Working Paper 188

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ICTD Working Paper 188
First published by the Institute of Development Studies in April 2024

ISBN: 978-1-80470-191-1
DOI: 10.19088/ICTD.2024.024

Available from:
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Summary

This paper gives preliminary insights into the challenges surrounding the taxation of high net worth individuals (HNWIs) in Nigeria – first in general terms, and then with a specific focus on Borno State. The need to diversify revenue sources has become increasingly apparent against the backdrop of Nigeria's historical reliance on the export of crude oil, and is the reason why President Tinubu created a committee to harmonise the fiscal system. However, the committee has not yet touched upon the taxation of HNWIs. Drawing from key informant interviews from north-eastern Nigeria, and a two-day workshop with officials from State Boards of Internal Revenue Service from various part of the country, we shed light on the complexities of increasing the compliance of HNWIs. The study highlights a series of legal, administrative, and political obstacles faced by State Boards of Internal Revenue Service, which have developed dedicated compliance strategies. Many of these are similar across states that otherwise share few characteristics. The paper ends with some tentative suggestions for future research.

Keywords: high net worth individuals; tax administration; tax compliance; subnational taxation; Nigeria.

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Acknowledgements

We would like to thank the Borno Internal Revenue Service for the invaluable support provided throughout the implementation of this project, and the various public and private institutions in Nigeria that participated in interviews. We are also grateful to participants in the two-day workshop on 'Taxing HNWIs in Nigeria' in Abuja in October 2023, and the African Centre for Tax and Governance, with which we co-hosted the workshop. Finally, we thank both Mick Moore and Wilson Prichard for their constructive comments on a previous version of the paper.

Acronyms

BOIRS	Borno State Internal Revenue Service
FCT	Federal Capital Territory
FIRS	Federal Inland Revenue Service
HNWI	High net worth individual
JTB	Join Tax Board
LIC	Low-income country
MDA	Ministries, departments, and agencies
PAYE	Pay as you earn
PIT	Personal income tax
TIN	Tax identification number
SBIRS	State Boards of Inland Revenue Service
TCC	Tax clearance certificate
VAT	Value added tax

1. Introduction

Various countries in sub-Saharan Africa have recently started developing strategies to increase the tax compliance of high net worth individuals (HNWIs) (Kangave *et al.* 2016; Kangave, Byrne and Karangwa 2020; Kangave, Occhiali and Kamara 2023; SARS 2021; Dom *et al.* 2022; Santoro and Waiswa 2022).[1] This is a welcome development, as general taxpayer compliance strategies deployed by revenue authorities are often ineffective in targeting HNWIs due to their unique characteristics. These individuals are often politically connected, earn their income from multiple sources (many of which are hard to track), and engage in complex tax planning schemes – when not in outright tax evasion (OECD 2009; Tanzi 2012; Fairfield 2010, 2013; Kangave *et al.* 2016, Dom *et al.* 2022).

There is some limited evidence that HNWI taxation has recently been receiving attention in Nigeria (NGF 2017). This is significant, as the country has historically relied more on crude oil exports than tax collection to fund its government budgets – 54.9 per cent of federal government revenue between 2012 and 2022 originated from oil sales (Central Bank of Nigeria 2023). As a consequence of this reliance, Nigeria currently has one of the lowest tax-to-GDP ratios in the world (IMF 2022), standing at 8.57 per cent in 2022 (UNU-WIDER 2023). Much of this revenue is currently being directed to repaying the country's steadily increasing debt (Reuters 2022, 2023).

In this context, any strategy to increase tax collection can contribute to making Nigeria's economic trajectory more sustainable. One of the first actions of President Bola Tinubu after taking office in May 2023 was to establish a Presidential Committee on Fiscal Policy and Tax Reforms. This has the overarching mandate of harmonising the Nigerian tax system, which is perceived to be excessively complex (Nigerian State House 2023). One of the reasons for this complexity stems from Nigeria's federal status. In addition to the Federal Inland Revenue Service (FIRS), each of the 36 states in Nigeria has its own State Board of Internal Revenue Service (SBIRS), with an additional one established for the Federal Capital Territory of Abuja in 2015. While the FIRS has a mandate on value added tax and all taxes levied on corporations, State Boards of Internal Revenue Service (SBIRS) have a mandate on all taxes levied on individuals, with the exclusion of pay-as-you-earn (PAYE) of federal employees.

Consequently, the development of compliance strategies dedicated to HNWI

[1] Further, their very definition – which, at least in high-income countries, is based on having US$1 million in investable assets outside of their main residence (OECD 2009) – is in itself an object of debate, as the different economic conditions of low-income countries (LICs) call for the development of alternative criteria (Kangave *et al.* 2016, 2020, 2023).

taxation lies with each individual state, rather than with the federal government. Therein might lie part of the explanation of why this topic has received so little attention in Nigeria, despite the fact that the country ranks third in Africa for the number of wealthy citizens, hosting over 9,800 people with a net worth over US$1 million (Henley & Partners 2023). If direct taxation has generally been neglected in Nigeria since the discovery of oil, this is especially the case at the level of states. States have had, since their inception, limited ability to control their own tax system (Gatt and Owen 2018). Personal income taxes and PAYE are the perfect example. Although they represent the vast majority of revenue generated at state level (NBS 2022), their rates are fixed by the federal government – and states do not have the power to amend them. This set-up is quite unique. While it is not uncommon for income taxes on individuals to be levied at the state level in federal countries, such as the US and Canada, states are often allowed greater capacity to determine their own rates, when not their own base entirely (see Vermeer 2023 for the US). In contrast, Nigerian states can only legislate on tax administration matters, and try to influence tax policy through this.

