

AGENDA

The Burden and benefits of tax compliance in Nigeria: Managing the changing landscape and preparing for the inevitable taxing times ahead

Time	Topic / Event	Facilitator
9.00 - 9.45	Registration and Breakfast	All
9.45 – 10.00	Introduction & Welcome	Kenneth Erikume
10.00 – 10.10	Opening Remarks by PwC's Senior Partner	Uyi Akpata
10.10 – 10.40	The Changing Tax Landscape & 2016 Paying Taxes Report	Taiwo Oyedele
10.40 – 11.10	Presentation by FIRS	Babatunde Fowler
11.10 - 11.30	Presentation by LIRS	Folarin Ogunsanwo
11.30 – 12.30	Panel / Interactive Session	PwC, FIRS, LIRS
12.30	Closing and Lunch	All

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The Burden & Benefits of Taxation: *Preparing for Taxing Times Ahead*

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This presentation covers ...

30 minutes

1.
Nigeria's Tax
Temperature

2.
The Changing
Tax Landscape

3.
The Burdens &
Benefits of Tax
Compliance

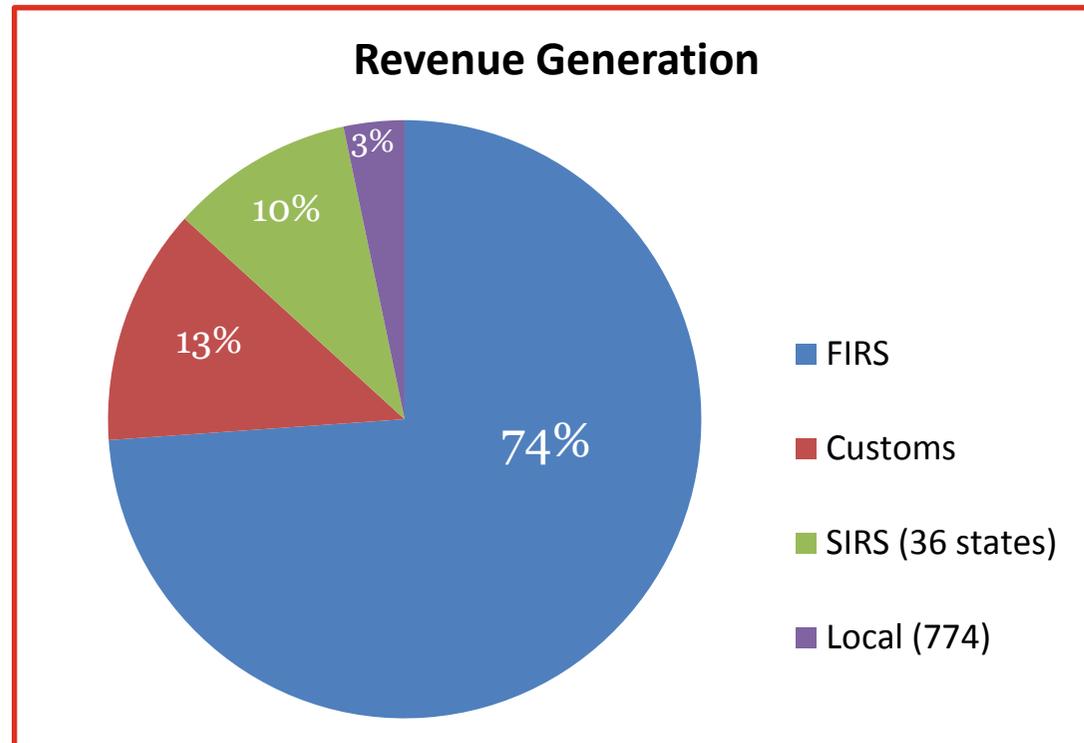
4.
Closing
Thoughts

1

Nigeria's Tax Temperature

Tax revenue collected by all 3-tiers of government in fiscal 2013 was \$38bn which declined to about \$30bn in 2014

Fiscal Year 2013	
Agencies	Revenue N'm
FIRS	4,805,642
Customs	833,400
SIRS (36)	648,897
Local (774)	216,299
Total	6,504,238



