

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, ValueFrontiera Ltd. He can be reached via email at martinoluba@gmail.com

EFFECTIVE HUMAN INTERACTIONS ARE often contingent on principles of proper conduct. It becomes even more pronounced with the exchange of money or other things of value. That is why businesses with solid reputations thrive much better than the ones without them. In the same vein, it is difficult for subnational governments to expand their internally generated revenue without eliciting a substantial level of trust from those making the contributions, either as taxes or paying for services that governments provide. But it is not only trust that is the required character. The IGR expansion chain has several other expectations around obligations, compliance, and characters across the entire stakeholder array, including tax collectors, revenue collection institutions, taxpayers, the designers of tax policies, and even those legislating on them. Overall, such ethical expectations are classifiable around utilitarian, deontological and virtue-based ideological taxonomies. The emerging questions are, therefore: to what extent do SNG-IGR growth activities aim at achieving well-being for the most significant majority? How confident are we that critical stakeholders in the process are complying with the agreed obligations and responsibilities? Can we generally trust the process and the participants that should lead to the desired growth?

All the considered characteristics of a sound tax system, namely fairness, adequacy, simplicity, transparency, and administrative ease, are consistent with this thinking. These set the guidelines for the design of a tax system. But they also apply, albeit at varying levels, to aspects of nontax revenue systems. Therefore, these characteristics lay the foundations for what could qualify as a fitting or undesirable revenue-generating system. The global hues for equitable tax policies and practices, and those defending progressive taxation, often point to the criticality of fairness. Therefore, the push for equity in design, legislation, administration, and compliance characteristics defines IGR expansion. In effect, the policymakers in designing tax and nontax revenue policies must ensure that they are fair, failing which infringes upon the public's expectation that they do the right thing. For example, the more complex tax rules are, the more they exclude those who may not easily understand them or may have to pay other professionals like auditors to interpret those tax law provisions at additional costs. The entire gamut of tax and nontax revenue administration is replete with ethical issues necessary to sustain taxpay-

ers' and the general citizens' trust in the government.

Interest in ethical issues affecting IGR growth gains increasing interest because of the explosive growth in entrepreneurial activities and the attendant government finance, which is also a consequence of that. The second reason is also the concern over whether the quality of governance aligns with these huge government finances. Consistent with value for money thinking, most citizens want zero gaps in the quality of governance as larger sizes correlate positively with unethical practices. The latter is the foundation of a lack of institutional reputation and citizens' trust in revenue administrations, low taxpayer compliance, higher inefficiency levels and compliance costs, overburdening of tax are non-taxpayers, embezzlement, and official profiteering, and increasing jettisoning of codes of conduct.

Concerning tax as one of the many sources of subnational internally generated revenue, most challenges regarding equity and fairness hang on the shoulders of tax administrations. Some ethical concerns have arisen due to the administrative process, discriminatory and veiled regressive taxation, and government finance theft. Global best practices indicate that tax administrations must adopt fair procedures for taxpayer management. Unfortunately, there are many violations of these ethical expectations, mainly when the IRS deploys contractors for collection. Worse still, much of this procedural unfairness occurs among low-net-worth taxpayers, especially micro and small business owners in the informal sector. These taxpayers often do not have any window for redress despite infringements. This discussion point invokes the issue of retributive fairness. It is always an easy and regular occurrence for tax collection officers to roundly confiscate the wares of these petty traders when they fail to comply but hardly make out proportional punishment on serial tax defaulters of the high-net-worth income class.

Perhaps this cop and robber approach's ability to deliver more revenue makes it attractive for most subnational governments. But as pointed out earlier, it is discriminatory as it often fails to catch the bigger culprits with the financial muscle to challenge the actions. However, aside from this, selective inequity is the most fundamental rationale for using contractors. Big-time third-party tax-collecting contractors usually lobby for it, with pledges to make prebendal rent returns to government officials that made the contract possible. In effect, the brutality with which these contractors crack down on potential taxpay-

Ethical issues in SNG-IGR growth



ers, the sheer scale of their unprofessionalism, and the consequent untold hardship are merely to bake enough revenue for the illicit gratification of the prebend in the office.

Worse still, on the back of this unprofessionalism, illegal tax and revenue collecting agents and thugs emerge, deploying brutal force, threats, and intimidation to obtain illegal levies. A glaring example is the role of unlicensed motor park touts in collecting unapproved payments from commercial motorists. Hawkers, petty traders, and artisans are not free from these hawks. Sadly, the people in government know this and substantially benefit from it. The Lagos State government, dominated by the APC, seemingly anointed this brazen act by appointing the leader of these unapproved motorists' fee collectors to head the committee to oversee the affairs of all motor parks and garages in the state. Many analysts have argued that the decision was to maintain control of the structure for political thuggery as its principal politician stands for election as president.

