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## Abbreviations and Acronyms

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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>GSDP</td>
<td>Gross State Domestic Product</td>
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<tr>
<td>LASG</td>
<td>Lagos State Government</td>
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<tr>
<td>IGR</td>
<td>Internally Generated Revenue</td>
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<tr>
<td>ABC</td>
<td>Alpha Beta Consulting Limited</td>
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<tr>
<td>HQ</td>
<td>Head Quarters</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<td>LIRS</td>
<td>Lagos State Internal Revenue Service</td>
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<td>TPA</td>
<td>Ten Points Agenda</td>
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<tr>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<tr>
<td>SPARC</td>
<td>State Partnership for Accountability, Responsiveness and Capability</td>
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<tr>
<td>PPP</td>
<td>public private partnerships</td>
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<tr>
<td>TOR</td>
<td>Terms of Reference</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>MDAs</td>
<td>Ministry, Department and Agencies</td>
</tr>
<tr>
<td>LGAs</td>
<td>Local Government Areas</td>
</tr>
<tr>
<td>LG</td>
<td>Local Government</td>
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<tr>
<td>LS</td>
<td>Lagos State</td>
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<tr>
<td>LRC</td>
<td>Land Records Company</td>
</tr>
<tr>
<td>M</td>
<td>Million</td>
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<tr>
<td>MVAA</td>
<td>Motor Vehicle Administration Authority</td>
</tr>
<tr>
<td>N</td>
<td>Naira</td>
</tr>
<tr>
<td>TAMAS</td>
<td>Tax Audit Management Agents</td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay As You Earn</td>
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<tr>
<td>E-TCC</td>
<td>Electronic Tax Clearance Certificate</td>
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<tr>
<td>TEET</td>
<td>Tax Education and Enlightenment Team</td>
</tr>
<tr>
<td>PIT</td>
<td>Personal Income Tax</td>
</tr>
<tr>
<td>LASTMA</td>
<td>Lagos State Transport Management Agency</td>
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<tr>
<td>CITN</td>
<td>Chartered Institute of Taxation of Nigeria</td>
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Executive Summary

Brief Summary

This revenue base assessment was undertaken, to include formulation of strategies on expanding Lagos State’s tax base and action plan on improving assessment and collection as well as enforcement.

To maximize revenue generation there are three main strands which all require attention and to work in conjunction with each other.

1. Increase taxpayer base
2. Get more from existing taxpayers, increase compliance.
3. Implement completely new taxes or increase the rate of taxes

The overarching policies to implement and enable the above to happen are Systems Development, Development of Human Resources, Taxpayer education and Public awareness.

A number of recommendations have been made to be discussed by the Government and plan a way forward for implementation.

Executive Summary

Despite the positive reform environment, overall budget performance in Lagos has consistently either stagnated or shown marginal improvements. For instance, budget performance improved from 70% in 2007 to 80% in 2010. Regrettably in 2011, budget performance declined to 77% despite the bold attempt to restrict expenditure projections to what is realistically feasible, as against political expediencies.

While there has been steady progress towards budget realism, annual aggregate budget performance in Lagos state has not exceeded 80% in the past 12 years. Total cumulative actual revenue performance for year 2010 was 87% and 89% for year.

Budget realism is a major concern for Public Finance Management Reform in Lagos. One key reason for this is the shortfall in revenue projections especially IGR. Many revenue bearing agencies are not performing at optimum capacity as they are unable to meet revenue targets. Lagos cannot therefore spend the money it doesn’t have. While the technical assistance support of SPARC is geared towards improvement in budget processes including accounting, recording, auditing and oversight roles of the State House of Assembly, it appears that the weakest link in the chain is revenue. This therefore needs support to bring it up to speed with other PFM reform processes.

The summary of the objectives of this comprehensive Revenue Base Assessment is as follows:

a) Analyse the existing revenue collection of Lagos Internal Revenue Service (LIRS); Lands Bureau, Land Registration Company, Motor Vehicle Administration Authority and Physical Planning and Urban Development.

b) Identify potential sources of revenue for these agencies and recommend improvements in the existing revenue collection;

c) Formulate a strategy and an action plan for improving the existing revenue collection and IGR; including strategy to enhance compliance through prevention of tax evasion and raising public awareness; and

d) Support to the Agencies to adopt and implement the proposed strategies and action plans.
This revenue base assessment was undertaken, to include formulation of strategies on expanding the State’s tax base and action plan on improving assessment and collection as well as enforcement.

To maximize revenue generation there are three main strands which all require attention and to work in conjunction with each other.

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The overarching policies to implement and enable the above to happen are Systems Development, Development of Human Resources, Taxpayer education and Public awareness

FINDINGS AND CONCLUSIONS

Details of the findings which lead to the analysis and recommendations moving forward are contained in the main report and cover five main IGR Agencies: LIRS; Land Bureau; LRC; Ministry of Physical Planning and Urban Development and MVAA.

The IGR has had considerable effect in increasing the revenue and year on year comparisons have shown a dramatic increase in income. However the current trend is showing that the revenue is underperforming against the targets set by government. The conclusion which must be drawn are that the target are driven by the requirement to collect taxes to cover expenditure and Lagos State Government should be able to manage their expenditure without the reliance on Federal Revenue allocations. The IGR agencies have implemented initiatives to work to increasing revenue and these have been very successful. Since the inception of the semi-autonomous body of the LIRS most of the initiatives have been driven by reactive short term policies, they have been effective and the success has been documented in the report. However this review is not concerned with past performance, but looking at improving on moving the current policies forward, working on agreeing a long term development plan which will pull together all the successful initiatives and introduce new ones for a more cohesive and transparent strategy, which will improve revenue collections in the future.

After the examination and analysis of current operations within the five IGR agencies, a number of recommendations have been identified, which if looked at in tandem with the strategic goals, will provide the foundations of the IGR modernization plan and lead to enhanced revenue collections.

MAIN RECOMMENDATIONS

1. That the Board is set up forthwith as the 2006 law provides the mandate to do so. In the absence of the Board, policy decisions are driven by reactive policies and not through the systematic process of being fed to the Board for consideration.

2. There should be a Planning and Research Department within LIRS; Policy often sits within Ministry of Finance as this is semi-autonomous authority the conduit of consistency appears to sit with the Special Adviser.

3. The structure of the LIRS should be revisited in the light of the appointment of the Board, to include separate HQ departments for audit and enforcement functions, which could then include departments that are currently reporting direct to the Chairman. The restructuring of the department also requires support in terms of I.T.
systems, however in tandem with the development of IT systems business processes and procedures require documentation.

4. To gradually decrease the use of external Tax Consultants and continue with the capacity building within the department especially in audit not only of PAYE but the self-assessment.

5. To support the work which has commenced on exploring the possibility of integrated tax systems, unique Taxpayer Identification number which would underpin the move towards the integration of the tax systems and the development of a “Data Hub”

6. To redefine the understanding of tax audit and widen the functional activity. In line with the training, implement a review of Pay and Grading together with revised job descriptions to take account of structure and reorganization.

7. To gradually phase out the use of TAMAS, these professionals were brought in as a stop gap while the LIRS was still in an embryonic phase.

8. Create a taxpayer unit which deals with significant/large taxpayers and combines the High Net worth, strategic audit, Intelligence, Strategic Audit etc. This unit would be concerned with all aspects of compliance including tax audit.

9. The taxpayer education and public awareness programme should continue, however the messages need to be moved on to keep pace with the change taking place within the Government; i.e. management of change also has to be a consideration for the taxpaying public as well as government staff.

10. Both manual and automated systems must be developed to move with the very fast changing landscape, and management of change training in revenue administration is imperative for the middle and senior management to work and accept the changes. This training would include subjects like empowerment, delegation etc.
Section One: Introduction and Background

Lagos State is the fastest growing State in the Federation and one of the fastest growing mega cities in the world today and to keep improving public services, the government needs to find the financial resources to finance future infrastructure and public services. To achieve its programs enshrined in the Ten-Point agenda and close the infrastructure gap, Lagos States requires a substantial investment on infrastructure over the next five to ten years. Public goods and services are to be provided for, as demand for these is essentially high. No State can afford to fund such development needs primarily from the federal allocation or external sources. For Lagos State, internal revenue sources present a stable and endogenous path to improving funding of its annual budget.

