Does size matter?
An interview with Taiwo Oyedele on the tax implications of Nigeria's rebased GDP

Mr Taiwo Oyedele is the Head of Tax and Regulatory Services at PwC Nigeria, a member firm of PwC International - the world's leading professional services firm with presence in over 150 countries. Mr Oyedele is an ardent advocate of tax reforms with particular emphasis on tax simplification and transparency. He recently assisted the Manufacturers' Association of Nigeria to make a successful case before the National Economic Council for reforms to address multiplicity of taxes. He is the Head of PwC Tax Academy, Dean of the Direct Taxation Faculty of the Chartered Institute of Taxation of Nigeria, member of the Nigerian Taxation Standards Board and a member of the ACCA Global Governing Council.

He is the author of the "Top 50 Tax Issues in Nigeria" and a contributor to the annual "Doing Business" report of the World Bank, and "Paying Taxes" publication. He runs a blog on tax matters with thousands of followers from over 20 countries worldwide (www.pwc.com/nigeriataxblog).

What are your general views on the rebased GDP?

Gross Domestic Product (GDP) is an internationally recognised measure of economic size and strength. It is important to have up-to-date data so the rebasing is a step in the right direction. It is expected to make planning and investment decisions more robust and informed. For example the performance of the government in revenue collection, capital spending, external debt and budgeting can be benchmarked against similar economies.

I travelled to South Africa two days after the rebasing and tuned in to one of their TV stations - SABC 1. There was a program going on where an economist was invited to comment on the new GDP figure for Nigeria. The South African economist tried to disabuse the minds of the presenter and the public when she said it was a credible exercise and there was nothing sinister about it. She however claimed that South Africans contributed to the growth in key sectors like telecommunications and retail. She concluded by saying the news is good for Nigeria and the entire continent of Africa because the

world will now pay more attention to Africa.

Apparently outsiders welcome the news with more positivity than Nigerians back home most of whom continue to question the exercise. It seems Nigerians have become used to bad news and hence allergic to good news.

In any case, we need more than GDP rebasing to stimulate the economy. While it is important to have up to date statistics, this will not of its own lead to economic prosperity or change the reality on ground. It's like a farmer who breeds animals but had not properly counted his animals in the past. He has just discovered that he has more than he thought because he previously left out some new born that have now grown.

Feeling richer than his neighbours, he wanted to throw a party to celebrate his new status but a wise man reminded him that he still lives in poverty, unable to pay his children's school fees and so on. The statistics may have changed but the reality remains the same.

How does NIGERIA compare to the rest of the world in terms of tax to GDP ratio?

Taxation is immensely important to national development as a key source of sustainable revenue and an indicator of economic wellbeing. Compared to other sources of revenue, tax revenues can be relatively predictable and governments are able to plan with a greater amount of certainty than when relying majorly on natural resources.

While some may have doubts about the veracity of the rebased GDP figure, tax revenue is a verifiable evidence and an indisputable fact. The tax to GDP ratio compares the amount of tax collection to the nominal GDP. Generally the ratio in poor countries is around half of what obtains in developed nations. According to the Heritage Foundation 2012 data, France had a tax to GDP ratio of 44.6%, Sweden 45.6%, UK 39%, US 27% Tanzania 12%, Burkina Faso 11.5%, Nigeria 6.1%.

If we consider all levels, Nigeria had about 14.6% for 2013 before the rebasing which is now about 7.8% for the same year. This is based on about N4.8 trillion collected by the FIRS, N833.4 billion by the Customs, and about N648 billion by the States and Local Councils compared to the rebased GDP of N80 trillion. If we isolate the tax revenue from oil, then the tax to GDP ratio for the sector will be about 27% while for the non-oil sectors it comes to about 4.6% which is one of the lowest in the world. This is notwithstanding that the figures include tax refunds and credits due to taxpayers which should really not be reported as revenue. In addition, there is tax revenue collected from sectors which are not officially included in the GDP calculation such as religious activities and the informal sector. According to the National Bureau of Statistics, GDP is the market value of all officially recognized final goods and services produced within a country in a given period. With appropriate adjustments therefore, the ratio will fall even further so it is perhaps high time we rebased the tax system.

