



**FEDERAL INLAND REVENUE SERVICE (FIRS) REFORM AND
TAX COMPLIANCE IN NIGERIA**

OYEKAN Margaret

Department of Business Administration,
Faculty of Management Sciences,
Veritas University, Abuja-Nigeria
oyekanm@veritas.edu.ng

&

MOMOHZekeri

Department of Political Science and Diplomacy,
Faculty of Social Sciences,
Veritas University, Abuja-Nigeria
momohz@veritas.edu.ng



Abstract

Tax is one of the sources of revenue of the government. Today, countries across the world are beginning to increasing their tax base to meet the increasing demand of their citizens. Besides, data for this study were collected from secondary sources such as books, journals, and internet sources while content analysis was used to analyze the data collected. This study seeks to investigate the impact of FIRS reform on tax compliance in Nigeria. This study revealed that the FIRS has signed some international treaties such as Avoidance of Double Taxation Agreements (ADTAs) and Global Forum on Transparency. It has also set Exchange of

information (EOI), Base Erosion and Profit Shifting (BEPS), and launched the tax amnesty. The FIRS has engaged in Inter-agency with governmental institutions such as the EFCC and ICPC etc. besides, the outcome of the efforts of the FIRS has seen in the increase in annual tax payments in 2018 it collected N5,320 trillion which was the highest in the history of revenue collection since the establishment of the FIRS. Besides, the FIRS recorded a reduction in the cost of revenue collection from 2.6% in 2016 to 2.49% in 2017 and 2.14%. in 2018. Lastly, this study suggests among other things that the Federal Inland Revenue Service (FIRS) should strengthen its enlightenment campaign mechanisms on tax compliance by extending its campaign to rural areas where there is low-level tax education. This can be achieved when the FIRS takes tax compliance to traditional rulers who will in turn pass the information to the people.

Keyword: Tax, Evasion, Compliance, Federal Inland Revenue Service, e-Service

Introduction

Tax is one of the sources of revenue of government all over the world without which government cannot perform its functions effectively. It is for this reason that government considers tax as one of the key instruments in meeting its obligations in implementing its policies and programmes. Today, governments around the world are working out modalities on regular basis to ensure that optimum tax collection is achieved in a bid to meet the growing demands of their citizens. This is because there are increasing demands from the citizens for a better standard of living from their respective governments.

Besides, one of the major challenges facing significant numbers of the country around the world is to achieve optimum tax collection from its citizens due to the rising wave of tax evasion. Although, some reasons have been advanced for tax evasion in the literature such as the structure of the tax system of a country, misconception on the purpose of tax, low

level of education especially on tax-related matters, weak tax laws, and inflation among others.

Moreover, corruption remains one of the reasons for tax evasion today in Nigeria. This assertion has been buttressed by evidence-based research which shows that significant numbers of countries around the world with lesser perceived levels of corruption tend to have lesser waste in public investment policies and programmes, while the reversed is the case with countries of perceived high levels of corruption. For instance, significant numbers of the most corrupt emerging economies waste twice money when compared to the least economies around the world.

Corruption in form of bribery, kickback, or bid-rigging in public procurement has resulted in the wastage of tax payers money in Nigeria. However, the Federal Inland Revenue Service (FIRS) which is the major actor in the Nigeria tax system charged with the responsibility of collecting all forms of taxes on behalf of the Federal Government of Nigeria has over the years put in place mechanisms such as an online platform that allows Nigerians and foreigners to pay their taxes which is similar to what is obtainable in countries such as Colombia, Costa Rica, Paraguay, Norway, and Brazil just to mention few. On the whole, this study seeks to investigate the impact of FIRS reform on tax compliance in Nigeria.

Literature Review

There is a growing literature on tax compliance, Tax Evasion, and Tax Avoidancesuch as Andreoni, et al (1998), Murphy (2010), Madugu, et al (2014), Obafemi (2014), Oyedele (2014), Ogunbesan, (2015), Duru (2015). Tax compliance according to Murphy (2010) is different from tax avoidance and tax evasion because it is conceived as: seeking to pay the right amount of tax (but no more) in the right place at the right time where

right means that the economic substance of the transactions undertaken coincides with the place and form in which they have reported taxation purposes". He added that "the significant difference between tax avoidance and tax compliance is the intent of the taxpayer". Thus, "a tax avoider seeks to pay less than the tax due as required by the spirit of the law.