**Total tax revenue of N6.5 trillion as a percentage of GDP of N80 trillion in 2013 is circa 8%*

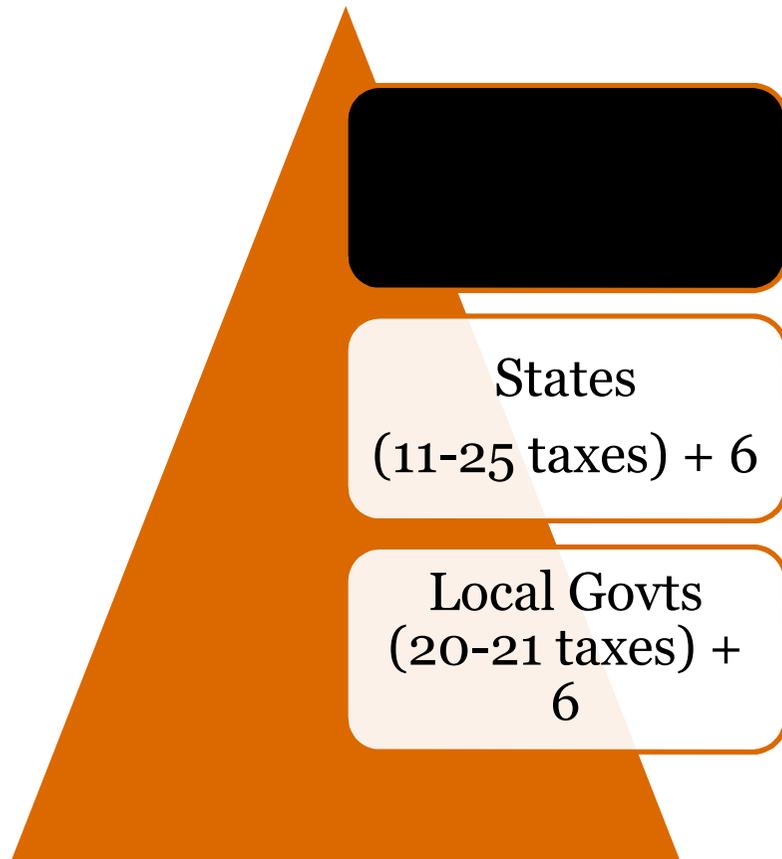
Nigeria's Tax to GDP ratio is the 2nd lowest in Africa and 4th lowest in the world

Nigeria's tax to GDP ratio is one of the lowest in the world

Country	GDP \$'m	Tax to GDP
Nigeria	\$510	8%
United States	\$16,720	17%
China	\$13,370	23%
Japan	\$4,729	35%
Germany	\$3,227	45%
France	\$2,273	52%
United Kingdom	\$2,378	40%
Brazil	\$2,422	39%
Russia	\$2,553	21%
Italy	\$1,805	48%
India	\$4,962	10%
Mexico	\$1,845	22%
Indonesia	\$1,285	16%
Turkey	\$1,167	23%
South Africa	\$381	25%
Angola	\$132	43%
Ghana	\$90	23%
Kenya	\$80	17%
Afghanistan	\$45	11%

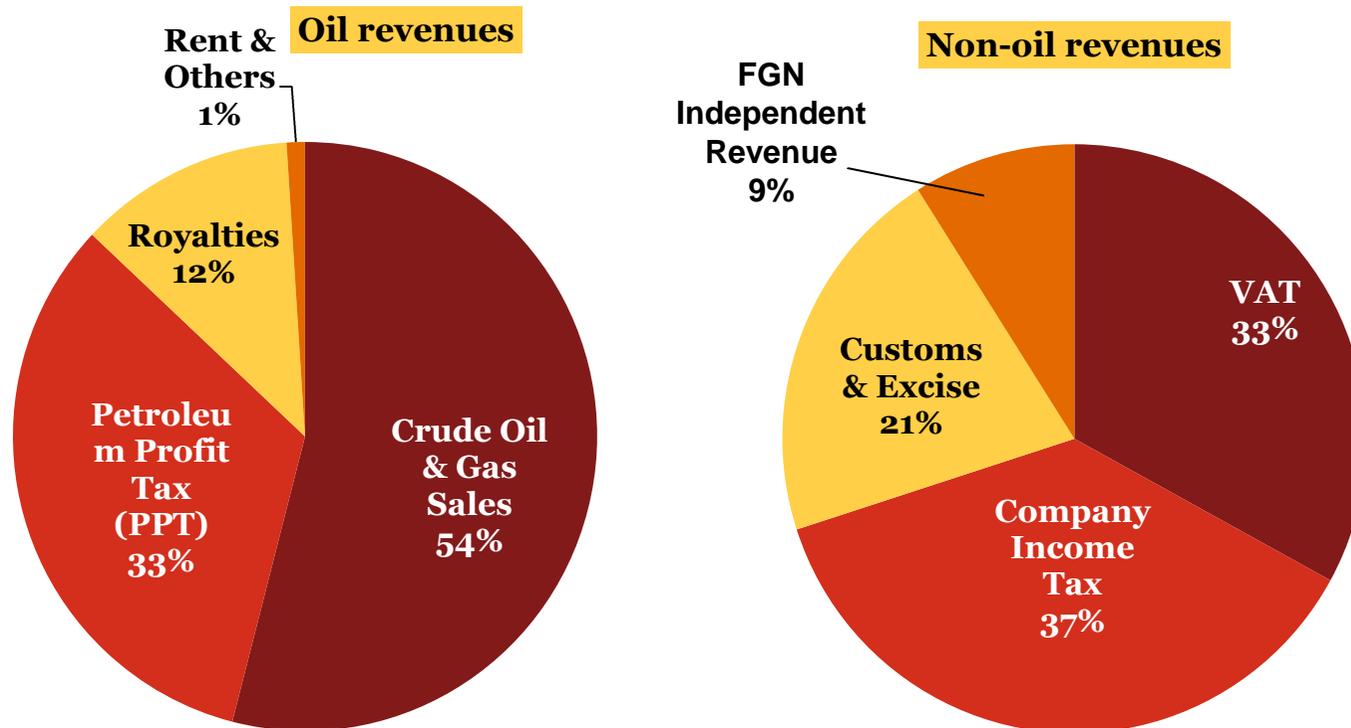
<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2221rank.html>