Surprisingly little is currently known about HNWI taxation in Nigeria. Given the particular nature of the Nigerian tax structure, the number of wealthy citizens it hosts, and the current political focus on harmonising its tax system, it is important to start gathering more evidence on the current state of HNWI strategies. Our study fills this gap by providing an initial understanding of HNWI taxation in Nigeria, looking at the extreme case of Borno state, and locating that in the wider scope of taxation of the wealthy in the country. The study is based on 12 semi-structured key informant interviews with public and private stakeholders carried out in 2022, analysis of federal- and state-level legislation, data gathered from 10 SBIRS in preparation for a two-day workshop on HNWIs, and discussions with the 26 participants in the workshop.[2] All the original key informant interviews were conducted in conjunction with the Borno State Internal Revenue Service (BOIRS) to support their planning for an HNWI unit. Consequently, most respondents are from that state, and a significant section of interview questions focused on state-specific issues. Many of the issues described by interviewees from Borno were confirmed by tax officials from three neighbouring states – Bauchi, Kano, and Kaduna – and subsequently at the workshop. Hence, while we recognise that the limited breadth of the interviewees makes our results preliminary, given that we complement this with evidence from workshop participants from various states, we feel that our findings provide useful insights into the opportunities and challenges of taxing HNWIs in Nigeria.

[2] The workshop was jointly organised by the International Centre for Tax and Development and the African Centre for Tax and Governance. It was held in Abuja on 24 and 25 October 2023. A total of 26 participants attended the workshop, including representatives of the SBIRS of Imo, Plateau, Ekiti, Niger, Borno, Cross River, Ondo, Lagos, Kaduna, and the Federal Capital Territory of Abuja; the FIRS; the Joint Tax Board; the Nigerian Governor Forum; 3 civil society organisations; and 1 economic think-tank.

Our findings suggest that most of the obstacles to taxing HNWIs in unitary countries in Africa are relevant for Nigerian states. While the Nigerian legal framework is relatively stronger than other countries, various legal provisions are not applied consistently. The identification of HNWIs remains challenging, with different states using different criteria. In addition, availability of data is a significant issue, due to sub-optimal administrative practices in both SBIRS and other government institutions, as well as a poor taxpaying culture. Lastly, political interference can complicate matters. While support from SBIRS' senior management teams already provides backing for enforcement action or data-sharing requests, the real game changer is having explicit support from state governors, around which the ultimate success of the strategy hinges. Institutional bodies that might drive the development of regional strategies exist, but so do obstacles to their effectiveness.

This paper briefly reviews the literature on HNWI taxation in section 2. Section 3 analyses Nigeria's legal framework, showing that, while the combination of federal and state laws provides all the necessary legal backing, their application can fall short of what SBIRS require to tackle HNWI compliance. Section 4 moves on to administrative practices, discussing the different HNWI definitions across the states covered, as well as the strategies implemented to identify them in contexts where there is little available data. Section 5 discusses the importance of political considerations when developing HNWI strategies, including support from the states' executive, and financial and administrative autonomy of the revenue services. Section 6 provides more details on the specific case of Borno, which has additional challenges because of its security situation, and section 7 concludes.

2. Literature review

It has been suggested that the effective tax rate faced by wealthy individuals in high-income countries, such as the UK and US, is probably lower than that faced by most average citizens (Advani and Summers 2020; Leiserson and Yagan 2021). This is mainly due to the sources of income of these respective groups – employment income for most citizens, and dividends and capital gains for most wealthy individuals (Advani and Summers 2020). Tax on employment income is usually withheld at source by the employer. Taxes on dividends, rent, and capital gains frequently rely on self-assessment, leaving the door open for various forms of tax evasion, as well as frequent lobbying for reduction in tax rates (Piketty, Saez and Stantcheva 2014, Cooper *et al.* 2015; Alstadsæter, Johannesen and Zucman 2017; Dom et al. 2022).

If carrying out analysis of effective tax rates across income and wealth distributions is complex for data-rich, high-income countries, it is even more complicated for data-poor, low-income ones. However, available evidence suggests that similar trends are taking place across many LICs. Data from a handful of African countries reveals, for example, that 97 per cent of personal income taxes (PIT) in 2015 was collected from individuals earning employment income (Moore, Prichard and Fjeldstad 2018). Meanwhile, many wealthy individuals in Africa, including high-earning professionals, owners of commercial properties, wealthy politicians, and wealthy businesspeople, do not even appear on the taxpayer registers of revenue authorities, or pay very little in PIT (Keen 2012; Goodfellow 2015; Kangave *et. al.* 2016, 2020; Ogembo 2020; Dom *et al.* 2022). Consequently, there have been increasing calls to ensure that these individuals pay their fair share in taxes (Moore and Prichard 2020; McCluskey and Mascagni 2021).

