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Tax Administration and Stability in Developing Countries Economy

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Abstract: *Tax administration in Developing Countries is of paramount important in the stability of countries economy. Fundamentally however, it is a compulsory levy on income since the decision to pay tax is not that of the tax payers but compulsory levy by government on the properties and income of individual and corporation. This study is based on a two phased approach: First Phase: Desk Research, questionnaires and interviews (from a distance). The first phase was based on a desk review. During this phase, existing programmes in thirteen developing countries were in scope. The overview drafted is based on background information, mostly already available in the public domain. As a follow up, primary source information was obtained from people close to the automation experience of each country. Worldwide, tax administrations can be responsible for both domestic taxes and for customs related taxes/duties. The scope of this study is limited to the area of domestic taxes. Therefore, one of the criteria for selecting a provider, was that its product should support the area of domestic taxes. Where the term tax administration is used in this study, it also refers to a tax authority, a tax agency or a tax department. Second Phase: Field Assessment After evaluation of the outcomes of the first phase, four countries were selected to gather additional documentation and to have interviews with the main stakeholders: taxpayers/representatives, suppliers, and staff at different levels of the executing entity, other involved government institutions and donors. These activities were not exhaustive, but were designed to provide an overview of the overall experiences with the most relevant systems across the world and to provide recommendations for future support. Selection of the four countries was based on geographical location and country type distinction (Middle Income Country (MIC), Lower Income Country (LIC), fragile/post conflict). Recommendations to manage the impact of an ICT-solution on a tax administration. Every level in the tax administration should be involved in the tax administration. Ownership needs to be created at all levels within the beneficiary administration. A communication strategy needs to be developed for tax administration employees and for all other stakeholders.*

Keywords: *Tax Administration, Developing Countries.*

INTRODUCTION

Government all over the world needs tax to fund and control their economic activities and one of source of revenue is taxation. Taxation can be variously defined. Fundamentally however, it is a compulsory levy on income since the decision to pay tax is not that of the tax payers. According to Amaechina (2018), “taxation has been defined as a levy which a government imposes on the income of the citizens or corporation in a state for which the government gives no direct benefit to the taxpayer" or "a non- punitive but yet a compulsory levy by government on the properties and income of individual and corporation". The government cannot build a school or a hospital personally for somebody because he has paid his taxes, but the money realized is used to finance general government expenditures. The existence of taxation in Nigeria is linked with the era of the colonial master in the early 20th century. The introduction becomes necessary as a result of the tasks facing the government. In Nigeria, tax system has undergone significant changes in recent times. The tax laws are being reviewed with the aim of repelling of obsolete provision and simplifying the main ones. Under current Nigeria law, taxation is enforced by the tiers of government that is local, state and federal government. The tasks have to do with how government can control its economic activities and how government can achieve the desired level of price inflation and deflation and how to control supply of money.

Background Taxes were already levied in the various empires that existed before the creation of Nigeria. This was especially true in the cases of centralised empires such as the northern Emirates, and the kingdoms of the western and mid-western regions of the area that eventually became Nigeria. However, the era of colonialism marked a new dimension in taxation for these kingdoms. Not only were these taxes now being paid to a foreign government, the practice was extended into territories where it was hitherto unknown. Furthermore, the era of colonialism witnessed a change in the style and manner of tax administration.

A Comprehensive Tax History of Nigeria derived legislative authority from colonial enactments. Thus the first colonial income tax was introduced in Northern Nigeria in 1906 by virtue of the Native Revenue Proclamation No. 2 1906. This was later extended to the western and eastern territories through the Native Revenue Ordinances in 1918 and 1927 respectively. Several other legislations were subsequently passed by the colonial government to administer and regulate various types and aspects of taxation before Nigeria finally acquired independence in 1960.

Objectives of the Study

The broad objective of this study is to critically examine the tax administration and stability in developing countries.

1. To examine the reasons for taxation as an instrument of money control and its effects on government and its citizens, and on economic development of Nigeria.
2. Ascertain the effect of Information Technology in Tax Administration in Developing Countries as an efficient and effective revenue collection as a key driver for financing development.

