STATES & LOCAL FINANCE

The IGR Initiative

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Challenges of automating IGR processes for subnationals

BOOSTING AUTOMATION OF IGR processes undoubtedly improves taxpayer compliance and revenue growth. Digital technologies and the complementary data-driven intelligence infrastructure create efficiency in virtually all sectors and systems introduced. Increased expansion of the underlying digital infrastructure often results in more than proportionate increases in the resulting benefits. In the case of the IGR, automated processes support efficient tax assessments and the computations of taxes due with incredible speed and accuracy. Outcome events such as data collection, processing, estimation and analysis and instant tax reporting are indispensable corollaries that continuously justify the demand. The tax administration's computer and cloud storage system house consequential data and records. Such a vast information depot and its integration with other databases permit far-reaching data intelligence, leading to further enhanced revenue generation and efficient policymaking and implementation.

Lagos state government currently leads the pack among other state governments in Nigeria to digitalize their revenue collection and management systems. The positive outcomes of government investments in these digital revenue infrastructures manifest in the revenue size-dominance of the state compared to others in the country. Some of the most valuable digital processes in the Lagos state tax administration include auto-generated individual taxpayer IDs, LIRS e-tax, and the online filing of returns. It is, however, not Lagos State alone that is blazing this trail. At the federal level, the Inland Revenue Service produced six additional digital tax services: e-registration, e-stamp duty, e-TaxPay, e-Receipt, e-filing, e-TCC, etc. in 2017.

Even with these defining benchmarks for a progressive tax administration already set by the Federal Inland Revenue Service and the Lagos State Internal Revenue Service, many other state governments in Nigeria struggle with limited success in transiting effectively. Many challenges limit these state governments' ability to adapt to this new efficient process. Unfortunately, the more the tax administrations fail to automate their operations, the higher the costs of money and time imposed on the taxpayer and itself. Inefficient record-keeping, expensive and sometimes unnecessary inspections, audits, and corruption by tax administration employees have become entrenched. IGR process automation eliminates many of the downsides of manual taxpayer management and data collection. Manual processes unnecessarily balloon taxpayers' compliance costs, monetary costs, time waste, unnecessary payment inconveniences, and poor service quality.

Manual processes will require that taxpayers be physically present at tax offices to file returns. That also means they will suffer the loss of time associated with poor retrievability of manually filed information. And because cash or bank teller for receipt channels dominate such processes, it makes payments more inconvenient while lending the entire system vulnerable to cash management risks, fraud, and other forms of leakage. Manual processes also have the unwholesome weakness of unreliability. Human processing speed, precision and accuracy cannot match that of machines designed to deliver such. The databases are generally small because of the cumbersome activities required to store them, making it challenging to integrate with other databases. Therefore, they cannot seamlessly relate with other MDA databases, which would have made them a more robust and more convenient payment system for the taxpayer and the tax administration. In addition to that, it is incredibly challenging to monitor, track and identify fraudulent activities in the tax collection pipelines. That is why the windows for the perpetration of tax fraud and revenue leakages are more prevalent in administrations with no or low levels of automation.

Although the preceding arguments support subnational governments jettisoning manual revenue processing favouring e-technologies, there are even more profound reasons why tax revenue automation is highly desirable and critical. Subnational government revenue automation considerably facilitates tax payment equity, convenience, and certainty. Taxpayers are not as exposed to erratic assessments and sometimes the unclear structure of payments that may result in some level of unfairness. Using digital devices in self-assessment and paying taxes requires clearly defined tax charges. This way, it helps ensure that assessments are accurate with minimal underpayment and tax evasion levels. Unlike manual processes requiring the taxpayer's physical presence at the tax office, automation makes it highly convenient to comply with tax obligations as filing returns can occur from anywhere and at any time. The resulting convenience also considerably reduces the compliance and administrative costs of the taxpayers and tax administration. It also enhances accountability and clarifies audit trails. The summary is that the digitalization of IGR management improves efficiency, quality of service, the satisfaction of the taxpaying customer, shortened tax clearance time, effective management of revenue leakages, real-time tracking of payments, and tax

administrations' revenue performance. Another big plus for IGR automation is its ability to integrate its databases with those of other internal revenue-generating agencies and strategic economic groups and robust information sharing that powers high-quality policy design and recommendations.