Federal allocation alone would not be enough, as such it is necessary to look inwards and develop new strategies of effectively mobilising internal revenue sources and ensuring more efficiency collection and enforcement. A government’s ability to provide necessary public goods and services while maintaining macroeconomic stability is directly related to its ability to raise revenues efficiently and equitably. The current global crisis has shown how uncertain external flows are for African governments whose revenues have been badly affected and by extension the Nigeria Federation Account, which depends largely on petro-dollar with its vagaries of fluctuations in its prices. In the long run, greater domestic investment can offset vulnerability as well as strengthen local ownership.

From 2006-2011, the overall fiscal deficit for Lagos as percentage of GSDP has been mounting. As Lagos State has been struggling to deal with continued budget deficits, the question arises as to how much revenue it can reasonably be expected to raise. With the giant development strides encapsulated in the Ten-Point agenda for the State, at what point should the emphasis be placed on recurrent expenditure cutting, rather than revenue rising? In other words, does expenditure drive the budget instead revenue? Answering this question involves evaluating the State’s tax capacity and tax collection effort.

Available statistical data suggests that the gap between the amount of internal revenue currently generated by the State and the potential revenue base of the State is quite wide, one example is the current taxpayer base delivering direct tax collection is 2.7 Million against a population of 18 Million of which, when making allowances for legitimate non tax paying groups this figure should be closer to 8 Million.

Indeed revenue enhancement is part of the Ten-Point Agenda (TPA) of Lagos State government, initiated in 2003, and the basis upon which it articulates its strategy. The TPA, which builds on the Lagos State Economic Empowerment and Development Strategy (LASEEDS), includes 10 focus areas. The revenue enhancement objective is to diversify revenue sources, widen the tax base, set up effective revenue collection mechanisms, and develop a database of taxpayers.
Objectives of the Assignment
The proposed potential revenue base assessment need to be undertaken, which should include formulation of strategies on expanding the State’s tax base and action plan on improving assessment and collection as well as enforcement. Tax is the amount levied on an individual, group or corporate entity and payable to the government to meet expenditure for provision public services and keep the organs of governance running smoothly. Taxation has become an indispensable part of modern economic systems worldwide, with wide variety of different tax models. Such tax is expected to be fair and equitable; set in simple and clearly understandable language; considering the ability of each person to pay based on income; politically acceptable to the payers to avoid incurring their hostility; and must be consistent with goals of promoting stable economy.

The primary objective of the initial internal revenue administration scoping was to carry out an initial and limited review of the internal revenue administration environment and to assess the feasibility of undertaking a more comprehensive assessment of potential revenue base in Lagos State given the data constraints. This primary objective led to the following articulation of the wider objectives of this study.

Published data indicate that LASG State has a taxpayers’ database of about 4 million out of a population of about 19.9 million. Considering that on the average, total taxpayers constitutes about 42% of national (or sub-national) population, which should be 8.35 million in Lagos State. The current database of taxpayers of 4 million would represent just about 20.1% of the estimated population of Lagos State. Thus the main objective of the proposed comprehensive Revenue Base Assessment is gather solid secondary statistical data and information, carry out analysis and establish the actual and potential labour force (over next 10 years), economically engaged or employed currently and total taxable adults in 2012 in Lagos State. This assessment would to assist the State Government to diversify its revenue sources, widen its tax and non-tax revenue base, set up effective revenue collection mechanisms, and develop a comprehensive database of taxpayers. The summary of the objectives of the comprehensive Potential Revenue Base Assessment is as follows:

a) Analyze the existing revenue collection of Lagos Internal Revenue Service (LIRS); Lands Bureau, LRC, MVAA and Ministry of Physical Planning and Urban Development.
b) Identify potential sources of revenue for these agencies and recommend improvements in the existing revenue collection;
c) Formulate a strategy and an action plan for improving the existing revenue collection and IGR; including strategy to enhance compliance through prevention of tax evasion and raising public awareness; and
d) Support to the Agencies to adopt and implement the proposed strategies and action plans.

Scope of Work
The team of consultants will hold extensive consultations with various stakeholders, especially with trade groups, LIRS, MDAs and Lagos State Ministry of Finance, key revenue collecting Ministries and Agencies. Stakeholders’ consultation would focus on identifying data sources and defining the data quality and magnitudes. On the basis of initial consultations the following issues would be explored:
• An Assessment of the sources actual tax and non-tax revenues (IGR) in Lagos State;
• Identification of the options for and potential impact of new revenue sources (including for example forms of direct taxation property tax, payroll tax, income tax or other forms of direct taxation and determine whether these would provide a more sustainable revenue base than the State Government's present form of taxation. In making this assessment, the Consultants should consider the impact of any form of direct taxation on overall economic activity in the Lagos State and examine, in particular, the impact of introducing various forms of direct taxes would have on the attractiveness of Lagos State as a financial centre versus other competitive in West Africa;
• A review of all present revenue generation mechanisms and to ascertain to what extent these have been impacted by competition, the global economic slow-down, and internal procedures within the Government and determine whether present revenue sources are under-performing by reason of unsuitable collection methods and make recommendations for the improvement and expansion and more efficient operation of these mechanisms;
• A review all agencies and their sources of revenues, including annual growth in customer base by key revenue lines (2009 – 2011);
• A review of the existing customer database management for revenue administration and arrangements for comprehensive tax payer assessment.

**Approach and Methodology Adopted**

The LASG internal revenue administration operates in an extremely complex environment. An array of external actors, forces and circumstances constantly impinge on it. Very often, the weaknesses of the LIRS can be traced to the constraints imposed on it by the environment. At other times, they stem from the inability of the LIRS to effectively deal with environmental challenges or exploit environmental opportunities. Therefore, in order to understand the reasons for performance of the LIRS against targets set, we must also look beyond the organizational boundaries of the LIRS, and analyse the impact of important environmental influences on its performance. The major environmental factors that need to be considered are economy and population.

The Method that would be employed for achieving the proposed assignment would mainly be through gathering of secondary data and desk analysis of existing data available in key agencies and of key IGR sources (taxable and non-taxable IGRs). The following methodological approach is recommended:

• Wide stakeholders consultation
• Field reconnaissance to gather data (secondary data),
• Appraisal and validation of data quality,
• Computation of various economic, fiscal and tax magnitudes.
• Presentation of the summary of Internal Revenue base
Overview of the Assignment

Lagos State remains unarguably the foremost reforming state in Nigeria. The environment for reforms is very positive and the state government has demonstrated significant commitment to reforms. The reforms in Lagos are largely driven by the Governor whose interest and goal is improved service delivery to the people and also influenced by international development partners especially the World Bank and DFID who are providing technical assistance and financial support for reforms.

Despite the positive reform environment, overall budget performance in Lagos has consistently either stagnated or shown marginal improvements. For instance, budget performance improved from 70% in 2007 to 80% in 2010. Regrettably in 2011, budget performance declined to 77% despite the bold attempt to restrict expenditure projections to what is realistically feasible, as against political expediencies.

While there has been steady progress towards budget realism, annual aggregate budget performance in Lagos state has not exceeded 80% in the past 12 years. Total cumulative actual revenue performance for year 2010 was 87% and 89% for year.

Budget realism is a major concern for Public Finance Management Reform in Lagos. One key reason for this is the shortfall in revenue projections especially IGR. Many revenue bearing agencies are not performing at optimum capacity as they are unable to meet revenue targets. Lagos cannot therefore spend the money it doesn’t have. While the technical assistance support of SPARC is geared towards improvement in budget processes including accounting, recording, auditing and oversight roles of the state house of assembly, it appears that the weakest link in the chain is revenue. This therefore needs support to bring it up to speed with other PFM reform processes.

To achieve these, there is need for coordination among the SLPS (SPARC, GEMS3 and ENABLE) in the actual or potential support on taxation and revenue improvements in Lagos. The main targets of the support are:

1. Office of the Special Adviser on Taxation and Revenue
2. Lagos Internal Revenue Services
3. Lands Bureau
4. Lands Registration Company
5. Motor Vehicle Administration Authority and
6. Physical Planning and Urban Development

Consequently, a joint planning meeting was held between SPARC and GEMS where roles and responsibilities were agreed as follows:

**SPARC:**

1. Assessment of potential revenue base of the state in the 5 revenue bearing agencies
2. Revenue Assessment Report
3. Provide technical assistance for systems and processes review/ improvement in the OSATR, LIRS and Lands Bureau

**GEMS 3:**

1. Assist State and Local Government Areas to harmonise taxes, charges and levies to reduce the high cost and hassle of nuisance taxes to MSMEs.
2. Provide technical assistance to improve information services available to taxpayers on these harmonised taxes.
3. Support the implementation of a Tax Policy Framework that gives tax and charge breaks to women, thus, encouraging women to set up enterprises and improve their incomes.

