STATES & LOCAL FINANCE

The IGR Initiative

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Taxpayers versus Tax-consumers

THERE ARE THREE KEY stakeholders in the IGR effort. They are taxpaying citizens and businesses, tax revenue managers who hold the revenue generated in trust and deploy the same as approved, and those who eventually consume the generated revenue. Tax revenue managers essentially coordinate the tax payments and consumption process. As IGR coordinators, this group ensures a consistent mobilization of revenue and their transmission to consumers based on a contractual understanding with those paying. Correctly assuming that citizens primarily pay taxes to purchase their welfare through a piece of coordinating machinery – their government – there are two primary divides in the IGR effort model. A better way to appreciate this is to consider the financial market model where the bank or the stock exchange facilitates and coordinates the buyers and the sellers of the credit. Under the IGR model, the government understandably replaces the role of the market. Therefore, taxpayers and tax consumers should be the same as in a typical market model, with supply equalling demand. This argument is more straightforward to appreciate by recognizing that taxpayer revenue should ideally equal the totality of citizens' welfare and good governance received [consumed] having paid for them through their tax and non-tax contributions. The problem starts with the distortion of that equilibrium.

Public expectation is that the government's revenue allocation efficiency level must be so high that this equilibrium is maintained. For instance, when mobilized revenue far exceeds the worth of good governance and welfare received, the citizens become worse off as a third party that did not pay for it might have consumed the unutilized portion. In such circumstances, a litany of undesirable approaches is put in place to compensate for the shortfall. Some examples include borrowing, money printing and more burdensome tax policies. On the other hand, when the mobilized revenue substantially falls short of the desired levels of welfare and good governance, the government must restore the balance through initiatives for additional revenue mobilization and borrowing. Unfortunately, the Nigerian situation is one where both disequilibrium-creating conditions exist. Taxes paid by individuals and businesses and collectively owned revenue realized over the decades utterly fall short of the desired levels of welfare and good governance they are worth. Following our analysis, it all means that we are victims of an exclusive set of tax revenue-consuming prey depriving us of this legitimately paid-for welfare. But, only about 14 percent of individuals and businesses that should contribute to the revenue pool to access this welfare and good governance do so. To what extent does the dominant presence of taxpayer welfare-consuming prey frustrate these taxpayers' willingness to fulfil their obligations?

Similar to the funds' mobilization process in the financial markets, the deployment of internally generated revenue is typically in the form of publicly consumed goods that are sometimes too expensive or simply inefficient for one person to produce for their use. In addition, the IGR process administration also reduces third-party costs. Therefore, combined with the former objective, the IGR expansion efforts, when meaningfully productive in efficiently providing desirable taxpayer consumables and reducing or regulating activities that impose an unnecessary burden, diametrically foster entrepreneurial growth. Such optimized consumption of pooled tax and non-tax resources by facilitating entrepreneurial growth leads to structural and fiscal diversification. The IGR consumables must therefore be consumed by those who paid for them precisely in a way that would lead to welfare for individuals and growth opportunities for businesses. The reverse is when these opportunities corruptly flow into the pockets of unaccredited consumers of collected revenue external to the model.

The good governance process reinforces the cycle of prosperity for the citizens and businesses. Its presence at some reasonable level also demonstrates that an adequate measure of accountability is in place concerning mobilized revenue resources. Accountability, in turn, enhances the trust that taxpaying citizens put on the coordinating system [the government and tax administration]. Accountability and trust facilitate citizens' tax compliance levels more than other factors and considerations. Thus, while the optimized deployment of IGR creates good governance, the latter substantially signals the presence of accountability and trust, which further incentivizes the citizens to mobilize even more revenue resources. Unfortunately, while the optimized model presupposes that the citizens who are the taxpayers should also be the consumers of the tax paid, the significant beneficiaries lurk behind the veil and make up less than 3 percent of the population.