... this is despite the many taxes that are collectible by governments at all levels



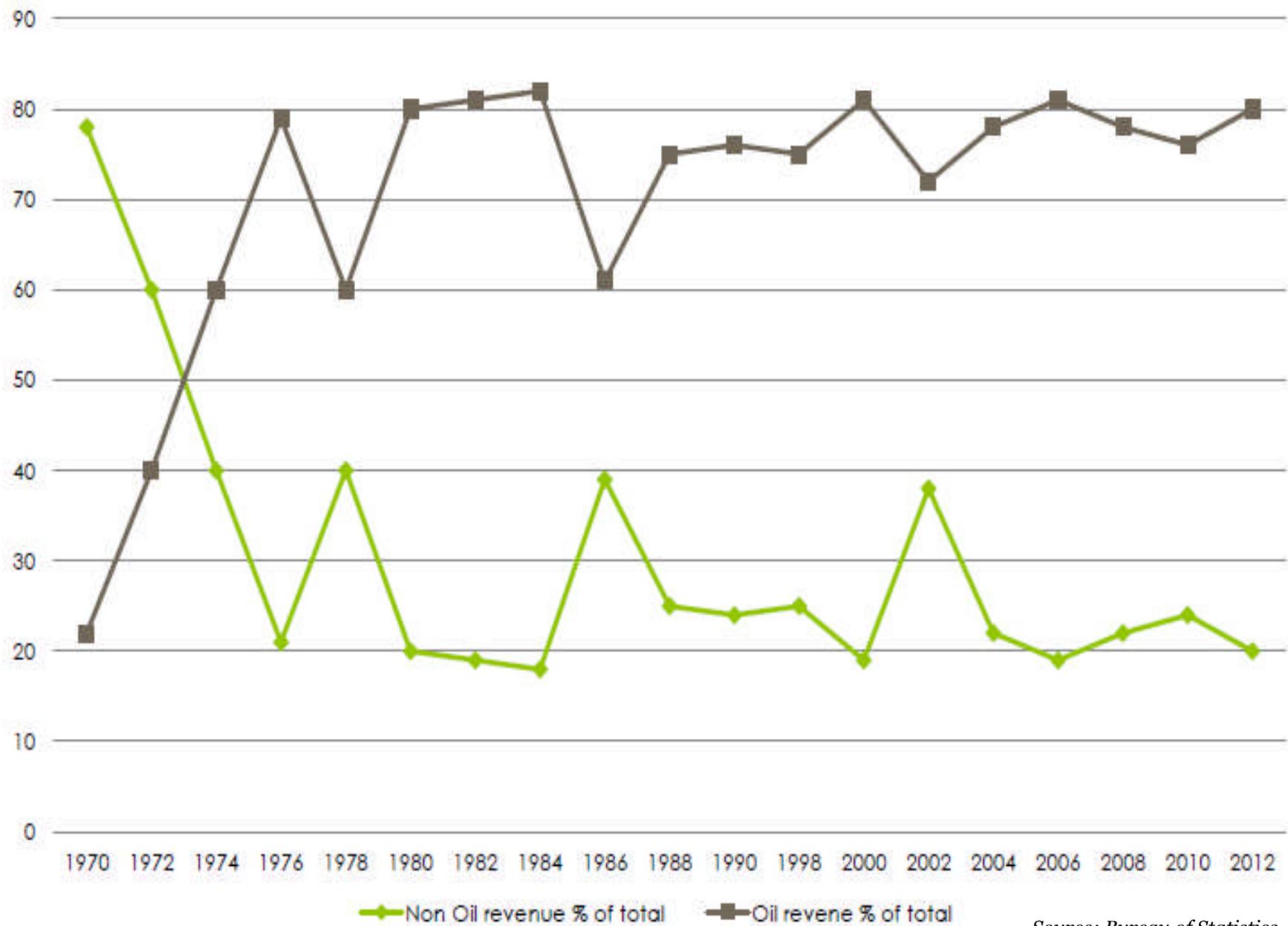
- There are even more taxes that are not on the approved list
- The official list of approved taxes was recently increased from 39 to 61
- New list merely compiles the myriad of taxes at all levels but did nothing to harmonise them
- Ironically, if double taxation is eliminated and multiple taxes are harmonised, government will collect more and taxpayers will pay less