While HNWIs have been broadly defined to mean individuals with wealth in excess of US$1 million (OECD 2009), the term takes on a different meaning in the context of Africa, where low per capita income and fragmentation of information sources require more nuanced and country-specific definitions (Tanzi 2012). For example, instead of having a single threshold, Uganda uses a combination of core and non-core criteria to define who are HNWIs, including the value of land transactions and loans obtained from banks, income from rental activities, and shareholding in high-value companies (Kangave et al. 2018). Similarly, findings in Sierra Leone suggest that qualifying as politically exposed individuals, owning multiple properties, and earning US$100,000 per year might suffice to qualify as an HNWI, given the country's economic structure (Kangave *et al.* 2023).

Although evidence is limited, existing studies on African countries show that the legal framework is usually more than adequate to tax these individuals as withholding taxes on various sources of income are usually present, along with taxes on capital gains and rental income. Similarly, revenue authorities often have the legal power to request information from various government agencies and private sector institutions when pursuing defaulting taxpayers or suspecting foul play – although how easily these laws are enforceable is a different matter (Kangave *et al.* 2016, 2023; Dom *et al.* 2022). And while constraints in tax administration capacity can be significant, the lack of political will to tax these individuals is usually an even greater obstacle (Dom *et al.* 2022; Santoro and Waiswa 2022).

What sets Nigeria apart from most other African countries is its federal structure. The 1999 Nigerian Constitution sets broad criteria for the taxation powers of the three tiers of government – federal, state and local (Constitution of Nigeria 1999). The main revenue items in the federal domain are corporate taxes – including withholding taxes and capital gains from corporate entities – and value added tax (VAT). For states, the main taxes are personal income taxes (with the exception of PAYE for federal employees), sales tax, capital gains from individuals, excise tax and stamp duties, road taxes, business premise charges, and occupancy charges. Finally, the local governments' main source of revenue comes from rates from shops and kiosks, property taxes, registration charges (such as marriage and death certificates), parking fees, permits for advertising, sewerage and trash disposal, and other local activities.

While fiscal federalism is out of the scope of this paper, it is relevant to mention that various authors contend that subnational governments have weaker administrative and law enforcement capacity, making subnational governments more susceptible to corruption and mismanagement (Tanzi 1995; Prud'homme 1995; Oates 1999), including in Nigeria (Ewetan *et al.* 2021). Similarly, while we cannot provide an in-depth discussion of this issue, Nigeria's over-reliance on oil revenue has a significant bearing on its fiscal intent and capacity (Gatt and Owen 2018). This is especially the case as it has led to states' over-reliance on central transfers (Jimoh 2022), with only two states collecting more revenue between 2017 and 2020 than the transfers received (Upke 2022) – which often account for more than 50 per cent of their budget (Chinery and George-Ikoli 2022).

3. Legal framework for taxing HNWIs in Nigeria

The first step that revenue authorities should take when considering how to develop a compliance strategy for HNWIs is to assess whether all necessary legislation is in place. In the case of Nigeria, the legal framework is quite unique. Differently to other African countries, Nigeria possesses separate laws for the taxation of individuals (Personal Income Tax Act Cap P8) and companies (Companies Income Tax Act 1979 No. 28, 2007 No.56), as well as an autonomous act for capital gains (Capital Gains Tax Act Cap 354).

While there are no explicit provisions in the laws for taxation of HNWIs, under the Personal Income Tax Act these individuals can be taxed on their rental income (Section 69), interest (Section 70), royalties (Section 70), dividends (Section 71) and directors' fees (Section 72). In addition, all taxable persons earning above ₦30,000 are required to file income tax returns in which they declare all their sources of income (Section 41).[3] To incentivise taxpayers, all those who file tax returns and pay their taxes within the prescribed time are granted a reduction of 1 per cent in the tax payable (Section 45). Similarly, the chance of improving compliance is increased by the requirement that all the above income is subject to withholding tax (Section 74). The Capital Gains Tax Act also imposes tax on gains made by individuals on the disposal of property, debts, and foreign exchange currency, all of which are important sources of income for HNWIs (OECD 2009).

Additionally, the Personal Income Tax Act requires banks to: (a) request customers who are opening bank accounts for business purposes to provide tax identification numbers; (b) submit monthly returns to SBIRS with the names and addresses of new customers; and (c) respond to additional requests from SBIRS for further information about their customers.[4] Failure to provide the information requested can result in a fine of ₦500,000 if the banker is a company, or ₦50,000 if the banker is an individual. Similarly, Section 47 of the same Act requires all government bodies, professional bodies, and trade associations to provide SBIRS with any information that they demand in the format prescribed by the request. Both these sets of provisions are quite important. HNWIs' economic activities are often hard to observe, so having explicit provisions in the Personal Income Tax Act that mandate banks to provide a baseline of information to SBIRS might reduce the obstacles faced in other jurisdictions (Fairfield 2010;

[3] ₦1 Nigerian Naira is equal to approximately US$0.0006 as of March 2024.

[4] Sections 47 & 49 Personal Income Tax Act.

Dom *et al.* 2022). Given that revenue authorities also struggle to obtain information from other ministries, departments, and agencies (MDAs) (Dom *et al.* 2022), and that professionals are likely to make up a significant proportion of HNWIs (Kangave *et al.* 2016, 2023; Ogembo 2020), having explicit information-sharing provisions enshrined in law for MDAs and professional bodies is also important.

