



THE ROLE OF THE SOCIAL AND POLITICAL ENVIRONMENT IN STRENGTHENING TAX SYSTEMS IN NIGERIA: SOLUTIONS TO TAX COLLECTION

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INTRODUCTION

Tax systems across the world are possibly pragmatic artifices of government designed to meet the prevailing challenges of the nation in question. As such, no tax system can lay claim to being perfect but must evolve in tandem with the history of the country. Nonetheless, there are certain universals which are expected to be descriptive of any tax system irrespective of the peculiarities of the country's socio-political landscape. According to a working paper by the UN (UNDP, 2011), a tax system must encourage good governance by being a good fit with the nation's overall development strategy. It must also promote inclusiveness by ensuring that potentially divisive ethnic, political and religious group memberships do not encroach upon the objective detachment of the system (UNDP, 2011). A good tax system must also conform to the society's views on appropriate income as well as society's expectations on what should happen in the event of stark wealth differentials among the populace (EY, 2015). Flowing from this point, a good tax system must also promote social justice by upholding the principles of fairness and an equitable distribution of the burden of taxation on the basis of income and wealth (UNDP, 2011).

All tax systems can be assumed to be well intentioned and aimed at development of strategic sectors of the economy. The challenge is even keener for developing nations who seek emancipation from being perpetually beholden to the so called "Bretton Woods" institutions. Tax systems can thus be indicative of the stance of government on aspects of foreign policy and international investment choices.

Africa has endured fairly unique difficulties in the design and implementation of effective tax systems over the years. A legacy of colonial imposition from the late 19th to the 20th century may have distorted social perceptions regarding the relevance of taxation to the wellbeing of the common man even as previous generations of Africans paid taxes to fund the expansionist aspirations of a distant overlord in Europe. Today, tax systems still struggle to attain an acceptable threshold of resource mobilization. For example, over the past decade, almost half of all sub-Saharan countries still mobilise less than 17% of their Gross Domestic Product (GDP) in tax revenues. This is certainly less than the threshold of 20% considered by the UN as *sine qua non* for the achievement of the barest essentials of the Millennium Development Goals (UNDP, 2011). Even as these goals transmuted to the Sustainable Development Goals, sub-Saharan Africa continues to bring up the rear. The prevailing trend of sub-Saharan nations resorting to international borrowing to fund capital expenditure and the augmentation of infrastructure has led the donor community to be more evaluative of the tax systems of these developing nations in a bid to prioritise assistance to those who aim to increase the existing proportion of the citizenry and erstwhile informal businesses within the tax base. This is hinged on a recognition of the role of robust and adaptive tax systems in galvanising economic recovery and accelerating the pace of development.

In the succeeding sections, emphasis will be laid on the social and political facets of the pursuit of a stronger tax system in Africa and several opportunity areas will be dilated upon. Although significant progress has been made in recent times, further challenges still exist and suggestions will be proffered on how to overcome them.



THE SOCIAL FACET: OPPORTUNITY AREAS FOR TAX SYSTEMS

According to the World Bank classification, developing countries are those who have a per capita GDP below \$3,945 which corresponds to 'low income' and 'lower middle income' designations (World Bank, 2015). Most African countries lie within this bracket and there is undoubtedly a relationship between how much a nation can produce and what is available for taxation. As earlier mentioned, the challenge is further complicated by the fact that less than 17% of the GDP is mobilised which constrains the quest of government to deliver on its mandate. A vicious cycle emerges in which low tax morale interacts with compliance in a recursive manner. For example, if potential taxpayers lack the conviction that government will deliver on public and social expenditure then cases of avoidance and evasion will escalate thus resulting in poor compliance. Because of this reduced compliance, government could lack adequate resources to meet her responsibilities. Instead of taxpayers to see how their failure to comply resulted in the constricting of government projects, they perceive government as confirming their fears and lack of trust. They are then likely to conclude that they were right all along about government's apathy toward the improvement of public and social services. This vicious circle is based on the psychological phenomenon known as the self-fulfilling prophecy (Rosenthal & Jacobson, 1968) which is a false definition of a situation evoking a new behaviour which makes the originally false conception come true.

Continuing from the foregoing, another social factor which may have contributed to the erosion of trust in government as seen in sub-Saharan nations like Nigeria is that most people aspire to political office because the media devotes more attention to the comfortable lifestyles of some office holders. According to the availability heuristic (Tversky & Kahneman, 1973), people make judgements based on how easily they can call to mind what they believe to be important instances of an issue. For example, it is rare to find people who are afraid to travel relatively short distances by road but it is more common to encounter cases of people who have a phobia for air travel. This is because plane crashes though far fewer than road accidents, receive more publicity and are thus easier to remember (Tversky & Kahneman, 1973). This same principle applies to the perception of politicians and other officeholders by the citizenry who find it easier to recall popular instances of politicians leading lavish lifestyles with wealth of dubious origin. Such perceptions ask questions of the equitability of the tax system and its efficiency in reducing the colossal disparities between the ruling class and the almost 70% of the Nigerian population below the absolute poverty threshold who subsist on less than \$2 per day (UNDP, 2011).

