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Comparative Study of Nigeria and United Kingdom Tax System

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ABSTRACT

The study aimed at comparing the tax structure of Nigeria and United Kingdom. The study compared Nigeria and United Kingdom tax system based on some key indicators such as revenue ratio, ease of doing business, total tax rate as percentage of commercial profits and time to comply. Nigeria is ranked very low in the ease of doing business and also Nigeria is also ranked very low in ease of payment. This study suggest among others that Nigeria should adopt current technology that will allow for convenience in tax payment process and also Nigeria should improve the tax policy to be less hostile to business and entrepreneurs.

Keywords: *Tax System, Ease of Doing Business, Tax Structure, Tax Rate, Tax Policy*

INTRODUCTION

A tax is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state to fund various public expenditures. (Wikipedia). Taxation structure of any country is the set of rules and laws set up by that country for the collection of taxes from the public. The Fundamental objective of collecting tax is to raise for development and welfare programs in the country.

The Secondary objectives is to maintain economic equalities by imposing tax to the income earners and improving the economic condition of the general people, to encourage the production and distribution of the products of basic needs and discourage the production and harmful ones, to discourage import trade and protect the national industries.

Growth and Development of a Country is largely dependent on the taxation structure it adopts.

High taxation rates and complex tax systems curb growth. Complex taxation system also results in evasion of taxes and thus increases the parallel economy. Complex tax systems are also responsible for hampering the ease of doing business. Whereas countries with simplified taxation systems has resulted in facilitating ease of doing business as well as growth and development of that particular country (Ghuge and Katdare, 2016).

The Nigerian Tax System has undergone significant changes in recent times. The Tax Laws are being reviewed with the aim of repelling obsolete provisions and simplifying the main ones. Under current Nigerian law, taxation is enforced by the three tiers of Government that is, Federal, State, and Local Government with each having its scope clearly spelt out in the Taxes and Levies (approved list for Collection) Decree, 1998. Important to this study are tax policy and regulations pertaining to investors both foreign and local.

The importance of tax policy and regulations cannot be overemphasised, as most transactions with any Ministry, department, or government agency cannot be concluded without evidence of tax payment that is a Tax Clearance Certificate (TCC) confirming that all taxes due for the three immediately preceding years of assessment have been fully settled.

The international comparison of tax systems is indeed a difficult task. The actual burden of taxation depends not only on the letter of the law, which is complicated enough, but also on the spirit of compliance and enforcement. Every major tax system has its history of erosion, of preferential treatment, and even of dead letters.

A perfect comparison can only be obtained by living under each of the tax systems and by dealing with each of the tax collectors. Nevertheless, this was conducted with the belief that a comparison of some of the salient characteristics of the nominal tax systems, together with some statistically derived measures of burden, can be of great lesson to developing economies like Nigeria.

The following arguments are no longer strange to many scholars: High-growth countries rely far less on direct taxes than on indirect taxes. Their rapid growth is due to the high rate of saving made possible by this heavy reliance on indirect taxes. The United States and the United Kingdom, on the other hand, rely more heavily on direct taxes, save less, and grow less.

Objectives of the Study

The specific objectives of this study are:

- To Study the tax structure of Nigeria with respect to the tax structures of United Kingdom.
- To compare tax systems on the basis of some of the key indicators like Tax to Revenue ratio, Total Tax Rate percentage, Time to Comply (hours), No of Tax Payments etc.
- To Identify where Nigeria Ranks in the World Bank ease of tax payments and ease of doing business in the world.

Overview of Taxation Structures

Following is the summary of tax Structures of selected jurisdictions:

Nigeria

Nigeria has a three tier tax structure where taxes are levied by Federal Government, State Government and Local Government Council. The authority to levy a tax is received from the Nigerian Constitution. In the constitution there is clear distinction of respective taxes to be collected by federal government, the states and local government. Taxation in Nigeria is strictly by way of formal legislation. That is, for any tax to be legal and enforceable in Nigeria, it has to be one enabled by a recognised piece of legislation which imposes taxing obligations which are clear and unambiguous. That is, no tax should be levied without the authority of formal legislation. Hence abiding to the constitution, every tax in Nigeria is backed by its respective accompanying law passed by either National House of Assembly or State House of Assemblies. In Nigeria, the taxes are classified as Direct Taxes and Indirect Taxes.