Conceptual Issues

To maximize revenue generation there are three main strands which all require attention and to work in conjunction with each other.

1. Increase taxpayer base
2. Get more from existing taxpayers
3. Implement completely new tax or increase rate of tax

The overarching policies to implement and enable the above to happen would be Systems Development, Development of Human Resources, Taxpayer education and Public awareness

System development (manual and automated)
The Revenue generating machine is run by a combination of manual and automated business processes. Automation can assist by carrying out the process and/or act as a database to assist a manual process. All business processes should be documented and operating manuals written to support them.

Improving current I.T. systems across the whole taxpayer base and introducing the control of taxpayers through a centrally generated TIN can achieve greater and a more effective use of currently generated data. By doing this all present government systems can provide a foundation for an integrated data base. The data if collated from all systems can provide a source of intelligence which can assist in all three instances above. Some examples are:

- Cross matching the data base across all the systems can throw up, by exception, potential taxpayers currently not submitting direct taxes.
- Development of each data system talking to each other can lead to information, intelligence to enable the direct taxes to be more effective and be applied to all relevant people.
- There is also a strong indication that many potential taxpayers are not on any database. How can that be? They may be on other databases outside of Lagos State and this begs the question of sharing information of potential taxpayers with a common denominator where this information may make them liable to some tax in LS.
- What relativity or relationships can be made between systems which could identify further potential taxpayers? i.e. if you own/ lease a car and pay relevant car taxes where does the money come from? Who employs you? Are you self-employed? By the same token if you own a property where has the cash come from? If you rent out a property to whom?
- Audit and Collection are most important functions in tax collection; however the functions can be assisted by the use of intelligence and data. The more we know about a transaction, company, individual etc. the more we can establish a true liability. The more data we have on defaulting taxpayers then the more accessibility to money due is possible.
There is a balance between squeezing as much tax as possible out of existing taxpayers and recognizing the tax evaders. This is a difficult area and can only be assisted by good intelligence and expertise within the tax authority.

Minor taxes can be ignored in the enthusiasm to collect the easier ones. Withholding is an issue and these require examination and cross cutting areas to ensure that these are collected. Also this area is an invaluable source of intelligence in the need to collect data to control the more traditional taxes; i.e. if a rental is received on the ownership of a property many questions need to be asked.

**Human resource development**

Staff must be up to the job, skills, qualities and knowledge must be increased within the authority. It is well recognized that within revenue generation, staff require specialist skills such as accountancy and audit, there are many qualities which are not necessarily inherent within the administrative officer. Good revenue generation also depends on knowledge and data.

Contracting out expertise is costly and gives rise to conflict of interest between government and private practice. Percentage cost requires consideration especially with the issues of confidentiality, impartiality and transparency.

The short term answers are by using professionals in the accountancy business to assist. However this answer can only be short term because of the main factor of conflicts of interest between professionals and the revenue collection agencies. Again I reiterate that this can be a short term solution but it is not sustainable, the cost of paying the commission to an outsourced agency is also less cost available to spend on the training and development of government staff. The long term answer is to improve systems, train staff and managers and encourage management of change programmes.

HRD is not only about training staff it is also about training and modernizing management. It is also about the structure and organization of the authority in question. Good structure represents transparency, accountability and ensures staffs get the correct support in their roles through proper outline of activities, job descriptions, performance appraisal etc.

**Taxpayer Education and Public awareness**

Even in the development of Revenue Collection agencies the synergy of development and change has to take place. If a Revenue agency wishes to encourage an existing taxpayer to give maximum compliance then there are many strands which require pulling together on this i.e. public education and taxpayer awareness, together with introducing the concept of working together.

There are subtle differences between public education and taxpayer awareness; however these can be addressed in approach and content of material. As a revenue generation agency develops in this modern ever changing world, the public and existing taxpayers have to be brought up to speed as well and the shift in emphasis should gradually move from the approach of you MUST PAY TAXES to the message of working with government to pay the taxes due and ensure everyone complies to enable government to fulfil their contract of service to the people. Education is also reaching out to stakeholders and particular professional groups; this can be done through seminars and conferences throughout the geographical confines of the Authority. It is important for Taxpayer and Public awareness to
take account of all the issues of government and look at it in the whole as a responsible citizen and taxpayer willing to assist State Government.
Section Two: Work Undertaken

The following paragraphs are a summary of the findings which lead to the analysis and recommendations moving forward. This summary covers the five main IGR Agencies:

**LIRS- Lagos Internal Revenue Services**

This is a semi-autonomous body set up by statute, dated 2006. Copies of law enabling the body to operate and the Income Tax law were obtained to inform analysis. Currently the LIRS is not operating with the required Board of Internal Revenue; even though the Law dated 2006 enacted the establishment of the Lagos State Board of Internal Revenue; however a Special Adviser was appointed to bridge the gap and to assist in the Policy areas advising the Governor. A new amended law has been presented to the House to reconfirm the establishment of the Lagos State Board of Internal Revenue with various provisions which have been amended to bring the Law up to date, but fundamentally the Board is prescribed in this Law.

The main functions of the Board, but not limited to, prescribed in the Law would include the providing of general policy guidelines regarding the functions of the IRS and supervising such policies and ensuring the effective and optimum collection of all revenues.

LIRS have the mandate to collect a number of taxes directly. Specifically, it is responsible for Personal Income tax to include Pay as you earn and self-assessment, Withholding tax, Capital Gains tax and Stamp Duties. The other taxes are reported via the other revenue collection agencies, they are described later.
The LIRS has taken on the challenge of increasing the IGR of the State through the adoption and implementation of various strategies which have impacted positively on revenue generation and collection. Policy is led by Special Adviser via the senior management team; policy has been driven by reacting to need and requirement and not necessarily by long term strategies. Some of the initiatives put in place to maximize taxes and have had a big impact are:

- The outsourcing, to Alpha Beta Consulting Limited (AB Consultancy), of the computer system necessary to handle the collection of all IGR taxes, this system interfaces with all the banks and all taxes are lodged directly with the banks by the taxpayers and the issuance of automated generated receipts. This has reduced the direct interface between taxpayer and government when payment of taxes is made and also provides a database of all tax payments made across the agencies.

- The introduction of the Electronic Tax Clearance Certificate (E-TCC), which is managed by the outsourced consultancy operating the tax collection system. The effect of this tax card is that any person who has to deal with any arm of the Lagos State Government has to apply for, and obtain this (E-TCC).

- LIRS have developed a very comprehensive communication strategy which reaches out to stakeholders, interest groups, taxpayers, and the general public at large. The strategy has been implemented through conferences, print, media, Special Tax Education and Enlightenment Teams (TEET) attending to the needs of all taxpayer groups. A complaints and feedback mechanism is now in place.

- In order to make tax assessment and payment convenient for taxpayers, the self-assessment scheme has been introduced and numerous tax offices put in place to cater to the requirements of individuals. These regional tax offices and market place offices are responsible for monitoring compliance of individuals, finding new taxpayers, and assisting the taxpayers in the completion of their declarations.

- Underpinning these major initiatives is the necessity to train and develop staff, also to ensure that the relevant sections of the personal Income tax act are followed in that the taxpayer is obliged by the Law to declare the correct tax and pay the correct tax when it becomes due. Capacity and institutional development has been ongoing which includes in house training, the use of external tax consultants and exposure to other administrations. Since 2008, when the autonomy took effect, LIRS has been employing graduates and other qualified personnel. The LIRS encourages its staff to take professional tax examinations conducted by Chartered Institute of Taxation of Nigeria (CITN) by paying their registration and examination fees and LIRS has now developed in house training using a dedicated training department.

The Organogram for LIRS is shown in Annex 3. The team used the organogram to establish in more detail how the activities of the LIRS are carried out. It appears that the administration is very fragmented and the functions are not completely separated, with departments for each tax type or tax sourcing. An example of this is the tax audit department, this is only for the auditing of employers who deduct and pay the PAYE; details of the functions are given in a presentation given to us by LIRS. Audit of self-assessment taxpayers is fragmented and can be done in the form of a self-assessment review or through various teams in the organization, who work on intelligence from other sources these include the High net worth, Withholding tax, Capital gains tax and Judiciary units to mention a few who have a specific interest in some of the larger tax transaction
types. Any case that is outside the normal review process is handled with direct responsibility of the Director PIT or Chairman.

