



## STATES &amp; LOCAL FINANCE

## The IGR Initiative

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# Our social norms and tax compliance



OVER THE CENTURIES, HUMAN belief systems govern them through unwritten rules, beliefs and attitudes accepted within a social group. Because of the depths of their acceptance, they invariably become standards and foundations for either accrediting or rejecting other behaviours. Virtually all societies are distinguishable by these norms, whether perceived or actual. Because of its role as a foundational principle for other behavioural inclinations, social norms have a significant place in taxpayers' compliance decisions. One primary reason for this is the influence of peer or collective pressure. For instance, a family that is profoundly religiously inclined and has chosen as part of the value system to uphold elevated levels of moral rectitude may not likely have one of its members as a tax evader or a thief.

Unfortunately, a confusing extension of this example would be that Nigeria, a country with 98 percent of its population professing either Christianity or Islam, has one of the highest percentages of non-compliant tax evasion behaviour. Ideally, religious people profess loyalty and obedience to constituted authorities and the law. The fulfilment of tax obligations is central to confessing that loyalty by deeds. But Nigerians are not known only because of their religious zeal. Their clannishness and ethnic consciousness are also well pronounced as other widely shared behaviours such as corruption, disregard for the rule of law, the culture of rent-seeking, systematic clientelism, etc.

Human interactions result in latent pressure, mostly forming as a blended collective of beliefs, values and rules. Although nobody likes to pay taxes yet, most people would accept that it is essential to obey constituted authorities who ought to provide public goods and services to ease the lives of citizens. Obedience to constituted authorities; loyalty to the government is a demand for compliance with the tenets of the law. The Nigerian Economic Summit Group's 2019 Nigeria tax and subsidy perception survey revealed that only 17 percent of Nigerians probably consider that not paying taxes is wrong and punishable. Twenty-two percent believe that it is not wrong to evade fulfilling tax obligations. This perception seems the strongest in the Southwest, where up to 30.4 percent do not consider it wrong to evade taxes. The findings support a 2015 PwC report titled, "Guess How Many Nigerians Pay Tax and How Our Government Spends the Money." The report put together by

Taiwo Oyedele showed that only about 13 percent of the national workforce was in the tax net. Comparatively, only about nine percent of companies operating in Nigeria file their returns. The report also pointed out that even the government is not fully compliant in deducting unremitted taxes from their workers' salaries. While it is evident that many factors combine to explain these abysmal compliance rates, it may not be out of place to seek the connection between our defining social norms as a country and these observed compliance performances.

Hard work, productivity and resilience are dominant virtues of the average Nigerian. That is why Nigerians still power on, even in the face of backbreaking frustrations by its leadership. But such irritations are primarily for ordinary citizens who are neither connected to political power nor in a government office. Many connected people work hard to drain public resources into their private pockets. Their general dispositions and actions result in the frustrations that impede the efforts of the ordinary Nigerian. Because the most significant motivation for public servants is corrupt self-enrichment, they practically thwart the functioning of the rule of law. Therefore, it is more than the usual expectation to think that voluntary compliance will be at substantially higher levels in our preponderantly lawless society. Yet, there is significant collusion between ordinary citizens who may not be directly involved and those who champion this sleaze. While the latter busies itself with the stealing, the former, who suffers the consequences, keeps an eerie silence and becomes partners in the process. A famous saying holds that those who keep quiet in the face of evil are partners in it.

It is even more disturbing when we see ourselves from the prism of religion, which is also a dominant characteristic of our population. The expectation from religious people who are authentically so is to condemn evil. Sadly, our religiosity appears to be a platform for rubber stamping people with questionable integrity willing to support such organisations. Those in government and political authority use state resources to legitimise their inordinate actions. They bless their communities, places of worship and relations with the breeze of wealth illegally acquired from the commonwealth to purchase their legitimization. It is common practice for communities and relations to condemn any of them who has been in some political offices and back without demonstrating deep pockets from collectively

owned resources. These are the roots of other vices defining our social norms, such as rent-seeking, weak public administration, the culture of impunity and electoral corruption. These vices are necessary to sustain the norms of stealing, which weakens the capacity to comply with tax laws. Governors, political appointees and their cronies rarely pay taxes. Those who therefore comply are those without such political connection and cover. And because the structures for implementing our laws are fragile and convoluted, reliance on the law for enforcing compliance is without the desired force.