Sadly, historical evidence in Nigeria shows that government officials' idea of the mobilized IGR is substantially inconsistent with the already described identity model, ensuring continuous good governance flow and elevated taxpayer compliance levels. While there is a cosmetic satisfaction of constitutional budgeting and resource allocation process and requirements on paper, the result is entirely different. At the level of budgetary design, revenue-consuming hawks at the ministries, departments, and agencies of government first pad and over-invoice the costs of executing programs and projects for the year. These fraudulently created extras are easily converted into private pockets once the budget passes through the final stages of approval. At the level of implementation, up to 60 percent of these scheduled programs and projects are either shoddily executed or untouched. This reprehensible behaviour frees up more revenue for their private pockets. And because corrupt rent-seeking behaviour characterizes the social norm, other cankerworms of a minor order nibble on the outstanding program projects amount. By the end of the fiscal year, taxpayers' mobilized IGR entrusted in the hands of government coordinators to purchase well-being and good governance is only able to procure at most less than 20 percent of the fund's actual worth. Up to 80 percent of the revenue goes into the private pockets of illicit tax consumers external to the model. The seeming legitimization of this unlawful expropriation behaviour majorly excludes the taxpayers from enjoying the benefits of their payments. Nigeria's problem lies in the heart of the exclusion of authentic taxpayers by tax-consuming hawks from accessing the well-being and good governance they should ordinarily possess. The consequences include the perpetuation of public sector corruption which propels the illegitimate sharing of the IGR pool.

The non-taxpaying IGR consumers who divert over 80 percent of the budgeted sums are less than 2 percent of the population. They comprise more than 90 percent of Nigeria's elected officials and approximately 20 percent of the senior cadre workforce in the Nigerian public service. The others are very few contractors used in the unlawful revenue mopping-up process. This lawlessness is a historical truth. Although the numerical estimates may not be precise, they are nevertheless reasonably indicative of the reality on the ground. How can a country progress when government officials and their compatriots-in-fraud that are less than 3 percent of its population perennially drain its lifeblood? This category of citizens enjoys 80 percent of the tax and non-tax revenue contributions of approximately 97 percent of taxpaying citizens and their dependents. Regressing backwards to the historical origins of tax payments to the kings and the royalties, we can correctly describe these tax-consuming 3 percent of the population as the overlords holding their subjects – the 97 percent of Nigerians – in some fiscal bondage. Push the argument a little further, and we discover that most of the relations and associates of those in political authority do not pay taxes, particularly at the level of subnational governments. They are the untouchables.

Imagine a group of buyers discovering that the company managing their orders has swindled them of their money and purchased less than 20 percent of the value of the fully paid-for consignment. Lagosians call such a situation entering a one-chance bus. For those who have not had the experience, a one-chance bus robs its passengers in transit and leaves them stranded midway to their destination. The situation aptly describes what Nigerian taxpayers typically face due to the deprivation of their rights to the consumption of the tax and non-tax revenue they contribute to the resource pool. Nigerian citizens have for several decades received one-chance experiences in the hands of government officials and their crony politicians that hijack their paid-for tax consumption experiences and fraudulently transform them into their private wealth. That explains the source of the absence of trust in tax administrations and the governments that back them. Regardless of what the law says concerning tax payments, several taxpayers outside the tax net deliberately refuse to comply in protest. Worse still are the transaction costs and fiscal burden multiplication through their deprivation of the desperately needed public goods. The costs of inadequate infrastructure have historically exceeded 35 percent of overall operational costs in most businesses in Nigeria. Depleted profitability prospects and weakened competitiveness strength make it challenging to keep up with the tax payment obligations. Most of the time, justifiably so!

The opportunity for large-scale illicit consumption of taxpayers' mobilized revenue appears to be a significant incentive for persons aspiring to hold government positions. Unfortunately, a substantial proportion of civil servants are available to assist them in stepping down and actualizing such motivations. Our legal codes also provide a generous window of escape even when caught. The efforts of the EFCC and the ICPC do not seem to scratch the surface of the calamity orchestrated by these shameless one-chance experiments pervading our system. What, therefore, is the way out? One of the many feasible solutions we have rarely leveraged is the power of citizens' independent investigation. Journalists and concerned civil society groups do better in investigations of this nature and often provide unassailable evidence that the justice system can utilize to nail the culprits where possible. Until the citizens who suffer the consequences of these fiscal diversions get involved in tracking the sources of their problem and helping to bring those behind them to book, the status quo would remain the same as the Lagosians' one-chance experience.