UK

In the United Kingdom, Taxes is levied at two levels i.e. central government and the local government. Income tax, VAT, Corporate tax, Fuel duty etc. is levied by central governments. Business rates, Council Tax, street parking charges etc. are collected by local governments. In addition local governments also receive grants from funds of central government. Taxation in United Kingdom is simple and easy to understand with high administrative efficiency.

The largest source of revenue for the UK government is Personal Income Tax. The second largest sources are National Insurance Contributions, the third Value Added Tax (VAT) and the fourth largest is Corporation Tax. Income tax was first introduced during the Napoleonic wars and re-introduced permanently in 1842. Companies were part of the income tax system until 1965, when corporation tax was introduced. Personal income tax basic rate was reduced from 33% to 20% during the 1979-2007 governments. This was notably done by Margaret Thatcher, who favored indirect taxation and reduced government spending.

The predecessor of the VAT from 1940 to 1973 was the purchase tax. The rate of purchase tax at the start of 1973 was 25%. The VAT standard rate has been increased from 10% after its introduction in 1973, when the UK joined European Economic Community, to 20% effective from January 2011.

Problems of Taxation in Nigeria

The Tax system in Nigeria has undergone various policy changes geared at a more effective and efficient way of tax collection and administration. Such policy includes the introduction of the Taxpayer's Identification Number (TIN), which became effective since February 2008); an automated tax system that enhances the tracking of an individual taxpayer's positions and challenges, launching of an e-payment system which promotes smooth payment procedures and reduces the incidence of tax tout, introduction of luxury taxes and ongoing process to review incentives such as pioneer status.

Despite these changes, and the fact that tax laws are constantly being reviewed with the aim to revoking obsolete provisions and simplifying the main ones, there are still a number of issues that need to be looked into immediately.

Poor tax administration

Ministries, Departments, and Agencies (MDAs) suffer from limitations in manpower, money, tools, and machineries to meet the ever increasing needs of individual taxpayers. As a matter of fact, the negative attitude of most tax collectors can be linked to poor remuneration and motivation. Also, it has been noted that that staff are not provided with regular training to keep them ahead of developments in tax related matters. This makes the administration of taxes in terms of coverage and assessment very weak.

This issue can be checked by educating government staff as well as the citizens on tax matters. Tax education may make citizens perform their responsibilities willingly. Also, in administering tax, rules should be clear, concise and simple, there should be minimal compliance costs, easy access to information, low tax burden on taxpayers, including mutual trust and fairness.

Inability to prioritize tax efforts

Revenue allocation in Nigeria does not promote tax efforts as it is anchored on factors like equality of states, population, internally generated revenue (IGR), education, land mass, etc. This approach discourages a proactive revenue drive, particularly for IGR and makes all the tiers of government to be heavily reliant on unstable oil revenue. The share of IGR should be increase to encourage state to look inward to generate more revenue through tax.

The issue of appropriate tax authority to administer several taxes e.g. the crisis between Lagos state and the federal government on the tax jurisdiction of VAT in the state. A clear and appropriate legislation should be passed to resolve this impasse (available at http://www.pml.com.ng/key-issues-challenges-nigerian-taxation-system/).

Lack of Competent Personnel

There is no adequate qualified personnel for the administration of tax in Nigeria. Many are not qualified and no little about tax assessment; they cannot properly compute tax due from taxpayers.

Overdependence on Oil Revenue

Nigeria depends so much on oil revenue that little attention is paid to other sources of revenue.

Importance of Taxation

Taxation as one of the measures that assist the nation economy has the following importance:- Taxation is imposed to generate revenue for the government to meet its capital and recurrent expenditure.

- It reduces inequalities of income; the more you earn, the more you pay.
- To increase output and employment.
- To awaken civic responsibilities among citizens.
- Tax is in fiscal policy measure inflation, deflation and depression.
- It encourages and protects new industries.
- It discourage the consumption of harmful product or foods such as beer, tobacco etc.

