TAX AND TAX JUSTICE:
Expanding the Frontiers of Public Finance

PAFA
Pan African Federation of Accountants

CPA Reuben Orwaru

Abuja, Nigeria
03 October 2018

Agenda

- Introduction
- Tax Justice – Equality or equity?
- Tenets of a Good Tax Policy
- Barriers to Improved Taxation
- Tax Reforms Drivers
- Next Steps
- Conclusion
- Q & A

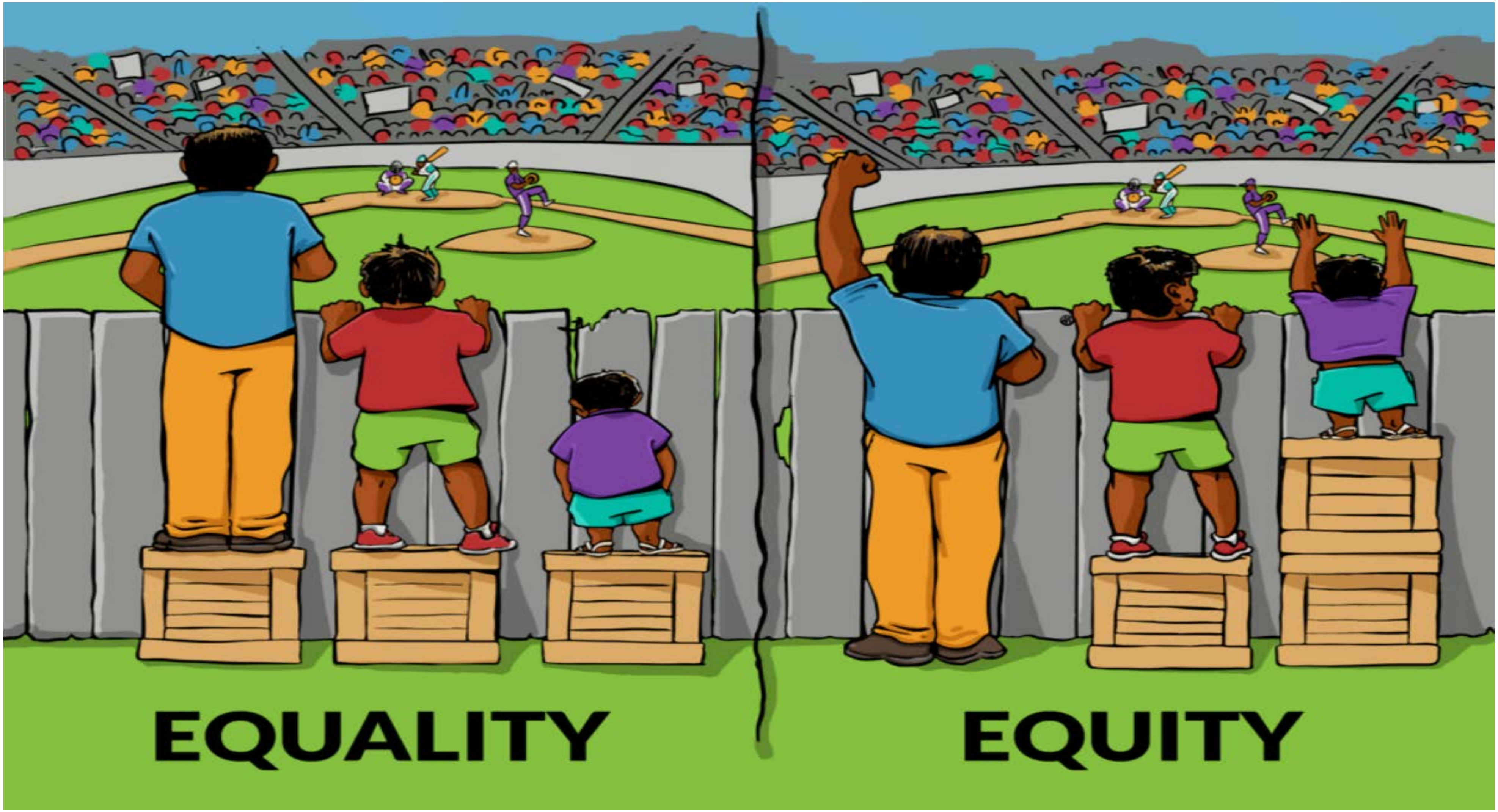
Introduction

- ✓ Taxes are crucial to state building, funding public services, infrastructure and redistribution, and creating a 'fiscal social contract' between governments and citizens.

- ✓ If revenues are not adequate to cover needed spending in areas such as infrastructure, health, and education, this is a critical constraint.

- ✓ At the same time tax systems can impoverish people, deter investment, and provide both resources, and direct means, to entrench the power of a narrow elite and sustain them in patterns of public policy and administration which hold back broad-based growth.

Tax justice – Equality or Equity?



Who bears the burden?