LITERATURE REVIEW

Taxation and Tax History in Nigeria

A tax is a mandatory financial charge or some other type of levy imposed upon a taxpayer by a governmental organization in order to fund various public expenditures. A failure to pay, or evasion of or resistance to taxation, is punishable by law. A means by which governments finance their expenditure by imposing charges on citizens and corporate entities. Governments use taxation to encourage or discourage certain economic decisions. For example, reduction in taxable personal (or household) income by the amount paid as interest on home mortgage loans results in greater construction activity, and generates more jobs. T*axation* refers to the practice of a government collecting money from its citizens to pay for public services. Without *taxation*, there would be no public libraries or parks. In this case government has to meet the desired standard of living and cost of living of the citizens and adopt a suitable level of economy to boast investors and improve natural output.

Taxation is the practice of collecting taxes (money) from citizens based on their earnings and property. The money raised from taxation supports the government and allows it to fund police and courts, have a military, build and maintain roads, along with many other services. Taxation is the price of being a citizen, though politicians and citizens often argue about how much taxation is too little or too much. Taxation is the imposition of taxes; the practice of the government in levying taxes on the subjects of a state. Taxation is the charge against a citizen's person or property or activity for the support of government.

Every nation or government depends on taxes for its survival. Without taxes, there is no way a government can operate unless of course it borrows or charges its citizens outrageous fees for the services it renders them. With taxes government provides amenities and infrastructure for the improvement of its subjects. It is also through taxation that it funds governance for a stable polity. One of the cardinal factors in estimating the effectiveness of a government is its ability to collect taxes. Before the ongoing reforms in the sector, Nigeria's tax environment was characterized by poor assessment and collection, multiple taxation, misappropriation of tax revenue and general inefficiency. In relative terms the rich Nigerians pay far less tax in comparison with the poorer counterparts.

Nigeria cannot run and develop without taxes. Therefore, from the early stages of Nigerian tribes' existence, there were taxes. There are even countries who pay taxes to their citizens. For instance, Macau (Chinese Las-Vegas) pays about $1127 to its residents annually. There was no formal tax policy in Nigeria until the 1930s. Only traditional rulers had the authority to collect taxes and use them as they wanted. These rulers managed to create their own system of taxes. However, none of them managed to survive long enough to be printed in books of history.

History and Development of Taxation before the Colonization period in Nigeria

The tax system was traced to the Northern parts of the country. The Emirs created a system of taxes throughout the north. The basis for the taxation was the Islamic Religion. The Southern part of the country was not as organized as the North. Therefore, the South did not have the centralized system of taxation. According to the historical data, the parts of Nigeria that were under the Islam taxation had several forms of taxes: - Zakat – it is an obligatory tax presented by all representatives of the Islamic religion. It was gathered for educational, religious and spiritual purposes.

Looking at the history of taxation in Nigeria, the beginning of the colonization period was connected with various trading posts and companies in the West Africa. The British Empire tried to fight for economic dominance in the region. The British Empire eventually secured Nigeria and started to implement its own taxes. The formal British administration in Nigeria began in 1861. In that time, Lagos was named the crown colony of the region. Even with the formal administration, taxation was not centralized. Lord Lugard was a British colonial administrator in Nigeria. He tried to harmonize and centralize the tax system in Nigeria. As a result, he implemented the Stamp Duties Proclamation in 1903. This proclamation was followed by the Native Revenue Proclamation in 1906. The Native Revenue Proclamation was created to harmonize the taxes. It created the four core principles of payment. Therefore, when a person wanted to pay taxes, he/she could just follow these questions: - What to pay? - Whom to pay? - Where to pay? - When to pay? This procedure simplified and clarified the taxation policy in Nigeria. These two proclamations became the first in the sequence of the taxation policies in Nigeria.

The present form of Nigeria taxation can be traced back to 1914. During that year, the Northern and Southern Directorate implemented the basics of taxation in Nigeria. In addition, it helped to start the sequence of tax ordinances in Nigeria. Raisman Commission introduced the standardized tax principles. The recommendations from the Commission were later accepted and adopted by the National Government. These recommendations became the part of the Nigeria`s Constitution. The constitution gave birth to the Income Management Act and Companies Income Tax Act in 1961. The following complexities in tax reforms created the sequence of tax laws. The latest representations of these tax laws are the Personal Income Tax Act 2004 and the Companies Income Tax Act 2004.

