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ON
POLICY
BRIEF

ASSESSING THE IMPACT OF TAX

ON YOUTH RESPONSIVE PUBLIC SERVICE DELIVERY
AND DEVELOPMENT IN NIGERIA

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ActionAid Nigeria,
Plot 477, 41 Crescent,
Off Sa'adu Zungur Avenue
Gwarinpa, Abuja

P.M.B. 1890, Garki, Abuja, Nigeria.
Info.nigeria@actionaid.org
www.nigeria.actionaid.org
Phone: +234(0) 812 8888 825-7

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This policy Brief was developed based on ActionAid Nigeria commitment to improving tax literacy among young population of Nigerian which is an important objective in taxpayer education programmes and how to hold government accountable for taxpayers' fund entrusted to government for the provision of public services. The intention is to improve capacity in young Nigerians to enable them to influence the systems and structures of taxation for the purpose of making it more productive, thus, contributing to the peculiar needs of the young people. Kudos to the Consultant and all ActionAid Nigeria staff who worked diligently to publish this policy brief and to the donor.

Tasallah Chibok
Director of Programmes
ActionAid Nigeria



Introduction

There has been a world-wide, concerted effort of Civil Society Organizations and NGOs to address perceived low level of youth responsive public service delivery and development in developing countries and most especially in many African countries where youth unemployment and poverty rate are high. Worse still, there has been limited engagement of youth in influencing tax policies and practices as well as budgetary process and implementation. This has mainly been attributed to the fact that tax has often been thought of as a rather complex issue best left to the policy makers and tax experts¹. There has also been a limited appreciation of the role of tax as a tool for addressing development challenges such as inequality and poverty among the population of youths in Nigeria.

¹ <https://www.seatiniuganda.org/publications/policy-briefs/file>

The estimated Nigeria's population was 200,963,599 million people at midyear of 2019² and more than half of the population are people below 29 years of age³. Thus, the age bracket of a youth in Nigeria as contained in 2019 National Youth Policy document is from 15 – 29 years.

Thus, given this statistics, youths are bedevilled with various challenges ranging from; social and economic which have greatly affected their quality of life. Despite the fact that government has had series of interventions, some of the challenges have persisted⁴ because limited attention has been paid to the role of tax revenue mobilization as a tool that can be used to address these challenges. The absence of active youth engagement in the tax policy and tax revenue mobilization at the three tiers of government has weakened the ability of the youths to hold government accountable for taxpayers' fund and this has created a vacuum that breed grand corruption with its multiplier effect of poor youth responsive public service delivery.

Majority of the youths, who own businesses in the informal sector suffer some setbacks due to inadequate government support system such as power supply, good road network system and security of their lives and properties. In fact, epileptic power supply has made doing business very expensive for this category of Nigerian population, making them poorer and this has retarded their innovative ideas. The inadequate government support system is largely because of illicit financial flows (IFF), thus limiting tax revenue base and public expenditure on social amenities that have direct bearing on SMEs, making the youth worse off.

That is why we are undertaking this engagement and putting the policy brief together to improve tax literacy in young population of Nigerians which features as a prominent important objective in taxpayer education programmes and how to hold government accountable for taxpayers' fund entrusted to them for the provision of public services. The intention is to improve capacity building in young Nigerians to able them influence taxation in such a way that it is responsive to their needs.

² data.un.org.

³<https://www.worldometers.info/world-population/Nigeria-population>: Elaboration of data by United Nations, Department of Economic and Social Affairs, Population Division. World Population Prospects: The 2019 Revision.

⁴ <https://www.brookings.edu/blog/africa-in-focus/2014/09/23/youth->.



Tax and Youth Development in Nigeria

Over the years in Nigeria, the quality of youth responsive public service delivery has been on a downward spiral due to limited investment in these services. The misappropriation of tax revenue and funds meant for educational services, healthcare services, or social assistance benefits that have direct impact on youth population by the three tiers of government have also been a major challenge. The impact is reflected in the abysmal socio-economic indicators for your young people in the country including high rate of unemployment, falling standard of education, poor health service delivery, the lack of an enabling environment to drive the active involvement of young people in the economy among others. Taxation remains the most sustainable means of funding development and provides the bases to drive active citizenship where tax policies must serve the greater interest of the population especially young people who are at the receiving end of poverty and inequality.