Furthermore, the Personal Income Tax Act requires that when an individual is seeking to serve as a chair or member of a public board, institution, commission, or other government body, to be elected, or appointed to a public office, they should present a tax clearance certificate (TCC) for a three-year period. Failure to ask for the TCC is an offence punishable by a fine of ₦5,000,000, imprisonment of three years, or both. This provision has the potential to increase revenue from taxpayers who are often difficult to tax. The Uganda Revenue Authority collected approximately US$110,000 in a month after the introduction of a comparable provision before the 2016 election (Kangave *et al.* 2018).

While federal laws provide the basic framework to address HNWI compliance, each state has the power to pass legislation addressing tax administrative issues relating to individuals residing in their territory (Personal Income Tax Act, Section 2, and Capital Gains Tax Act, Section 165). Although these laws need to conform with the provisions contained in the federal acts, they can give SBIRS significant additional power. An example of this is the Borno State Internal Revenue Service (Re-Establishment, Harmonization and Administration) Law, 2020,[5] which seeks to harmonise, codify, and consolidate all legislation on revenue collection in the State. To start with, the Harmonization Law requires all MDAs to remit to BOIRS all taxes, levies, and fees that they collect; and to submit monthly returns of all revenue collected (Section 14). In addition to reiterating the need to obtain a three-year TCC for any interaction with government agencies (Section 85), the Harmonization Law goes a step further than the PIT Act with regard to sharing banking information. Specifically, it requires banks to submit quarterly returns to BOIRS covering all transactions that individuals enter into involving more than ₦1 million, or ₦3 million for partnerships and other unincorporated entities, along with names and addresses of all bank customers associated with the said transactions. Failure to provide the requested information is punishable by a fine of ₦500,000, imprisonment for a term of five years, or both.

Other states have similarly pushed the requirement to obtain TCCs a step further than what is mandated by the PIT Act, by including flat-rate payments from those seeking TCCs for election purposes – although it is not clear whether these have

[5] Hereinafter referred to as the Harmonization Law.

been codified in law or applied as administrative measures.[6] These rates seem to vary across states and according to the positions, ranging from ₦210,000 to run as a councillor in Ekiti State, to ₦1.5 million to run for the state senate in Ondo.[7] This strategy was implemented in recognition of the fact that SBIRS often lack the capacity to assess the exact tax liability of individuals asking for TCCs. These individuals usually only interact with them prior to running for office, with many likely to declare less than the flat rate. While the information provided upon requesting TCCs can be used for investigative purposes following the election, audits take a significant time, effort, and monetary investment, so that setting a floor for advance payment ensures that at least a minimum amount of revenue is collected during the process of issuing TCCs.[8]

The combination of federal- and state-specific provisions can enable SBIRS to access information on many HNWI activities, from transactions in land and property to fees paid to professionals in government contracts – as well as collecting some revenue in the process of gathering data. However, the law is not a silver bullet. It is quite possible – and indeed common – to have a strong legal framework in place without having the political backing or resource capacity that is necessary for its enforcement, and this seems to be the case in Nigeria. Officials from Borno and Kaduna indicated that, while they regularly receive bank information, this is sometimes 'doctored with a lot of missing information', and that some banks insist on being furnished with court orders before releasing additional information.[9] There are also examples of tax officials 'receiving calls from above' to block their access to bank information.[10] Similarly, state-level MDAs have sometimes resisted outright providing information requested by HNWI units,[11] although there are also examples of states in which legal backing facilitated access to information from various government agencies.[12] While the obligation to issue TCCs is well established in both federal and state laws, the Federal Capital Territory IRS had to issue a circular to all state MDAs, statutory authorities, and commercial banks in late 2023 pushing for the enforcement of this provision.[13]

[6] 'Taxation of HNWIs in Nigeria: state of play and way forward for state boards of internal revenue services' Workshop, 24-25 October 2023, Abuja (hereinafter Taxation of HNWIs in Nigeria Workshop, October 2023).

[7] Taxation of HNWIs in Nigeria Workshop, October 2023.

[8] Taxation of HNWIs in Nigeria Workshop, October 2023.

[9] Interviews with tax officials in Kaduna and Borno IRS.

[10] Interviews with officials in HNWI Units in Kaduna, Kano and Bauchi IRS.

[11] Interviews with representatives from the Bauchi HNWI unit.

[12] Interviews with representative from the Kaduna HNWI unit.

[13] Taxation of HNWIs in Nigeria Workshop, October 2023.

Nonetheless, the presence of a strong legal framework is a prerequisite for both enforcement and identification. We now turn to this.