As mentioned earlier some departments report direct to the Chairman and LIRS are in the process of producing a standard operation manual, however how this is going to be structured either by department function or tax type is not clear. A committee is formed for the purpose but how this will be done is not yet determined. The team discussed with Deputy Director, PIT the developmental path to where Lagos State has got to to-date and the LIRS development; this is outlined in the introductory sections of this report. It is evident in the statistics shown below that there has been a massive move towards voluntary compliance and widening the tax base and by result the maximization of IGR.

Many initiatives have taken place on the work to expand the tax base and indeed are still in place, these are described in the previous paragraph and are financed and in line with the setting up of the Lagos State Board of Internal Revenue as a semi-autonomous body which runs by managing its own monetary targets and expenditure, which is based on an agreed expenditure percentage, 5%-10%, of total collection.

I.T. Systems used by LIRS

The Collection system has been outsourced to AB Consultancy and this system covers the collection of all the IGR. It is driven by the forms which are required for the various tax type payers, these are completed by the taxpayer and the form is given to the bank with the payment. The forms then get sent for data input and the reconciliation of the receipt of the taxes. Examples of these forms are shown attached in this annex but include the self-assessment form, direct assessment, withholding tax etc. The system belongs to the contractor but there is a web based real time access for LIRS using Payer Identification number or name. Data reports are readily available and various management reports are issued automatically on a periodic basis and further information reports are available by set authorization levels on the a web based system.

Tax Clearance system or tax card. This is an initiative managed by the outsourced consultants and details are attached to this annex.

Taxpayer database. The LIRS have developed a taxpayer database in-house, this has been driven by the necessity to collate all information about significant taxpayers who have had any kind of interface with the LIRS other than PAYE or straightforward self-assessment. This database has evolved and data from all the government agencies is fed in here i.e. LASTMA, Land Records Company, Land Bureau etc. This database is increasing and has been developed internally and the data is built up by the work done in Tax Audit, Self-assessment, review teams, high net worth unit, professionals, complaints team and other working areas. This system does not interface but is a stand-alone database. It is not intended for collection, but the data base is used to assist in compliance activities. In the long term strategy it is recommended that work is done on some kind of integration and linkage of systems. However the business processes will require documenting and this has also commenced with the committee set up to work on a Standard operation manual.

The Ministry of Science and Technology have now taken on a Nigerian professional, from the United States of America, as a Director who is tasked to look at all the IGR systems with a view to integration or interface with the Oracle systems already part of Lagos State Government. In terms of what he has done so far with LIRS, he has the approval of the
Executive Council to integrate the State instance of Oracle with that of LIRS and also look at means of improving and deploying a new BPM tool which includes case management and workflow. Some of the expected goals include real-time monitoring, quick problem identification and resolution as well as replication of manual process with automation. He is also working on creating a Centralize Tax Payer Warehouse with data point from all the different silos like Lands, Vehicle Registration, LRC, LIRS, ABC, Telephone Companies, Hospital registration with a view of providing a Single View of the taxpayer, together with the possibility of data exchange with FIRS as well as Banks using exception reports. The three core goals of the initiative are:

i. Improve and maximize Revenue Collection,
ii. Improve Customer Service,
iii. Maximize Agency Deficiency

**PIT Department**

Discussions took place with the Director and Revenue Manager and they outlined the responsibility of the department, which is for the compliance of individuals, compliance meaning filing and payment on time and credibility of payments made.

PAYE tax is remitted by the employer based on the completed income tax return of the employee, payments are made monthly, however an annual return is submitted by the employee which in effect reconciles all the payments made throughout the year. This annual return is due by 31st January.

The annual income tax return is completed in advance at the beginning of each year and submitted by the employee to the employer who validates it and then subsequently sends it to LIRS with the annual tax returns of the employer.

Self-assessment is paid via the completion of a self-assessment form which is really simplified and is such so as to encourage maximum compliance at this stage of filing and payment of declared figure. Every individual who is not an incorporated company or employed and receives in excess of 30,000 naira per annum is mandated to complete a correct return.

This return form is not suitable for audit in the normal understanding of the meaning of audit, as it is purely a statement of income and on the face of it there are no figures to check. The source and accuracy of the declaration can be called to question by using other sources of information and this is done by a self-assessment review team.

Within the PIT department and linking to other specialized areas within LIRS there is an information network which is sourced from the various outside systems such as LASTMA, MVAA, the Capital gains and stamp duty, Judiciary group, high net worth, and the land use records. All this information is held in the taxpayer database (previously mentioned under systems) against taxpayers who have been under enquiry or under some kind of audit.

Taxpayers can be selected for a review at a number of levels: either by the tax officers in the tax stations or by cross reference to the various information sources. All these references are passed to the review team who submit regular reports to the Director PIT. He accepts the reviews which are meant to raise the issues and these are either followed up in more detail if necessary with reference to the Chairman or BOJ assessments can be raised on the evidence held within the database by authority of the Director.

Tax Audit within PIT on individuals is not carried out by this department; the form of desk audit exists by the name of self-assessment review as mentioned. If an individual is suspected of avoiding tax, this is normally uncovered through the network of information
systems available but it is only relevant for existing taxpayers on the tax office data base and referred through to the Intelligence or High net worth units for further investigation and referral to the Chairman. This will not necessarily uncover information on non-existent taxpayers not known to LIRS.

The Director confirmed our previous thoughts that the collection database is not a true reflection of all the taxpayers liable to pay tax to LIRS. He explained that there could be more than one reason for these numbers to be called to question. When an employer declares the PAYE payments he is supposed to remit the individual tax returns completed by the employees. In some cases this does not happen and therefore the payment is not recorded against the individual. This can be rectified if the individual employee applies for a tax card (TCC) and the relevant checks and balances are made to verify his payments. The process of Audit also rectifies the situation and more on audit later. The third most difficult instance of an incomplete database is the “underground economy”, the tax evaders as opposed to the tax avoiders. The process for this to reduce is to improve the accessibility and manipulation of data bases.

**Tax Audit Department**

The Tax Audit department as such is concentrated on the auditing of employers with numerous employees. The involvement of TAMAS to assist was commenced 4 years ago when the capability and the resourcing of audit staff was low. The subcontracting of this work is expensive, however the initial necessity to use these consultants has now become less: It has been proven through the statistics that the compliance levels are increasing within this particular tax type and additional tax identified through audit is stabilizing instead of increasing, however overall compliance for the future is increasing which is the ultimate and long term aim of audit. This is more appropriate for this tax type and sector of taxpayers. The formal more organized businesses are more willing and have more reasons to comply with tax regulations. Another factor for the case to gradually phase out the use of TAMAS is that the LIRS staffs are becoming more skilled with the introduction of a training school and overall strategy.

As mentioned earlier the department assigned to the function of tax audit is confined to PAYE audit, however the skills, knowledge and qualities necessary for audit can be applied to all tax types and taxpayers. The audit department should also be tasked to audit the affairs of the more significant taxpayers which are raised initially by the self-assessment review team and then passed to various specialist teams which report directly to the Chairman. Audit is ensuring the taxpayer is paying the correct tax at correct time within the PIT LAW, this can be checked through the access to a business books and records and any other information available to the LIRS.

**Human Resource development**

This area of the organization is encapsulated in the Recruitment, training and Welfare department.

- Since 2008, when the autonomy took effect, LIRS has been employing graduates and other qualified personnel.
- The Agency encourages its staff to take professional tax examinations conducted by Chartered Institute of Taxation of Nigeria (CITN) by paying their registration and examination fees.
- LIRS has a training school.
- The LIRS has funded management training courses in the South African tax training College
HRD has changed in developing times and is not just concerned with recruitment policies and training and normal welfare issues. HRD is about creating a new environment to encourage culture change, to meet the needs of staff and management who have to develop their thinking to cope with the introduction of new systems and ways of doing business which are designed to increase transparency, accountability and ultimately encourage the taxpayer to work with government to achieve the goals set out in their vision statement. All the areas of business within LIRS have an impact on HRD and these will be covered in suggestions on HRD Strategy moving forward.

**Motor Vehicle Administrative Authority**
This agency is responsible for the administration and issuing of Drivers’ license and Vehicle registration fees. Courtville Business Solution handles the data for the vehicles and number plates etc. 2.5 Million on the database, while AB Consulting operates the system for collection of bank payments.

Manual systems are in place for the processing of Drivers’ License and Vehicle registration; manual processes are very cumbersome and leave room for abuse and incidence for corruption. In particular the law states that ALL vehicles require physical inspection by the police to pass. However in reality these physical checks are not practical and can be bypassed.

Where are the checks and balances to confirm all these processes take place without intervention from MVAA officials or the Police? Once the vehicle has passed through the manual system then the data base and collection systems provide sound information for use by the direct tax departments.