What makes this even more saddening is the apparent opaque exclusion of many high-net-worth individuals from the tax net. While it is easier to estimate the income worth of civil servants and corporate employees and identify and track shops and selling premises of low and middle-income people, it is more complicated to do the same for high-net-worth individuals. First, high net worth individuals have more complicated income tracks as they usually have multiple income lines. It is easier for rich people to tuck in tens of different businesses under one corporate façade, with more than half of them rendering their account outside the depicted operations. Second, high net worth individuals have a better capacity to hide away their income in tax havens or run a series of shelf-based enterprises. Third, VIPs are much more difficult to access. It is arguable whether up to 95 percent of first-class traditional rulers in Nigeria pay taxes. Most high-ranking politicians connected to

chief executives of state and local councils also make accessing them to fulfil their tax obligations quite challenging. In both situations, they receive political, albeit unconstitutional, cover from the government. All these unethical behaviours create the opportunity to steal public funds and deprive the more significant majority of the well-deserved good governance they ought to receive.

But not collecting the optimal amount of internally generated revenue based on available opportunities is substantially unethical to the extent of purposeful inefficiency. At the disposal of the workforce of revenue-collecting agencies are usually resources made available to deliver the maximum possible revenue size for the provision of an equally high level of good governance. The underlying assumption is that hired personnel have the qualifications on paper and the natural ability to optimise these input resources to deliver targeted results. However, a deliberate web of actions from the workforce that weakens the processes and leaders' policy changes culminating in less than desirable performance outcomes, are derivatives of unscrupulous behaviour. Inefficiency is, to a considerable extent, unethical as some people in the value delivery chain are probably not performing to the required level. For instance, processes leading to ill-designed exemptions, such as costly tax holidays and other incentives, which produce suboptimal results, fall within this category.

Furthermore, excellent revenue-generating policies of the government must substantially factor in gender and social inclusion factors. The pursuit of internally generated revenue growth often worsens the socioeconomic conditions of the vulnerable, particularly women and people with disabilities. Particularly at lower income levels, women and people with disabilities appear more economically disadvantaged for several cultural reasons. But this consideration hardly ever makes it into the overall tax and nontax policy designs. The consequential financial overburdening of wom-

en in the low-income demographic and people with disabilities is inequitable. Taxation policies appear to be strongly implicitly biased against very low-income women, particularly those in the informal sector, as they dominate most activities at this level. In addition to this implicit bias is the apparent absence of a window for this category of citizens to challenge these impoverishing revenue programmes.

Again, as much as we recognise the importance of digitalization of IGR expansion processes for revenue expansion, many potential threats to professional practices lurk in it. There are pockets of violations of taxpayer confidentiality and concerns about the system's integrity. E-Systems, as helpful as they are, have placed a significant volume of confidential taxpayer information into the hands of revenue administrations without significant internal processes to guarantee their safety. Of course, the constant leakage of personal information on the Internet traceable to some of these databases are testaments to the attendant unethical practices. These fraudulent leakages of otherwise confidential information would surely get messier with increasing integration to other databases such as commercial banks, national identity management, INEC and immigration.

Furthermore, while most subnational governments claim to have judicial systems for providing redress on tax-related issues, much of the justice mechanisms are essentially more about enforcing the government's revenue drive rather than lending ears to the cries of those who feel oppressed by it. In virtually all cases, mainly when the redress system operates within the IRS, the best the complainant gets is a reinforcement of the agency's original position and sometimes additional sermons on why the position must remain. The absence most of the time of umpires and judicial processes that objectively interprets tax laws with neutrality is oppressive. And this problem always originates at design points with the injection of unneeded complexities in the law.

Finally, all taxpayers comply reasonably with the expectation of professional benefits from the government. But evidently, the distribution of public goods usually favours geographical areas with higher revenue yields more than those with lower yields regardless of the ability to pay and uniformity of treatment principles. This inequitable situation remains the same regardless of whether those with lower income fully comply with their tax obligations which may end up being an insignificant proportion of the revenue receipts from the region where the wealthier class, who may nevertheless not be as compliant, reside. This inequitable distribution of public goods disregarding socioeconomic capacity also raises the question of tax justice.

● 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