4. Administrative consideration for taxation of HNWIs

Although setting up a dedicated unit is not the only way to manage the tax affairs of HNWIs, this is the approach preferred by the few African countries for which evidence is available (Kangave *et al.* 2016, 2023; SARS 2021). States have taken different approaches in Nigeria. Although workshop participants from all 10 SBIRS declared that they have HNWIs on their registers, with the number ranging from 5 (Niger) to over 3,000 (Lagos), only 6 SBIRS had established a dedicated unit to manage their affairs.[14] In Kaduna State, the arrival of a new chairman with previous experience with FIRS was instrumental in setting up the unit in 2019, as well as for providing the backing necessary to access banking information on an ongoing basis.[15] In Kano, prior to the recent establishment of a unit, HNWI affairs were managed for 40 years as 3 separate segments – expatriates, high remitters, and wealthy individuals.[16] Ekiti State attempted a different method, with a few individuals in the SBIRS headquarters supporting staff assessing HNWIs across each of its 25 tax stations, which the latter could more easily identify. However, even with this structure the outcomes of these assessments were often deemed unrealistic, so the IRS is looking for new approaches.[17] Regardless of how SBIRS manage this segment, estimates of their total contribution to overall revenue are hard to obtain, with only the representative from Bauchi declaring that as much as 15 per cent of the state PIT can originate from the HNWI unit, although this excludes withholding and capital gains taxes.[18]

Working definitions of who qualifies as a HNWI exist across almost all SBIRS, including three of those who do not have a dedicated unit[19] – although they are not necessarily enshrined in any particular document or given official status.[20] Given how varied the economic structure of Nigerian states is,[21] it is not

[14] It is also worth noting that four states - Borno, Niger, Ondo, and Plateau – only established a unit over the last five years, Taxation of HNWIs in Nigeria Workshop, October 2023.

[15] Interview with representative from the Kaduna HNWI unit (May 2022).

[16] Interviews with representatives from the Kano HNWI Unit (June 2022).

[17] Taxation of HNWIs in Nigeria Workshop, October 2023.

[18] Interview with representative from the Bauchi HNWI unit (June 2022).

[19] Taxation of HNWIs in Nigeria Workshop, October 2023.

[20] Interviews with representatives from the Bauchi HNWI unit (June 2022), the Kaduna HNWI unit (May 2022), and the Kano HNWI Unit (June 2022).

[21] State-level GDP figures are currently available for only 22 Nigerian states for the period 2013-2017 (NBS 2019). In 2017, the lowest GDP was for Zamfara (₦1.1 trillion), and the highest for the Federal Capital Territory of Abuja (₦10.6 trillion).

surprising to discover that the criteria to qualify also change significantly. Across the twelve states for which we have information, seven use an annual income threshold, ranging from ₦2 million in Borno and Kano, to ₦25 million in Lagos. The other five use thresholds related to assets, which could be total value (₦500 million in the Federal Capital Territory), value of a specific class (₦50 million in real estate in Bauchi), value of mixed classes (₦10 million across real estate and cars in Kaduna), or simply multiple property ownership (Kano and Ondo). Furthermore, these threshold types are not mutually exclusive – Kaduna and Kano use both income and assets. Other ad hoc criteria are also present, such as annual tax liability (₦200,000 in Ekiti and Kano), and bank transactions above a given value (₦5 million for two consecutive months in Kaduna). While differences in these definitions are to an extent connected with underlying economic structures, the data SBIRS that are able to access for identification purposes inevitably affects how HNWIs are defined.

Table 4.1 Criteria used to define HNWIs

	Assets	Income	Others
Bauchi	₦50 million across real estates owned	-	Qualify as politically exposed person
Borno	-	₦2 million and above	-
Ekiti	-	-	₦200 thousand in tax liability
FCT	₦500 million net worth	-	-
Imo	-	₦15 million and above	-
Kaduna	₦10 million across real estates and car	₦1 billion in turnover	Bank transactions above ₦5 million per month over 2 consecutive months; income from dividends, FOREX investments or state contracts
Kano	Owning multiple properties in high value zones	₦2 million and above	₦200 thousand in tax liability
Lagos	-	₦25 million and above	-
Niger	-	₦20 million and above	-
Ondo	Owning multiple properties in high value zones	-	-
Plateau	-	₦2.5 million and above	-

Source: Taxation of HNWIs in Nigeria Workshop, October 2023; Interviews with representatives from the Bauchi HNWI unit (June 2022), the Kaduna HNWI unit (May 2022), and the Kano HNWI Unit (June 2022).

Ideally, seven to eight years of data from commercial banks – both on deposit and credit facility – would be the best starting point for identifying HNWIs.[22] However, as previously mentioned, obtaining information from commercial banks is not guaranteed, despite the existence of legal backing. Many banks only share

[22] Interviews with representative from the Kaduna HNWI unit (May 2022) and Kano HNWI unit (June 2022).

the minimum compulsory information – and not in a timely manner. SBIRS often have to rely on their legal department and involve the courts to obtain further data from banks, which requires willingness and political backing to engage in litigation.[23] Consequently, rather than relying on deposit or credit facilities, the definition of an HNWI is more likely to include the existence and frequency of high-value transactions, as this data can be obtained from the Nigerian Financial Intelligence Unit. However, to access this information, SBIRS need to possess a taxpayer's bank verification number, which is often hard to obtain – so even this data has only been used to a limited extent at present.[24]

Data from MDAs has also proven to be quite useful, both at the federal and state level. Interaction with state-level MDAs can either be very positive or quite complex, depending on the quality of the data they hold, the state of IT systems, and on the SBIRS' political backing. In states in which a central billing system exists, payments to all MDAs from any given taxpayer can be reconciled through a unique identifier, which makes sharing of information relatively straightforward, especially when MDAs have automated their administrative practices.[25] However, when MDAs possess incomplete information, or when they feel their power to raise revenue is threatened, they might resist attempts to access their data. While not a panacea, engaging the heads of relevant MDAs – such as the Ministry of Land or the Ministry of Housing – in a regular forum can help sensitise them about SBIRS' needs, and might eventually lead to sharing of information.[26]

