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Digitalisation and subnational tax administration in Nigeria

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Summary of African Tax Administration Paper 29

There has recently been an expansion in the use of digital financial services and digital IDs by tax authorities. However, the extent to which such technologies are being adopted and data from them used strategically to improve tax administration has been little explored, especially as regards subnational tax administrations.

This study investigates the extent of the adoption and strategic usage of data from e-tax systems and digital IDs by state internal revenue services (SIRSs) in Nigeria. It analyses whether IT adoption correlates with tax performance among these authorities. It highlights the need for SIRSs to improve their adoption and strategic use of data from e-tax systems and digital IDs and finds that lessons could be learned from the Federal Inland Revenue Service (FIRS). The study's uniqueness lies in its focus on the supply side of technology in tax administration within decentralised tax administration jurisdictions.

Primary data was collected through qualitative interviews and evaluated using thematic analysis; secondary data on internally generated revenue (IGR) was also used.

IT adoption and strategic use of data

The study found scope for improvement in both these areas.

- **Administration of tax credits and refunds:** SIRSs should learn from FIRS on the automation of tax credits. Many tax administrations in developing countries (such as in Colombia and other Latin American countries) introduced the automation of refunds in 2020 to minimise human interaction during the Covid-19 pandemic. However, such automation should be supported by due diligence procedures to prevent potential misuse or exploitation.
- **Multiplicity of digital IDs:** SIRSs currently use multiple IDs. In addition to a Joint Tax Board (JTB) taxpayer identification number (TIN), all SIRSs have their own TIN; this is in addition to other IDs including a BVN (bank verification number) and a national identification number (NIN), although state TINs are mostly used for salaried taxpayers. Multiple IDs increase the likelihood of error and/or fraud: the use of unified ID systems would potentially address this.
- **Data analytics:** SIRSs do not use an e-tax system for this, but download data from the system and analyse it using separate software, e.g. Excel. In contrast, the TaxPro Max system used by FIRS has been designed with machine learning to perform analytics. For example, it can show who has filed a return, and the system can send a reminder. SIRSs too need to automate such analytics using machine learning.
- **Internal collaboration and data sharing:** Some SIRSs use data from digitalised systems for internal collaboration; however, in one, data is only released upon request, and in another, collaboration is partly online and partly offline. Automated data sharing would enhance internal collaboration.
- **External collaboration for data sharing and exchange:** Collaboration with private sector organisations is lacking. Current collaborations are primarily with government agencies and are limited to tax investigations. A legal framework is needed to facilitate data sharing with private sector organisations such as banks for routine tax analytics, in line with the Nigerian Data Protection Regulation (2019).

Adoption of IT systems and tax revenue performance

It was found that states with advanced digital tax payment systems and strategic use of data tend to generate higher IGR than those at an early stage of digitisation. However, the same relationship was not observed for the adoption of digital IDs.

Lessons to be learned from FIRS

Several features used by FIRS to increase efficiency tend to be lacking in SIRSs' e-tax systems.

- **Tax audit:** TaxPro Max has an integrated audit risk engine for risk profiling and identifying cases that require audit; however, SIRSs' e-tax systems do not have this function. TaxPro Max can be also used for tax audit case management, including case selection, allocation of auditors and generating audit reports online, but some SIRSs' systems do not have these features.

- **Performance tracking:** TaxPro Max includes a performance tracker module that connects a taxpayer's account with their designated tax account officer. It alerts the officer at various stages, such as filing, payment, and review, to ensure cases are tracked. This important feature can enhance efficiency but is not included in the systems used by SIRSs.
- **Risk profiling:** To carry this out, SIRSs rely on data which is downloaded and analysed in Excel, while TaxPro Max has inbuilt features that use parameters such as turnover ratio and expenditure to turnover for preliminary analysis prior to risk profiling.
- **Automatic estimation:** TaxPro Max is fully automated for withholding tax, tax refunds and penalties; however, only one SIRSs automates these functions.

Policy implications

The study's findings have several policy implications that could improve tax administration, especially at the subnational level in Nigeria.

- **Single ID systems:** SIRSs currently use multiple ID systems alongside the JTB TIN, leading to complexity. To simplify tax administration, it is recommended that states mandate salaried taxpayers to obtain a JTB TIN. This would ensure uniformity and simplify the process of generating tax clearance certificates. If SIRSs require additional IDs, they should integrate them into a single TIN in the tax administration database.
- **National revenue database:** A comprehensive national revenue database is needed which links FIRS, SIRSs, and local government revenue committees for data sharing and exchange. This would provide a holistic view of the country's overall revenue and boost the tax-to-GDP ratio.
- **Data sharing and exchange:** The absence of a regulatory framework for data sharing between tax authorities and other organisations is a challenge. It is recommended that the Nigerian Data Protection Regulation (2019) is updated to cover data exchange between tax authorities and other organisations for tax purposes, aligning with global best practices. This would enable SIRSs to access financial data which is currently restricted due to the lack of appropriate legislation.

"The study highlights the importance for subnational tax administrations of prioritising the adoption of IT systems and the strategic use of data to improve their performance."

Further reading

Mas'ud, A., Mohammed, S.D and Gimba, Y.A. (2023) *Digitalisation and Subnational Tax Administration in Nigeria*, ICTD African Tax Administration Paper 29, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2023.031

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