The tax systems in many African countries require a certain threshold of literacy for them to be intelligible to the populace. Recent estimates place the literacy level of Nigeria at a little more than 50% of the population (UNESCO, 2017) and even among this literate group, many would still struggle to understand any tax system which entails more than the most rudimentary concepts and terms. Another angle to this literacy concern is that anecdotal evidence suggests that many Nigerians are not motivated to learn new things from books except they perceive or expect some instrumentality such as immediate financial reward from such extra knowledge (Gbadamosi, 2007). Thus, principles of reinforcement and punishment are the foundations for any motivation to even understand the tax system. The informal sector which has recently been touted as the panacea for the limited scope of the tax base in Nigeria is predominantly populated by citizens of dubious literacy (Adams, Johansson da Silva & Razmara, 2013). Such people are not motivated or may even be averse to any form of documentation that could induct them into the tax base.

Yet another issue in sub-Saharan Africa is the difficulty of resource mobilisation from resource rich yet potentially combustible regions by virtue of ethno-religious diversity. If we take Nigeria as a case in point, we observe how people are strongly differentiated along some lines of social identity. These differences occasionally degenerate into open conflict with pockets of violence developing if the tension persists. Such a hostile stance emanates from a lack of trust in the leadership of out-group members (members of another social



group to which one does not belong) and a deep-seated suspicion of their motives. If this climate is allowed to fester for long enough, an instance of the common goods dilemma occurs (Komorita & Parks, 1994) in which people become overly preoccupied with their own needs or the needs of the groups to which they belong even if such a perspective could imperil and impoverish the diverse collective. Such people will also be likely to avoid contributing to the common pot (free riding) because they assume that the contributions of other groups should suffice without their needing to bear any burden; this is the occurrence of another social dilemma known as the pooled resources dilemma (Komorita & Parks, 1995) and is particularly relevant to the non-compliance of potential taxpayers.

A key principle required of any tax system is social justice which is usually part of more systemic issues confronting a state or nation. According to a report by Oxfam International (2017), social injustice in terms of the unfair and inequitable distribution of social goods among the multi-ethnic groups in Nigeria over the years has heightened a consciousness and allegiance to ethnic interests rather than state authority. This potentially weakens several apparatuses of government since issues of national import are not allowed to justify their intrinsic merits without being subjected to the coloured lenses and jaundiced evaluations emanating from an overarching loyalty to ethnic identity. Ograh (2014) also observes that the structural imbalance and the massive gulf between the ruling elite and the majority of commoners reflected by a GINI coefficient of 49 for Nigeria (World Bank, 2015) which is in the top quartile of GINI coefficients in the world, has further aggravated the perceptions of injustice by the deprived and disadvantaged. Thus, the availability heuristic earlier referenced in the foregoing continues to hold true since there exists a profusion of instances of ostentatious living by the supposed custodians of the nation's wealth. Even well intentioned and upright political and ministerial officeholders may be tarred with the same sweeping generalisations thus heightening the public perception of social injustice. The tax system could invariably appear ineffectual if the majority of the citizenry perceive it as a tool of the ruling class to entrench the status quo while exempting themselves from a commensurate burden as the rest of the populace.

All in all, it is difficult to divorce the influence of the society from the efficacy of policy and financial systems. It is not in doubt that tax system are products of the efforts of government to achieve superordinate goals but a cognisance of the vagaries of the society in question may be crucial to the attainment of these goals. Politics occur in society and the motions of political actors could be borne of a confluence between the bequest of socialisation and the pragmatics of political expediency. These will be considered subsequently.

THE POLITICAL FACET: OPPORTUNITY AREAS FOR TAX SYSTEMS

In global democracies, elections are part of the process of representative governance and these elections afford the electorate the opportunity to evaluate the manifestoes of aspirants especially along the lines of the aspirant's fiscal intentions. The positions of prospective officeholders on taxation are not arbitrary but are usually a product of the ideological stance of the political party providing them the platform to run as well as the exigencies of the economic realities at the time. In Africa, democracy can still be considered inchoate and as such, no real ideological legacy exists to guide the evolution of political parties on tax related issues. In Nigeria for example, many political parties are contrivances of convenience and electioneering campaigns are hinged on utopian promises which may be too expensive to actualise. Due to the limited political enlightenment of the masses in Nigeria, these issues are hardly called out during public debates. Ultimately, governments are installed into office with a huge burden of expectation on them to perform miracles and if these expected overnight transformations require greater fiscal commitments from government, tax wedges are likely to rise thus imperilling local marginal firms and at-risk SMEs. Government may then seek to obviate this by making recourse to foreign aid which always comes with strings attached but only with sustained political commitment and a stern political will can any form

of progress be ensured in entrenching and enforcing the tax system at all strata of the polity (IMF, 2012).