Obtaining data from federal MDAs, or from those of other states, can also be important. HNWIs are likely to invest across different states, are highly mobile, and prone to relocate when they feel pursued by SBIRS.[27] While engagement between SBIRS and federal agencies is generally positive,[28] the existence of a plethora of different identifiers in the Nigerian system makes federal-state and state-state coordination complex. Specifically, all payments to federal agencies are identified through a federal tax identification number (TIN) or the Nigerian national identification number, while payments to SBIRS and state MDAs are handled through state TINs or state Pay-ID, making data reconciliation extremely

[23] Interviews with representatives from the Bauchi HNWI unit (June 2022), the Kaduna HNWI unit (May 2022), and the Kano HNWI unit (June 2022).

[24] Taxation of HNWIs in Nigeria Workshop, October 2023.

[25] No data-sharing request needs to be issued in the most advanced situations, as the SBIRS IT system is already integrated with that of other MDAs, Taxation of HNWIs in Nigeria Workshop, October 2023.

[26] Interviews with representatives from the Bauchi HNWI unit (June 2022).

[27] Interview with representatives from the Bauchi HNWI unit (June 2022) and the Nigerian Governor Forum (July 2022), Taxation of HNWIs in Nigeria Workshop, October 2023.

[28] Interviews with representative from the Kaduna HNWI unit (May 2022) and Kano HNWI unit (June 2022).

hard.[29] While some states have started integrating their tax identifier systems with the joint tax board-TIN and the Nigerian national identification number, this process is still ongoing. The creation of an effective unique identifier for all federal and state interactions will only be possible with substantial political backing from the federal government.[30]

Finally, data obtained through the 2017-2018 Voluntary Assets and Income Declarations Scheme – which allowed taxpayers to declare assets or income giving raise to a tax liability in exchange for a waiver of interest, penalties, and any criminal charges – could also prove significant. The data collected through this scheme led to the identification of a few additional HNWIs in various states, including Bauchi, Kaduna, and Kano. Others have not done much with it, potentially due to scepticism about using data from a process that SBIRS feel was started before their buy-in was ensured.[31] Nevertheless, this data is still being compiled and analysed under ‘Project Lighthouse’, a data-driven artificial intelligence tool. This includes supporting revenue mobilisation at the state level among its aims, and is freely available to SBIRS.

[29] Taxation of HNWIs in Nigeria Workshop, October 2023.

[30] Taxation of HNWIs in Nigeria Workshop, October 2023.

[31] Interviews with representatives from the Bauchi HNWI unit (June 2022), the Kaduna HNWI unit (May 2022) and the Kano HNWI Unit (June 2022), Taxation of HNWIs in Nigeria Workshop, October 2023.

5. Importance of political support for taxation of HNWIs

Underpinning both the adequacy of existing legislation and the effectiveness of tax administration is the extent to which SBIRS have the political support necessary to enforce the law against normally influential individuals. Without sufficient political backing, SBIRS often have difficulty obtaining the necessary data from commercial banks and MDAs. Similarly, political will is required to fully enforce existing legislation on TCCs, as well as to minimise the number of 'calls from above', as one official called them in an interview, which interfere with enforcement actions. However, what political support looks like is not always obvious.

What clearly emerged from engagement with various stakeholders is that governors are the key individuals ensuring that HNWIs can be pursued, having been defined as 'the sole owner of the state' and as holding '90 per cent of the power at state level'.[32] Representatives from Borno, Ekiti, Kaduna, Lagos, and Ondo all stressed that what their SBIRS have been able to achieve so far with regard to taxing HNWIs was made possible due to support from governors. This support takes different forms, from personally following up with non-compliant individuals who are economically or politically influential, to ensuring that no-one from within their administration will put pressure on the SBIRS to drop enforcement actions. Meanwhile, there have been instances when unsupportive governors have spoken up against enforcement actions, with an immediate impact on compliance. There are past examples of governors from Cross River and Ondo States pretty much stating that their citizens should not comply with their fiscal obligations, which made any effort to effectively administer taxes in their states almost impossible.[33]

Given the impact that political interference still has on tax administrative practices, the extent to which SBIRS are operationally and financially autonomous contributes to determining how easily tax officers can pursue well-connected non-compliant individuals.[34] SBIRS that are operationally and financially autonomous are automatically less prone to political pressure, as their capacity to investigate whoever they wish does not depend on the availability of operational funds that might be withheld on a whim. Even when SBIRS have a sufficient degree of autonomy to pursue their own compliance strategy, who they

[32] Taxation of HNWIs in Nigeria Workshop, October 2023.

[33] Taxation of HNWIs in Nigeria Workshop, October 2023.

[34] Taxation of HNWIs in Nigeria Workshop, October 2023.

report to can have an impact on how easily pressure can be brought onto them. The case of Lagos shows this – the Lagos Internal Revenue Service reports directly to the state assembly, making it less likely that the governor or Ministry of Finance has the space to exert political interference.[35] The extent of autonomy across the 37 SBIRS in Nigeria is currently unclear. It should in theory be possible to determine this through careful analysis of all states' tax administration laws, which usually provide the legal basis for their establishment.