It is recognized by both the officials from MVAA and LIRS that the data bases which are provided by two outside consultancies provide valuable sources of information for the collection of all the direct taxes due to the obvious link of the purchase and leasing of vehicles, a use of expendable income, and the likelihood that vehicle owners will either be employed or self-employed in some capacity.

The use of the data can only be limited because of accessibility and the necessity to link the data in real time to other existing systems. Please refer to comments on systems in part two of the main report.

**Ministry of Physical planning and Urban Development**
The team met with Director of Development Matters who gave a background to the services of the Ministry. He described what he perceived the Ministry role to be in that it was more of a social service dealing with Public complaints, Petitions, Building planning and approval. It was to encourage urban renewal regeneration, settlement programmes for displaced persons etc.

He provided us with a booklet produced to set out the Ministry’s vision and plans and way forward. Revenue is collected on Building Plan Approval and layout approval. There are 57 zones covered by 20 regional offices and the initial charges due are manually assessed from the zones.
The charges are paid to the bank and then recorded under the AB consulting system. All files after fees paid and process complete go to LIRS for investigation and checking for any direct tax implications.

**Land Bureau**
The agency is responsible for all the charges connected to the actual land transaction. The charges and fees etc. are calculated manually, demands sent out manually and collection is connected to the transaction so compliance of payment of charges recorded is not an issue. What could be an issue is the complexity and initial valuation of the transaction charge which is carried out manually and the calculation of such charges involve interface with the ministry officials. As there is a collection system in place which is provided by AB Consultancy and part of the overall collection system of all charges and taxes then for expediency and transparency of the front end of the process should also be computerized. Land transactions have a direct tax effect i.e. Capital gains tax, stamp duty and credibility factor as far as personal income tax is concerned.

Situated in the land bureau is a tax office which deals with the above.

When a land transaction takes place then it is part of the process either through the legal person dealing with the transaction or the individuals concerned that the capital gains tax is calculated for the seller to pay and the stamp duty for the buyer to pay. Also the participants in the transaction have to prove all other taxation issues are paid and this is done through the tax clearance certificate process. If the person in question cannot produce a tax clearance then a personal assessment BOJ is produced to enable the land transaction to go ahead.

If a BOJ assessment is produced then the LIRS office responsible, possibly (special audit) would be alerted of the process and follow up any arrears of tax that may be due from the individual.

A BOJ assessment is raised in the absence of a TCC and allows the land transaction to progress. There is a public charter on time limits for the whole process of land transactions to take place which is 30 days. This has to include the tax processing element, so quick turnaround is essential.

As with the transaction charge above the computer system recording the collection of Capital gains tax and Stamp duty is provided by AB Consulting.

**Lands Record Company**
The company is privately contracted by the government and is responsible for:

- Consolidation of the following charges and rates
  - Land charges
  - Tenement Rate
  - Neighbourhood improvement charges
- Enumeration of landed property and creation of unique identification number for each property.
- Building a data base for all landed property in the State.
- Evaluation and Re-evaluation of landed property.
- Numbering for identification and delivery of bills/assessment notices.
The Company commenced operations in 2001 when property tax was first collected at a compliance rate of 5% of a much smaller database. The rate of collection stands at 30% of a database of up to 1 million buildings.

The company has created its own database which is comprehensive to each property. The demand notices are produced and issued according to rate etc. In terms of Revenue this company has an incentive to maximize potential as far as is possible due to the commission rate of payment for the services sold.

For longer term sustainability this is a strategic issue, but the practicality of in-house expertise versus outsourcing, the ability of the government to own and access the system for data purposes would need to be balanced against the costs and advantages of having this type of expertise.

There is an urgent requirement for this data to be available to all direct tax departments for the purpose of tracing non-taxpayers and assisting in the audit of existing taxpayers. This data should be available on a real time basis rather than by request, however with the specialist nature of the set up and cost of the database this may not be difficult to achieve.
Conclusions

The IGR has had considerable effect in increasing the revenue and year on year comparisons have shown a dramatic increase in income. However the current trend is showing that the revenue is underperforming against the targets set by government. The conclusion which must be drawn are that the target are driven by the requirement to collect taxes to cover expenditure and Lagos State Government should be able to manage their expenditure without the reliance on Federal Revenue allocations. The IGR agencies have implemented initiatives to work to increasing revenue and these have been very successful. Since the inception of the semi-autonomous body of the LIRS most of the initiatives have been driven by reactive short term policies, they have been effective and the success has been documented in the report. However this review is not concerned with past performance, but looking at improving on moving the current policies forward, working on agreeing a long term development plan which will pull together all the successful initiatives and introduce new ones for a more cohesive and transparent strategy, which will improve revenue collections in the future.

After the examination and analysis of current operations within the five IGR agencies, a number of recommendations have been identified, which if looked at in tandem with the strategic goals, will provide the foundations of the IGR modernization plan and lead to enhanced revenue collections.
Recommendations

LIRS
That the Board is set up forthwith as the 2006 law provides the mandate to do so. In the absence of the Board, policy decisions are driven by reactive policies and not through the systematic process of being fed to the Board for consideration.

The main functions of the Board, but not limited to, prescribed in the Law would include the providing of general policy guidelines regarding the functions of the IRS and supervising such policies and ensuring the effective and optimum collection of all revenues.

1. There should be a Planning and Research Department within LIRS; Policy often sits within Ministry of Finance as this is semi-autonomous authority the conduit of consistency appears to sit with the Special Adviser. It would appear that departmental managers can influence policy by putting papers together and submitting to senior management for discussion, however this is an adhoc arrangement and means Policy is driven from the top down, but should also be driven from the bottom up.

2. The structure of the LIRS should be revisited in the light of the appointment of the Board, to include separate HQ departments for audit and enforcement functions, which could then include departments that are currently reporting direct to the Chairman. This could be addressed in a number of ways i.e. creating a significant/large taxpayer office which looks after the affairs of the groups who are involved in large transactions. The department restructuring should focus towards functionality and clear reporting lines which create more transparency and accountability.

3. The restructuring of the department also requires support in terms of I.T. systems, however in tandem with the development of IT systems business processes and procedures require documentation.

4. To gradually decrease the use of external Tax Consultants and continue with the capacity building within the department especially in audit not only of PAYE but the self-assessment.

5. To support the work which has commenced on exploring the possibility of integrated tax systems and a unique Taxpayer Identification number which would underpin the move towards the integration of the tax systems.

6. To support the development of a “Data Hub” which could collect all data from all the government systems to give a holistic view of the taxpayer? Whilst there are physical processes in all government departments using the Tax Clearance Certificate for legitimate taxpayers, there is no real time link for these stand alone manual and collection systems to the direct tax relevant departments, therefore potential taxpayers can slip the net.

7. To support the improvement of the collection and accessibility of data (systems talking to each other) this also impinges on the structure and organization of the department and the documentation of business processes.

8. To redefine the understanding of tax audit and widen the functional activity i.e. – to ensure that the taxpayer declarations are correct and the taxpayer pays the right tax
at the right time within the P.I.T law. Currently the tax audit department is restricted to the activities to PAYE and employers, however the ensuring of the credibility of taxpayers declarations or non-declarations can still come under the overall umbrella of the tax audit department and not be handled by special teams reporting direct to the Chairman.

9. In line with the training, implement a review of Pay and Grading together with revised job descriptions to take account of structure and reorganization.

10. To gradually phase out the use of TAMAS, these professionals were brought in as a stop gap while the LIRS was still in an embryonic phase and the staffs were not technically developed to undertake larger audits. However the compliance rate has increased for the particular tax type where audits were carried out and the skills of the LIRS staff have increased thus diminishing the requirement and reducing costs.

11. Create a taxpayer unit which deals with significant/large taxpayers and combines the High Net worth, strategic audit, Intelligence, Strategic Audit etc. This unit would be concerned with all aspects of compliance including tax audit.

12. The taxpayer education and public awareness programme should continue, however the messages need to be moved on to keep pace with the change taking place within the Government; i.e. management of change also has to be a consideration for the taxpaying public as well as government staff.

13. Both manual and automated systems must be developed to move with the very fast changing landscape, and management of change training in revenue administration is imperative for the middle and senior management to work and accept the changes. This training would include subjects like empowerment, delegation etc.

14. Although LIRS staff are recruited at graduate level and are becoming more skilled and qualified as auditors and the training department is developing within the necessary environment to increase skills, knowledge and capacity of technical staff, further development is necessary to equip these officers with all the necessary technical skills to enhance the knowledge and experience they have gained thus far.