Madugu et al (2014) posit that: "Tax evasion is a major problem plaguing many emerging economies across the globe and Nigeria situations seems peculiar when viewed against the scale of corrupt practices prevalent in the country. Under the direct personal taxation as practiced in Nigeria, the major problem lies in the collection of the taxes especially from the self-employed such as the businessmen, contractors, professional practitioners like lawyers, doctors, accountants, architects and traders in shops among others" (Madugu et al 2014:818).

Again, Madugu et al, (2014) in their conceptualization of Tax evasion asserts that it "is the failure to disclose the correct income that should be assessed either by misstatement of facts, falsification of figures, filing of incorrect returns or by misrepresentation of tax liabilities. Thus, through the employment of criminal or fraudulent means, the taxpayer pays less tax than he ought to pay. Tax evasion is accomplished by a deliberate act of omission or commission which themselves constitutes criminal acts under the tax laws. These acts of omission or commission might include failure to pay tax; failure to submit return; omission or misstatement of items from returns; claiming illegal reliefs; understating income; documenting fictitious transactions; overstating expenses; failure to answer queries and so on. Tax evasion involves willful default and is, therefore, a criminal offense" (Madugu et al, 2014:818-819).

Bolodeoku (2009) investigated the important provisions of the Federal

Inland Revenue Service (Establishment) Act (FIRS Act), 2007, which empowers the Federal Inland Revenue Service (FIRS) with some powers to deal with corruption-related matters as it affects revenue collection. Bolodeoku also explains some important sections of the Money Laundering (Prohibition) Act (MLA), 2004, that will assist the FIRS to curb the growing tide of corruption in the Nigeria tax system and possible areas of amendment in the Money Laundering (Prohibition) Act (MLA), 2004.

On the whole, there is a gap in the literature, which this study seeks to fill. Therefore, this study seeks to investigate the impact of FIRS reforms on tax compliance and the fight against corruption in Nigeria's tax system?

Federal Inland Revenue Service (FIRS) Reform and Tax Compliance Reform in Nigeria

In the literature of taxation, scholars and researchers have advanced some reasons why significant numbers of Nigerians evade taxes such as misconception on the purpose of tax, low level of education especially on tax-related matters, the structure of the Nigeria tax system, and weak tax legislation among others. This has had negative consequences on the growth and development of Nigeria's tax system over the years.

The role of the FIRS in enhancing tax compliance and curbing financial corruption cannot be overemphasized because of the benefits it accrues to Nigeria's tax system and the Nigerian economy at large. This assertion has been buttressed by international multilateral institutions like the International Monetary Fund (IMF) report (2019) which obtained data from over 180 countries. The study shows that “more corrupt countries collect fewer taxes, as people pay bribes to avoid them, including through tax loopholes designed in exchange for kickbacks” (Gaspar, et al, 2019). Today, the Nigerian government has lost significant amounts of its revenue to tax evasion in the Nigeria tax system. Thus, tax reforms in the

Nigerian tax system have to remain imperative for effective tax administration.

