Impact of Tax Avoidance

(It’s not just about money“)

A

PRESENTATION BY

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WHAT IS TAX AVOIDANCE

- The use of any available methods to modify a taxable entity's financial narative in order to lower its tax liabilities.
- A practice in which an entity uses a legal/technical means to pay the least amount of tax possible.

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HOW DOES IT HAPPEN?

- Leveraging on legal documents - double tax treaties and agreements between countries

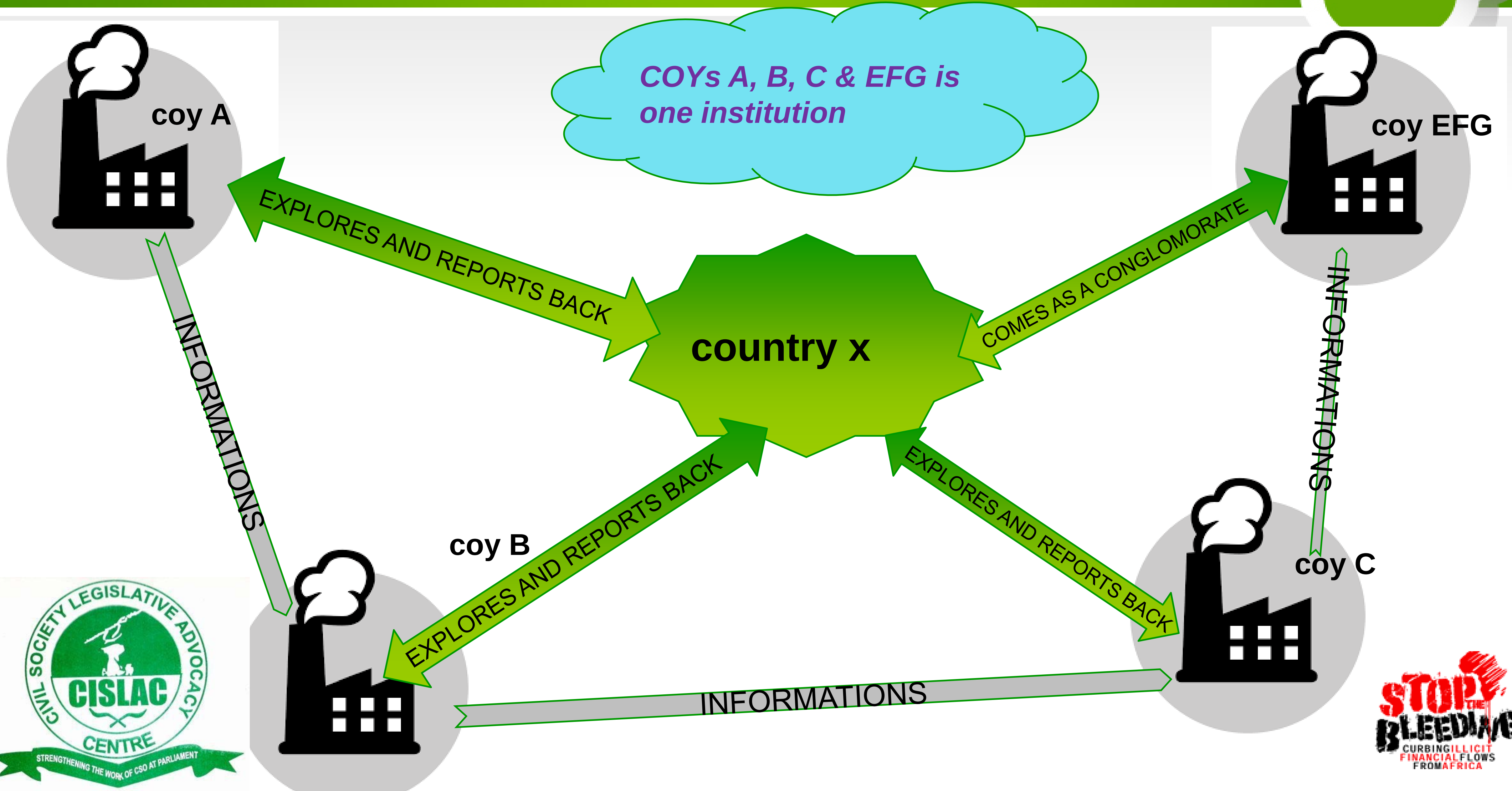
Profit shifting by companies

- company xyz in country A,

  (tax haven, secret jurisdiction)
- Low in Profit, low in Tax liabilit

Company xyz in country B,
(Developing country)
High in Profit, High in Tax liabilities

