STATES & LOCAL FINANCE

The IGR Initiative

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Building a reliable taxpayer database

THE DEMAND FOR COMPREHENSIVE and accurate taxpayer databases has continued to blossom worldwide. Most progressive governments in the developing world know that successfully putting such a robust database in place is synonymous with setting up a goldmine for independent revenue generation. An efficient taxpayer database is a backbone for tax data mining and enhanced insights into compliance patterns and automated taxpayer services. Many other benefits support the urgency of its deployment by subnational governments.

For instance, an efficient taxpayer database for data mining purposes will also require centralization and interaction with data banks on other aspects of policy decision making. That way, it becomes possible to relate tax compliance with the performance of other critical indicators in state or local government economy sectors. Database centralization essentially raises the degree of interoperability, interaction, and accessibility among different hosted data. It also requires escalated levels of attention, particularly regarding safety and security. With a correctly set up taxpayer database, tax administrations can effortlessly and more efficiently keep track of increasing volumes of data. A rapidly growing database can also be overwhelming without appropriate management structures. Growing efforts to bring all taxpayers into the tax net has implications for such rapid data expansions for which an efficient database is indispensable for handling. Consequently, good taxpayer databases are too critical for growth and development planning.

But it is not only about the data itself. It also provides the backbone for properly targeted tax and fiscal policy design. Efficient mining of taxpayer databases always provides substantial insights necessary for better management of compliance issues and government design of policies that sit nicely with the subnational governments' real revenue prospects. Consequently, policymakers and tax administrations find it easier to discover tax compliance patterns at individual levels and across businesses and industries. Such pattern discoveries support efficient fiscal policy design and implementation. Again, the perception of taxpayers is increasingly changing to that of customers. This global shift in the perception of the taxpayer implies that tax officers will be interested in the collection of appropriate taxes but also in providing substantial customer satisfaction. In effect, this requires enabling customer relationship management databases that are powerful enough to store and process everything about the taxpaying customer, including interaction history. In addition, taxpayer services automation is only effective with an efficient database that houses their basic information and transaction history. Such databases also have the capacity for new taxpaying customers.

For the sake of emphasis, it is worth noting that the taxpayer database's policy usefulness is the newest benefit. Both the Federal Inland Revenue Service and the Lagos State Internal Revenue Service, with a much more robust database, do not seem to have made the best of that in improving fiscal policy design and perhaps in evaluating the performance of tax administrations. Of course, more than any other information tool, robust taxpayer databases enable solid assessments of and profound insights into tax performances. It reveals improvements in such critical indicators as sub-national tax administration tax capacity, tax efficiency, tax buoyancy, tax effort and tax revenue productivity. Similarly, data stored in such databases enable the evaluation of tax administration's performance on resource efficiency, organizational characteristics, and electronic services. Beyond all these advantages, the more available taxpayer information is to researchers, the more the quantity and quality of tax-focused policy research and insights that policymakers and government can leverage for their designs and implementation programs.

Unfortunately, most subnational government tax administrations lack solid databases to tap into the enumerated benefits. Ultimately, the near absence of such data banks in the form and quality frustrates their capacity to expand the internally generated revenues. Factually speaking, all the tax administrations in Nigeria have some database either independently or in concert with the Joint Tax Board. However, many depend considerably on the Joint Tax Board's compilation of taxpaying customers within their jurisdictions and have extremely poor collections consistent with their statutory collectables. But in virtually all of them, the inadequacy and inaccuracy of the information within their databases are incredibly high. Most subnational governments in Nigeria either lack the capacity or are reluctant to verify and regularly update taxpayer information within those scanty data repositories. Again, the informal sector making up approximately 60% of the taxpaying population, are largely not captured in most of them. Second, even the design of most subnational tax administration databases lacks the robustness to enable meaningful taxpayer interactivity and customer relationship management. Information capture is mainly inadequate and largely inaccurate, with some of it kept in Microsoft Excel software rather than inappropriate databases. Thus, while the inaccuracies limit the ease of engaging with taxpaying customers as expected, the database storage infrastructure limits the extent to which this information can be shared and possibly interact with other databases.