Literature Review

There have been different studies on taxation, both within and outside Nigeria. Some of them will be considered below:

Emenuga (2003), is of the opinion that the allocation of revenue to the tiers of government has not adhere strictly to the expenditure requirements of each tier, thus the federal government has become a surplus-spending unit while other functions, he proposes the determination of a tier' s share through the aggregation of its basic expenditure needs.

Ghuge & Katdare, (2016) state that a country with simplified taxation systems has greater ease of doing business as well as growth and development of that particular country.

Helene Poirson (2006) in its working paper on The Tax System in India: Could Reform Spur Growth stated that a tax reform combining lower statutory rates with base broadening could help achieve a pro-growth fiscal adjustment in India. It also stats that tax productivity estimates suggest ample scope for raising direct tax revenue through the removal of exemptions and improved tax administration and compliance (as quoted in Ghuge and Katdare, 2016).

Ernst and Young (2012) stated that Nigerians indulged in tax evasion and avoidance. Also that the revenue authority is plagued with inadequate facilities, in addition there was inadequate transportation needed for mobility to assess and collect taxes. There was a general lack of voluntary compliance from the taxpayers. Baryeh & Ezeka (2017) studied the effect of taxation on revenue generation in the developing countries of Ghana and Nigeria. Using the corruption perception index (CPI), the study discovered posits that Nigeria is ranked as more corrupt than Ghana. An analysis of the Gross Domestic Product (GDP) per capita for the two countries showed that Nigeria had a higher GDP per capita for most years under analysis. The study also revealed that tax revenues collected in Ghana had a higher percentage of GDP than that of Nigeria.

Micah, Ebere & Umobong (2012) study the challenges of Nigeria tax system and identified some challenging issues affecting the tax system in Nigeria. According to him Nigeria tax system is characterized by lack of statistical data, poor tax administration, and inability to prioritize tax effort, multiplicity of taxes and increase in underground economy. It also proffer challenges so as to engender an efficient and effective tax regime in Nigeria. Prichard (2015) studied several sub Saharan countries including Ghana and found that reliance on taxes increased accountability and responsibility of governments because it increased the political power of taxpayers.

Aamir, Qayyum, Nasir, Hussain, Khan & Butt (2011) conducted a comparative study on Parkistan and India tax system, the found that in Pakistan, more revenue is charged by levying indirect taxes where as India is on the opposite side of it. The results of these two types of fiscal policies can be very different and the more the indirect taxes in country, the more will be increasing gap between rich and poor and thus the more will be the exploitation of labor class.

Table1. *Personal Income Tax Rates in United Kingdom*

Tax is paid on the amount of taxable income remaining after allowances have been deducted.

Income	Applicable Tax Rate	Percentage (%)
0 - £11,500	Personal Allowance	0
£11,501 - £45,000	Basic Rate	20
£45,001 - £150,000	Higher Rate	40
Over £150,000	Additional Rate	45

Source: *https://www.mileiq.com/en-gb/blog/2018-uk-income-tax-rates-brackets/*

Table2. *Personal Income Tax rates in Nigeria*

Annual income (NGN)	PIT rate (%)	Tax payable (NGN)	NGN
First 300,000	7	21,000	
Next 300,000	11	33,000	
Next 500,000	15	75,000	
Next 500,000	19	95,000	
Next 1,600,000	21	228,060	
Over 3,200,000	24		
Gross income			4,000,000
PAYE		452,060	(452,060)
Net income after PAYE			3,547,940

Source: *http://taxsummaries.pwc.com/ID/Nigeria-Individual-Sample-personal-income-tax-calculation*