Finally, political support is also significant in driving engagement with HNWIs during identification, sensitisation, and enforcement. As mentioned, identifying HNWIs from third-party information is often complex for SBIRS. Some have tried to engage traditional authorities in their quest to expand the tax net, as they might command more respect than state agents with particular groups.[36] In these cases, a direct intervention from the governor or other high-ranking political officials might facilitate these engagements, and reduce the likelihood of enforcement actions becoming necessary.[37]

[35] Taxation of HNWIs in Nigeria Workshop, October 2023.

[36] Interviews with BOIRS officials (April 2022) and Taxation of HNWIs in Nigeria Workshop, October 2023.

[37] Taxation of HNWIs in Nigeria Workshop, October 2023.

6. A case study of Borno State

Borno is an unusual case in the Nigerian context. A lengthy insurgency involving various rebel groups started in Borno in 2012, and there was still sporadic fighting in 2023. By most available accounts Borno is a fragile state, and currently exhibits all the characteristics mentioned in the literature – lacking full control of its borders and losing the monopoly on violence (Fjeldstad *et al.* 2018). The Nigerian government could only reliably access and maintain control over two-thirds of the state throughout most of 2021.[38] The situation improved in 2022, but fighting between government forces and insurgents was still a weekly occurrence in early 2023.[39] Furthermore, the insurgency led to the destruction of much public and private infrastructure, as well as the erosion of social cohesion and exacerbation of underlying economic disparities (Word Bank 2015; Ikpe 2017; Freeman 2019; Avis 2020). Despite this, there is evidence that a revival of economic activity is underway, and the state is identified as one of the fastest growing markets in the country (Avis 2020).

It is in this context that the BOIRS started considering the development of a strategy to tax HNWIs, whose contribution to state coffers has historically been minimal – largely due to their political connections.[40] The current governor, first elected in 2019, publicly supported BOIRS's efforts to improve compliance of HNWIs, and personally approached some of them to stress the importance of complying with their tax obligations.[41] While some HNWIs still threaten tax officers when subjected to enforcement action, especially those who are involved in politics directly or as big donors, public support from the governor has empowered BOIRS to engage in more ambitious reforms.[42] The two main examples of this are: (a) passing the Harmonization Law in 2020, which granted BOIRS additional power to access information from commercial banks and MDAs, and made it the sole collector in the state; and (b) a recent push to increase collection from withholding taxes on rent.

While most wealth in the state historically originated from engaging in cross-border trading, this has been severely disrupted for more than a decade due to

[38] See interview with BOIRS chairman (*Daily Trust* 2021).

[39] See Momoh (2023) and Marama (2023) for evidence of continuing fighting in early 2023.

[40] Interview with representative from BOIRS (April 2022).

[41] Interview with representative from BOIRS (April 2022).

[42] Interview with representative from BOIRS (April 2022).

the border closing after the start of the insurgency.[43] At the same time, the heightened security risks led to a significant migration from rural to urban areas, especially to the capital Maiduguri. This led to a real estate boom, with the demand for property further increased by the inflow of aid workers when the security situation started improving.[44] Many investors in real estate are likely to be HNWIs – defined in Borno as those having a yearly turnover above ₦2 million, or making yearly tax contributions of ₦500,000.[45] They are now deriving most of their income from rent and returns on property investment.[46] Consequently, the focus on improving rental income taxation, based on extensive sensitisation of tenants and landlords, is implicitly also a focus on improving HNWI compliance. During 2021, BOIRS enumerated almost 10,000 properties, issuing assessments for approximately ₦600 million, of which ₦350 million were actually collected (Alkali *et al.* 2021). While there are doubts about the capacity of the real estate sector to continue growing, as non-government organisations will start leaving Maiduguri and the urban-rural migration will slowly reverse, this enumeration effort led to the identification of previously unknown HNWIs – of which there currently are around 400 in the state.[47]

Increasing HNWI compliance in the state still faces significant challenges. While, thanks to the Harmonization Law, BOIRS receives regular reports from other MDAs in the state fortnightly, including on all government contracts with private suppliers and service providers,[48] banks have proven reluctant to share the full set of information mandated by the law. Data on new account holders often lacks some details required to identify them, while that on transactions above the qualifying threshold is not as forthcoming as mandated by law.[49] However, the biggest obstacle is probably the internal data practices of BOIRS. No taxpayer-level data was available for in-depth analysis for the study period, which greatly decreases the usefulness of data from third parties. Building a robust IT system to analyse taxpayer-level data is a necessary condition for developing a functional HNWI strategy, and it should be an immediate priority for BOIRS.

[43] Interview with BOIRS official (April 2022). The border closure impacted revenue collection in Borno State through decreased economic activity rather than a fall in collection of custom duties, as this is managed at the federal level by the Nigerian Customs Services.

[44] Interview with representative from BOIRS (April 2022) and Ministry of Trade and Investment (April 2022).

[45] Interview with BOIRS officials (April 2022).

[46] Interview with BOIRS officials (April 2022), representative from commercial banks (May 2022), law and audit firms (May 2022), and Corporate Affairs Commission (July 2022).

[47] Interview with representative of the Ministry of Trade and Investment (May 2022) and Taxation of HNWIs in Nigeria Workshop, October 2023.

