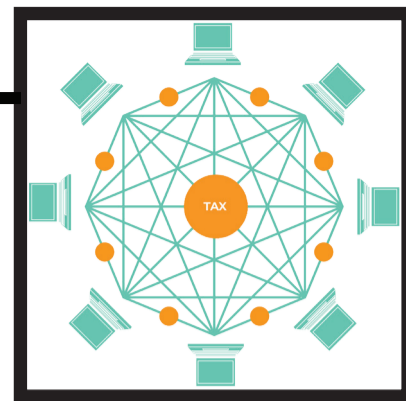


Key Considerations for Improving Electronic Tax Administration in Nigeria



Over the past decade, there has been a strong global move towards digitalisation. Most sectors are gravitating towards improving and transforming their business operations. Business functions and processes are leveraging technology solutions to expand the use and context of digitized data. In most economies, tax authorities have also tapped into the benefits of digitalisation and enhanced revenue collection through seamless adoption of technology.

Some tax authorities in Nigeria are also adopting digitalisation, as onerous manual processes are being replaced with more convenient methods for taxpayers through electronic services. For example, as part of the relentless digitization efforts, the Federal Inland Revenue Service (FIRS), in 2017, announced the introduction of six (6) new electronic tax services (e-services) for the convenience of taxpayers in Nigeria, namely e-Registration, e-stamp Duty, e-TaxPay, e-Receipt, e-Filing, and e-TCC.

Challenges with the use of Electronic tax Platforms in Nigeria

Certainly, there is no better time to evaluate the capabilities of a digital tax system than a period when social distancing and lockdowns are being enforced to curtail the spread of COVID-19. It has been three years since the FIRS introduced the e-filing platform allowing all taxes and levies collected by the FIRS to be filed online, but companies still use the parallel paper-filing process.

One of the major challenges faced by users of the electronic tax platforms is the significant downtime experienced during the peak of the tax filing or Tax Clearance Certificate (TCC) application periods. In recent times, some companies that attempted to download their WHT credit notes found that the portal was inaccessible for days. Such issues discourage taxpayers from relying on these online platforms.

Taxpayers have also raised concerns about the security of logging in to the online portals, which use a simple password system. Security and confidentiality are critical to tax administration. Any potential weaknesses exploited by hacks in the system would be costly to the reputation of the tax authorities and the trust of taxpayers.

In addressing these challenges therefore, the Nigerian tax authorities may consider evaluating lessons from other countries that have made significant advancement in their electronic tax administration.

Some key Considerations for Effective Electronic tax Administration in Nigeria

•Upgrade of data management systems: The unreliable nature of online tax portals is a major reason why many taxpayers, including non-resident companies, are forced to use the traditional paper filing, despite the inconveniences. In order to enhance taxpayer experience, the Nigerian tax authorities would need to upgrade their servers, to accommodate the volume of traffic anticipated from users of the portals. This will reduce the frequency of downtime and attract more taxpayers to the convenience offered by the electronic processes.

•Smart use of data analytics and information management systems: Data analytics and access to real time information can be a game changer in harnessing the benefits of digital tax administration. For example, the use of electronic tax invoices for VAT purpose. Kenya has a success story to tell in this regard, as the digitalisation of VAT operations helped to boost their tax collection by more than \$1 billion between 2016 and 2017.

The United Kingdom (UK) has also steadily transformed itself into one of the most digitally advanced tax countries by successfully reducing the need for filing annual tax returns and creating a single view of a taxpayer's affairs through a portal on the Government website. The UK tax authorities are also able to pre-populate personal tax returns with some information in their database; such as an individual's earnings and taxes paid.

•Effective integration of tax database with existing database management systems: The tax authorities should consider leveraging existing data from banks and other government agencies, to expand the tax net.

The Nigerian government is already taking a step in the right direction, as the amendments to Section 10 of the Companies Income Tax Act (CITA) now provides that every company must have a TIN, which should be displayed by the company on all business transactions with other companies and individuals, as well as corporate documents and correspondence with tax authorities, ministries and government agencies. More importantly, banks and other financial institutions are now expected to request TIN as a precondition for opening business bank accounts or for continued operation of existing accounts.

•Enhanced tax audit and verification systems: A risk-based audit, linking the likelihood and nature of an audit to the taxpayer's inherent risks, will be a time-saving tool for the tax authorities. Also, the e-filing platforms should be robust enough to enable taxpayers file their tax returns, receive assessment notifications and submit responses online. For instance, the e-TCC platform should enable taxpayers track the status of their TCC applications online, know when there is additional information required to update their records and further process their application.

•Security of taxpayers' data: Taking advantage of modern cyber security methods to address security challenges on the online platforms would help build taxpayers' confidence in the system. The portals should use strong encryptions to protect taxpayers' data. Strong passwords should be required to set up and log in to a taxpayer's account online. Multifactor authentications (requiring more than just a username and password) for a taxpayer to access his account should also be available.

Conclusion

Globally, governments are using data analytics to help optimize tax collections and monitor compliance initiatives to advance overall efficiency. The exponential use of data analytics in real-time and predictive tax administration will revolutionize the Nigerian tax administration as data can be transformed into a powerful tool to monitor tax compliance. The government must promote a compliance culture developed through taxpayer education and simplified digital filing processes.

Online tax services must be robust enough to function as an intelligent solution that can accommodate end-to-end validation, combat tax fraud and police tax returns.

The journey to fully implementing and reaping the benefits of a seamless e-tax administration system is neither short nor simple. There is no one-size-fits-all solution; however, an assessment of the above consideration will enhance the performance of our tax system in Nigeria and ultimately increase government revenue.

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