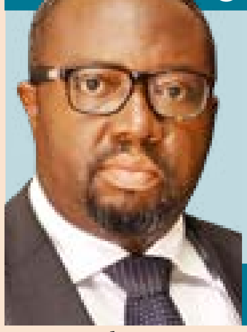
The place of subnational government legislatures in revenue mobilization

STATES & LOCAL FINANCE



The IGR Initiative

MARTIN IKE-MUONSO

Martin Ike-Muonso, a professor of economics with interest in subnational government IGR growth strategies, is managing director/CEO, ValueFronteira Ltd. He can be reached via email at martinoluba@gmail.com

ALL POLICIES AND COMPLIANCE processes regarding taxation substantially rest on legislative approval. The law mandates tax compliance on the income of taxable adults and the owners of taxable assets. The legislature must approve the tax policies for them to become law. They must also specify the penalties for non-compliance and other kindred processes for effectiveness. Sadly, many state and local government legislatures seemingly hand off their involvement in these supposed processes once the laws are in place. Of course, they routinely debate the resulting budgets based on such receipts but are not particularly keen on exploring other ways to support the process. Revenue generation is not necessarily the exclusive preserve of the executive. The legislature also has a fundamental role in the process beyond merely enacting the underlying rules, debating and reviewing the annual budgets. Needless to point out that while these activities may indirectly lead to enhanced revenue generation, there is a vast lacuna for the legislature to support revenue generation efforts diametrically. Unarguably, this failure derives from many state and local legislators' low-slung understanding of revenue mobilization strategies, fiscal policy, and programming design and implementation. The ideal thing is supporting the capacity to appreciate these responsibilities and expectations better. At the subnational government level in Nigeria, legislators lack the necessary resources such as libraries, research assistants, data resources, and access to experts to appreciate better the nature, interconnection, and enormity of these latent but additional roles.

Therefore, the preceding presupposes that the most urgent role of the legislature is to ensure that the executive arm of government makes the fiscal policy and budgetary information comprehensively available and in the form that is easily digestible and understandable by the public, including themselves. While several states in Nigeria are complying with this disclosure and transparency requirement, many more are not. The beauty of this is that it places the required resources and data in the hands of experts that will assist knowledge-seeking legislators with a better understanding of the issues in the state revenue mobilization process and how they can directly intervene. Second, the state legislature should also make adequate provisions and set up befitting libraries and databases to improve the knowledge base of their members, particularly regarding their contribution to state and local government revenue mobilization. But beyond the knowledge's sake, such publication of fiscal information raises the government's credibility and integrity, which enhances taxpayer compliance. The more the citizens better understand the government's budgetary disposition and the use of taxes they pay, the more likely they are willing to continue complying with future obligations. Transparency and accountability evoke a sense of ownership among the citizens and increase participation in the government's fiscal activities.

Governments that are disposed to transparency and accountability are most likely to comply with fiscal responsibility expectations, which reduces spending rascality and wastage, checks corruption, and better manages budgetary risks. Fiscal responsibility expectations are a legislative tool the legislature can use to pressure executives to maintain public debt at justifiably reasonable levels. It will also facilitate the maintenance of budgetary balance, except where they become inevitable, while maintaining stable tax rates and managing fiscal risks. Departures from the specified thresholds on these parameters usually require legislative approvals. Unfortunately, legislative enactments driving such expectations exist mainly but are also largely ineffective at the federal level. They are rarely operational at the subnational government level in Nigeria. The legislatures at subnational government levels in Nigeria are fundamentally regrettable appendages to the executive arm of government. Most of them are unflinchingly loyal to their political party, which the head of the executive arm of government is the leader. Thus, there is no compelling incentive to favour the citizens against the party's interests and its political leader as it may have unpleasant consequences. However, legislative promotion of fiscal transparency is one simple, most assured way of rekindling the populace's confidence in the government and attendant elevated levels of tax compliance. It equally enhances the government's credibility.

State and local government legislatures can play a critical role in getting the executive to toe the tax-for-service line as an interconnected stream of fiscal responsibility pursuits. Adherence to the underlying tenets of fiscal responsibility should result in the State's citizens' acceptance that their resources work for them. Therefore, policymakers pressured by the legislature ought to better position tax-for-service to incentivize those who receive the services to comply as required. Some states, such as Lagos, are already blazing the trail by pointing taxpaying citizens to public goods made possible with their taxes. It gets more granular as specific projects targeting clusters of taxpaying groups are put in place by the government to reassure the beneficiaries that the taxes work for them. To further promote this worthwhile and compliance enhancing government behaviour, the legislature may, as part of its systematic review of fiscal programs, demand sufficient pieces of evidence of tax for service consistent with the volume of tax payments possible within a community of taxpaying customers. The legislature may also prescribe the inclusion of tax-for-service proposals in the annual budget presentations, with typical debates revolving around the worthwhileness of such a proposition.