Table3. *List of Approved Taxes and Levies*

Nigeria	Rate (%)	United Kingdom	Rate (%)
Companies income tax	30	Business/Corporation taxes	19
Capital Gains Tax	10	Capital Gains Tax	10
Withholding tax on companies	10/(5 for individuals)	Withholding Tax	20
Petroleum Profit Tax	85% for Joint Ventures and 50% for Production Sharing Contracts (PSC)	Petroleum Revenue Tax	Now abolished in 2016
Value-Added Tax (VAT);	6	Value-Added Tax (VAT)	20
Education tax	2 of assessable profit		
Capital gains tax - Abuja residents and corporate bodies;		National Insurance Contributions.	
Stamp duties involving a corporate entity		Stamp duty (stamp duty land tax. stamp duty reserve tax	
Personal income tax in respect of: - Armed forces Personnel; - Police personnel; - Residents of Abuja FCT; - External Affairs officers; and - Non-residents.		Business and Personal taxes	

Source: *Authors' Computation.*

Table4. *Total Tax Rate Percentage of Commercial Profits–Country Ranking*

Country	Rank	Value	Year
Nigeria	110	34.80	2017
United Kingdom	135	30.70	2017

Source: *https://www.indexmundi.com/facts/indicators/IC.TAX.TOTL.CP.ZS/rankings*

Development Relevance: The total tax rate payable by businesses provides a comprehensive measure of the cost of all the taxes a business bears. It differs from the statutory tax rate, which is the factor applied to the tax base. In computing business tax rates, actual tax payable is divided by commercial profit. Taxes are the main source of revenue for most governments. The sources of tax revenue and their relative contributions are determined by government policy choices about where and how to impose taxes and by changes in the structure of the economy. Tax policy may reflect concerns about distributional effects, economic efficiency (including corrections for externalities), and the practical problems of administering a tax system. There is no ideal level of taxation. But taxes influence incentives and thus the behavior of economic actors and the economy's competitiveness.

Tax Revenue as a Percentage of Total Revenue

Year	Nigeria	United Kingdom
2006	2.408365	25.73855
2007	3.976904	25.90968
2008	5.459099	26.54625
2009	5.10896	24.22741
2010	2.26846	25.38761
2011	1.804331	26.06183
2012	1.556757	25.23794
2013	1.482534	25.22519

Source: *World Bank Statistics*

Tax-Revenue ratio is one of the methods used to assess a country's development and is calculated by dividing the tax revenue collected by the Government from the Total Revenue of that country.

The low rate of tax revenue to total revenue of Nigeria easily explains the country's overdependence on revenue from oil production.

Tax to GDP Ratio

Currently, Nigeria TAX revenue to GDP ratio is 6.1% and United Kingdom has 34.4%. Tax and GDP are very much related, since a higher GDP will automatically lead to a higher tax collection (a higher GDP is an indicator that there has been an increased overall development in the country and hence a higher per capita income).

Ease of Doing Business Tax Ranking

Classification	Jurisdiction	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Below Average	Nigeria	145	169	169	170	147	131	133	137	125	118	108	108	94
Very Easy	United Kingdom	7	7	6	8	10	7	7	4	5	6	6	6	9

Source: *https://en.wikipedia.org/wiki/Ease_of_doing_business_index#Ranking*

Tax policy in a country has a greater impact on business activities. More is the tax policy simplified, the higher the ease of doing business in the region. If tax policy of a nation is complex, the ease of doing business will be very low. The above effect can be seen in the case of Nigeria. Nigeria ranks 145 in 2018 in ease of doing business amongst 189 countries. Unit Kingdom is far ahead of Nigeria in this ranking. Complex tax System, administration and corruption are the contributing factors to Nigeria lagging behind in ease of doing business.

Nigeria in world bank survey on ease of tax payments amongst 189 countries. The figure in the table is not very encouraging economically.

These denote complexity of Nigeria's tax system. United Kingdom is far ahead of Nigeria in this ranking also.

Nigeria has been steadily behind in the ease of paying tax and others. Nigeria needs to really improve her tax administration in order to achieve a reasonable level of ease of tax payments.

