

Amnesty for Tax Defaulters: How viable for voluntary tax compliance in Nigeria?

Despite finalising the National Tax Policy, amending the tax laws and strengthening of the Federal Inland Revenue Service (FIRS) for enhanced operational efficiency, no real consideration has been given to measures or strategies that may encourage voluntary declaration and compliance as an alternative means of growing the nation's tax base

Amnesty is legal forgiveness from certain infractions. Tax amnesty therefore constitutes a form of waiver or reduction and (sometimes) removal of penalties in back taxes to encourage defaulting taxpayers to pay what they owe within a specified window.

An amnesty must necessarily have a legal or legislative backing for it to be effective and a deadline for compliance stipulated as part of the provisions. Usually, stiffer penalties are instituted for taxpayers who are still noncompliant even after the amnesty program.

The objective of tax amnesty is to pardon or negotiate the tax liabilities of individuals and corporate taxpayers in line with laid down statutes. It is also intended to regularize the tax affairs of persons who have defaulted in meeting their tax obligations; improve the tax compliance culture and widen the tax net.

Despite finalising the National Tax Policy, amending the tax laws and strengthening of the Federal Inland Revenue Service (FIRS) for enhanced operational efficiency, no real consideration has been given to measures or strategies that may encourage voluntary declaration and compliance as an alternative means of growing the nation's tax base.

In several countries world over, tax amnesty has been implemented successfully as a means of encouraging voluntary declaration and payment of accumulated tax liabilities. Italy introduced a tax amnesty in 2001 that came to be known as 'Tax Shield' and in 2009 the Italian tax amnesty yielded €80 billion. In 2004, the Belgian Parliament adopted a law allowing individuals subject to Belgian income tax to regularize the undeclared, or untaxed, assets they held before June 1, 2003. In the same 2004, Germany granted a tax amnesty in connection with tax evasion. Portugal introduced tax amnesties



separately in 2005 and 2010. In 2007, the Russian tax amnesty program yielded \$130 million in the first six months. Australia launched tax amnesties in 2007 and 2009. In 2010, the Hellenic Parliament ratified a legislation pushed through by the Greek government in an effort to raise revenue, granting tax amnesty to millions of Greek citizens who paid just 55 percent of the outstanding debts. South Africa, Spain and the United States respectively, adopted tax amnesty programs at one time or the other encouraging many citizens to voluntarily declare outstanding

taxes and raising millions in money's worth. The closest and most recent was Ghana's 2012 tax amnesty program.

The tax amnesty program is usually applied to certain categories of potential taxpayers:

- Those who had previously registered with the tax authority but had ceased to pay taxes
- Those in business for years without due tax registration for tax, hence no tax payment
- Those already paying taxes but are

inconsistent with remittances or owing huge amounts in arrears

- Those with huge undisclosed incomes due to potential tax liabilities on those incomes (i.e. those confusing tax evasion as tax avoidance)

Several taxpayers in these categories are conscious of the fact that they need to come clean and comply with the provisions of the tax laws. However, the potential cash flow implications on their business income serve as major deterrent to them. A tax forgiveness program may serve as the lever they require to propel them to doing the right things without necessarily suffering huge penalties.

So far, Nigeria has successfully brought the three phased conversion to International Financial Reporting Standards (IFRS) to its final stages. GDP has been rebased and the Central Bank of Nigeria (CBN) has implemented several monetary reforms. All these signify steps by Nigeria to conform to global best financial practices originating or trending from developed economies.

Voluntary tax compliance is therefore a culture that needs to be

encouraged and cultivated in line with current trends in other developed countries. The soon-to-be-launched iTax platform is also an indication that voluntary tax compliance by all income earners would need to be encouraged to guarantee its effectiveness.

Although a tax amnesty program has never been formally or rigorously implemented in Nigeria, proposals for its usage as a more effective tax revenue generation tool can be validated by results achieved in other countries where it had been implemented.

If Nigeria had adopted the approach of enforcement all these years and yet has experienced moderate compliance by taxpayers and huge leakages in form of undisclosed income and unpaid taxes, then it is time to tweak approach and monitor the resultant effect. Amnesty in other countries has been reported to curb evasion, thereby increasing tax revenues at very low administrative cost. It has also helped to boost trust in the taxpaying public and the drive for voluntary tax compliance.

This publication contains general information only and Akintola Williams Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Akintola Williams Deloitte a member firm of Deloitte Touche Tohmatsu Limited, provides audit, tax, consulting, accounting and financial advisory, corporate finance and risk advisory services to public and private clients spanning multiple industries. Please visit us at www.deloitte.com/ng

Although a tax amnesty program has never been formally or rigorously implemented in Nigeria, proposals for its usage as a more effective tax revenue generation tool can be validated by results achieved in other countries where it had been implemented



International capabilities with local delivery.

At Deloitte, we offer practical suggestions to help companies navigate through tax and other business issues. Visit us at www.deloitte.com/ng and find out how we can help you

Oluseye Arowolo
Partner | Tax & Regulatory Services
oarowolo@deloitte.com

Fatai Folarin
Lead Partner | Tax & Regulatory Services
ffolarin@deloitte.com