This expectation is also consistent with the routine but rigorous scrutinization of governments draft budgets and the assessment of budget outcomes. Unfortunately, many legislatures merely rubberstamp the executive arms proposal. There are possibly three main reasons for this. The first is the lack of solid grounding in fiscal policy and programming capacity necessary for adequately understanding and meaningfully critiquing budget documents. The second is the pull of political allegiance, constraining legislators from criticisms possibly construed as working against the political party in power. Most subnational government legislature consists of members of the same political party as the executive leadership. The governor is also the de facto head of the political organization within the State. The third is the ingrained corruption in Nigeria's legislature. Several cases of members of the legislative houses padding the budget with nonexisting projects and fraudulently ballooning project values are well-documented. Corruption-driven motivations divert legislators' interest in rigorously scrutinizing the government's performances of their fiscal promises. On the flip side, when a forward-looking legislative house equips its members with the suitable capacity for fiscal performance assessment and focuses on the citizens' authentic representation rather than serving the interest of political party leadership, taxpayers automatically earn a sense of value for money. They are more than willing to comply continuously.

Another critical area is legislatively-mandated financing of tax administrations' revenue mobilization performance in the second and third tiers of government. Many state and local government tax administrations are severely under-resourced with substantially weak mid-level skills in their offices' tax revenue mobilization, auditing, tax assessments, and other related performance demands. Although some states would, in the paper, concede 10% or less to tax administrations to cover collection costs, many do not grant such very essential compromises. This area is where the legislature should ideally come in to make it mandatory for the executive to commit the needed resources for the Internal Revenue Services to access adequate financial resources for training and efficiently expanding on their revenue mobilization efforts. Without a doubt, state executives are more likely to show more commitment to supporting the tax administrations with legislation mandating them to do so.

In addition to legislatively mandating the executive to support tax administrations, they should also be concerned and regulate tax collection procedures. The use of contractors and touts in tax collection often tramples taxpayers' human rights, particularly those who do not have the means to seek redress, which are also in the majority. Sometimes also, many subnational governments do not have any structures for such redress. Therefore, those who suffer in the process bear their hurts and still comply with the burden of tax obligations.

The legislature can also support revenue mobilization efforts by remedying confusing laws and legislation that frustrate government efforts to increase its tax receipts. A good example is the tax code harmonization law passed by many subnational governments. In some states, such harmonization is already yielding results such as curtailing multiple taxations by different tiers of governments. But the more confusing legislation needs to be straightened out to make way for improved compliance. Many tax laws are still quite complex to understand, especially by persons with low levels of education. It is also well known that such complexities in understanding and appreciating tax laws generally affect the willingness and ease of compliance. The legislature has to simplify them further or restructure the rules for easier appreciation of tax laws and compliance.

Another area in which the legislature's role in subnational government revenue expansion needs to be more profound is the design and monitoring of tax policies. Notwithstanding that tax policy ordinarily requires the legislature's review and approval, the inputs are usually transient and largely rubberstamped based on some of the reasons mentioned above. But the house of assembly can do much more than that by participating in the design and ensuring that tax policies properly align with the developmental priorities of state and local governments. They will also ensure that those responsible for those tax policy designs define the measures for gauging how those policy changes contribute to realizing those priorities. For instance, the COVID-19 tax relief package put in place by several state governments does not seem to come with measures and indicators of determining whether they were indeed impactful or achieved the purposes for setting them up in the first place. Consequently, the legislature must therefore ensure that tax policy changes are strategic enough and have clear goals that are measurable with clearly defined performance tracking.

Most subnational governments also face the enormous challenge of unlocking the legal restrictions and tax regimes on minerals and other natural resources they could leverage for enhanced IGR expansion. Derivation and resource control remain major thorny issues for several governments. Several state governments would love to have substantial control of tax revenue from exploiting natural resources found within their geographical jurisdiction. This derivation and sharing challenges have been ongoing across the Niger Delta regions, but we have seen that pop up with the exploitation and refining of gold in Zamfara states. Fortunately, there is hardly any state in Nigeria without some commercial-sized deposits of revenue yielding minerals and natural resources. Still, sadly, the federal government's legislative restrictions appear to hamper their freedom to leverage those natural advantages. This area also demands joint efforts by state and local government legislatures to sustain commensurate pressure on the federal government and the National Assembly to overhaul these restrictions.

On a final note, the legislature must realize that they have more than an oversight role in the independent revenue generation of subnational governments. But their capacity to deliver will depend a lot on their willingness to deepen their understanding of fiscal policy and program design, monitoring, and evaluation. Investments in library resources, supporting research assistants, and consistently relevant capacity development will be helpful. Secondly, the more legislators realize that their allegiance is more to the citizens who voted them in and not necessarily to the party platform upon which they get elected, the better their role in critiquing the fiscal program performance of the executive arm. Substantially upholding the tenets of fiscal responsibility and pressuring the executive arm of government to live by them will naturally facilitate citizens' trust in the government and willingness to comply with tax payments. Thirdly, the legislature ought to deploy appropriate legislation to compel the executive arms of government to properly equip the tax administration offices and the MDA's with revenue-generating responsibilities with the resources required to perform well in improving state revenue. They should also be concerned about procedural fairness in the tax collection process by ensuring that the process of administration of taxes is fair and courteous.

● business a.m. commits to publishing a diversity of views, opinions and comments. It, therefore, welcomes your reaction to this and any of our articles via email: comment@businessamlive.com