Less than 50% of the revenue accruing to government from oil is derived from taxes



Source: Nigerian Budget Office, Breakdown of Annual Average Oil Revenues (2008-2012)

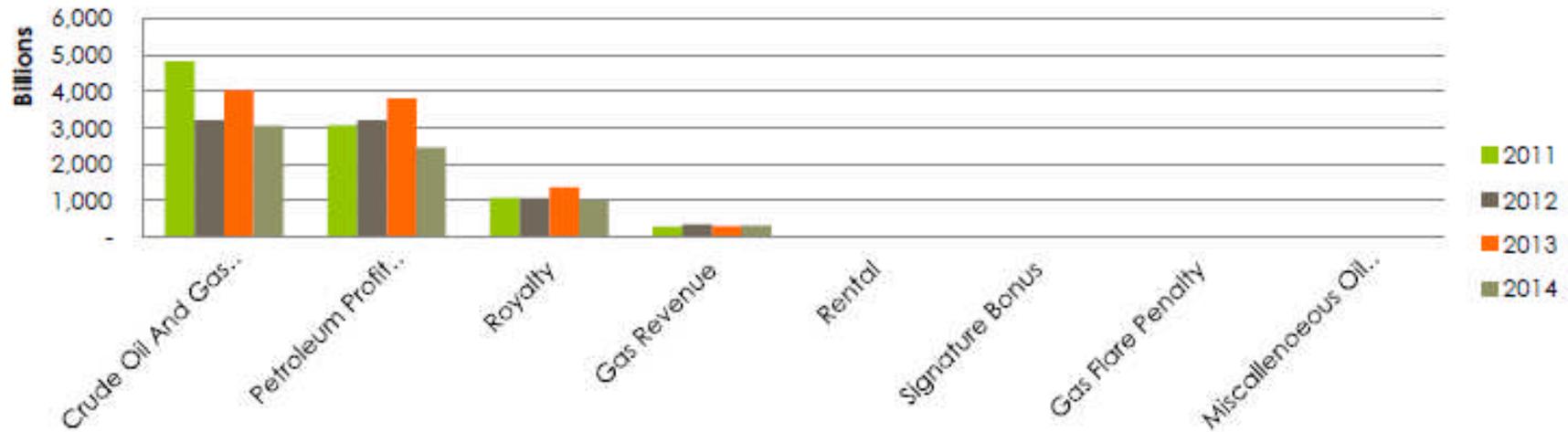
Contribution of oil and Non Oil revenue 1970-2013



