Tax Tech Reg: Blockchain Technology Utilisation and Nigerian Tax Revenue Collection Optimisation Issues

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Introduction The Federal Government (FG) in a bid to transform the country's revenue uptake has instituted various tax reforms including the amendment of some extant tax laws through the ***Finance Act (FA), 2020.*** It has signalled its commitment to henceforth try to make Nigeria's tax laws keep pace with business by the recent introduction of the ***Finance Bill, 2021*** which promises more amendments***.*** The Federal Inland Revenue Service (FIRS) ₦8.5 trillion revenue target in 2020 is likely to be missed; as at October 2020, they had only collected ₦4.17 trillion. Even without the current Covid-19 pandemic and the resultant disruption in economic activities, it was doubtful that the revenue projection would have been achieved. Historic data from the FIRS bears this out :

Year	Revenue Target	Revenue Generated
2015	₦ 4.57 Trillion	₦ 3.74 Trillion
2016	₦ 4,20 Trillion	₦ 3.30 Trillion
2017	₦ 4.88 Trillion	₦ 4.02 Trillion

2018	₦ 6.74 Trillion	₦ 5.32 Trillion
2019	₦ 8.8 Trillion	₦ 5 Trillion

However, whilst the FIRS more often than not did not meet its targets, it recorded improvements in collection profiles. The foregoing has left the FIRS with no choice but to be at the forefront of strategic internal revenue mobilisation through erstwhile unutilised tax avenues such as more aggressive enforcement of stamp duties provisions and the collection of taxes on non-resident digital companies.

Given the optimality potential in digital technology, it is apposite to examine how the use of blockchain can improve revenue collection in Nigeria. This article will therefore show how compliance obligations and ultimately improvements in ease of payment of taxes (and ultimately an improvement in the global ease of doing business and ease of payment of tax rankings) could be achieved through the use of blockchain technology.

Blockchain and Efficient Tax Administration – Enforcing Compliance for Optimum Revenue Generation and Ease of Paying Taxes Blockchain technology is a secured system of decentralised peer-to-peer encrypted digital ledger which enables the compilation of transactions within its chain and could be used to streamline and automate indirect taxes. The introduction of e-filing system by the FIRS has reportedly witnessed a spike in compliance by companies whilst promoting the ease of paying taxes. However, it is important to ensure that the compliance burden placed on taxpayers is not onerous given their multiple tax obligations such as Stamp Duties, VAT, Hotel Occupancy and Restaurant Consumption Tax, Companies Income Tax, Personal Income Tax, withholding tax (WHT), Police Fund, Industrial Training Fund (ITF), Tertiary Education Trust (TET) Fund, sectoral levies like NITDA, Local Content Development, etc.

According to ***World Bank Paying Taxes 2020 Report***, Nigeria was ranked 159/190 with 48 different types of payment and 343 compliance hours per year compared with Bahrain which was ranked 1/190 with only 3 types of payment and 23 compliance hours. It is therefore important to ask the question; *will the* *introduction of new taxes in Nigeria lead to increased revenue yield or efficiency in tax administration by reducing compliance time and widening existing tax net?*

Understandably, the FIRS has adopted the later by intent to widen the tax net through heightened stamp duties compliance enforcement amongst others. However, the ultimate question in increasing the country's revenue projection is: *how can efficiency in tax administration be guaranteed through ease of compliance obligation?*

The inclusion of non-resident digital companies in tax compliance obligations ***(new section 13(2)(c) CITA vide section 4(a) (ii) FA 2020***) has further increased the administrative responsibilities of the FIRS to ensure that the right amount of taxes are collected from these entities in line with extant tax laws. There is therefore the need to monitor transactions especially those conducted over digital channels such as in the digitalised economy given its sheer size and potential revenue yield for the FG.

With an evolving digital trend, blockchain driven by smart contracts given its ability to automate calculations and increase transparency and accuracy of transaction data has the potential to drastically change Nigeria's tax landscape as taxpayers' direct transaction data will be monitored and appropriate tax liability paid without human interference. This will also portend ease of tax compliance from taxpayers' perspective as all necessary deductions would be automated into the blockchain ledger.

By introducing blockchain technology into Nigerian tax administration, the verification of transaction data, validation of data, submission of returns and processing of tax filings and payment will be streamlined. More so, for taxes such as Stamp Duties, VAT/Sales Tax, payment will be deducted directly from the parties liable to make payment through the secured blockchain payment platform. This will eventually lead to a reduction in the volume of paper-based submissions in cases of large volume transactions.

For instance, where Company A intends to transact with Company B, the transaction is routed through the FIRS's blockchain platform using smart contracts which guarantees security of parties' data. Upon finalisation of the contract, the invoice is automatically divided into VAT and non-VAT amount (where the transaction involve VATable goods or services). Once payment is made to the vendor, the appropriate tax liability (i.e. VAT) is directly paid to the FIRS whilst the non-VAT amount is paid to the vendor. By so doing, the FIRS captures all applicable transaction data at the point the transaction is concluded thereby reducing or eliminating the need for a paper trail tax audit and subsequent tax disputes after the fact of the transaction.