The Ministry of Physical Planning and Urban Development

15. The Ministry does not view their role as generating revenue but undergoing public service as laid out in the publication, this is very true, however, because of the lack of perceived transparency in the system, there could be opportunity for internal corruption and the developing of systems to reduce the incidence of interface with individuals could go some way to create more transparency.

The Land Bureau

16. The front end of the Land transaction charge and calculation of such charges should be computerized. This will eliminate the interface and opportunity for corruption. In doing so the business process would require revisiting, and reform of the base charge may be considered to simplify and enhance revenue.

Capital gains tax and Stamp Duty
17. This particular department also raises questions within the organization and structure of the direct tax departments on the ability and skills to use intelligence to carry out tax audits other than BOJ assessments.

**Land Use charges**

18. The land use charge is a valuable tax and is well controlled through this very specialized and bespoke system. However the data held on the system can assist particularly in the collection of tax on rental properties.

19. The income tax law provides for withholding to be collected on rentals paid by companies and organisations, but properties rented out by private landlords, absentee landlords or landlords who slip the net at the moment can escape easily from paying tax on the rentals of property they own.

20. A system is required to be put in place which will identify all rental properties and cross check with LIRS those rentals which are being accounted for.

21. It is also noted that property tax is an area where improvement on the tax base could be considered and the valuation used for calculating the land use charge could be revisited.

**MVAA**

Full computerization of the current physical processes which are cumbersome and open to corruption.
# Next Steps

<table>
<thead>
<tr>
<th>Strategic Area</th>
<th>Action Points</th>
<th>Key performance Indicators</th>
<th>Outcome</th>
<th>Timeline (to be agreed on implementation of strategy)</th>
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<tbody>
<tr>
<td>Manual Systems</td>
<td>Set up the Board as required by Law</td>
<td>1. Board elected and in place</td>
<td>Structure and organization together with business processes modernized to move together with the development of I.T. Systems</td>
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<td></td>
<td>Restructure of LIRS to take account of clear reporting lines and accountability</td>
<td>2. Planning and Research Department in place</td>
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<td></td>
<td>Review systems for vehicle licenses</td>
<td>3. Separate functional departments</td>
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<td></td>
<td>Review or introduce a system for collecting rental tax on private landlords</td>
<td>4. Clear reporting lines</td>
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<td>5. Absorbing the special units into reporting structure</td>
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<td>6. Creating an intelligence unit which has clear reporting lines through to Deputy Director Audit and ultimately the Board</td>
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<td>7. Possibility of a large taxpayer Unit which would incorporate the special taxpayer units in the current structure i.e. high net worth etc.</td>
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<td>8. Redefining the meaning of tax Audit within the LIRS – see report</td>
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<td>9. Document</td>
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<td>Automated Systems</td>
<td>Business process re-engineering and documentation</td>
<td>1. Documentatio n Available</td>
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<td></td>
<td>Introduce T.I.N to work towards integrating the tax systems within LIRS</td>
<td>2. T.I.N in place</td>
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<td></td>
<td>Support the development of a “Data Hub”</td>
<td>3. Integration of collection systems and data base used in LIRS, leading to more intelligent use of data and enhanced revenue</td>
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<td></td>
<td>More efficient use of data from all IRG systems</td>
<td>4. Links using a “data hub” between all MDAs</td>
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<td></td>
<td>Develop software for the charge of Land Transactions</td>
<td>5. More accessibility on data collection and efficient use of data leading to enhanced revenue</td>
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<td></td>
<td>More accountability and systems control in Ministry of Physical Planning and</td>
<td>6. Land transaction charge computerized, leading to transparency accountability and enhanced revenue</td>
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<td>Integration of Tax Systems and implementati on of T.I.N to increase the capability of controlling and maximizing the taxpayer base</td>
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<td>Human resource development</td>
<td>Urban Development</td>
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<td>Tax audit training to enhance BOJ assessments</td>
<td>Land use charge to be reviewed and system developed for charges</td>
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<td>To phase out the use of TAMAS.</td>
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<td>Introduce more routine tax audit for self-employed taxpayers and train officers accordingly</td>
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<td>Training in using systems data in tax liability management and tax audit</td>
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<td>“Management of change” development for Senior Managers</td>
<td>7. System reviewed, leading to more revenue</td>
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<td>Pay and Grading review in line with structure and re-organization</td>
<td>8. Reviewed and developed system</td>
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<td>1. More transparent assessments and increased skills to use available data.</td>
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<td>2. Use of TAMAS not necessary</td>
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<td>3. Increased revenue</td>
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<tr>
<td>1. Using data intelligently and enhancing revenue</td>
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<td>2. Empowerment, accountability and transparency</td>
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<td>3. Modernized grading in line with revised business processes and development of I.T.</td>
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<td>4. Increased technical ability</td>
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<td>Highly skilled staff moving with the development of technology and increased capacity to handle the new challenges</td>
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<td>Job descriptions to be revised, where appropriate</td>
<td>Finalization of the Standard Operations Manual</td>
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**Taxpayer Education and Public awareness**

- Continue with current education programme; however evolve the education to take account of the development of government systems. Ensure messages include sentiments such as working together and partnership.

1. Acceptance of working together with government
2. More acceptability, more taxpayers and more revenue

Increased taxpayer base with taxpayers who understand and accept their responsibilities.
Annex One: Terms of Reference

SPARC TOR: LAG-PFM-28-A

A. Related Activity Description (AD) Details

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<th>1. AD Title:</th>
<th>2. AD Version</th>
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<td>2012-2013</td>
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4. AD Milestones to be Delivered

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<td>Potential Revenue base assessed</td>
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<td>3</td>
<td>Revenue Agency action plans and strategies supported</td>
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B. Terms of Reference

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<th>5. Version</th>
<th>6. Start Date</th>
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<td>1</td>
<td>September 2012</td>
<td>March 2013</td>
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</table>

8. Lead Consultant: Elizabeth Gresty

9. Supporting Consultants: Gbenga Oyewole
   SPARC Office Support - Austin Ndiokwelu - Technical Coordination Manager

10. Introduction

SPARC undertook an initial scoping mission early in 2012 and produced an Aide Memoire, which should be read in conjunction with this AD. The Aide memoire identified that a main scoping mission should explore and devise strategies on raising the State’s tax base and recommend other possible taxes to be considered by the State.

Published data indicate that LASG State has a tax payers’ database of about 4 million out of a population of 17 million. The average tax payers are estimated at
about 42% of this population - about 7 million, therefore the current data base of taxpayers of 4 million would represent only 23.5% of the estimated tax payers of Lagos State.

The Potential Revenue Base Assessment should assist the Lagos State Government in identifying additional sources of tax and non-tax revenue streams, with some emphasis on urban property tax. The main objective of the Assessment is therefore to provide technical support to LASG for the overall improvement of its revenue administration and to assist the State Government to diversify its revenue sources, widen it’s the tax base, set up effective revenue collection mechanisms, and develop a database of taxpayers.

The summary objectives of the Potential Revenue Base Assessment are as follows:

- Analyse the existing revenue collection of Lagos Internal Revenue Service (LIRS); Lands Bureau, Land Registration Company, Motor Vehicle Administration Authority and Physical Planning and Urban Development.
- Identify potential sources of revenue for these agencies and recommend improvements in the existing revenue collection;
- Formulate a strategy and an action plan for improving the existing revenue collection and IGR; including strategy to enhance compliance through prevention of tax evasion and raising public awareness; and
- Support to the Agencies to adopt and implement the proposed strategies and action plans.

The methodology to be employed during the Assessment should involve desk review of relevant data bases of key IGR sources (taxable and non-taxable IGRs), and may include, as appropriate:

- Stakeholders consultation and surveys as appropriate to determine the sources of revenue data,
- Appraisal and validation of the relevant data.

The consultants should hold interviews with various stakeholders, which may include trade groups, LIRS, MDAs and Lagos State Ministry of Finance officials from different departments. The interviews will serve to enable agreement on what is feasible given the operating environments, the ministry's mandates, legislations in the pipeline and circumstances at the organisations.

The scope of work will also involve examining and assessment of all available data and reports leading to:

- An Assessment of the sources actual tax and non-tax revenues (IGR) in Lagos State;
- Identification of the options for and potential impact of new revenue sources (including for example forms of direct taxation property tax, payroll tax, income tax or other forms of direct taxation and determine whether these would provide a more sustainable revenue base than the State Government’s present form of taxation. In making this assessment, the Consultants should consider the impact of any form of direct taxation on overall economic activity in the Lagos State and examine, in particular, the impact of introducing various forms of direct taxes would have on the attractiveness of Lagos State as a financial centre versus other competitive in West Africa;
- A review all agencies and their sources of revenues, including annual growth in customer base by key revenue lines (2009 – 2011);
v. A review of the existing customer database management for revenue administration and arrangements for comprehensive tax payer assessment.