According to the Nigerian Laws, there are three legal bodies that can levy the taxes on Nigerians. - Federal Internal Revenue Service. They are responsible for Capital Gain Tax, Educational Tax, Value Added tax, Withholding tax, Companies Income Tax, Personal Income tax. - State Boards of Internal Revenue. This legal body is responsible for Road Taxes, individual capital gains, individual withdrawing. - Local Government Revenue Service. This legal body is responsible for collecting taxes on the local governments' level. The Federal Inland Revenue Service started as part of a colonial tax organization under the name Inland Revenue Department of Anglophone West Africa. The department's scope of administration covered Nigeria, Ghana, Sierra Leone and the Gambia. In 1943, the Nigerian Inland Revenue Department was carved out of the Inland Revenue Department of Anglophone West Africa and established as an autonomous body under the supervision of the Commissioner of Income Tax.

The Resident

In 1955, the Eastern Nigeria Local Government Law was passed to address the shortcomings identified in the implementation of the 1950 Ordinance. These shortcomings included, among other things, inadequacies associated with the assessment and collection of taxes. The new law essentially enhanced the powers of the Minister responsible for local government affairs as a check on the excesses and inadequacies of the councils. In 1956, the eastern region passed the Eastern Region Finance Law138 which superseded the Direct Taxation Ordinance, 1940, as it applied to the region. The new law handed over the primary responsibility for income tax assessment and collection to the government Department of Inland Revenue. This change was informed by the realisation that income tax was collected more efficiently on a regional rather than on a local level. During the first few years, councils were used as collecting agents until the department built up its own organisation and took over this function completely from the councils. In lieu of tax revenue, government paid block grants to the councils on population basis, ranging from four shillings and six pence per head of population in each rural council area to six shillings per head for the urban counties and municipal councils.

139 Local councils existed within the areas of authority of all rural county councils but not within either municipalities or urban county council areas. A point of difference between rural county councils on one hand and urban county and municipal councils on the other. The difference between municipal councils and county councils was that the former had mayors and deputy mayors while the latter had chairmen and in most cases presidents, in addition. With the exception of these differences, all county and municipal councils in Eastern Nigeria had practically the same powers and functions as those performed by local authorities in other parts of the federation.

The first semblance of local government was introduced in Lagos when, under the Public Health Ordinance No. 5 of 1899 a Central Board of Health was established, consisting of the principal medical officer (as president), the sanitary engineer (or whosoever was performing his duties), the health officer of Lagos and not more than four other persons appointed by the governor from time to time. Subject to the approval of the Governor-in-Council, the Board was empowered to make, alter or amend such regulations as might be required to implement the health ordinance provisions, which included sanitation of markets, management of cemeteries, control of animals, and prevention of overcrowding. The functions of the board included night soil disposal, licensing of vehicles and wheel tax, refuse disposal, building regulations, town planning and slaughter-house maintenance.

The rapid urbanisation of Lagos colony and the attendant sanitation concerns led to the metamorphosis of the Board into the Lagos Municipal Board of Health. This was achieved pursuant to the Lagos Municipal Board of Health Incorporation Ordinance 1909. Pursuant to the Ordinance, the Board was empowered to enter into contracts and gave the right of perpetual succession and the power to sue and to make bye-laws. It also extended its jurisdiction to include sales by auction, spirit and dog licenses, maintenance of licenses under the Township Ordinances, and licensing of vehicles, with all the fines and fees from prosecutions under these and the public health and certain other ordinances, being assigned to the board as revenue. The Township Ordinance was enacted with the main purpose of establishing the broad principles of municipal responsibility, graduated according to the importance of the community. The Lagos Town Council was set up as a first class township council with a president and vice-president and directed, among other things, to put into effect the provisions of various ordinances affecting the township and the rates, fines and fees accruing from such enforcement went to the council revenue. It was also empowered to make bye-laws.

The Council's main source of revenue was tenement rates which were introduced in 1915 under the Assessment Ordinance 1915 and assessment of property was made by the town engineer who was empowered as the 'appraiser'. Furthermore, the Council was empowered to levy an annual rate and this meant that the annual general rate could not be varied during the year once it was fixed at the beginning of the year. However, this changed pursuant to the 1941 Ordinance which empowered the Council to levy the rate half-yearly, thus also enabling it to vary the rate mid-year.

An independent rate assessment committee was established for the first time in 1948 to deal with objections under the 1915 Assessment Ordinance. The new committee was placed under the chairmanship of the commissioner of lands and an officer of the lands department was appointed as secretary. All objections were now sent to the committee which notified the town clerk of its decision for departmental action.