Revenue Leakages and Financing for Development

Illicit Financial Flows (IFF) in the form of outright tax evasion, profit shifting, mis-invoicing and trade mispricing by multinational corporations as well as deliberate policies of incentives and exemptions have technically deprived the country of the need resources and capacity to realize its national development objectives and the Sustainable Development Goals (SDGs) of no poverty, zero hunger, good healthcare system, quality education, clean water and sanitation, affordable energy etc⁵ which have direct bearing on youth development and the potential to contribute to national development.

Taxation and Youth Responsive Public Service Delivery

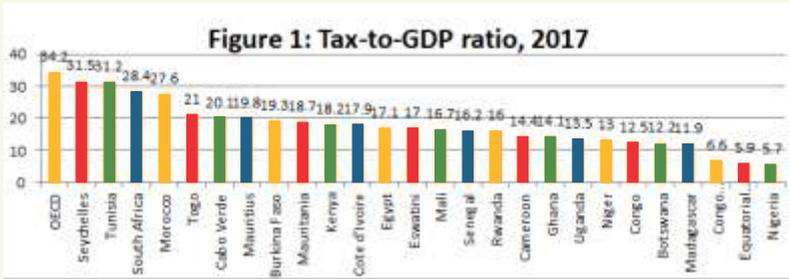
The tax to GDP ratio in Nigeria is abysmally low⁶. Since 2010, the highest tax-to-GDP ratio in Nigeria was 9.6% in 2011, with the lowest being 5.3% in 2016. The tax-to-GDP ratio in Nigeria increased by 0.4 percentage points from 5.3% in 2016 to 5.7% in 2017⁷. It is far less impressive if compared to other Africa countries with or without the same socioeconomic parameters where the ratio could be as high as 31.5 per cent⁸.

⁵ <https://www.un.org/development/desa/disabilities/envision2030.html>

⁶ www.oecd.org/tax/tax-policy/revenue-statistics-africa-nigeria

⁷ <https://www.oecd.org/tax/tax-policy/revenue-statistics-africa-nigeria.pdf>

⁸ Nigeria-2019: Why is it struggling to meet its tax targets? - BBC News: > news > world-africa-49566927



As shown in the figure above, Nigeria's tax-to-GDP Ratio in 2017 (5.7%) was lower than the average of the 26 African countries in Revenue Statistics in Africa (17.2%) by 11.5 percentage points.

Until now, most tax reform has focused overwhelmingly on increasing public revenue in an economically efficient manner. Yet, there is a compelling case for linking revenue enhancement much more explicitly to broader governance objectives. The 2008 Doha Declaration on Financing for Development called for tax reform "to make tax systems more pro-poor"⁹. While this was a specific reference to the importance of redistributive tax structures, it was also an acknowledgement of the need to focus on linking increased public revenue mobilizations to improved public expenditure on poverty reduction programmes. Increased domestic tax revenue generation will lead to improved development outcomes if it is translated into productive public expenditure with the multiplier effect of quality public service delivery to the citizens¹⁰.

Taxation, The Economy and Young People

Due to inadequate paid employment in the country, majority of the youth population engage in Small and Medium Scale Enterprises and this informal sector face multiple levies and direct assessment from both State and Local governments' revenue authorities. Multiple taxes encountered by SMEs are disincentive to business innovation¹¹ by young people and this has contributed to the rising youth unemployment in the country. This is instructive as the research undertaken by ActionAid shows that 89.6 percent of respondents were of the opinion that the Nigerian tax system is unfair in the area of multiple taxes and responsiveness to the needs of SMEs while 78 percent of the respondents admit that low business tax rates will bring out increase in businesses with a multiplier effect of reduction in unemployment and poverty among the youths in Nigeria.

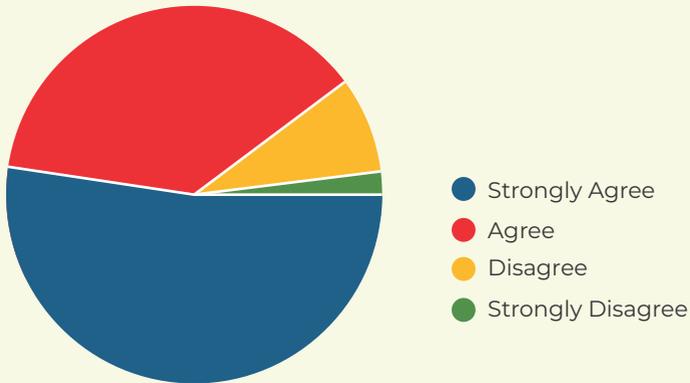
⁹ The Doha Declaration on Financing for Development, 2008, www.un.org/News/Press/docs/2008/08/0809_doha.html

¹⁰ Heredia-Band B R Schneider (2008), "The Political Economy of Administrative Reform in Developing Countries: Building State Capacity" in B Heredia-Band B R Schneider (ed) Reinventing Leviathan: The Politics of Administrative Reform in Developing Countries: University of Miami Press: Miami

¹¹ Abiola (2012), Multiplicity of Taxes in Nigeria: Issues, Problems and Solutions International Journal of Business and Social Science, Vol. 3 No. 17; September 2012. www.ijbssnet.com/Journals/Vol_3_No_17_September_2012

Do you think the tax system is unfair and needs reforms?