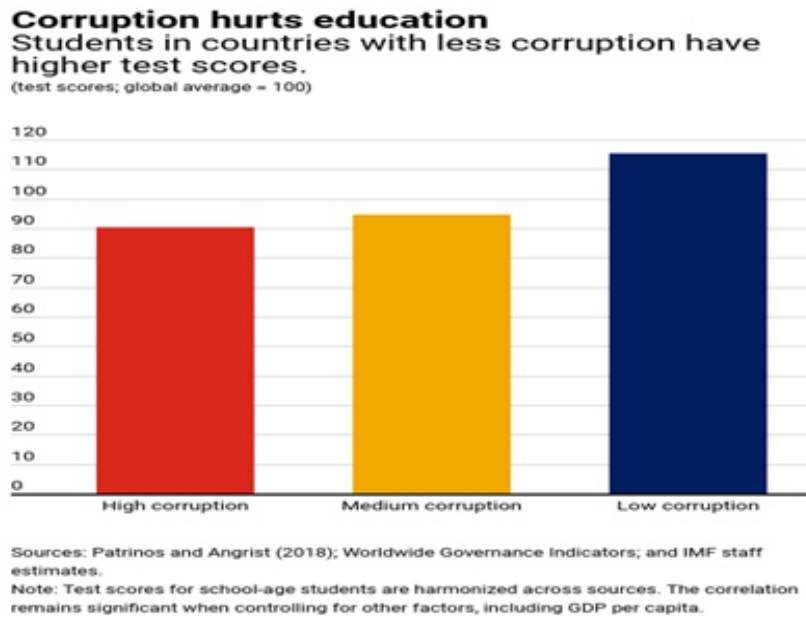
Also, the Federal Inland Revenue Service has over the past two decades been at the forefront in achieving increased tax compliance and curbing financial corruption in the Nigeria Tax System, through the application of various reforms that are geared towards improving revenue collection. Available statistics from the Federal Inland Revenue Service (FIRS) have shown that there were more than 440,000 companies in Nigeria but only about 120,000 were paying taxes (Ogunbesan, 2015). By implication, huge revenue is lost as a result of tax evasion and tax avoidance due to the deliberate refusal of 320,000 companies to pay tax to the FIRS. Again, available statistics from the Federal Inland Revenue Service (FIRS) shows that “Companies that had a Tax Identification Number (TIN) and were paying were 45261, those that had a TIN but were not paying were 40611 and those without a TIN and who were not paying were 34504.” (<https://www.firs.gov.ng/firs-hits-n5-3-trillion-highest-in-nigerias-history-targets-n8-trillion-2019/>).

It is pertinent to note that huge resources in Nigeria have over the years been lost to tax evasion and fraud-related offenses that would have been averted and the resource used by relevant authorities to provide public goods or spent on public investment projects. The continued loss of these huge revenues by the government annually arguably remains one of the factors that is responsible for the slow tax administration in the country. To this end, reforms from the FIRS have remained a right step in the right direction, as it has become a desideratum for effective tax compliance mechanism and a tool for curbing financial corruption in the Nigeria tax system.

The FIRS reforms of the Nigeria tax system have helped in curtailing the mismanagement of taxpayers' money that is spent on cost overruns due to

excessive kickbacks or bid-rigging in Nigeria's public procurement. Thus, the FIRS has helped through its reforms reduced tax evasion and other financial corruption, thereby helping the government of the day to invest such monies in critical infrastructure such as road, hospital, and other essential services that are vital in improving the living standard of millions of Nigerians living in poverty in relative terms.

In the same vein, tax evasion and other financial crimes in the Nigeria tax system have been responsible for the distortion of the government priorities at every level of governance in the country. For instance, in Nigeria, a significant percentage of the nation's budget that is allocated for the development of critical infrastructures such as electricity, education, and health have been lost to corruption. Besides, an evidence-based study has shown that tax evasion and financial corruption in many corrupt countries especially with high profile cases of corruption have more school-age students with lower test scores than the countries with low levels of corruption.



INTERNATIONAL MONETARY FUND

Source:(<https://blog-dialogoafondo.imf.org/?p=10957>).

In a bid to achieve increased tax compliance, the FIRS in 2016 launched the tax amnesty programme which the Chairman, Federal Inland Revenue Service, Tunde Fowler, asserted that the tax amnesty programme "attracted over 3000 applications for waiver of interest and penalties. The programme resulted in the payment of over N68 billion out of about N96.2 billion liability established by the exercise". Similarly, the "Voluntary Assets and Income Declaration Scheme (VAIDS) was initiated by the Federal Ministry of Finance and the FIRS received over 5122 applications under the Scheme. The Scheme resulted in voluntary declarations of over N92 billion, with over N54 billion paid so far by companies" (<https://www.firs.gov.ng>).