If we use the "Output" approach in calculating our GDP, then VAT on goods and services would be the appropriate tax indicator. In the case of "Expenditure" approach, the tax indicator should be VAT and import duties while in the case of "Income" approach for GDP calculation, personal income tax on wages and withholding tax on rent, interest and dividend should be the corresponding tax indicator. These will help complement the GDP figures for a more informed economic planning.

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What are the tax implications of the rebased GDP for Nigeria?

It is now very clear that the tax revenue generating capacity of the Nigerian economy is yet to be harnessed and that the current tax system is ineffective in many ways. The Minister of Finance, Dr. Ngozi Okonjo-Iweala in reaction to the rebased GDP, has given the Federal Inland Revenue Service (FIRS) a charge to raise collection from taxes. The aim is to get the ratio to at least 20%. This implies a revenue target of about N14 trillion up from the current N6 trillion for the FIRS alone. It is important to note that the rebased GDP growth rates for 2011, 2012 and 2013 were 17%, 13% and 13% respectively. To improve the tax revenue to GDP ratio, tax collection must grow faster than GDP.

The manner in which the tax authorities will go about this revenue drive will have its effect, positive or negative, on the economy. For instance, it will be counterproductive for the FIRS to focus its revenue drive on the few, easy targets, already compliant group of taxpayers rather than seeking to expand the tax base especially to tax evaders. The practice of subjecting already compliant taxpayers to unproductive and time consuming audits, which drain resources of both the taxpayers and the tax authorities alike, will not achieve the desired results.

What this will do in effect is to impose unnecessary burdens on the larger and more visible taxpayers while tax evasion particularly in the informal economy continues unabated. This can compromise the competitiveness of tax compliant entities and individuals by overburdening them with never ending audits which in turn discourages potential investors and stifles economic growth.

So what's the way forward?

A pragmatic way to boost the tax to GDP ratio is through improvement in the fiscal system. Nigeria's tax regime is unnecessarily cumbersome and notoriously unfriendly

to taxpayers. In the report, Paying Taxes 2014 – the latest iteration of an annual study by the World Bank and PwC that compares the ease of paying taxes globally – Nigeria ranks 170 out of 189 economies. Clearly a lot needs to be done to make tax compliance less onerous for the average taxpayer.

Success should not be measured only in terms of more tax revenue generated but also in terms of the ease of compliance, the number of new taxpayers that are brought into the tax net, cost of collection, tax refunds processed, speed of tax audit completion, improvement in voluntary compliance, number of prosecuted tax fraud cases, opportunity cost of waivers / incentives and so on.

In addition a systematic approach should be adopted in identifying the tax gap and devise a means of bridging it. For instance, a study of the economic activity reported per sector of the rebased GDP in comparison to the amount of tax revenue generated from that sector should be undertaken to determine areas of primary focus for revenue drive. The logic behind this is that with the rebasing of the GDP, the tax authorities also need to consider rebasing their tax net. You may be surprised to see a couple of sectors with negative ratios which is possible if they have been granted more in tax incentives than their contribution by way of tax payment. With the increase in the automation of processes, increased online transactions leaving electronic trails, the tax authorities have more information to work with which can be used to achieve other objectives of curbing corruption and money laundry.

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The general awareness and tax education amongst the populace is also a very important factor that has the potential of shaping the attitude of the public to voluntary tax compliance. Simple rate cards and tax calculation templates as well as a bouquet of all the applicable taxes levied by governments at all levels should also be readily available and accessible to all.

To increase public confidence and promote a positive taxpaying culture, leaders and politicians must lead by example. We must scrutinize the tax records of current and aspiring political office holders in order to break the vicious cycle of tax conspiracy.

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