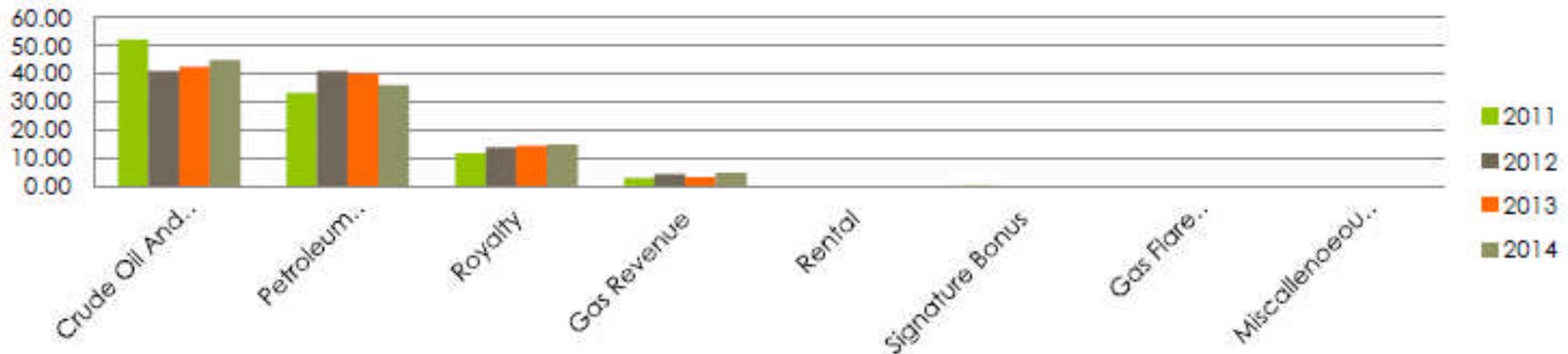
Source: Bureau of Statistics

Breakdown of Oil Revenue

FGN OIL REVENUES



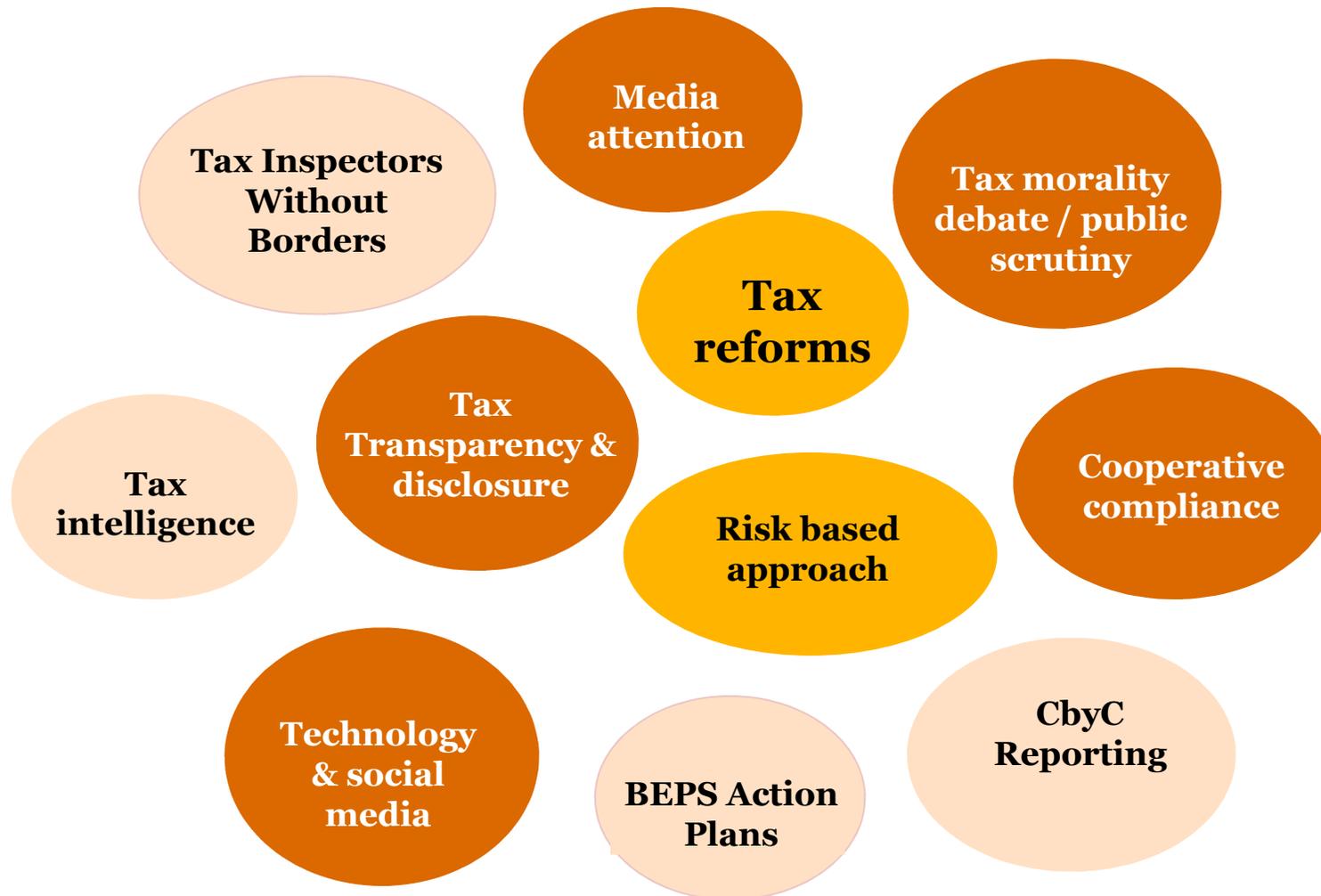
Distribution of Oil Revenues



2

*The Changing
Tax Landscape*

What's changing in the global tax space?



What's changing in the Nigerian tax space?