The centrality of tax revenue to the success of capital projects by government is almost axiomatic even as each government seeks to align such projects with its overarching agenda for the nation. One challenge which militates against the efficient use of pooled resources is the mercurial nature of the political environment. It stands to reason that volatile political climates tend to put the resources available to government at risk of being dissipated on projects which may never get completed simply because the timeline of the project exceeds the lifespan of the administration. Taxes are collected and foreign loans are secured to commence capital projects close to the end of an administration's tenure in the hope that the electorate will vote for continuity simply to ensure the survival of the project. When this strategy fails to deliver incumbency, a new government takes over only to expose gross mismanagement of public funds in the previous administration. This could further erode the confidence of both the citizenry and the donor community in the resolve of government to drive an agenda for development (EPS Peaks, 2013).

Once in a while, a transformational leader emerges who displays the political will to implement sweeping reforms in key sectors of government including the tax system. These reforms overturn the status quo and force bottom feeders into the light of fiscal transparency and prudence. In the short term, these reforms create some discomfort and may appear to compromise the wellbeing of the most vulnerable masses. Predictably, these difficulties could get blown out of proportion by political actors and commentators from rival parties thus resulting in the loss of valuable political capital (EPS Peaks, 2013). Over time, other aspirants learn vicariously from the political difficulties associated with instituting reforms and ultimately succumb to learned helplessness (Seligman, 1975); this is a phenomenon in which an individual observes repeated goal frustration in others or experiences repeated goal frustration personally which ultimately culminates in apathy and a fatalistic acceptance of the status quo (Seligman, 1975). Ironically, the political environment may be characterised by severe resistance to reform being championed by those who do not even benefit from the current situation. Such an occurrence is succinctly captured in the Social Justification Theory (SJT, Jost & Banaji, 1994) which suggests that disadvantaged groups may actually support a system which exploits them. They could do this in the hope that they may someday rise to prominence within the existing system thus becoming as powerful as those who once impoverished them.

Still another political component in the pursuit of a more robust tax system is the concern that tax issues have not always been accorded adequate importance on the political agenda of many administrations of government. This is partly due to the almost mono-resource composition of the tax mix in a country like Nigeria and the muted interest of the citizenry in an issue about which they are sketchily informed. In addition, considerable opportunities for revenue are lost in the form of tax exemptions which are awarded in an attempt to lure foreign direct investment (FDI) but recent economic reports suggest that the allure of tax breaks and exemptions are not sufficient to ratchet up the rate of FDI to a critical mass that will move the needle of the GDP. Instead most investors seek markets and economies in which costs of production are lower and infrastructure plays a critical part in this (IMF, 2012).

POSSIBLE SOLUTIONS TO SOCIAL AND POLITICAL ISSUES

More often than not, most tax issues are viewed as technical problems. The issues actually reside in the characteristics of the Tax system and the political will of leadership to inspire and drive reforms. The role of political actors in the success of tax reforms is critical because of the structure of representative and constitutional democracy practiced in Nigeria. In Nigeria for example, Tax laws derive from the Fourth Schedule of the 1999 constitution which has come under some scrutiny due to ambiguities and complexities contained in it. This is a key area where the legislature can work hand in hand with the Presidency to exert

a remedial influence. Other solutions to the current spate of events in taxation are as follows:

1. Policymakers must view tax reform as part of wider reforms to improve the business and investment climate. Reforms to both tax policy and administration must be consistent with an overall growth and development strategy. It should be stressed that these are long-term processes, and therefore entail setting reasonable expectations and targets.
2. There is considerable scope for simplifying tax systems. A necessary first step is a comprehensive review of the exemptions regime and investment codes, which could offer the added benefit of broadening the tax base. In general, exemptions should be used sparingly and be time-bound.
3. Another means of tax base broadening is implementing or better collecting property taxes. This provides an example of the importance of political will, as there is often strong resistance from wealthy and well-connected property-owners.
4. Several measures exist to improve compliance, including the computerization and modernization of tax systems and payments; the introduction of taxpayer ID cards; and using innovative approaches to bring more of the informal sector into the tax base through such incentives as offering basic business support and linking tax-returns to collateral and credit constraints.
5. Measures to strengthen taxpayer motivation by increasing transparency and accountability include: taxpayer right charters; timely publication of government receipts and expenses; engaging with domestic policy communities working on taxation and with local media; and working with institutions such as the judiciary and auditor general to ensure access to information and clear channels for addressing grievances.
6. Governments need to lead by example by taking strong action against proven cases of corruption in tax authorities. This will help restore confidence in the system and rebuild the broken social contract which has long been responsible for poor compliance.

CONCLUSION

The role of politics and the social milieu in strengthening the tax system in Nigeria must be adaptive and responsive to prevailing trends because politics and the society interact in a recursive manner. In this case however, the bulk of the responsibility lies with government to inspire and support initiatives like those highlighted in the foregoing. Political rhetoric alone will not sustain reform without government demonstrating a true commitment to shoring up weaknesses and opportunity areas in the tax system. This could in turn drive a social revolution capable of transforming erstwhile attitudes toward tax related issues in the nation.



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