Part of the root of inadequate and inaccurate tax databases for subnational governments is the insufficient capacity of the tax administrations to detect organizations and individuals that ideally should be in the database. Most subnational governments are yet to match the gaping need for comprehensive taxpayer databases and the underscoring resource investments to create that desperately urgent reality. Very much out of tune with global trends, many tax administrations in Nigeria still operate manual databases despite the many severe limitations and downsides. This unprogressive cultural hangover is because of inexplicable lethargy around required investments in modern taxpayer database management. That again goes a long way to explaining why most state and local governments in Nigeria and their tax administrations do not have robust centralized database repositories connecting the complete economic planning ecosystem data. Policy decisions are therefore ad hoc most of the time.

Needless to point out, the way forward is for all tax administrations and their governments to develop a solid data management strategy to support their long-term development programs. Several factors must be in place for this transition to be successful. A data-driven culture change in tax administrations and subnational governments' fiscal and economic planning processes are atop the list. Without strongly mainstreaming the use of data in the government's decision-making and fiscal program choices, subnational governments will continue to lack the motivation to set up solid and interactive databases. Data and data intelligence is, without doubt, the lifeblood of effective fiscal programming and the high performance of tax administrations. This data-driven cultural transitioning process is also impossible without accompanying technical transformation. At least three requirements may fill this gap: simplifying the tax process through tax digitalization, critical technological support, and digital tax reporting. Technical support for this process is core and becomes increasingly alive the more tax administrations and government decision-makers are motivated to make decisions based on data.

The more the focus on data intelligent strategy design and implementation, the more the willingness to set up a comprehensive taxpayer database boasting elevated levels of adequacy and accuracy. These are taxpayer database qualities that make them consistent with a global standard data strategy for the future. The numero uno in designing the winning taxpayer data strategy is the creation of a robust ecosystem of cooperation and sharing. Different ministries, departments, and agencies with some revenue collection responsibilities typically maintain a database of individuals and businesses collecting levies and fines. The more different groups keep such databases and the more robust the integrated cooperation and sharing, the more comprehensive, reliable and accurate the taxpayer database becomes. Therefore, as part of a data-driven decision-making culture, subnational governments and tax administrations must find ways of encouraging database creation across all government entities.

The joint tax board has set an emulative-worthy standard for database integration that state and local tax administrations should replicate at their jurisdictional levels. As of 2019, database integration and taxpayer registration numbers between the Federal Inland Revenue Service and state Internal Revenue Services promised to increase the number of individual and corporate taxpayers in Nigeria to about forty-five million. This process will also be a solid bulwark for continuous improvement in taxpayer convenience, allowing taxpayers to print their registration certificates wherever they are. Unfortunately, it does not appear as if many subnational governments are also trying to replicate such database integrations at state and local government levels. While many State governments have courageously passed harmonization laws, such efforts rarely exist in database growth and integration across revenue collection agencies at state and local government levels. More action in this regard could quickly balloon the national taxpayer database to approximately one hundred million in the next two years.

Beyond the traditional income tax database and the growing opportunities in property ownership databases, which many states are yet to leverage, are a range of database-creating options in utility management, associations, schools, hospitals, religious organizations, and motor parks. Ideally, we expect that the Federal Inland Revenue Service should be leveraging similar opportunities with the Corporate Affairs Commission, immigration services, airlines, and the police. In collaboration with the subnational government's geographic information systems, the Ministry of Lands keeps a database of property owners. If properly captured, such property owners register provides a rich taxable base for state revenue. The same applies to utilities such as the users of water and electricity. With the aggressive metering of households across the country, the reasonable supposition is that state governments and their tax administrations should also have access to such data as part of the state resident's registration information.

In the same vein, state and local governments should make it mandatory for all schools at all levels within their jurisdiction to provide detailed information on each student's parents, guardians, and sponsors. State assemblies should make it mandatory that schools benefit the government with such information to build a solid database for tax collection. Such requirements should also apply to hospitals. In general, such provisions should extend to properly registered associations within the state, including the adult membership of religious organizations.

State and local government legislation have a vital role in taxpayer database development in the final analysis. More taxpayers will join the net by legislating compulsory residents and property registration, mandatory sharing of data on parents and sponsors of schoolchildren, members of associations and religious organizations, and so on. Such legislation should come with carrots and sticks. In the former, those who comply become eligible and enjoy categories of benefits from the government. Those who do not receive sanctions which include limited access to some government facilities. Secondly, ministries departments and agencies responsible for revenue collection should regularly collaborate and share such data in planning and policy decision-making with a target set for the growth of such databases. Thirdly, governments at the state and local levels must make the right set of investments in database infrastructure and build the requisite capacity to make the most impactful use of them.