

## STATES &amp; LOCAL FINANCE



## The IGR Initiative

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**L**IKE THE POLICE, THE Internal Revenue Service [IRS] ensures that citizens comply with the law on paying their taxes. Tax payments are law-backed obligations demanding full compliance by individuals and corporations. And because the success of states and local governments in satisfying the good governance yearnings of their citizens substantially depends on the efforts of the IRS, the latter tries as hard as they can to deter evasion and noncompliance. But weak governance and the rule of law environment considerably undermine these efforts, making it even more inevitable for them to intensify their deterrence and punitive choices. Over the decades, this mindset has defined Nigeria's tax collection approach, particularly at the subnational level of government. Tax collection officers behave mostly like hostile Nigerian police, suffering significant dislike because of their low professionalism and almost no courteousness. At its extreme, such as in the use of touts and untrained task forces for revenue collection, taxpayers often experience nasty and brutish brushing. Unfortunately, the IRS holding on to such a traditional personality of police enforcing the tax laws through deterrence and punitive techniques may be one of the reasons for the less than optimal revenue yield from their citizens.

The deterrence approach mostly comes with some air of zero-tolerance for noncompliance and is therefore preceded by hostile mien. To act this out, tax collection officers often push too far to the boundaries of unprofessionalism. Hence, the visits of tax collection officers mostly spark fear and discomfort as they have historically proven to be more interested in finding faults rather than providing support and help to the perceived noncompliant taxpayers. For instance, tax collection officers expect all concerned taxpayers to accept auditors' reports without question. But knowledgeable taxpayers possessing such assessment and auditing capacity can easily find errors in their tax audit reports but are frustrated from challenging it. Again, the enforcement process can be so brutal in some instances that those affected often have no choice but to find ways of evading such encounters. It is not unusual to see street traders vanish upon sighting tax collectors because they know the consequences of being caught as noncompliant might be as devastating as losing the entire business capital. Unfortunately for the IRS, these taxpayers who evade them also successfully survive the weak governance and legal system. Defaulting taxpayers can always escape the consequences by bribing the officials of either the IRS or the police or perversely influencing court outcomes in their favour. In

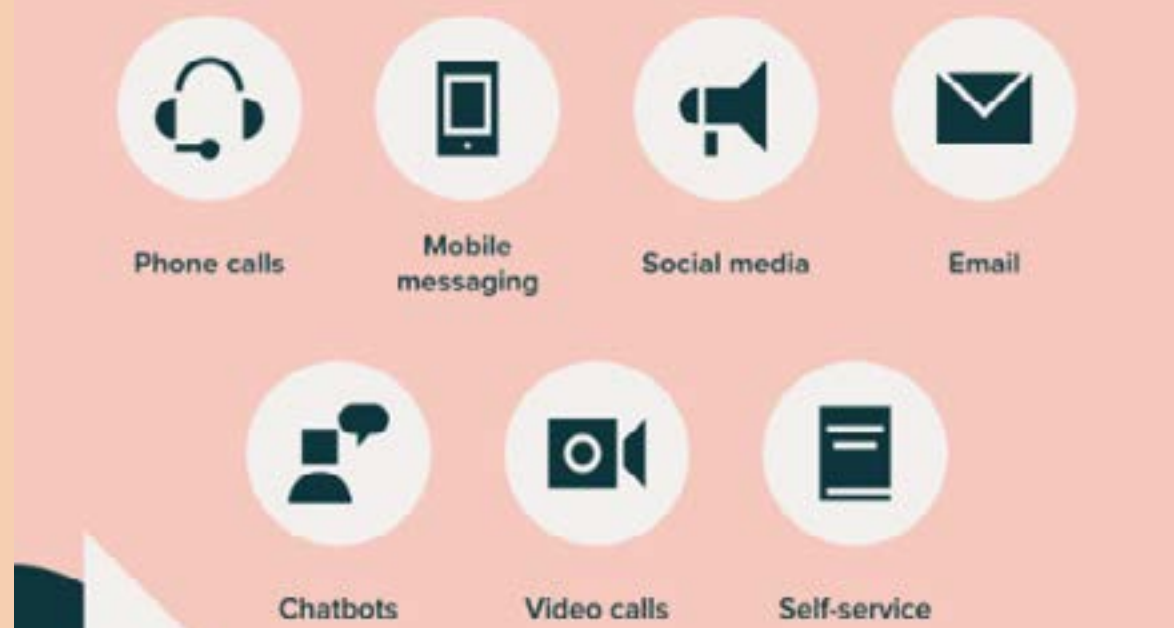
many instances, the IRS fails to realise their target revenue maximisation objectives reasonably because of this institutional weakness.

An alternative model historically deployed by successful organisations is about prioritising the customer. The centrality of the customer in the life of any organisation underscores the cliché that the customer is the king. The Nigerian police have their variant, "the police is your friend," to douse the public's disdain for its approach. Trying to rebrand as a friend to the "customer" serves the goal of the police becoming more customer-centric. If customer centricity is the numero uno of excellently performing organisations and also very attractive to the police, whose traditional responsibility is to defend the law, such ideological leaning should be the way to go for tax collectors. The goal is not to water down the responsibility of the IRS to police citizens' compliance with the tax laws but rather to do the same with civility and professionalism while raising the morale of the tax paying population. Focusing on the customer requires the IRS to put taxpayers first and consistently elevate the service quality while consciously ensuring their satisfaction. Its two-pronged advantage is increasing customer loyalty, that is, the willingness of the taxpayer to comply and minimising the potential loss of existing clients through evasion, which also means losing a significant revenue stream.