Recent developments

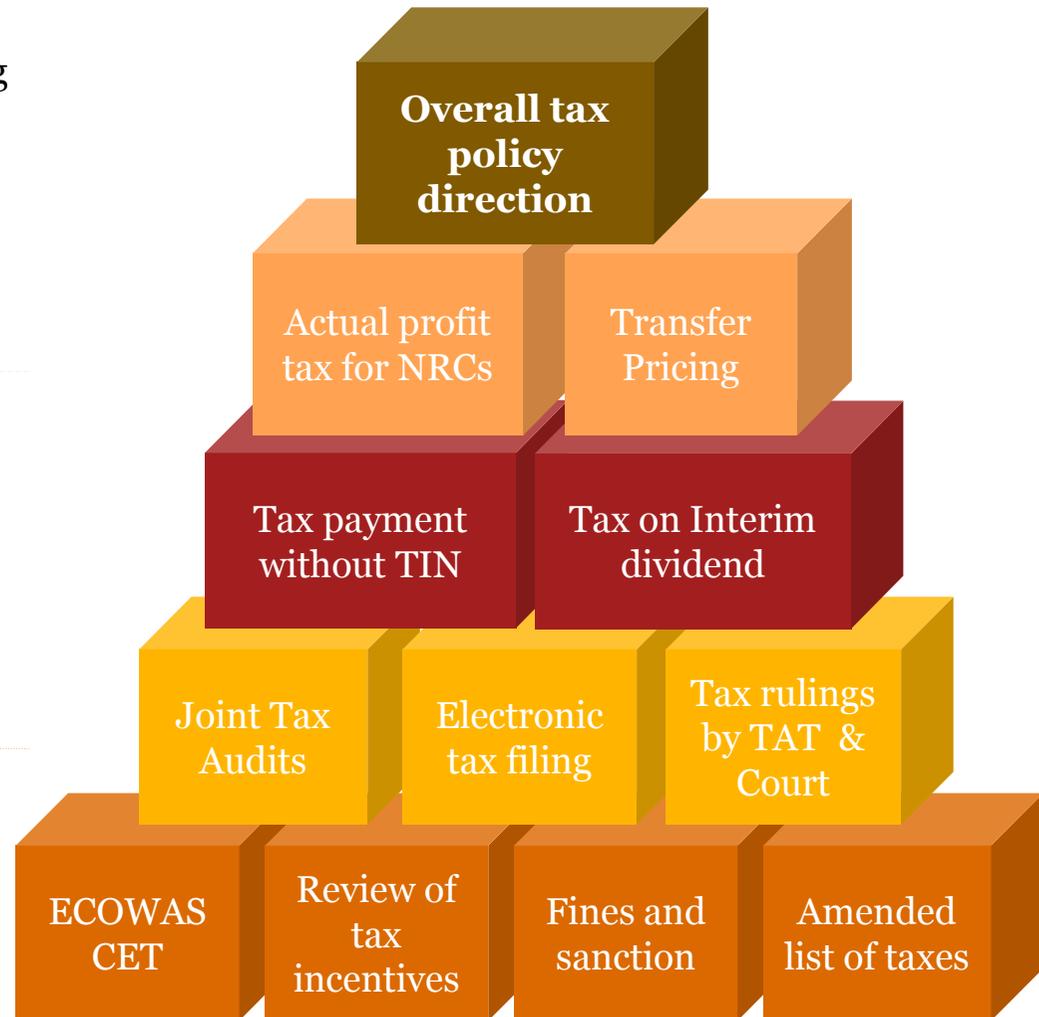
- Transfer pricing implementation/NRC filing
- Fiscal policy measures, TSA, exchange control etc
- Decided cases
- New list of Approved Taxes & Levies
- Proposal/New Bill (4% TET & 5% Security Tax on companies)

Tax authorities approach

- New leadership at FIRS/SIRSs
- More aggressive stance e.g. tax audits/raids
- Participation in global BEPS action plan
- Introduction of e-filing
- Tax diversification/focus on IGR
- Tax authorities collaboration and international influences

Implications for Taxpayers

- Higher tax risk
- Increased cost of doing business
- Medium and long term benefit if everybody complies
- Counter cyclical



3

The Burdens & Benefits of Tax Compliance

Tax Compliance

The benefits

- Reduced reliance on revenue from oil
- Provides a sense of belonging and a skin in the game
- Leads to better governance as people demand accountability
- Reduces inequality as people pay according to their ability and social safety net can be provided for the poor/vulnerable
- Provides a level playing field for businesses
- Long term sustainable growth for the economy
- Provision of infrastructure and social well being resulting from better standard of living
- Information to develop tax policies and better management of the economy
- Helps to prevent or detect corruption

Tax Compliance

The burden

Broadly speaking, there are two major types of tax cost

- **Taxes borne** - This is the quantum of tax payable based on the organisation's or individual's tax returns. It is affected by the operational results, the nature of the organisations' operations/transactions, the degree of care exercised during tax compliance and the interpretation of tax legislation.
- **Tax compliance cost** - This is the cost of running and managing the tax affairs of the organisation. This cost is measured in terms of time, money and resources dedicated to the tax function.
- Unfortunately, the tax burden in terms of compliance cost in Nigeria is very high. In some cases, the cost in terms of time and money is more than the tax payable.

Paying taxes is difficult even for those who are willing to comply

Based on the ease of paying taxes survey by PwC and World Bank, Nigeria ranks very low overall and 3rd most difficult economy for tax compliance out of 189 economies surveyed.