In 1952 Lagos Township was merged with the western region of Nigeria, only to be detached from the region again in 1954 and conferred with the status of federal territory and series of legislation were enacted in order to effect the practical changes arising from the constitutional change. In 1959 the Lagos Local Government (Amendment) Ordinance was passed. The law empowered the federal government to make regulations for ensuring, among other things, that the council maintained grant-earning services to meet laid down standards. The bases of government grant to the council were clearly set out percentages.

The functions and powers of the Lagos town council were substantially the same as those of the native authorities in the north and the respective councils in the east and west with the important distinction that unlike native authorities in the north and some councils in the west, Lagos town council did not maintain local government police and prisons.

Method of Assessment

In the colonial era, there were a variety of methods of assessment for tax purposes and they varied across the country. The basis characteristics of the methods of assessment were that they were not scientific. The reason for this cannot be far from the fact that there was a dearth of information on which the assessment could be based. Also, the literacy level militated against proper assessment. With reference to income tax of individuals, it is on record that there were seven major methods of assessment in Northern Nigeria. These included: (a) Locally-distributed income tax: This was the most general method, being applied to about 90 per cent of the population. This involved the imposition of tax on a community as a whole and the apportionment of the tax to the inhabitants according to their ability to pay. (b) Poll tax: This was a flat tax imposed on the inhabitants of a community where the difference in their income was negligible. (c) Tax on ascertainable incomes: this was imposed on civil servants and employees of native authorities and commercial firms who had ascertainable incomes. (d) Wealthy traders' tax: this was imposed on traders. It involved the charging to tax of the estimate of the income of the traders by the local assessment committee. (e) In mining areas where there was a large and, to some extent, shifting labour force, a tax of was payable. (f) Strangers' tax: This tax applied to non-Nigerians and Nigerians who were not of northern Nigerian origin by birth. It was based on the apparent wealth of the person concerned, and could be paid in areas where the locally distributed income tax or poll tax applied.

Moreover, not only must those in power make decisions on all these matters with an eye to economic sustainability large uncontrolled deficits are definitely out of style but they must also, of course, be concerned with their own political survival.

A recent IMF (2005) assessment set out a revenue-to-GDP ratio of 15-20 percent as a reasonable minimum "threshold" for developing countries. This may not seem to present much of a challenge. However, many countries fall below this cut-off point. In West Africa in 2003, for example, Guinea, The Gambia, Liberia, and Togo and the Democratic Republic of Congo (DRC) all had tax ratios below this threshold (IMF 2005a). In a recent review drawing on IMF and other data.

Fox and Gurley (2005) found that 44 out of 168 countries examined had tax ratios less than 15 percent in the 1990s, with 18 of those that failed the threshold test being in sub-Saharan Africa. UN Millennium Project (2005) has also set the tax bar high, suggesting that most developing countries should mobilize up to an additional 4 percent of GDP through domestic revenue mobilization efforts in the near future, presumably in a sustainable fashion. Of course, there is nothing new about setting such targets: Half a century ago, for example, Martin and Lewis (1956) aimed at a ratio of 17 to 19 percent, while Kaldor (1963) was even more ambitious, arguing that if a country wished to become 'developed' it needed to collect in taxes an amount closer to 25-30 percent of GDP. Unfortunately, then as now many developing countries have failed to meet such targets, no matter how often they are assured that such "expansion is not only necessary it is achievable through using broad-based revenue sources, such as a value added tax, and strengthening tax collection, (UN Millennium Project 2005, 245)." Even among the fast-growing countries of east and Southeast Asia, for example, only Korea managed to increase its tax take by the prescribed 4 percent of GDP over the last 15 years or so, while in a number of countries in Latin America and elsewhere the tax ratio actually declined over this period. Experience everywhere suggests further that the hope so often expressed that developing countries can and should achieve this goal largely simply through more vigorous collection efforts is particularly optimistic. There is more to understanding how countries may improve their tax effort than simple exhortation to try harder.

Many who have posed tax ratio targets have, like UN Millennium Project (2005) gone on tell developing countries how they should meet such targets. Earlier analysts, drawing largely on experience in developed countries during World War II, took it almost for granted that a highly progressive personal income tax (sometimes with marginal rates ranging up to 60 or 70 percent) buttressed by a substantial corporate income tax (often at 50 percent or so) constituted something close to an ideal tax system. Consumption taxes were grudgingly accepted as necessary for revenue purposes, but the feeling one gets from reading most documents of the period is that the sooner such levies were replaced by decent income taxes the better. No one talked about local taxes, since all the action was at the central government level. Nor did anyone worry much about the international context since tax policy was considered a domestic affair. Both revenue and redistribution goals, it was often argued, could be achieved largely by imposing high effective tax rates on income, essentially because the depressing effects of taxes on investment and saving were considered to be small.