48 responses



The Finance Act, 2019 introduces changes to various tax regimes in Nigeria; generally, it aimed to favour of taxpayers, SMEs and alleviate the suffering of the youths in business. But the implementation has increased the tax burden, for instance, Stamp Duty on bank deposit is a regressive tax as low-income youth pay a higher amount of taxes compared to high-income earners, in percentage term.

Indeed, on a more general level, any efforts to reform Nigeria's tax system, if they are to lead to sustainable long-term benefits, should include establishing an institution with staff trained in the techniques of modern Fiscal Analysis Unit (FAU) and equipped with the necessary tools for putting those techniques to practical use. The role of an FAU in tax policy analysis can be critical to both supporting sound tax policies and exposing the deficiencies in flawed tax reform proposals, this help to boost tax revenue and public expenditure on youth responsive public service delivery.

Taxation and Social Safety for Young People

The security and welfare of the people is declared as the primary purpose of Government in Chapter II of the Constitution of the Federal Republic of Nigeria, 1999¹². It is therefore, a constitutional responsibility of government. Globally, social security arrangements are collective remedies against adversity and deficiencies, ranging from unemployment allowance, youth disability compensations, death benefits etc¹³.

Nigeria has over these recent years tried various social security that are youth responsive as:

- Subsidy Reinvestment and Empowerment Programme (SURE-P),
- Youth Enterprise with Innovation in Nigeria (You-Win),
- N-power a Social Intervention programme.

The Implementation of Social Intervention Programme and specific Health / Education projects drive over the last five years in Nigeria seem not to have the desired impact on youth empowerment, with increasing unemployment figures. Worse still, the lower tiers of government are not doing much at the grass root level in terms of youth social security intervention programmes, rather youths are being used for political violence given their gullibility. The key challenge is that the investment required to adequately cater to young people requiring social safety nets while transitioning to productive life are grossly inadequate and this is a function of the inability of the government to adequately link its social investment plans and resource mobilisation to the needs of vulnerable segments of the population including young people.

Taxation, Youth Inclusion and Active Citizenship

The challenges above are at the core of the agenda for better governance and accountability. International organizations, civil society and donors have become increasingly interested in the idea that youths can contribute to tax policy and tax revenue mobilization at all tiers of government, to improve the quality of youth responsive public service delivery by holding policy makers and providers of public service accountable. This proposition is particularly resonant when it comes to the human development sectors such as: health, education, and social protection which involve close interactions between providers and the youths who use these services¹⁴.

¹² Constitution of the Federal Republic of Nigeria 1999: > ConstitutionOfTheFederalRepublicOfNigeria

¹³ International Labor Organisation (2001). Social security: Issues, challenges and prospects 89th Session Geneva, June 2001: > public > english > standards > relm > ilc > ilc89 > rep-vi

¹⁴ World Bank (2012). Citizens and Service Delivery Assessing the Use of Social Accountability Approaches in the Human Development Sectors.

Effective youth participation in tax policy process is about creating opportunities for the youth to be actively engaged in designing, shaping, and influencing development policy and implementation processes. In Nigeria, the youth have not been engaged fully in influencing tax policies and processes at the three tiers of government. The Government of Nigeria has in place legal and institutional frameworks to ensure participation and involvement of the youth in decision making for national development, but in practical term, the youth are not given the opportunity to do so.

The Constitution of the Republic of Nigeria, 1999 provides for representation of the youth in the national parliament. 'Not Too Young to Rule law' (NTYTR) passed on 31st May 2017 is part of constitutional provision for youth participation and engagement in decision making. This should ordinarily translate to youth responsive public policy making. However, while the legal barrier has been taken care of by the NTYTR law, the encumbrances that undermine youth participation in electoral democracy including money driven politics, generational politics, violence amongst others still very much constitute barriers to youth inclusion . All these dampen the youth moral to run for political offices, where they can contribute more into policies to improving youth responsive public service.