One primary reason many subnationals do not optimize the full benefits of digitalization is because of their the–horse–before–the–cart approach. Technology is only an enabler of a professionally designed strategy. That does not seem to be the case, with many tax administrations seemingly mainstreaming technology as central to their IGR expansion program. Subnational government revenue digitalization must stand on an adequately designed IGR expansion strategy. More than 95% of state and local governments in Nigeria do not have a meticulously planned and well-implemented IGR strategy. The strategy defines revenue growth goals, the constraints to achievement, and how technology may help overcome the identified limitations. It also clearly outlines measurable short, medium, and long-term targets and indicators for evaluating the performance of tax administrations in achieving them. These time dimensions in the strategy document also facilitate clear and compelling implementation sequencing, which influences the introduction phases of the automation process. With proper focus on and alignment with the IGR growth strategy, the revenue generation automation plan and technical feasibility define tax administration and taxpayer services to digitalize and the associated technology requirements.

Key challenges at this stage include the availability of human capacity requirements and the requisite institutional and legal backbone for the technology involved. Lagos state government, for instance, has been able to effectively coordinate this process with its legislature and successfully establish the requisite institutions and laws to drive several aspects of the related technologies they installed to drive the revenue collection efforts. But even the design itself must not only be within the context of the broad strategy but must have the buy-in from all critical stakeholders. A significant source of the initial challenges in automation ef-

forts is the inability of subnational governments to carry the various stakeholder groups along within the program. Taxpayers accustomed to manually filing returns must know well in advance that the automation of the same process is underway to make it more convenient for them rather than complicate them. This communication is vital for societies with a minimal digital interface. It is a no-brainer that automation is not gaining as much significant traction as it should within rural communities and the informal sector because of the absence of such communication. In a similar vein, transitioning from manual to digital revenue collection processes requires institutional culture change beyond mere technical fixes and is aligned with the broad strategic IGR growth goals. Finally, tax administrations must put in place robust real-time monitoring and evaluation architecture for the designed automated system.

But even if all these prerequisites are in place, several other drawbacks stand in the way of state and local governments making the best out of revenue digitalization. Until the early 2000s, it would have been extremely challenging to automate taxpayer payment activities and government revenue generation and management because of the low network and communication infrastructure levels. Much of that has changed considerably with the advent of mobile telephone companies. Nevertheless, many areas remain uncovered, and system downtimes due to network challenges abound. These undeniably hamper the ability of taxpayers to make the best of these opportunities. They equally affect the general attitude to technology. Again, digital technology infrastructure such as digital telephones and computers costs money to acquire. While this may be substantially available for those in urban areas, it is always a challenging issue among rural dwellers and the entrepreneurs at the lower rungs of the informal sector. Low levels of education and difficulties in operating such digital devices worsen it the more. User risks such as security and privacy challenges also affect the willingness to onboard the digital platforms for tax payments. Many taxpayers are wary of how their personal or company data may be utilized by those who have access to them. Internet fraud and social

media hoaxes have entrenched fears of digital insecurity among users. Therefore, sub-nationals must have robust policies that reassure taxpayers that their data will be maximally protected and not used for other activities beyond their tax obligations.

On a final note, it is instructive that sub-nationals keen on overcoming many of the hurdles to their IGR digitalization must pay close attention to the prerequisites above and deliberately develop and implement counter-strategies to offset most of the drawbacks we have identified. A few of them that are critical and need emphasizing. First, appropriately crafted, communicated, and documented IGR growth strategies must precede the design of its digitalization programs. This sequencing ensures proper alignment as the technology is only an enabler. Therefore, state and local governments struggling with optimizing the installed automated systems may step back to ensure that the broad strategy for IGR growth exists and that their current automation infrastructure aligns appropriately with it. Second, digital tax education is critical as part of a more expansive capacity building for administrators and taxpayers. Such education is at the heart of obtaining taxpayer buy-in to the transition to automated processes. The more taxpayers find it convenient and easy to complete assessments and file returns using digital devices, the higher the compliance level.

Third, working with the legislature to make laws compelling taxpayers to use electronic systems in making tax payments and for tax administrations to conduct extensive digital tax education will, without doubt, increase the rate of acceptance and migration to digital processes. Fourth, sequenced implementation of the transitioning from manual processes to electronic systems is critical. This sequenced implementation is one of the biggest challenges many subnational governments face, leading to high system redundancies. A carefully sequenced implementation process ensures the introduction of appropriate technologies at the right time. Fifth, taxpayers must have verifiable guarantees that their data enjoy maximum protection and is not carelessly open to those who can use it for fraud or any other activity beyond their tax obligations. Sixth, providing support for broadband Internet penetration into more remote areas will increase access to these digital facilities. Lastly, this transformation can never be effective without a corresponding culture change and continuously enhanced capacity of the tax administration staff.