Moreover, the FIRS via its various online platforms has enhanced transparency, accountability, and integrity in revenue collections. For

instance, in South American countries like Colombia, Costa Rica, and Paraguay, the respective governments of these countries are using an online platform that enables their citizens to monitor the physical and financial progress of investment projects. Erstwhile in Europe, a country like Norway has designed a high standard of transparency, accountability, and integrity in revenue collections. In Brazil, the results of audits impacted the reelection prospects of officials suspected of misuse of public money, but the impact was greater in areas with local radio stations.

Furthermore, the Federal Inland Revenue Service has been empowered by the Federal Inland Revenue Service (Establishment) Act (FIRS Act), 2007 to investigate the nexus between the taxpayers' lifestyles on one hand and their declared incomes on the other hand. This power conferred on the FIRS is similar to the power conferred on the Economic and Financial Crimes Commission (EFCC). Besides, the FIRS has leverage on asset declaration made by public officials before the Code of Conduct Bureau which the Constitution of the Federal Republic of Nigeria empowers in its fight against corruption in the Nigeria tax system (Bolodeoku, 2009). This power conferred on the FIRS is yielding good results because FIRS has been witnessing increased revenue generation annually.

Besides, the International Monetary Fund (IMF) (2019) study has shown that “the least corrupt governments collect 4 percent of GDP more in tax revenues than countries at the same level of economic development with the highest levels of corruption” (<https://blogs.imf.org/...>). This shows that significant amounts collected as taxes in a country like Nigeria where corruption is endemic (Momoh, 2013) have been diverted to corrupt individuals or not paid to the relevant tax authority (in this instance, FIRS), thereby causing huge financial loss

to the country.

Moreover, the study has further shown that few countries' reforms have resulted in higher revenue generation. For instance, a country like Georgia in Eastern Europe has over the years reduced corruption significantly and doubled tax revenues as well as increased Gross Domestic Product (GDP) from 13 percent between 2003 and 2008. Another remarkable success story recorded in Africa is the Rwanda case in which effective reforms in the fight against corruption since the mid-1990s have resulted in increased tax revenues which have contributed 6 percent to the country's GDP (Gaspar, et al, 2019).

Today, the increasing Nigeria revenue base remains critical in the agenda of the FIRS. Besides, in a bid to achieve this mandate, the FIRS has signed some numbers of international treaties aimed at enhancing tax compliance and curbing financial corruption in the Nigeria tax system such as the Avoidance of Double Taxation Agreements (ADTAs), the OECD/EU Mutual Assistance in Tax Matters Convention (MAC), Global Forum on Transparency and Exchange of Tax Information (GF) just to mention a few. In Nigeria, the FIRS has been able to set up an exchange of information (EOI) unit to ensure effective implementation of the exchange of tax information with Nigeria tax treaty partners. Similarly, the FIRS has achieved the mandate of establishing the Base Erosion and Profit Shifting (BEPS) that is aimed at setting standards in the Nigeria tax system. Moreover, the FIRS has made remarkable progress by signing the Multilateral Competent Authority Agreement (MCAA) for the instinctive exchange of financial account information with other countries of the world.

Similarly, the FIRS has engaged in some collaborations with relevant tax authorities both local and internationally that are aimed at improving

access to and exchange of taxpayer information, including information on ownership of assets. Furthermore, FIRS has engaged in significant Inter-agency with governmental institutions such as the Economic and Financial Crimes Commission, Independent Corrupt Practices and other related offenses Commission, Nigeria Financial Intelligence Unit (NFIU), Nigerian Customs Service, Securities, and Exchange Commission (SEC), Joint Admission and Matriculation Board (JAMB), Nigerian Immigration Service (NIS), Corporate Affairs Commission (CAC), Central Bank of Nigeria (CBN), State Boards of Internal Revenue (SBIR) and Special Control Unit against Money Laundering (SCUML) among others in a bid to have significant access to information on beneficial ownership assets when the need arises or when demanded tax purposes. Today, the FIRS reforms, especially in the area of inter-agency, have saved huge resources for the development of critical infrastructures like electricity, health facilities, and schools.