The summary is that we are a social group of lawless, corrupt, ethnic and religious bigots. These attributes seem to define our contemporary social norms. But corruption is one of the biggest killers of tax compliance. First, it kills trust in tax administrations. Taxpayers cannot trust those who consciously steal and fritter away the proportion of their income they laboured under undeserving circumstances to earn. Much worse is the level of public financial mismanagement and embezzlement, which is so heart-shattering that it makes some people decide not to make further contributions in the name of taxes. Those who embezzle these public funds believe that they can manoeuvre the law and its structures and walk away undetected. Yes, of course, they end up successful. Taxpayers learn from that as well. They try as much as they can to pay negligible amounts compared to what they should file and bribe tax officials and banks on the zero outcomes from our toothless bulldog laws. More than 80 percent of tax officials across the country take bribes. It is also a dominant social norm within the Nigerian tax administration. The destruction of trust in tax administrations and the associ-

ated government is also because the latter consistently fails to deliver on citizens' expectations regarding public goods, the rule of law and security. The government's ability to efficiently provide these three desirables correlates with citizens' assessment of the good governance level they receive. Unfortunately, most governments in Nigeria do not score up to 15 percent in their performance on those criteria. Secondly, these abysmally low-performance levels on these good governance factors ultimately result in challenging economic conditions, which worsen the costs of transacting and the general situations of the entrepreneur. What is more, they, again trying to improve their residual income post private provision of these desirables, resort to noncompliance.

Many analysts argue that Nigeria inherited these unwanted social norms from discovering crude oil. Before its discovery, public officials had to do much work strategizing on raising public finances and applying it to gain public trust and enhanced tax compliance. The oil boom suddenly removed the need for that level of effort to seek funds. It is fabled that Yakubu Gowon said Nigeria's problem is how to spend its money. This orientation unquestionably sold the seeds of public resource sharing rather than resource generation. It is a fact that those who are preoccupied with production and resource generation act differently from those who are more interested in merely consuming. Thus, while other countries outbid themselves in productivity, we fought over resource sharing and stealing. Every person wants to have a share of the national cake. Political positions present opportunities that many promptly take advantage of by depriving the citizens of the public goods, the rule of law and security that

those resources should ordinarily provide. Of course, the consequence is that most people replicate the same exercise at their level. Noncompliance is the tax evaders' way of taking public money. Collective rationalisation of these inordinate norms is also one of the forces sustaining them. There appears to be some consensus that those who have access to public resources must tamper with them. Accordingly, consistent with our entrenched cronyism and ethnic and religious bigotry, political favours extend to those who meet these conditions even when they do not qualify. Tax officials also extend these supposed favours to their relatives, religious brethren and those who can bid for it. As this corrupt enrichment goes around, large segments of the Nigerian society, unfortunately, endorse and rationalise it while it kills the government's capacity to expand its revenue collectables.

In the final analysis, rejigging our prevalent social norms of corruption, lawlessness, and cronyism will undoubtedly improve tax compliance rates. From every indication, the surest weapon against these is the reinvigoration of the justice system. An efficient justice system that sits on an equally strict rule of law tempers the tides of these unwanted social norms while upscaling the tendency of citizens to comply with the Constitution. The tax administration should understand that working on social norms is central to its overall tax education. For instance, in communities where people rarely embark on productive ventures implying that they would have very little to contribute as tax, part of the tax education for IGR improvement would be to encourage them to reverse that norm and become more productive.