Most economists and many policy-makers now think that high tax rates not only discourage and distort economic activity but are also ineffective in redistributing income and wealth. High direct tax rates are out of fashion: "lower rates on broader bases" has for some years been the common mantra of experts (World Bank 1991). In the more competitive international environment of recent decades, income tax rates on both persons and corporations have been sharply reduced. In Latin America, for example, the average tax rate on corporations fell from 41 percent in 1985 to 29 percent in 2003 and the top rate on personal income from 51 to 28 percent (Lora and Cardenas 2006). Over this period, collections from direct taxes in Latin America increased by only 5 percent (from 4.0 to 4.2 percent). Since trade taxes also declined, the tax share of GDP in the region would actually have declined had it not been for a substantial (70 percent) increase in VAT revenues. Reflecting indeed, to some extent leading world-wide trends, VAT has become the mainstay of the revenue system in Latin America owing both to rate increases the regional average VAT rate rose from 11 to 15 percent in the 1985-2003 period and to broader bases and improved administration. The combination of declining taxes on international trade as a result of import liberalization (and WTO adherence) and increased competition for foreign investment has motivated similar changes in tax structures in most countries around the world in recent years.

A major connecting link between the level of taxation and the structure of taxation is the breadth of the tax base, as emphasized in IMF (2005). Indeed, perhaps the only recommendation more frequent in reports on taxation in developing countries than base broadening is that to improve tax administration. As already noted, most experts are almost equally keen to lower tax rates although some policy-makers been reluctant to accept this recommendation (like the related recommendation often made by travelling economists to place even more emphasis on domestic consumption taxes, especially VAT) largely because such suggestions are seen by important segments of the public to be little more than code for "increase taxes on the poor." Nonetheless, almost regardless of political stance, the consensus of most fiscal experts these days is that the best ways for developing countries to respond to the tax challenges they face to expand their "fiscal space" on the revenue axis (IMF 2006). How should tax systems be structured to cope with these challenges? On the other hand, countries may, through clever design and better administration, be able to 'grow' their effective tax bases to at least some extent, say, by reducing the 'cost' of taxation or by influencing the way in which the economy evolves through, for example, encouraging and facilitating the expansion of the formal sector. First, as just mentioned, there may be economic gains from lowering the cost of taxation and an obvious way to do so is by reducing rates. Secondly, tax rates may have (or at least be thought to have) important effects on the distribution not only of income and wealth but also of economic and political power. Although in the end the state of debate on these issues in most countries turns more on subjective perceptions.

A common way to begin discussions of taxation in developing countries is by taking a look at what taxes exist around the world. One recent survey, for example, looked at data for some recent years for 168 countries, representing every region of the world (Fox and Gurley 2005). On average, the tax ratio taxes as a share of GDP was 18.8 percent for the 168 countries in the sample. Tax ratios ranged from well under 10 percent in a few countries, most of which are small and all of which are low income for example, Myanmar, Chad, Guatemala, and Central African Republic to well over 40 percent in a few high-income countries in Western Europe such as France and Sweden. However, some lower-income countries had high ratios such as Belarus, Ukraine, Algeria, and Sudan. Similarly, some higher-income countries, such as the United States, had considerably lower tax ratios than others, with Hong Kong being at the extreme. This global overview suggests that both opportunity and choice appear to affect tax levels. Countries with access to rich natural resource revenues, such as Venezuela and Azerbaijan, tend to have higher tax ratios than otherwise comparable countries, though such revenues may also be highly volatile, reflecting commodity price changes. Tax ratios in higher income countries appear to reflect more choice than chance. Some, such as Sweden and the Netherlands, have large and centralized governments and others, such as the United States and Switzerland, have smaller and more decentralized governments. Broadly, however, tax ratios vary by income levels as earlier studies (Tanzi 1987) found, taxes tend to rise as per capita incomes rise. The tax ratio rises from about 17 percent in the low-income group, to 22 percent in the medium-income group, and 27 percent in the high-income group.

Bird and Zolt (2005) state that many factors explained this relationship. The demand for public services may rise faster than income (that is, the income elasticity for public services is greater than one), particularly in lower-income countries. For example, urbanization tends to rise with income, the demand for public services is generally higher in urban areas, and it is usually easier to collect taxes in urbanized areas. More generally, the capacity of countries to collect taxes appears to rise as income levels increase although more detailed analysis suggests that the relationship between rising income levels and higher taxes is significant only for the poorest countries.