Legal and other Considerations for Implementation It is noteworthy that the FIRS is not restricted from introducing any technology for the purpose of tax administration. In fact, it is within its competence to outsource its responsibilities such as information gathering, analysis, etc. other than assessment, collection or routine responsibilities of tax officials to appointed consultants or agents: ***Section 12(4) FIRS (Establishment) Act***. The FIRS has initiated numerous initiatives to drive tax compliance across board with the introduction of e-filing and digital stamp for Stamp Duties payment, simplification of tax compliance forms, issuance of Tax Identification Number (TIN) to businesses at the point of incorporation/registration and regular community engagement with business leaders amongst others.

Sometime ago, the Lagos State Internal Revenue Service (LIRS) had introduced Electronic Fiscal Devices (EFD) for the purpose of monitoring consumption tax compliance at the point of sale to customers in hotels and restaurants in Lagos. The move was challenged by restaurants and hotel operators in Lagos State over privacy and security of data concerns, amongst others. The Federal High Court (FHC) in ***Registered Trustees of Hotel Owners and Managers Association of Lagos v. A.G Lagos and FIRS [2019] 47 TLRN 1*** was approached on the legality of Lagos State enactment of the ***Hotel Occupancy and Restaurant Consumption Law (HORCL)*** the enabling law for the ***Lagos State Hotel Occupancy and Restaurant Consumption (Fiscalisation) Regulations 2017*** which introduced the use of EFDs in the collection of sales tax by hotels and restaurants in the state. The FHC upheld the Lagos State ***HORCL*** (taking into cognisance the provisions of ***section 4(7) Constitution of the Federal Republic of Nigeria 1999 (as amended)***, ***Taxes and Levies (Approved List of Collection) Act*** and ***Tax and Levies (Approved***

List of Collection) Act (Amendment) Order 2015) and invariably, the regulations made pursuant to it.

However, another recent decision of the FHC in ***Registered Trustees of Hotel Owners and Managers Association of Lagos v. A.G Federation & Minister of Finance (2020) 52 TLRN 1*** has thrown a spin in the validity of the ***HORCL.*** The FHC invalidated the ***Tax and Levies (Approved List of Collection) Act (Amendment) Order 2015*** made by the Minister of Finance on the grounds that same is inconsistent with ***section 4 Constitution of the Federal Republic of Nigeria 1999 (as amended).***

To assuage users/taxpayers of the necessity to implement these policies to ameliorate tax compliance burden on taxpayers, reliance could be placed on the ***Nigerian Data Protection Regulations (NDPR), 2019*** and ***the Guideline for Management of Personal Data by Public Institutions in Nigeria (GMPDPI), 2020*** issued by the National Information Technology Development Agency (NITDA). Accordingly, ***Guideline 2.1 (a) GMPDPI*** imposes an obligation on all public institutions (including the FIRS) to protect the personal data in any incidence of processing of such data. More so, these public institutions must ensure that the data being processed are secured from unauthorised access and fulfilment of security certifications; ***Guideline 2.6 GMPDPI.***

Taking the 'Efficiency Lead': Cross Jurisdictional Initiatives An efficient tax administration bolsters investment attractiveness and ease of payment of taxes whilst also reducing the tax burden on taxpayers. Many countries are taking the lead to digitalise their tax payment and improve their revenue yield through similar technology. For instance, countries such as Portugal, Poland, Hungary, Norway, Lithuania, Luxembourg and Austria have introduced the Standard Audit File for Tax (SAF-T) which is aimed at facilitating the efficient and steady interchange of tax information between businesses and international tax authorities. The SAF-T allows Revenue to have real-time transactions data in line with their reporting requirements and timeframes whilst also ensuring collection of indirect and direct taxes.

The use of technology in tax administration is becoming increasingly prevalent given the need to plug the gap in global budget deficits and increasing level of digital transactions with little or no Revenue's physical interference in the tax collection process. **Conclusion** Increasing Nigeria's public revenue profile through incisive implementation of existing tax laws is germane to funding the country's deficit budget. More so, with increasing ease of payment of taxes, taxpayers will be relieved of the excessive burden associated with fulfilling their civic obligation and are more likely to contribute their fair share of taxes to the nation's coffers. Implementation of new technology such as blockchain in domestic revenue mobilisation will afford the FIRS (and State IRS) the opportunity to meet their revenue targets. The successes recorded with FIRS (and LIRS for example)'s e-filing initiative whilst also reducing the tax burden of taxpayers; a win-win situation for both tax stakeholder parties offers encouraging signals. However, there must be investment in FIRS' and SIRS' digital infrastructure and increased level of inter-agency collaboration to facilitate more significant improvements in ease of paying taxes.

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