Overall Nigeria ranks 181 out of 189 economies covered by the 2016 Paying Taxes Survey by PwC and the World Bank. This is a decline from 179 last year.

Both the tax cost and the tax compliance burden are important from the business point of view and these are measured using three sub-indicators:

Total Tax Rate



33.3%

Time to comply



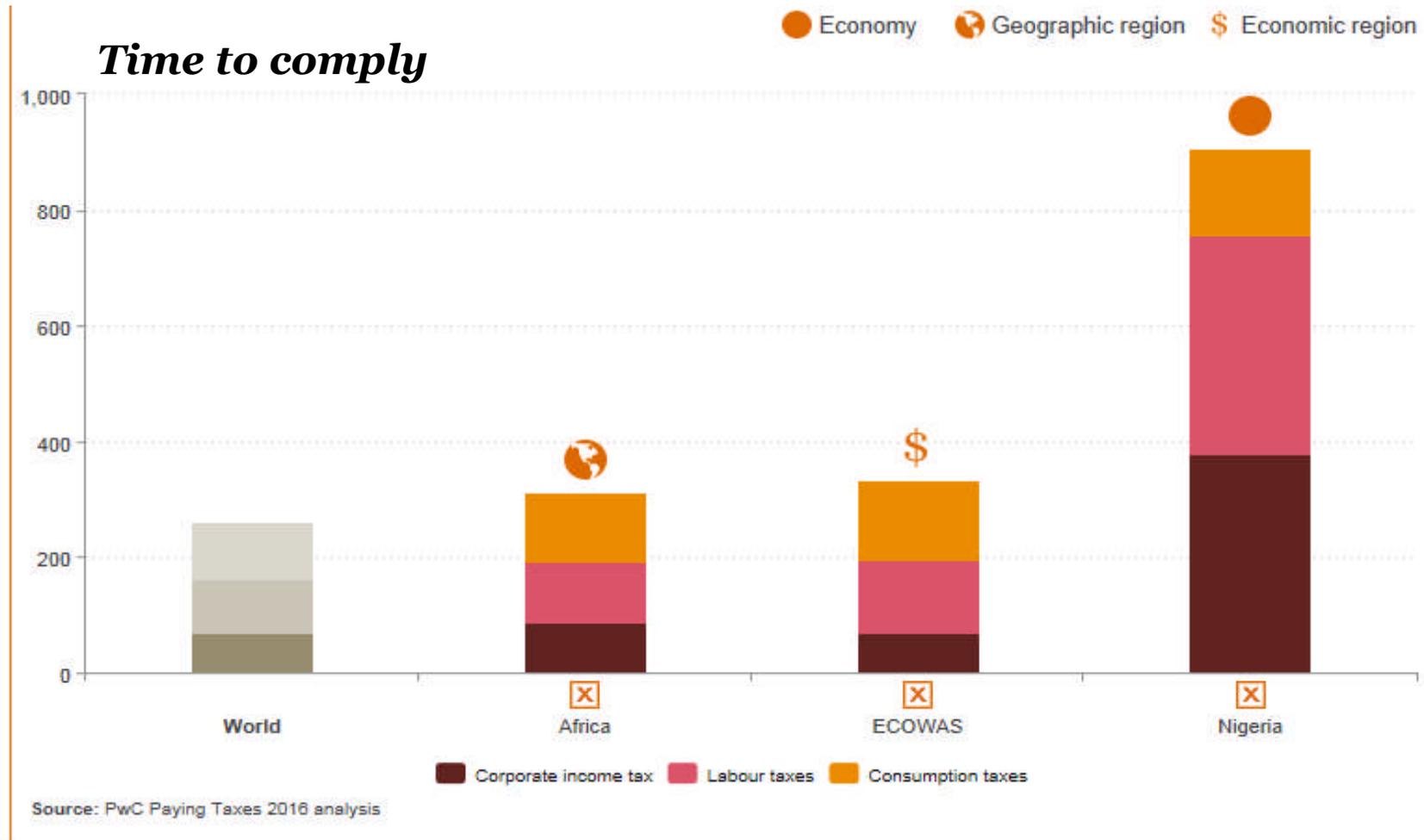
908 hrs

Number of payments



59

It is likely that tax compliance will get even more complex ...



How to address the challenges

A good tax system should have the following attributes:

- Simplicity, certainty and clarity
- Low cost for taxpayers to comply
- Low cost of administration by the tax authorities
- Fairness i.e. all citizens are treated equally which means those who do not pay are punished
- Dynamic and flexible – There should be regular reviews to ensure the tax rules are in tune with business realities
- Accountability and good use of taxpayers' money is key

Measuring metrics that matter

Tax Administration Diagnostic Assessment Tool (TADAT)



TADAF by IMF

The TADAT framework comprises nine performance outcome areas. Linked to these are 27 high-level indicators that are scored and reported on. 60 measurement dimensions are taken into account in arriving at each indicator score.