As Tridimas and Winer (2003) note, studies attempting to explain the behaviour of this variable essentially group the possible explanatory factors into 'demand' factors, 'supply' factors and albeit often more implicitly than explicitly 'political' factors that affect the way in which changes in demand and supply variables enter into and shape policy decisions.

Tridimas and Winer (2003) set out an interesting integrative model incorporating all groups of factors, but it has not as yet been applied in a developing country context. However, in a less ambitious recent paper, Bird, MartinezVazquez and Torgler (2006), first review ten previous empirical studies of the traditional supply-side ('tax handle') variables, and then make new estimates with broadly similar results: per capita GDP and the non-agricultural share of GDP are major factors explaining the size of public revenues in different countries.

Like Baunsgaard and Keen (2005), BMT (2006) find that openness is no longer as significant an explanatory factor as in most earlier studies, presumably as a result of the substantial trade liberalization of recent years. If this were the whole story, then from one perspective the situation seems hopeless. It is no great surprise that, say, the availability of as an oil sector is important in explaining how much a country raises in revenue. However, telling a country that wants to raise its tax to GDP ratio to find oil is not very helpful. Supply-side studies make the problem facing most developing countries look more like a dilemma than a challenge: (1) Poor countries tax less because they have less to tax. (2) But to develop their economy (and tax base) poor countries need to spend more on public infrastructure, education, and so on. (3) Therefore they need to tax more. One way out of this dilemma is obvious: one can argue (as did Kaldor 1963) that the real reason countries do not tax more not so much because nature makes it impossible but because it is not in the interest of those who dominate their political institutions to increase taxes even up to the extent 'nature' (and the world economy) permits.

BMT (2006) offer a somewhat more hopeful version of this story by constructing several new 'demand-side' variables (such as quality of governance, inequality, size of informal sector, and tax morale). While crude, their estimates suggest that to a significant extent tax levels reflect people's perception of the quality and responsiveness of the state. Kaldor (1963) was thus right in the important sense that countries that wish to tax more need to ensure their governing institutions facilitate the achievement of this goal. Enhancing the rule of law, reducing corruption and the shadow economy and improving tax morale are not simple or easy tasks. But perhaps progress along these lines may be more feasible in at least some developing countries than 'engineering' fiscal gains by altering the relative share of the non-agriculture sector in the economy or the weight of imports and exports in GDP.

Millennium Challenge target and increase its tax ratio by 4 percentage points to a (still low) 14 percent, it has to sustain increased revenue performance at least at the world average rate of 4% growth a year for nine years. To expand its revenue 'fiscal space' to the targets suggested in IMF (2005) would obviously take even longer. Over the years, it is obvious that many developing countries have had great difficulty in achieving even the much less ambitious target of simply financing their existing level of spending sustainably from domestic resources. Indeed, many countries have had one tax 'reform' after another, virtually always with the main aim of closing short-term revenue gaps. Unfortunately, policies enacted in such economically and politically difficult circumstances have often failed to resolve the underlying basic problem of inadequate revenue elasticity. Of course, not everyone may agree with the argument that a tax system that is more than proportionally responsive to growth (and inflation, although this aspect is not discussed further here) is an essential ingredient of sound tax strategy in an emerging economy. Ideas and interests may differ widely with respect to the appropriate size of government, the appropriate structure of expenditures, and the effects of taxation on growth.

Lora and Cardenas (2006) outline that economists overemphasize the costs of taxation and the importance of efficient resource allocation. But taxes do impose real costs, and developing countries where resources are by definition scarce should strive to keep such costs as low as possible in order to free resources for socially desired objectives. Of course, taxes are not themselves a cost but rather just a means of transferring resources from private to public use. Economic costs arise only when the resources available for society's use, whether for public or private purposes, are reduced by taxes. There are several ways taxes can reduce the size of the economic pot from which all must draw. Administration Costs to begin with, it obviously costs something to collect taxes. Depending on the types of tax, the actual cost of collecting taxes in developed countries is roughly 1 percent of tax revenues. In developing countries, the costs of tax collection may be substantially higher:

Gallagher (2017) reports administrative costs ranging from 0.9 to 3.9 percent for six developing countries; Warlters and Auriol (2018) report results for an additional nine countries in the range of 1.1 to 3.6 percent. Compliance Costs Less obviously, but more importantly, taxpayers incur "compliance costs" over and above the actual payment of tax. Third parties also incur compliance costs. For example, employers may withhold income taxes from employees, and banks may provide taxing authorities information or may collect and remit taxes to government. Compliance costs include the financial and time costs of complying with the tax law, such as acquiring the knowledge and information needed to do so, setting up required accounting systems, obtaining and transmitting the required data, and payments to professional advisors. Although the measurement of such costs is still in its infancy, studies in developed countries (Evans 2003) suggest that compliance costs are, as a rule, about four to five times larger than the direct administrative costs incurred by governments. One of the few reported studies of compliance costs in developing countries (by Chattopadhyay and Das Gupta 2002, for the Indian personal income tax) actually found compliance costs to be more than ten times higher than in developed countries.

Similarly, Shekidele (1999) found compliance costs for excises in Tanzania to be more than 15 times higher than similar costs in more developed countries. As World Bank (2006) reports, compliance costs vary considerably from one country to another: for example, complying with the tax code in Brazil takes a representative firm 2600 hours a year compared to only 30 hours in Singapore and 50 hours in Namibia. With a very few exceptions, costs of paying taxes are generally considerably higher in poor than in rich countries for several reasons. One is the sheer complexity and cumbersome administrative methods employed in some countries. Another is because compliance costs are sensitive to the stability of the tax legislation as well as to such changes in the external environment as inflation, and such factors are more prominent in developing countries. Moreover, since compliance costs are generally quite regressively distributed, and are typically much higher with respect to taxes collected from smaller firms, in many developing countries they arguably constitute a significant barrier to the 'formalization' of small and medium enterprises. Indeed, such estimates actually understate the importance of the 'tax 29 barrier' in many countries since significant time and resources are also usually required before beginning operation, in order to register for tax purposes and to obtain necessary fiscal licenses.

As Adam and O'Connell (1999) note, there are of course exceptions. First, when taxes are 'lump sum' i.e. the tax burden is the same regardless of behavioral responses there are no distortionary effects. But such taxes are of no importance in the real world. Second, to the extent that taxes fall on economic rents – payments to factors above those needed to induce them into the activity concerned they may not affect economic activity. Well-designed taxes on natural resources and land, for example, may thus to some extent produce revenue without economic distortion. Finally, some taxes may not only create no distortions in economic behaviour but may even induce desirable behaviour. Certain environmental levies, for example even such crude proxies such as taxes on fuel may to some extent have such effects. "Good" taxes those with no bad economic effects should of course be exploited as fully as possible, but most revenue needed to finance government inevitably comes from less 'harm free' sources and hence gives rise to efficiency costs.

Note that consumption taxes also discourage work to some extent since they increase the amount of time one must work to pay for goods and services through the marketplace (Alm and López-Castaño 2006).

The importance of such tax effects is a matter of considerable debate, but the current consensus is that they are much more important than was thought thirty or forty years ago. Efficiency costs of taxation in developed countries are usually estimated to be some multiple of the administrative and compliance costs mentioned above. The lowest estimates of the efficiency costs of taxes for developed countries are at least 20-30 percent of revenues collected, and much higher estimates (ranging well over 100 percent) are common in the literature (Auerbach and Hines 2002). Such estimates are both hard to make and controversial, so it is not surprising that relatively few such empirical studies exist for developing countries. Broadly, unless public expenditures produce social benefits at least equal to the 'marginal cost of public funds' (MCF), they are not worthwhile.

A recent study found the average MCF in 38 African countries to be close to those found in a number of developed countries. (Warlters and Auriol 2005). The study suggests that this similarity perhaps results from two offsetting factors: first, developed countries tend to have higher taxes and heavier reliance on income taxes, both of which are associated with higher MCFs; second, developing countries tend to have higher administrative costs and larger informal sectors, both of which are again associated with higher MCFs. Whatever their size, efficiency losses from taxation are real. However, they are not directly visible: they arise essentially because something does not happen some activity did not occur or occurred in some other form than it would have in the absence of the distortionary tax. Output that is not produced is nonetheless output (and potential welfare) lost, so poor countries need to design taxes to minimize such possible adverse consequence. Unfortunately, the absence of visible concrete evidence means that there is seldom much political weight behind this concern. As noted earlier, not all such effects need be bad:

In the old western provinces, the tax system made use of a combination of flat rate with an income tax. The tax system subsequently metamorphosed and the following types of tax were levied: flat rate, income tax rate, trade taxes and a tax on unearned incomes with the last two been levied in the Oyo and Ijebu provinces only. It should however be noted that company income taxation was not as problematic as personal income taxation as the Income Tax Ordinance of 1943 fixed company tax at 5 shillings in the pound on taxable profit.