World Bank Tax Paying Ranking

Country	Paying Taxes DTF	Paying Taxes Rank	Payment (Number per Year)	Time (Hours per Year)	Total tax and contribution rate (% of profit)	Post filing index (0-100)
Nigeria	48.44	171	59	360.4	34.8	47.48
United Kingdom	86.7	23	8	110	30.7	71

Source: *http://www.doingbusiness.org/data/exploretopics/paying-taxes*

Time to prepare and pay taxes is the time, in hours per year, it takes to prepare, file, and pay (or withhold) three major types of taxes: the company income tax, the value added Tax and Personal Income Taxes. Total time taken for tax compliances in Nigeria is again high as compared to United Kingdom. It is no doubt sure that Nigeria needs to reduce down its tax compliance time at the levels of developed countries in order to attract more businesses.

Discussion of Findings

To address the sub-objectives of the study, the following were discovered during the study in relation to each objective:

To Study the tax structure of Nigeria with respect to the tax structures of United Kingdom

It was discovered during the study that Nigerian tax structure is more complex compared to the UK tax structure. The Nigerian tax structure is too rigid given the world ranking of all the countries. Nigeria is becoming worse in the ease of doing business.

This is evident in the world ranking. From 2010 till date, the country is growing from bad to worse from 118 in 2009 to 125 in 2010, 137 in 2011 and the worst of all time in 2015, the country was rated 170 among 189 countries.

Also it was observed that Nigeria tax rate is very high compare to UK tax rate. This can discourage investments but local and foreign as investors prefer countries that charges lower tax rate to countries with very tax rate. Nigeria charge 30% on company income tax while the United kingdom charges 20% and still planning to reduce this to 19% in nearest future.

To compare tax systems of Nigeria and United Kingdom on the basis of some of the key indicators like Tax to Revenue ratio, Total Tax Rate percentage, Time to Comply (hours), No of Tax Payments etc

Nigeria generates a lot of revenue from company income tax rate when compared to the UK. The percentage revenue to profit of business is 34.8 percent in case of Nigeria while in UK it is 30%. Though the two countries generate a lot from tax compare to some other countries in the list.

The percentage of tax revenue to total revenue of Nigeria is very low; this is as a result of overdependence of the country on oil revenue. The countries generate a lot of her revenue from oil proceeds. This account for the reason the total tax revenue is low compare to total revenue of the country, that is, even though the country collect big percentage of company income as tax, this does not amount to reasonable percentage of the total revenue. This is due to the fact that there is no enough investors in the country. Logically, is can be deduced that even though the tax rate is low but there are many investment in the country, tax revenue will increase and development will increase likewise.

To Identify where Nigeria Ranks in the World Bank ease of tax payments and ease of doing business in the world

The world ranking shows that Nigeria is one of the difficult countries to do business. For the past nine years that is since 2009 till date Nigeria has been constantly been among the country that is below average in terms of ease of doing business. 2016 and 2017 Nigeria was ranked 169 out of 189 countries and ranked 145 in 2018. This figure discourages foreign investment in the country and economic activities generally.

Conclusion and Recommendation

It is evident from the data gathered in this study that Nigeria still has a long way to go in term of tax collection. The research shows that Nigeria is really lagging behind in the world in relation to tax collection.

The administration of tax in Nigeria is poor compare to many countries of the world. It is observed that Nigeria database system is relatively poor compare to the developed countries (especially the compared country), no information about the citizens unlike many other countries. Lack of adequate information about individuals makes difficult to put self-employed individual in tax net.

Nigeria can learn from other countries tax system in order to improve her tax system. It is also important for Nigeria to learn from developed countries. The over reliance on oil revenue is a serious problem that the country need to fight. The issue of recession we have in the country now is traceable to the sudden fall in the price of petroleum in the international market. If nation can widen her scope of the revenue the better.

There is need for Nigeria to regularly improve her tax policy to make it less hostile to business and entrepreneurs and to indeed make it reasonable and easy to comply with. Most of the provisions of the Nigerian tax laws are outdated and make it difficult to comply with, thereby discouraging foreign investors.

Government should adopt appropriate and current information technology that will make tax payment process easy for business and individual, and that will also reduce tax evasion to the minimum. Government should effectively use revenue from tax in order to encourage compliance from businesses and individuals. Development in the level of basic infrastructural facilities and social amenities will encourage voluntary compliance from taxpayers.

Nigeria should earn from UK tax system and make her tax policy business friendly.

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