Four pillars will best support the suggested shift to a customer-centric approach by the IRS. These include prioritising the taxpayer as the first, providing taxpayer value for money services, providing adequate convenience for taxpayer compliance and maintaining an effective communication stream with the taxpayer. There is no gainsaying that without the taxpayers, there would be no IRS. Therefore, the IRS must demonstrate and communicate its appreciation of the value of the taxpayer internally or miss the opportunity to build an enduring, mutually beneficial relationship. Although this seems obvious, it rarely reflects in their behaviour. One way to internalise this philosophy within the IRS is to develop and maintain robust customer service standards and demand that the workforce fully comply. Better services, enhanced professionalism and respectful treatment of taxpayers may be the early signs of subnational government revenue collection agencies becoming customer-centric. Imagine how the taxpayer would feel to receive good wishes on birthday anniversaries and other celebrations from the tax collector. Generally, taxpayers, like any business customer, will feel better appreciated when the IRS responds to their inquiries, including complaints, in a timely, complete and respectful manner.

## Shifting the IRS' mindset from Policing to Customer Service

## service channels



Again, most customers are more excited when they receive value for their money. Creating good value for taxes paid is an area where the IRS must work with the parent government to achieve. No fully compliant citizen will be happy with the shoddy state of public infrastructure. Tax paying citizens comply patriotically to receive good roads, water supply, health facilities and other public infrastructure supporting a good quality of life. Unfortunately, decisions around the provision of these public goods lie primarily within the jurisdiction of the executive governor or the Council chairperson. The responsibility of the IRS is to ensure the availability of the funds to execute such decisions. The taxpaying public, however, does not distinguish between the agency that collects the revenue and the government house that decides on its spending. Such a government's failure to make policy and project implementation decisions that provide taxpayers with value-for-money services attracts penalties for the IRS through tax evasion and non-compliance. The primary objective of the so-called tax-for-service agreements is to enable taxpayers to extract commitments from the government to allocate a proportion of their taxes to resolve specific infrastructure challenges they confront. For instance, market traders exhibiting reluctance to comply with tax payments can enter into this agreement [tax for service], which subsequently binds the government to provide them with an agreed public infrastructure of their need worth a pre-agreed percentage of the total taxes they pay.

Making it possible for customers to comply conveniently is one of the most straightforward metrics for customer centricity. Classical scholars recognized convenience as one of the core principles of a sound tax system. Albeit situating convenience on the ability to pay, a reasonable extension acknowledges that inconveniences constitute additional financial costs that might discourage the taxpayer from

complying. That is why the IRS must take the costs of compliance very seriously. For instance, centralising the tax payment system will undoubtedly make it burdensome for some taxpayers. Imagine a taxpayer paying N800 as transport fare to comply with the tax payment of N300 in a central physical location. Here is where the digitalization of payment processes becomes inevitable for subnational IRS keen on prioritising customer satisfaction. Automated payment processes come with significant convenience as virtually every aspect of taxpayer compliance, from self-assessment to payment, is achievable through the mobile phone. Even when there is considerable decentralisation of payments, the IRS ought to create a befitting walk-in customer service facility to handle customer inquiries promptly and professionally. All bank branches, for instance, keep and maintain such facilities with extended desks at the reception area, making it accessible to all customers. These will work best with well-trained customer service management personnel championing them.

The fourth indispensable pillar for a customer-centric organisation is effective communication. Effective communication with the taxpayer, all things being equal, should lead to improved compliance. Communication is an excellent way of ensuring customers [in this case, taxpayers] have a positive experience. The IRS must be available to engage with taxpayers. Luckily, technology makes this even more convenient through phone, email, and social media platforms. Availability for communication requires taxpayers to receive detailed and timely information on all issues of interest from the IRS. They should also receive adequate clarification when they ask for such. Such engagements are even more impactful with good personalization. Customers enjoy personal relationships with the organisation that they transact with. It even becomes much more helpful when a

taxpayer with little or no technical knowledge receives thorough and easy-to-understand clarifications to technical questions. As part of the effective communication architecture, the IRS must have a robust mechanism for keeping customers informed and adequate avenues for receiving and responding to complaints.

Overall, respect for taxpayers' rights must be on the front burner of the IRS. Understanding that the taxpayer has the right to know and clarify expectations regarding tax payment obligations may enhance the quality of attention paid to them. Continuous education and open channels to make the taxpayer better informed are critical. Such a comprehensive knowledge management system improves customer morale and minimises points of disagreement and disputes. Yet, part of this requirement is also for the IRS to implement a practical dispute redress system permitting the taxpayers to challenge and obtain objective feedback and resolution on contentious issues. Ultimately, the more the taxpayer feels respected, professionally attended to, and generally satisfied with the attention that they receive, the more likely they are to continue complying. The traditional policing, deterrence and enforcement approach seemingly presents every citizen eligible for tax payment as a guilty defaulter unless proven compliant. That mindset underscores threat-filled communication from tax offices, causing many to avoid anything to do with them. Because of our virtually impotent justice system, attitudes and behaviour strengthen taxpayer evasion. On the contrary, prioritising taxpayer satisfaction and deploying the same strategy for enhancing compliance might yield excellent outcomes as it does for profit-oriented businesses.

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