Scoring

Indicators have between one to four measurement dimensions. Each of these dimensions will be assessed separately and the overall score for an indicator will be based on the individual dimension scores for that indicator. The final result will be 27 scores that will provide for the identification of the administrations strengths and weaknesses.

4

*Closing
Thoughts*

Conclusions and closing thoughts

The tax environment is changing. No longer business as usual

Pay more attention to tax matters. Compliance must be total

Ensure to follow due process when dealing with government

Design tax controls and risk management framework

Government must simplify tax compliance

There should be benefits to the people for taxes paid

Overall, you need to keep abreast of tax developments and ensure effective compliance. Refrain from using tax avoidance vehicles created without economic substance. And avoid aggressive tax planning.

“Taxes, after all, are the dues that we pay for the privileges of membership in an organised society.”

**Franklin D. Roosevelt: "Address at Worcester, Mass.,"
October 21, 1936.**

Thank you!

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Questions!

Which of the following best describes your level of tax compliance both as an individual and for the organisations you represent?

Hint: Consider all taxes e.g. PIT, VAT, WHT, CIT etc.

1 90% or more



2 Between 50% and 90%



3 Between 20% and 50%



4 Less than 20%



5 I have no idea

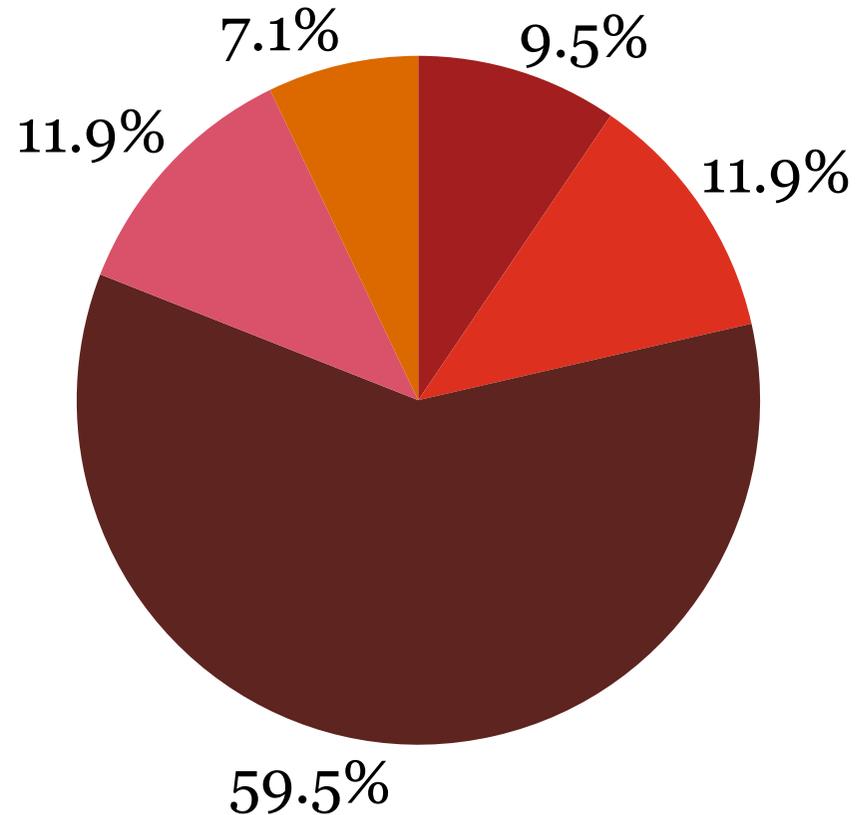
0.0%

What do you consider the number one reason why many people don't want to pay tax?

- 1 The people are too poor to pay taxes
0.0%
- 2 The people are not aware of their obligations to pay
0.0%
- 3 Because people cannot see taxpayer money at work
70.0%
- 4 It is due to poor enforcement by tax authorities
7.5%
- 5 The rules are unclear and compliance process is too complex
22.5%

When dealing with tax compliance, which of the following do you find most difficult or complex to comply with?

- Personal Income Tax (including PAYE)
- Value Added Tax
- Withholding Tax
- Companies Income Tax
- Other taxes



Which of the following strategies do you think government/tax authorities should focus on as a matter of priority?

1 Focus only on tax evaders in order to expand Nigeria's tax net and revenue generation



2 Reduce direct taxes (such as PIT, CIT) and increase indirect taxes (such as VAT & excise duty)



3 Review tax incentives and block tax leakages



4 Carry out tax audits of all companies to improve overall compliance



5 Declare a tax amnesty to bring more taxpayers to the tax net