However, it is important to also note that even when opportunities present themselves for young people to contribute to public policy making including tax reforms, there is a lack of knowledge on taxation that allows for informed engagement while the consciousness and understanding of taxation from the prism of a social contract is largely lacking.

Over the last decade, on the back of the Mbeki Panel on IFFs, there is a growing tax justice movement advocating for transparent and equitable tax system in the world, young people's voice in these spaces are gaining momentum but more needs to be done in actively linking youth development and taxation and provide a narrative that drives youth engagement for tax justice.

Proposals for Action

- The eradication of poverty is premised on the ability of the state to meet the needs of its citizens. Government should ensure that young people are provided the needed social services that allows them to build the necessary skill, access opportunities for growth and development to live a fulfilled and dignified life and contribute to national development. Tax must be made to work for young people. In the light of overwhelming gap in youth responsive social services, tax for services initiatives such as the Education Tax Fund should be deployed more effectively and in an accountable manner for accelerated youth development.

- The budget process presents an opportunity to aggregate the needs of young people and resource allocated accordingly. Inclusivity should be at the heart of the budgeting process and in the face of falling public revenue, inclusion would allow for better prioritisation and allocation to meet the most pressing needs of citizens especially for young people.
- The Nigerian government at all levels should open space for the youth to engage in tax processes at different levels on one hand while the tax authorities should initiate robust tax education programmes designed to educate Nigeria youths on taxation. Programmes that target young people in their spaces should be developed to suit their peculiarity. Example, students and undergraduates, youth entrepreneurs and businesses, informal traders, among others. This would provide the needed platform to actively engage tax reform conversation with the country's largest demography, help young people to appreciate taxation and its place in national development and become more receptive to paying taxes.
- Tax exemption and incentives should be structured and adequately legislated on to check discretion, arbitrariness, and abuse of the incentive's regime with the tax authorities adequately empowered and capacitated to forestall tax evasion and revenue leakages. Tax incentives can be used to drive youth development with cost benefit analysis undertaken before the granting of incentives to adequately capture its benefits to young people. Technology transfer and knowledge, employment among others can become key determinants of incentives to drive youth development.
- Young entrepreneurs and businesses have shown resilience and dexterity in the face of daunting business challenges, Government as a matter of urgency continue to push the boundaries of an enabling fiscal environment that promotes youth entrepreneurship and development. Incentives and rebates should be directed at youth led businesses to drive business innovation and creativity, employment creation, the growth of the local economy and its competitiveness in a global economic landscape. Review of the Finance Act, 2019 is particularly significant in the context of post COVID-19 economic revival considerations.
- Young people must continue to engage issues of transparency and accountability in the management of public resources. Through local groups working in solidarity with broad platforms young people have the capacity to hold leaders to account on their responsibility as

enshrined in Chapter 2 of the constitution. CSOs should build the consciousness of young people to understand taxation as a social contract between the government and the people, strengthen capacity for young people to advocate and participate in tax policy design, budgeting and demand investment in youth responsive public projects.

- Indeed, on a more general level, any efforts to reform Nigeria's tax system, if they are to lead to sustainable long-term benefits, the three tiers of government would be well advised to establish a well-staffed Fiscal Analysis Unit (FAU) which would have as one of its principal responsibilities: monitoring tax policy implementation and special provisions that deviate from standard tax treatments in order to determine their revenue consequences, this will boost tax to GDP ratio.
- Government should as a matter of urgency implement its commitments to the Open Governance Platforms (OGP) on matters related to public resources management including; Improving the fairness, transparency, efficiency and effectiveness of Nigeria tax and non-tax revenue systems through the adoption of common reporting standards and other key revenue initiatives (TADAT, Addis Tax initiative, Strategic Revenue Growth Initiative and Financial System Strategies 2020) and Publication of the government expenditure returns monthly in their websites and other platforms accessible to citizens, this approach will bring to the public domain the information on how the public resources are being expended on our behalf.



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Abuja
ActionAid Nigeria
Plot 477, 41 Crescent,
off Sa'adu Zungur Avenue
Tel: +234 (0) 812 888 8825-7
info.nigeria@actionaid.org
www.actionaid.org/nigeria



Lagos
1A, Adeboye Solanke Street
Off Allen Avenue (behind
Zenith Bank)
Ikeja, Lagos.
Tel: +234 9015720490



Borno Office
Old G.R.A. Beside
Lodge 7, Maiduguri.



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