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Small Businesses and the Adoption of the Integrated Tax Administration System in Nigeria

Summary of ATAP Working Paper 8 by Uchenna Efobi, Ibukun Beecroft and Tanankem Belmondo with Amelia Katan

Context

Transitioning to an electronic system for tax administration and collection is a welcome development in countries that have hitherto faced difficulty in raising tax revenue.

Countries like those in sub-Saharan Africa, for instance, account for about 16 percent of GDP from tax revenue, while Nigeria records 1.48 percent of its GDP from tax revenue (World Bank, 2018). The electronic tax system is advantageous considering that it: i) improves turnaround time in the tax administration system as information is instantly available to tax authorities; ii) lowers cost of tax collection for revenue authorities; iii) raises transparency of business transactions for tax filing purposes; iv) reduces public officials' discretionary input in service delivery; v) aids in combating corrupt practices.

The Integrated Tax Administration System (ITAS) is a tax administration initiative in Nigeria aimed at simplifying and automating all tax administration processes – such as filing tax returns and paying taxes online through the ITAS portal. It was implemented in 2017 with firms expected to adopt this system voluntarily. With the introduction of this system, its effectiveness in achieving its objective and the extent to which taxpayers will adopt this system is not clear. The basis for this fuzzy expectation is because the Nigerian public has a history of low adoption of finance related electronic systems. For instance, the mobile money service introduced by the Central Bank in 2011 has seen a dismal adoption rate of about 13 percent. Further, using the internet to pay bills, mobile money accounts, and even the use of mobile devices to access financial institution accounts or any other account is below 10 percent in Nigeria.

Given this background, this study examines the extent of awareness of small businesses about ITAS, and factors that motivate them to adopt this system. We focused on the internal management characteristics, internal organisation

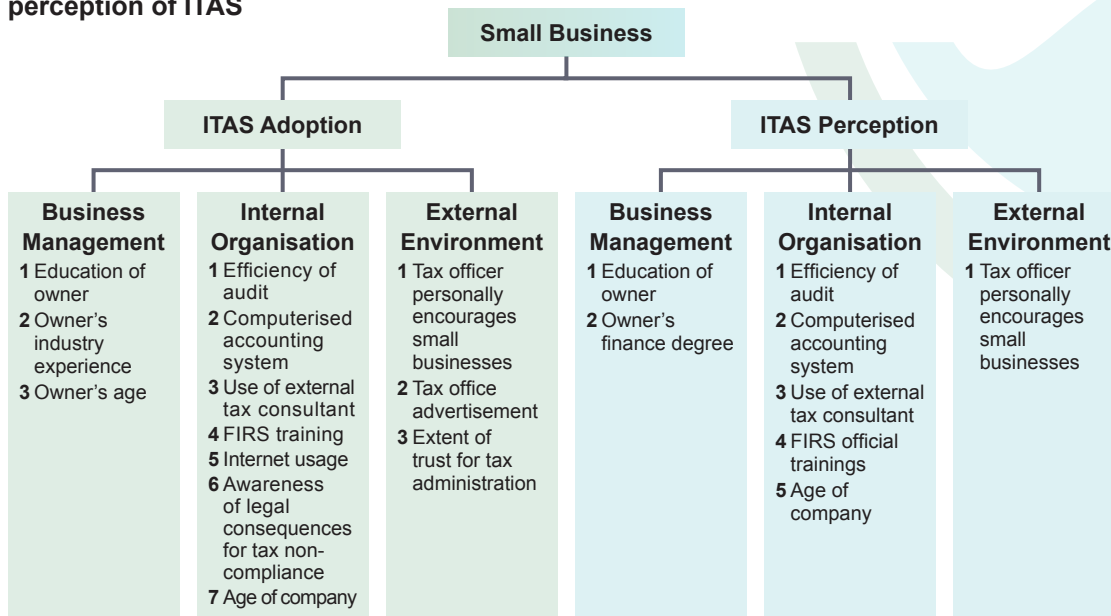
of the small businesses and the external environment, while controlling for other important covariates. To achieve this objective, the survey was gathered from seven states in the south-west region of Nigeria between June and August 2018. The underlying motivation for focusing on small businesses is because they constitute a huge proportion of the Nigerian tax net. The number of small businesses in Nigeria was estimated at 72,838 in 2013, which constitutes the largest proportion of all Nigerian businesses aside from micro enterprises (SMEDAN/NBS, 2013).

Small businesses and the ITAS framework

An important reason for the revenue authority of Nigeria introducing ITAS is to enhance the tax filing and collection process, which undoubtedly can increase tax remittances. Therefore, understanding a major component of the tax nets' (small businesses) adoption and perception of ITAS presents an interesting first step towards evaluating the success of this new system.

The findings from the survey can be summarised in five points. First, knowledge about ITAS is still low. Only 40 percent of the small businesses surveyed have heard about the new system. Second, the adoption of this new system is abysmally low, as only 14 percent of those who have heard about the system use it for their tax filing. Third, time is required for small businesses to fully understand ITAS. A third of the small businesses (24 percent) report that they require more time to fully understand ITAS before usage. Fourth, the training of small businesses about how to use ITAS by revenue authorities is very low. While 15 percent of the businesses surveyed have received guidelines or information from FIRS officials on how to use this new system, only 10 percent have actually been trained by these officials on how to use ITAS. Fifth, the

Figure 1 Framework showing small business feature that influence adoption and perception of ITAS



lack of understanding of this system may have resulted in the majority of the businesses that have actually used the system reporting that they prefer the manual tax system to the alternative ITAS. Two-thirds of the surveyed businesses report that they prefer the manual system to ITAS.

There are other factors that may affect the low adoption rate of ITAS, such as the need of small businesses to avoid monitoring by tax officers; actions to avoid tax payments such as informal payment to tax officers to reduce tax liabilities; other forms of disincentives to use ITAS, such as small business affiliation with tax officers or government officials. These factors among others and the findings from the survey are food for thought.

Features of small businesses that matter for the perception and adoption of ITAS

Applying the *probit* and *tobit* estimation technique on the small business survey, while controlling for the type of business, industry, and the location produces Figure 1. This displays the features that emanate as significant in informing the likelihood of adopting ITAS and the favourable perception of ITAS.

The results displayed in Figure 1 show some overlap in small business characteristics that matter for both ITAS adoption and perception. For instance, education of the owner, efficiency of the audit process – which captures the use

of services of an external auditor, use of a computerised accounting system, external tax consultants, training by the tax administrators on how to use ITAS, the age of the company, and the tax officers moving further to personally encourage small businesses to use ITAS. Other factors that influence ITAS adoption but do not overlap are; owner's age and industry experience, internet usage, awareness of legal consequences for tax non-compliance, advertisement by the tax administrators, and trust in the tax administration system.

What can policy makers do?

The biggest learning from this study is that the ITAS framework is important and has the potential to improve the efficiency of the revenue generation efforts in Nigeria. Despite this, there is a low rate of ITAS adoption. This can be improved by considering a more targeted approach by tax administrators in 'selling' ITAS framework to tax payers. For instance, there should be a consideration of important characteristics of taxpayers to help direct the public relation efforts of the tax administrators. Our field visit supports this claim: locations with higher ITAS adoption report that there has been increased communication and information to tax payers by tax officials. Most importantly, the features of the small businesses that overlap the adoption and perception model can be a first step towards identifying the kind of firms that are potential receptors to the campaign of improving ITAS diffusion.

Further reading

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Credits

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