rather than a selfish everyman-for-himself-and-God- for-us-all approach.

A million generators instead of a single power plant is inefficient. A thousand jeeps instead of a road repair programme is erodible as our plethora of bore holes instead of pipe borne water. I could list more examples. However, I fully understand that the call for improved tax compliance must be accompanied by accountability and service delivery. The issue of accountability for tax revenue is one that this government led by President Muhammadu Buhari is fully ready and able to address.

This government has demonstrated that it has the will and the capacity to deliver services to Nigerians. During the worst economic recession in memory, we have delivered some critical projects with less money, we have demonstrated the unrelenting fight against corruption that funds paid to government must and will be used for projects that will directly improve the lives of Nigerians.

In our war on waste and inefficiency at all levels, we have positioned ourselves to ensure that tax revenues will be a driver of real lasting and wealth creating progress. Through our physical sustainability drive, we are systematically replicating those reforms at State government levels.

Based on information on tax evasion that is now available, our personal preference is that those who have diverted Nigeria's legitimate tax revenues abroad or concealed them within Nigeria should face the full force of the law. However, the extent of non-compliance coupled with the urgent need to revive the economy has persuaded all of our policy makers that we adopt a pragmatic approach of declaring a time limited programme to be known as Voluntary Assets and Income Declaration Scheme, VAIDS. This is

being operated by the Federal Income Revenue Service and all the States' Boards of Inland Revenue and applies to all taxes.

The Voluntary Assets and Income Declaration Scheme, VAIDS will be operated from July the 1st, 2017 until the 31st of March, 2018. It will be supported by an Executive Order that I will sign into law today. VAIDS will offer a once in a lifetime opportunity to those in default to regularise their tax affairs.

In exchange for full and honest declaration, tax payers will receive immunity from prosecution, forgiveness of penalty and interest that is due on unpaid taxes and the full assurance of all information provided will remain confidential. In addition, participants in the scheme will not be selected for audit investigation for the period covered. This is an offer in the spirit of national reconciliation and rebuilding and must be taken as such.

In addition because we understand that some tax payers will have challenges in raising cash, we have built in a system that will allow those owing to pay over a period of time subject to conditions. Upon expiry of the scheme, we will consider those who have failed to take advantage of this offer or who have declared falsely to be wilful tax defaulters and economic saboteurs. We will then proceed with aggressive investigation with a view to criminal prosecution.

We will also publish a tax defaulters list, to name and shame those refusing to do the right thing. To support the VAIDS programme, we will create mass awareness, we will be conducting extensive sensitization workshops for professionals in Law, Accounting and Taxation, to enable them provide advice to the truly patriotic Nigerians who want to take advantage of this olive branch which is an offer of amnesty. I urge those who believe that they may be in default to consult with their professional advisers. I also urge you to consult with your spiritual advisers and you clearly understand that payment of taxes is an obligation in all the major religions.

I am certain that there will be more consultations concerning this programme but the most important consultation must take place in our quiet moments of self-reflection when we consult with our conscience. We must ask ourselves candidly whether we have been fair to our country; whether the nation on which we have generated our wealth has received its fair share, whether we have

contributed to the welfare of our fellow Nigerians by paying our fair share of the funds needed to develop this country.

We need to do our civic duty with pride by paying the right taxes. Let us join together and defy the sceptics who are convinced that Nigerians will never pay taxes. These same sceptics are equally convinced that Nigeria will not progress. But together we can build this great Nation and finally attain the progress that we so earnestly desire and so richly deserve.

Today I declare payment of tax is our duty to our nation and I declare the Voluntary Assets and Income Declaration Scheme open.

I thank you very much for listening, God bless you.

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