Coordination for this activity and liaison with LASG to be provided by Austin Ndiokwelu - Senior Technical Officer (Public Finance Management/Policy & Strategy).

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<td>1) Existing revenue collection of Lagos Internal Revenue Service (LIRS) analysed and documented;</td>
<td>September 2012</td>
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<td>8</td>
<td>1) Review and document existing revenue collection of Lagos Internal Revenue Service (LIRS); 2) Identify potential new sources of revenue for LIRS 3) Identify area and options for improvement in the existing revenue collection;</td>
<td>Overall responsibility for drafting and finalizing Strategy and Action Plan lies with International Consultant. National Consultant to play supporting role</td>
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<td>2) Draft strategy and Action Plan document drafted and presented.</td>
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<td>5</td>
<td>2</td>
<td>1) Draft a strategy and action plan for improving the existing revenue collection and IGR. 2) Draft a proposed strategy to enhance compliance through prevention of tax evasion and raising public awareness; 3) Discuss and agree the Draft strategy with LIRS Officer. 4) Present final Draft Strategy</td>
<td></td>
</tr>
<tr>
<td>3) Implementation of Strategy and Action Plans Supported</td>
<td>5</td>
<td>10</td>
<td>1) Support to LIRS in adoption and implementation of the IGR strategy as requested by LIRS</td>
<td></td>
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</tr>
</tbody>
</table>

Totals: 20 20
17. Reporting

In addition to the outputs listed under 7 above, each consultant is required to submit the following reports (delete as appropriate):

- Visit report at the end of each visit (including for use in updating SPARC M&E MIS).
- Final Report on the Assignment using the appropriate templates and should include a lessons learned section with recommendations.

**Note:** These reports should be prepared in accordance with associated SPARC reporting templates and guidance.
Annex Two: List of Documents Reviewed

World Bank doing business assessment at June 2012
Lagos state third quarter 2012 Budget
Draft Law for Administration and Collection of Revenue due to Lagos State 2012
Terms of Engagement with Lagos state on improving revenue (SPARC and Gems3)
Nigeria poverty profile
Lagos SDP 2012-2015
Lagos Perceptions
Lagos State Government Internal Revenue Administration Aide memoire and final report
LIRS Documentation on filing returns LIRS
Tax forms
  a. Income Tax Form c (PAYE)
  b. Tax Deduction Card Form F3
  c. Income Tax Form for Return of Income and Claims for Allowances and Relief. Form A
  d. P.A.Y.E. Remittance Card Form FG
  e. P.A.Y.E. Employer Annual Declaration And Certificate Form H1
  f. Individual Notice of Assessment Form L1
  g. Capital Gains Tax Notice of Assessment Form TF. 3CG
  h. C-TCC Renewal Form
  i. P.A.Y.E Employers Certificate of Pay and Tax Form H2
  j. e-TCC/m-TCC Renewal From
  k. e-TCC/Direct Assessment Renewal Form
  l. Individual Data Input e-TCC Form
  m. Organisation Data Input c-TCC Form
Electronic Tax clearance system
Public Education DVD’s from LRS and taxpayer education leaflets on LIRS activities and taxes.
LIRS Presentation on the Use of TAMAS
LIRS presentation on tax Audit
Presentations on ORACLE database by Mr Abdul Mustapha
Land Forms:
  a. LUAO/General Application For Allocation Of State Land
  b. LUAO Prime Land Application For Allocation Of State Land
Annex Three: LIRS Organogram
Appendix One: Highlights of Meetings

HIGHLIGHTS OF LAG-PFM-28: REVENUE ADMINISTRATION MEETINGS

Date: October 23, 2012

Meeting with Mrs. Bimbola Salami (Representing Mrs. Gbemi Dio who is on vacation) - Office of the SA, Taxation and Revenue.

- Introduction of the Consultants (Elizabeth and ‘Gbenga) and Rachel by Austin.
- Elizabeth explained the purpose of the meeting and the agenda for the project.
- The following were agreed:
  - Mrs. Salami to set up a meeting for the Consultants and representatives of the 6 revenue generating MDAs by 10 a.m. October 24, 2012. The meeting is intended to be introductory and set the tone for the project.
  - Mrs. Salami shall be the liaison between the Consultants and officials of the MDAs. She is to ensure that meetings are arranged and where necessary obtain documents from the MDAs as may be requested by the Consultants.

Date: October 24, 2012

The meeting was attended by representatives of 3 MDAs:

1. Grillo A.O. - Motor Vehicle Administration Authority (MVAA)
2. Soetan O. - Land Records Company (Land Use Charges)
3. Bicci Alli - Lagos Internal Revenue Services (LIRS)
4. Damilola Ayeni – LIRS
5. James Awam – LIRS

- Mrs. Salami did the introduction of the attendees including the Consultants.
- Elizabeth, Team Lead, gave a general overview of the project and our expectations of the MDAs.
- Each MDA presented a broad outline of its roles in the State’s revenue generation chain.
- Few general questions were asked and answers provided.

Actionable points:

- Mrs. Salami should liaise with Mr. Alli, Deputy Director, Personal Income Tax, LIRS to agree an appointment with the Chairman, LIRS to meet the Consultants on Monday October 29, 2012. Mrs. Salami is to communicate this to the Consultants on or before mid-day of the proposed meeting date.
• The Consultants will be meeting with each MDA on a one-on-one basis for detailed fact finding discussions on roles and responsibilities. Such meetings will be facilitated by Mrs. Salami.

• Mrs. Salami is expected to forward a soft copy of the extant tax law of the State to the Consultants by close of work today October 24, 2012.

• Mrs. Salami should obtain soft copies of MDAs organogram and send to the Consultants through email by close of work today October 24, 2012.

Date: October 29, 2012

Land Bureau

Met with:
Alhaji Abiodun Onibon, Director Accounts
Mr. Oyegbola, Director Land Services.

Information:
• The Bureau is under the Governor’s Office
• The Bureau has 10 Units/Departments:
  o Finance and Admin.
  o Land Services
  o Registrar of Titles
  o Executive Secretary (LUAC)
  o Land Registration/SSA
  o Accounts Directorate
  o Audit Unit
  o P.R.O.
  o ICT
  o Planning
• It is charged with the responsibilities of managing all the State’s land resources including the waterfront:
  o Allocation of land
  o Genuiness and timely issue of land documents.
  o Subsequent transactions.
• The Bureau assesses and collects the following charges from the above activities.
  o Application fees for subsequent transaction
  o Land Registry
  o Capital gains Tax
  o Stamp duties
  o Proceeds from private development program
  o Transactions on State Land
  o Transaction on private land/Land Regularisation
  o Regularisation of Prime Property
  o Property Recertification
  o Sale of Application forms
- Sublease perfection
- Registration and conveyance

- Assessment and bills are raised manually
- LIRS has a resident office in the Bureau.
- There is a Land Use Allocation Committee (LUAC).
- The State has consolidated the following land/property related taxes as Land Use Charges managed by the Land Records Company (LRC):
  - Land Charges
  - Tenement Rates
  - Neighborhood improvement charges.
- The Bureau has a website
- Arrangements are on to review the rates and charges.
- The target is to automate the system and eventually achieve an on-line self-assessment and payments by land owners.
- There is need for training.

**Capital Gains Tax and Stamp Duties, LIRS office in Land Bureau**

Met with: Mr. I.T.T. Jimoh, Commissioner Stamp Duties, LIRS.

- The office has 7 members of staff.
- The office is domiciled in Land Bureau to reduce transaction cycle.
- The office is in charge of verifying:
  - Capital gains tax
  - Stamp duties
  - Assessment and confirming tax status of land buyers – only current year/latest TCC status.
- The office supplies buyers’ tax and transaction status of the buyer to LIRS for possible follow-up in respect to tax compliance.
- The office does about 12,000 assessments every year.

**Land Records Company Limited**

Met with:
1. Mr. Dele Ibrahim, Managing Director.
2. Mr. Lanre Soetan, General Manager

- The team started operation in 2001
- The company is in a PPP arrangement with the government to administer the State’s Property tax.
  - Consolidation of the following charges and rates
    - Land charges
    - Tenement Rate
    - Neighbourhood improvement charges
  - Enumeration of landed property and creation of unique identification number for each property.
Building a data base for all landed property in the State.
Evaluation and Re-evaluation of landed property.
Numbering for identification and delivery of bills/assessment notices.