- ✓ The weight of the indirect taxes (relative to their income level) rest more heavily on the low income sectors.
- ✓ The formal labour markets pay more than the informal sectors due to the withholding of taxes at source.
- ✓ High income groups are the ones that mostly benefit with tax expenditures and other special treatments.
- ✓ The impact of tax evasion is not symmetrical: workers evade less and they also get less benefits.

Guiding Principles of a Good Tax Policy

Equity & Fairness – Similarly situated taxpayers should be taxed similarly.

Certainty - Tax rules should clearly specify when and how a tax is to be paid and how the amount will be determined.

Convenience of payments - A tax should be due at a time or in a manner most likely to be convenient to the taxpayer. Convenience helps ensure compliance.

Economy of calculation. The costs to collect a tax should be kept to a minimum for both the government and the taxpayer.

Simplicity. Taxpayers should be able to understand the rules and comply with them correctly and in a cost-efficient manner.

Neutrality. The tax law's effect on a taxpayer's decision whether or how to carry out a particular transaction should be kept to a minimum.

Economic growth and efficiency. A tax system should not impede productivity but should be aligned with the taxing jurisdiction's economic goals.

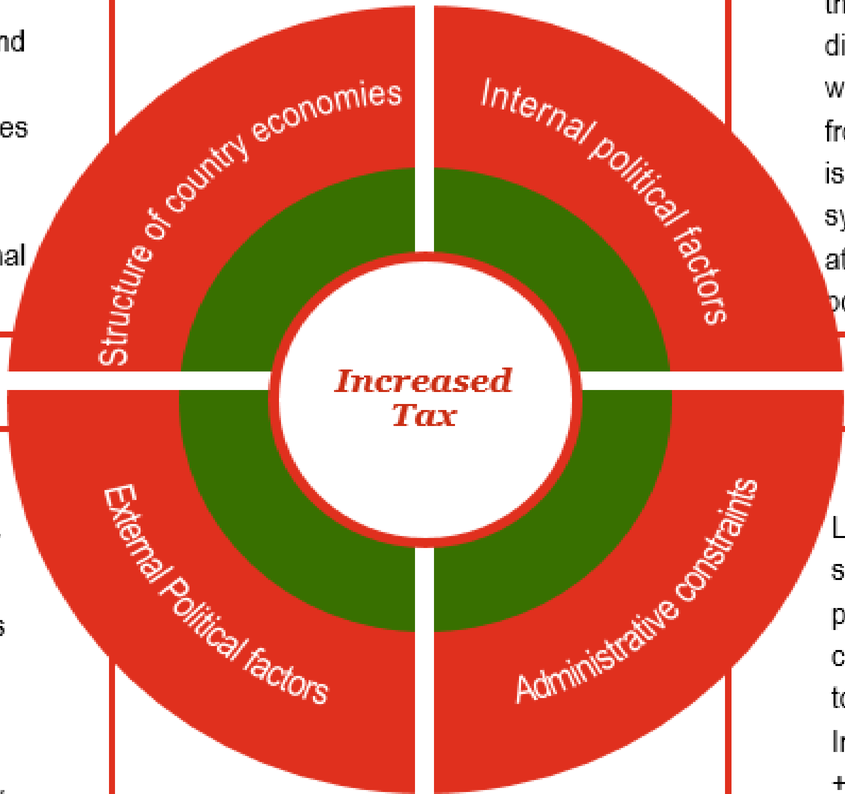
Transparency and visibility. Taxpayers should know that a tax exists, and how and when it is imposed on them and others.

Appropriate government revenues. A tax system should enable the government to determine how much tax revenue it likely will collect and when—that is, the system should have some level of predictability and reliability.

Barriers to Improved Taxation

Many dev. countries are characterised by a small tax base, a cash-based and informal market structure, and a heavy dependence on agriculture: all of which makes taxing difficult and tax rates low. Broaden tax base including bringing the informal sector into the tax net.

Govts. do not prioritise tax revenue mobilisation, and if they do, they may find it difficult to reform systems which stakeholders benefit from. Seeing that tax collection is part of a political bargaining system, it is necessary to look at reform prospects from a political economy lens.



Many developing countries have effectively signed away their rights to tax MNCs operating within their borders through bilateral tax treaties. Assess the developmental impact of the treaties and renegotiate them accordingly.

Lack of modern infrastructure, such as IT systems and property registers, and weak capacity in tax authorities due to shortage of skilled staff. Invest in modern infrastructure + HC to help increase the amount of taxes collected.