However, there is an improvement in tax compliance. For instance, in 2018 the FIRS generated N5.320 trillion revenue collection which was the highest in the history of revenue collection since the establishment of the FIRS when oil prices at the international market averaged \$70 per barrel. Closely to this figure was N5.07 trillion generated in 2012 when oil price at the international market was at an average of \$100 to \$120 per barrel between 2010 and 2013.

According to the Chairman, Federal Inland Revenue Service, Tunde Fowler, assert that "While we have been steadily increasing revenue collection over the years, our cost of collection has been going down. In 2016 we collected N3,307 trillion, in 2017 we collected N4,027 trillion, and in 2018 we collected N5,320 trillion". This achievement by the FIRS of increasing annual revenue collection have been widely commended by Nigerians and stakeholders in the Nigerian tax system.

Similarly, the FIRS has been able to make remarkable progress in enhancing tax compliance by ensuring that it digitalized its methods of tax collection by ensuring that taxpayers pay taxes from anywhere in the world, at any time. Also, the FIRS ensures that with the e-payment platform provided for taxpayers, the payment of taxes is made easy while the receipts are download immediately. Other ICT channels created by the FIRS include e-Services that allow for e-Registration, e-Filing, Stamp Duty, and e-Tax Clearance Certificate easily accessible by taxpayers anywhere in the world. It is important to note that the digitalization of the FIRS service has helped in reducing the cost of tax collections and reduce financial fraud that is associated with analogue methods used in the past. This assertion has been buttressed by the Chairman, Federal Inland Revenue Service, Tunde Fowler, who remarked that "... Meanwhile, the cost of collection as a percentage of actual taxes collected has been reducing; in 2016 it was 2.6%, in 2017 it was 2.49% while in 2018 it was 2.14%."

Efforts by the FIRS to ensure tax compliance yielded another result because of the support of commercial banks in Nigeria. For instance, companies, partnerships, and enterprises with a banking turnover of N1 billion and above that are compliant with the tax laws and those that are not compliant were identified in 2018. While non-compliant organizations to tax laws have paid about N21.75 billion to the government. This achievement has been made possible due to the effective tax compliance mechanisms vis-à-vis the collaborative efforts of relevant stakeholders in the Nigerian tax system.

On the whole, Federal Inland Revenue Service has made remarkable progress in achieving increasing tax compliance and reduction in financial corruption that characterized the Nigerian tax system. Despite, these achievements the Federal Inland Revenue Service should initiate more reforms that will strengthen existing tax laws that have been put in place

and look forward to greater collaboration this time with the organized private sector in a bid to address its short, medium, and long-time challenges.

Conclusion

This study revealed that the Federal Inland Revenue Service (FIRS) has undertaken significant reforms in a bid to ensure tax compliance and curb financial corruption in Nigeria such as the digitalization of tax payment system with e-Services that allows for e-Registration, e-Filing, Stamp Duty and e-Tax Clearance Certificate easily accessible by taxpayers anywhere in the world. The FIRS launched the tax amnesty in 2016, FIRS has signed some number international treaties aimed at enhancing tax compliance and curb financial corruption in the Nigeria tax system such as the Avoidance of Double Taxation Agreements (ADTAs), the OECD/EU Mutual Assistance in Tax Matters Convention (MAC), Global Forum on Transparency and Exchange of Tax Information (GF).

Also, the FIRS has been able to set up an Exchange of information (EOI) unit to ensure effective implementation of the exchange of tax information with Nigeria tax treaty partners. Similarly, the FIRS has achieved the mandate of establishing the Base Erosion and Profit Shifting (BEPS) that is aimed at setting standards in the Nigeria tax system. Moreover, the FIRS has made remarkable progress by signing the Multilateral Competent Authority Agreement (MCAA) for the instinctive exchange of financial account information with other countries of the world.

Furthermore, FIRS has engaged in significant Inter-agency with governmental institutions such as the Economic and Financial Crimes Commission, Independent Corrupt Practices and other related offenses Commission, Nigeria Financial Intelligence Unit (NFIU), Nigerian Customs Service, Securities and Exchange Commission (SEC), and Special Control Unit against Money Laundering (SCUML).