- Enumeration have been done in the following local government areas:
  - Etiosa
  - Lagos Island
  - Ikeja
  - Apapa
  - Mainland
  - Ifako
  - Oshodi
  - Kosofe
  - Mushin

- As at 2011, LRC has enumerated 637,569 properties with about 1 million buildings on them.
- Annual revenue targets/budgets are set by the Ministry of Economic Planning and Budget.
- A functional IT platform with information on all enumerated property has been developed.
- LRC has offices in all local governments:
  - for local knowledge
  - Bill delivery
  - Enumeration
  - Enforcement

Date: October 31, 2012

Met with: Mr. A. Mustapha, Director, Oracle Application and Support.

- He was recruited from State of New York, USA with the primary aim of integrating all the State’s activities using the modules in oracle system that the State has acquired since 2002.
- To achieve this the State is setting up Lagos State Financial Information Service Directorate that will eventually become an Agency.
- He is planning to undertake a scoping exercise of LIRS.
- There is work in progress, although at a preliminary stage, to have a Data Mart that will, among other things, integrate all the data of revenue generating MDAs, which are currently operating in silos, and make them talk to each other.
- External IT consultants will be engaged.
- Part of the effort will take on the task of generating and maintaining TIN, which is at present outsourced to Alpha Beta Consulting (ABC).

Action points:
- Mr. Mustapha is to send, by email, presentations at the recently concluded Oracle Worldwide Seminar conducted for LIRS.
A copy of the information requests he sent to LIRS, LRC, and ABC.

Motor Vehicle Administration Authority (MVAA).

Met with:

1. Mr. A.O. Grillo Director, Licensing and Records.
2. Mr. Ogunsanya Director, Project and Planning
3. Mr. G. Mudasiru Director, Accounts
4. Mr. Lawal Director, Dealers
5. Mrs. Kasali Head, Corporate Affairs
6. Mrs. Adeleye Finance and Admin. Department

MVAA was established in 2007 to, among other things:
- Administer and issue Vehicle registration licenses.
- Initiate Drivers’ license issuing process.

It has 46 station offices.
The vehicle registration process is automated through a Consultant, CourtVille Business Solution; however the law requires that vehicle owners need to take their vehicles for physical inspection at registration offices.

MVAA generates revenue from:
- Plate number sales
- Administrative charges

The revenue is being captured by ABC from collecting banks.
MVAA has a record of 2.5 million vehicles.
Fines from traffic offenses are managed by another Agency – Lagos State Transport Management Authority (LASMA).

Date: November 1, 2012

Met with:
Mr. Bicci Alli Deputy Director, Personal Income Tax
Ms Damilola Ayeni

LIRS was legally granted autonomy in 2006 however it was fully operational in 2008. The first State in Nigeria to achieve this.
To give effect to the autonomy, it started with restructuring with the employment of better qualified staff and capacity building.
Staff strength increase from 800 to 3,000.
The restructuring also led to the reduction of the Directorates from 8 to 5.
There was facilities improvement in all the offices.
There are 36 tax stations and 40 mini markets.
LIRS has also undertaken massive tax payers’ education and enlightenment campaigns.
The Audit Directorate is charged, among other functions, with gathering information on tax payers for assessment purposes.

The system has shifted the power of assessment discretion from tax officers to tax payers through self-assessment.

There are Mini Markets units designed to bring the informal sector to the tax net.

ABC generates reports for LIRS from its data base.

**Office of SA, Taxation and Revenue**

Met with: Bola Shodipo SA, Taxation and Revenue

- The major role of the Office is to ensure optimal revenue generation with good governance.
- The SA wanted a clarification between the tasks of SPARC and GEMS. This was clearly explained by the Team Lead.
- The office is expected to set the vision for the government regarding Taxation and Revenue and initiate policies to drive the vision.
- Being the revenue supervising office, oversees the activities of all revenue generating MDAs.

Date: November 5, 2012

**Ministry of Physical Planning and Urban Development**

Met with:
1. Mr. Abel Adegboye Director, Development Matters
2. Mrs. Animasaun Deputy Director

- The Ministry mainly performs social functions in the areas of attending to petitions and public complaints, urban renewal, resettlement programs and site selection for government projects.
- It however generates revenue through fees, collected on its behalf by AB Consulting through the banks, from the following:
  - Building Plan approvals,
  - Preparation of layout,
  - Granting development permits,
  - Registration of owners and operators of masts, towers, etc.
- Fees and charges are manually generated.
- Fees and charges collection is automated through direct payment to the bank after which the data is transmitted to AB Consulting.
- Revenue budgets are purely determined based on historical performance.

Date: November 6, 2012

Met with Mr. Bicci Alli Deputy Director, Personal Income Tax
LIRS has 5 Directors, 4 Deputy Directors and 4 Assistant Directors.

Heads of Departments work with the Secretary to the Board on Policy Issues.

There is a committee set up to design the Agency’s Standard Operation Manual.

The Agency has an IT unit that developed the software that is being used.

Enforcement by the Distain Unit and Tax Audit are centrally carried out.

Distain is presently carried out on the order of a High Court as against the erstwhile system where the Chairman issued Distain orders.

WHT, collected on Fees/Commissions, Dividends, Royalty, Interest, Contract and Rentals are paid to the banks and thereafter captured by ABC.

No WHT is collected on house rents paid by individuals.

ABC has a global Contract with Lagos State government and not with LIRS.

ABC controls the e-TCC system/platform.

Request for information and data from ABC is through the Director overseeing the functional area that the information belongs to.

LIRS and LRC are working together to share information on property in the State.

The self-employed are assessed through:

- Self-assessment – tax payer pays directly to the bank after the self-assessment without any interface with the tax officer.
- Direct assessment – tax payer goes to a tax station and is guided and assessed by a tax officer. The tax is paid to the bank by the tax payer.

Since 2008, when the autonomy took effect, LIRS has been employing graduates and other qualified personnel.

The Agency encourages its staff to take professional tax examinations conducted by Chartered Institute of Taxation of Nigeria (CITN) by paying their registration and examination fees.

LIRS has a training school.

**Actionable points**

1. Mr. Alli to provide statistics on volume of Distain to date.
2. Mr. Alli to set up meetings between the Consultants and:
   - Director of Personal Income Tax (PIT)
   - Director of Tax Audit
   - Director of Finance and Administration
3. Mr. Alli to provide statistics of revenue collections by MDAs’ revenue heads.
4. Mr. Alli to obtain Training plan from the Training Unit for the Consultants.

Date: November 7, 2012

Met with:

1. Mr. F.J. Alli Director, PIT
2. Mr. Aragbada Babatunde Revenue Manager, PIT

- LIRS has 36 Tax Stations headed by Station Managers mandated to ensure tax compliance by residents of the region covered by the Station.
The Station Manager submits weekly reports from data on ABC’s database which can be assessed directly by the Station Manager through the use of passwords.

- LIRS distributes its global revenue target among the Stations according to the economic capacity and potential of the region covered by each Station.
- Companies in the PAYE system are expected to make monthly remittances of their employees’ tax and submit an Annual Return not later than January 31<sup>st</sup> of the succeeding year.
- Self-employed individuals are expected to pay their taxes not later than 90 days into the succeeding year i.e. March 31<sup>st</sup>.
- Tax assessment for the self-employed is through self-assessment or direct assessment.
- Copies of assessment forms were made available to the Consultants.
- Self-assessment data are reviewed for compliance.
- There is an Intelligence Unit at the Head Office and every tax Station to gather information, from government sources or physical checks, on tax payers and residents of the region.
- The Intelligence Units concentrate more on High Networth individuals with more than one source of income.
- When deemed necessary a Station Manager can generate BOJ for the approval of Director, PIT through the Station’s Regional Manager.
- Spot checks and yearly Audits of companies are carried out on PAYE.
- LIRS has an internal electronic data base with software developed by staff. The data base has information on companies and individuals.
- There is a recognized gap between the tax base in the data base and the actual tax paying population.
- Hotel Occupancy tax is not yet being audited because it is new and LIRS is desirous of putting an enduring structure and strategy in place.
- There are Judiciary Units in all High Courts and Magistrate Courts to ensure that people standing as sureties are tax compliant.
  - LIRS has generated N160 million through this process since it was put in place in 2009.
- The Management is putting in place training and mentoring programs, especially for station managers, to ensure sustainability and continuity.
- Training, local and overseas, is taken very serious by management.