Change management should have an explicit position within the project. A strategy on how the change is managed is key to the long-term success of the project. Using a recognized project management methodology helps to bring structure in processes and procedures and to plan the right sequence of activities. As most of the ICT implementations will be part of a wider tax administration and policy reform, a holistic approach needs to be adopted. At the start of the process measurable and achievable indicators have to be agreed, so it will become possible to monitor performance of the project and benefits to be realized.

METHODOLOGY

The methodology of the study is based on a two phased approach: First Phase: Desk Research, questionnaires and interviews (from a distance). The first phase was based on a desk review. During this phase, existing programmes in thirteen developing countries were in scope. The overview drafted is based on background information, mostly already available in the public domain. As a follow up, primary source information was obtained from people close to the automation experience of each country. In addition to the information coming from the users of the information technology in the different countries, it is important to get a better understanding of what kind of ICT-solutions are available in the market. The providers were contacted via a questionnaire. Additionally, various emails and phone calls were necessary to follow-up the initial request. Worldwide, tax administrations can be responsible for both domestic taxes and for customs related taxes/duties. The scope of this study is limited to the area of domestic taxes. Therefore, one of the criteria for selecting a provider, was that its product should support the area of domestic taxes. Where the term ‗tax administration' is used in this study, it also refers to a tax authority, a tax agency or a tax department.

Second Phase: Field Assessment After evaluation of the outcomes of the first phase, four countries were selected to gather additional documentation and to have interviews with the main stakeholders: taxpayers/representatives, suppliers, and staff at different levels of the executing entity, other involved government institutions and donors. These activities were not exhaustive, but were designed to provide an overview of the overall experiences with the most relevant systems across the world and to provide recommendations for future support. Selection of the four countries was based on geographical location and country type distinction (Middle Income Country (MIC), Lower Income Country (LIC), fragile/post conflict).

RESULTS

Recommendations to manage the impact of an ICT-solution on a tax administration

Senior management needs to be fully aware of what change management is and why it is important. Every level in the tax administration should be involved in the tax administration. Ownership needs to be created at all levels within the beneficiary administration. A communication strategy needs to be developed for tax administration employees and for all other stakeholders.

The consequence is that the tax administration has to invest in upgrading the platform itself. Another aspect to be taken into account when selecting, is the business model of the provider. There is great diversity among the providers surveyed. Some are explicit IT firms with no specific expertise in tax administration, whereas other explicit IT firms have advanced expertise in tax administration (e.g. Data Torque, Fast, and RSI). The remaining group is a mix of consulting firms and software developers (e.g. Crown Agents, CRC Sogema). While consulting firms bring expertise in tax administration. Another complicating factor is that some providers do not conduct the implementation themselves, but use third party integrators. This implies that the capacity of a third-party integrator can have an impact on the actual implementation.

However, by using third-party integrators, the success of the implementation of has nothing to do with skills and expertise of Oracle, but is dependent on the capability of that third-party integrator. This is significantly different from Data, which both develops and implements its solution. In other words, while in theory may answer the need of the tax administration, the usage of third-party integrators for implementation purposes is an uncertainty factor that might lead to difficulties, or even failure. Some providers mentioned that they have programmes to qualify and train third-party integrators before authorizing them to conduct an implementation. While this is an interesting approach, it remains to be seen if and to what extent such a program indeed leads to a qualified third party integrator that can maintain the expertise of its implementation teams.

CONCLUSION

In some countries, the tax administration has lost the trust and respect of its citizens and business alike due to a range of factors including: failure to tackle corruption inside the organization, failure to address dishonest competition – e.g., computer parts imported as fruit to evade duties, bribery of judges, cash wages in brown envelopes to avoid withholding, and governments all too ready to criticize tax administrations in order to court public opinion.

The development of an effective, honest, knowledgeable, and trusted tax administration is crucial and a top priority for developing countries worldwide. Tax administration must be free of corruption and able to address all the challenges that come its way. These challenges may involve tax collection, management of taxes and duties at borders, introduction of an effective Value Added Tax or sales tax, and administration of developing law.

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