Lastly, this study revealed that the FIRS reforms have increased annual tax payments such that in 2016 the FIRS collected N3,307 trillion, in 2017 it collected N4,027 trillion, and in 2018 it collected N5,320 trillion which was the highest in the history of revenue collection since the establishment of the FIRS. Besides, the FIRS recorded a reduction in the cost of revenue collection from 2.6% in 2016 to 2.49% in 2017 and 2.14% in 2018.

Recommendations

From the foregoing, this study suggested among other things that:

Firstly, the Federal Inland Revenue Service (FIRS) should strengthen its enlightenment campaign mechanisms on tax compliance by extending its campaign to rural areas where there is low-level tax education. This can be achieved when the FIRS takes tax compliance to traditional rulers who will in turn pass the information to the people.

Secondly, the Federal Inland Revenue Service (FIRS) should further expand its enlightenment campaign programmes on tax compliance beyond the Mass media and social media such as Facebook, Twitter, blogs, etc. to traditional means of communication especially to rural dwellers who do not have access to the electronic media.

Thirdly, the efforts of the Federal Inland Revenue Service (FIRS) can be consolidated if good governance is entrenched at every level of governance in the country. This will among other things enable the Federal Inland Revenue Service (FIRS) to advance more reasons for tax compliance by Nigerians.

Lastly, a free press is vital in enhancing the transparency, accountability, and integrity of the Nigerian tax system. This will among other things help to enhance a tax system in Nigeria in line with best global best practices.

References

- Andreoni, J., Erard, B., & Feinstein, J. (1998). Tax compliance. *Journal of Economic Literature* Vol. XXXVI June Pp. 818-860.
- [Bolodeoku, I. O. \(2009\), "The war against corruption in Nigeria: A new role for the FIRS?", *Journal of Money Laundering Control*, Vol. 12 No. 4, pp. 417-431. <https://doi.org/10.1108/13685200910996092>](#)
- Duru, N. (2015). "Expert suggests how to encourage voluntary tax compliance" *retrieved from* www.thisdaylive.com/articles/expertsuggests-how-to-encourage-voluntary-tax-compliance/161733/ 03:45 pm 03/10/2015
- Federal Inland Revenue Service (FIRS) (2007). Federal Inland Revenue Service (Establishment) Act A 164 2007 No.13 Pp:1-40
- Gaspar, V., Mauro, P., & Medas, P. (2019). Tackling corruption in government. Available at <https://blogs.imf.org/2019/04/04/tackling-corruption-in-government/>
- Madugu, K.P., & Omoye, A.S. (2014). An appraisal of personal income tax evasion in Nigeria *Asian Economic and Financial Review*, 4(1):33-40
- Momoh, Z. (2013). Faces of corruption in Nigeria Jos: Multi-Service Limited.
- Murphy, R. (2010). Tax avoidance, tax compliance, and tax cheats available on www.taxresearch.org.uk/Blog/2010/12/20/tax-av... On 7/10/2015 02:12pm
- Murphy, R. (2010). Tax avoidance, tax compliance, and tax cheats available on www.taxresearch.org.uk/Blog/2010/12/20/tax-av... on 17/03/2021 03:35pm
- Obafemi, F.J. (2014). An empirical study of tax evasion and tax avoidance: A critical issue in Nigeria economic development *Journal of Economics and Sustainable Development* Vol.5, No.18, 2014.

- Ogunbesan, S. (2015). "Tax evasion: FIRS moves to clampdown on 320,000 companies" available on www.nigeriancurrent.com/2015/08/10/tax-evasion-firs-moves-toclampdown-on-320-000-companies/03:26pm03/10/2015
- Oyedele, T. (2014). "Nigeria: monitoring of compliance with transaction taxes the taxman's way - A review of the recent FIRS notice on nationwide value-added tax and withholding tax verification exercise" available on www.mondaq.com/Nigeria/x/300966/withholding+tax/Monitoring+Of+Compliance+With+Transaction+Taxes+The+Taxmans+Way03:47pm03/03/2021