[48] Interview with BOIRS officials (April 2022).

[49] Interview with BOIRS officials (April 2022).

Consequently, the identification of HNWIs still relies heavily on physical investigation – with personnel from area offices going shop-to-shop, enquiring about buildings under construction, or going house-to-house in high-income neighbourhoods. This is a fairly inefficient practice, significantly constrained by the availability of BOIRS human resources.[50] Furthermore, much of the initial focus has been on withholding taxes. While this has led to increased collection, tax handles such as capital gains taxes or ground rents – often associated with HNWI activities – are still significantly underperforming.[51] One approach that BOIRS is exploring to increase collection from these is to sensitise traditional rulers about the fees they are entitled to when land transfer deeds are registered. These are often not paid, as ownership transfers currently happen without any paper records.[52] Engaging more with lawyers and tax agents could also be promising, as these are most likely to be the groups providing advisory services to HNWIs, as well as being potentially wealthy and hard to track themselves.[53]

However, the number of HNWIs is expected to increase as the security situation improves, and attracting back those who left the state during the insurgency is seen as a priority. While precise data is unavailable, government officials believe that after the insurrection started most HNWIs moved to neighbouring states or Abuja, temporarily stopping operations.[54] Depending on the sector, this led to either divestment or a drop in investments to around 40 per cent of the pre-insurgence period, with significant consequences on economic activity and tax revenue. Ensuring that tax policies do not disincentivise returning investors is considered paramount, and all businesses that existed before the insurrection and are restarting operations are granted from one to three years of tax relief.[55] Although it is hard to quantify the impact that this measure has had to date, enquiries about investment opportunities in the state are increasing, mainly from individuals rather than companies.[56] Nevertheless, BOIRS might want to consider making it compulsory for company directors and shareholders to acquire a TIN if they do not currently have one – this is not currently a requirement, and could help to identify HNWIs in the future.[57]

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[50] Interview with BOIRS officials (April 2022).

[51] Interview with representative of law and audit firm (May 2022).

[52] Interview with BOIRS officials (April 2022).

[53] Interview with representative of law and audit firm (May 2022).

[54] Interview with officials from the Ministry of Trade and Investment (April 2022). The issue of data availability for Borno State is currently more general, as no systematised taxpayer-level data was available for the study.

[55] Interview with officials from the Ministry of Trade and Investment (April 2022).

[56] Interview with officials from the Ministry of Trade and Investment (April 2022).

[57] Borno State currently uses the JTB TIN as a tax identifier, interview with representative of the Corporate Affair Commission (July 2022) and Taxation of HNWIs in Nigeria Workshop, October 2023.

7. Conclusion

There has been renewed interest in improving the efficiency of the Nigerian tax system after the election of President Bola Tinubu in summer 2023. Despite the fact that this effort came from the federal government, many of the considerations recently made by the Presidential Fiscal Policy and Tax Reforms Committee already hinge on matters pertaining to state jurisdictions. While nothing specific on the taxation of HNWIs has emerged from the Committee yet – and very little is known about the efforts of various states to increase compliance by this taxpayer segment or their contribution to state coffers – there are good reasons for making this a priority. Nigeria currently hosts over 9,800 individuals with a net worth over US$1 million, making it the third African country in terms of number of wealthy citizens. The number of those qualifying as HNWIs through the various criteria autonomously defined by each state might well be an order of magnitude higher. While states do not possess the power to modify PIT rates, which are centrally set by the federal government, they can pass laws modifying their administrative power in terms of methods of collection and reporting obligations, creating a situation where 36 different compliance strategies for HNWIs could eventually be in place.

Given the great diversity in economic and social structures across the different states, this might well be the optimal organisation. However, the evidence presented in this paper indicates that the types of obstacle currently faced by SBIRS – legal, administrative, and political – are similar across a variety of different states. Various states have passed tax administrative laws or introduced additional reporting requirements for commercial banks (Borno), and for individuals seeking elections (Ekiti and Ondo). These go beyond those mandated by federal laws, in an attempt to gather the information necessary to identify HNWIs and assess their liabilities. Nevertheless, many states are struggling with enforcement of these requirements – both because tax morale is generally low, and political interference remains widespread. Indeed, support from the executive appears like a necessary condition for even attempting to target this taxpayer segment, although not a sufficient one, as considerations about SBIRS' operational and financial autonomy also play a role. SBIRS have shown they are capable of moving quickly when a window of opportunity opens, as the example of BOIRS focusing on withholding tax of rent demonstrates. Nevertheless, too little evidence is currently available on the different administrative strategies deployed by different states, including whether having a dedicated HNWI unit actually increases compliance from the segment – and, if so, through which mechanisms, and under which conditions.

If and when more evidence becomes available, it may be that regional approaches, potentially promoted by the Joint Tax Board, could be attempted to resolve some of the deadlocks that states have with obtaining third-party information or facing down political opposition. More research needs to be dedicated to this topic in order to understand the effectiveness of policies currently being deployed or planned – from requesting up-front payment from individuals seeking tax clearance certificates for election, to the criteria used to define who could fall under this segment. Gathering more evidence than the preliminary facts presented in this paper, and finding a way to share lessons learnt among all relevant stakeholders, will be an important next step to drive these significant policy developments forward.

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