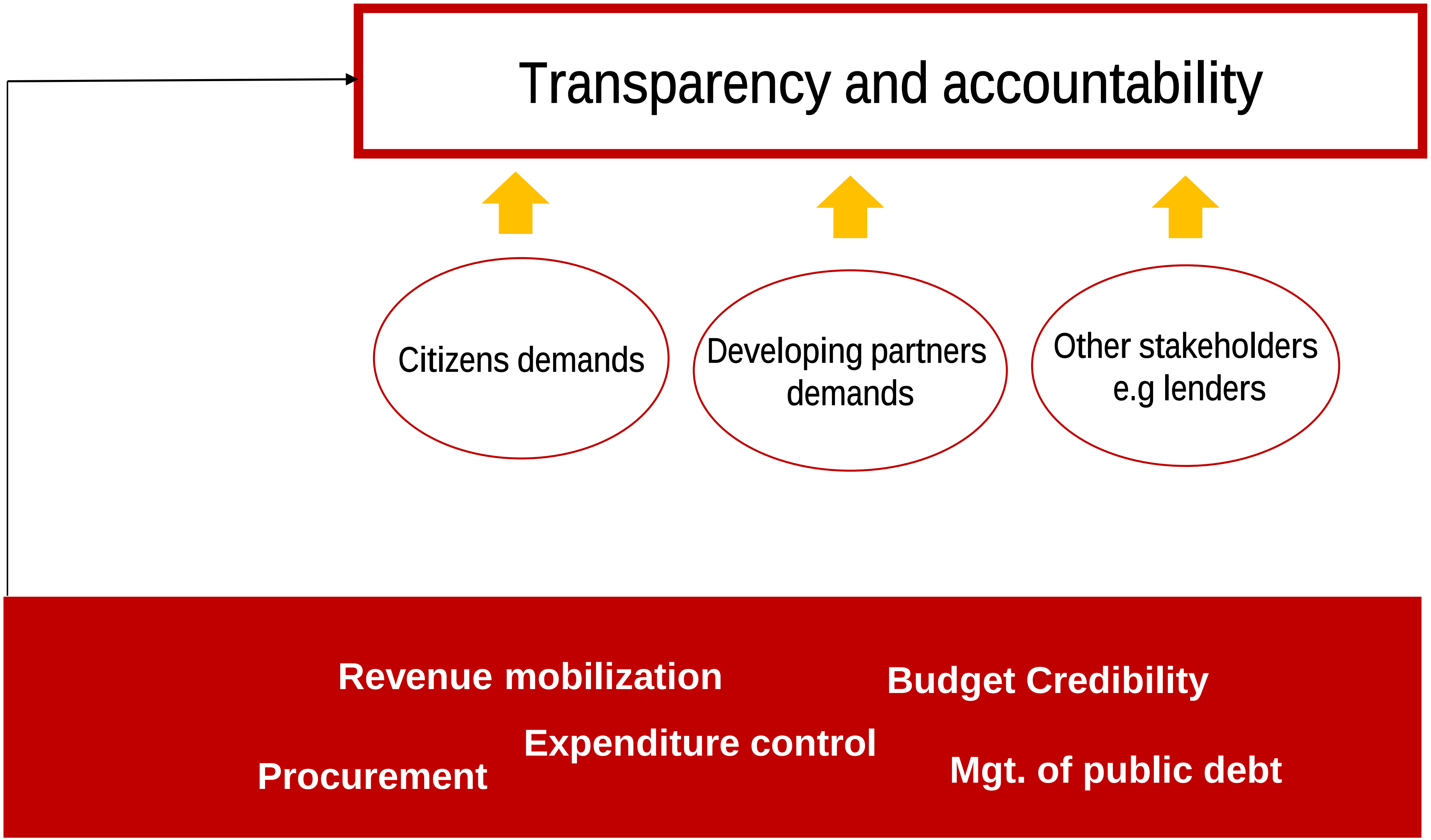
Impact of corruption on Nigeria's Economy - Report

- The results of the study show that corruption in Nigeria could cost up to 37% of Gross Domestic Products (GDP) by 2030 if it's not dealt with immediately. This cost is equated to around $1,000 per person in 2014 and nearly $2,000 per person by 2030.

- The report noted that corruption is a pressing issue in Nigeria which affects public finances, business investment as well as standard of living. It listed three dynamic effects of corruption to include; Lower governance effectiveness, especially through smaller tax base and inefficient government expenditure.

- https://www.pwc.com/ng/en/press-room/impact-of-corruption-on-nigeria-s-economy.html

Tax Reforms drivers



What next?

Collaborative Measures

- ✓ Simplifying compliance and increasing customer orientation
- ✓ Clarifying taxpayer obligations; support and advise

- ✓ Paying greater attention to facilitating communicatio n between taxpayer and RA – messaging and framing

- ✓ Improving tax education especially targeted at the youth
- ✓ Prompting taxpayers ahead of payment deadlines

- ✓ Providing opportunities for correction and prevention
- ✓ Utilizing emerging technologies – blockchain and artificial intelligence(AI)

What should be done to overcome the obstacles?

Conclusion

Increasingly, African governments are seeing the value in reforming public financial management as a way of instilling discipline in public finance management, curbing corruption, improving service delivery, stimulating economic growth and development, and ensuring transparency and accountability.

Thank you…

www.pafa.org.za

Reubeno@pafa.org.za