Round tripping



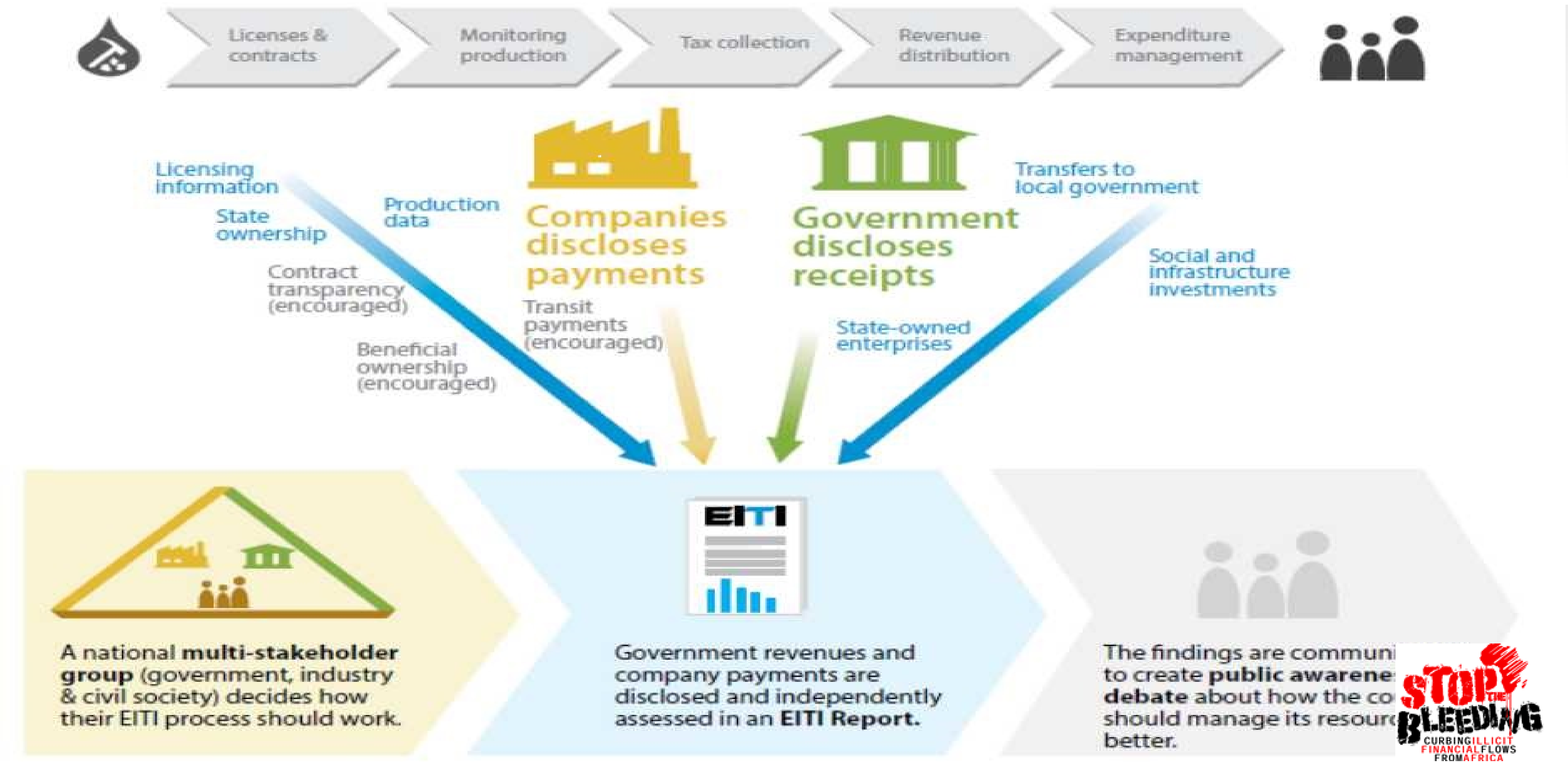
Tax incentives and holidays

These companies or investors comes to demand for holidays in order to invest in the developing countries which will be granted to them most times they maximize the period and either move away or if business is still much viable they change their brand and name and demand for another term of incentives and holidays for another tenure.

Inefficient Tax Administrators

Most of the gaps experienced in the appropriate collection of taxes is due to lack of efficiency in the part of the administrators who some times neglect their duties and the investors leverage on this and do not remit what is due.

The Nigerian Context



The Nigerian Context Cont'd

- In 2011, oil accounted for 90% of the total revenue flow to the nigerian federation account 33% beign direct taxes from the oil companies this shows that Nigeria solely depends on oil revenue.(NEITI FASD REPORT 2011), yet this is sector is shrouded in so much secrecy and opacity in thier dealings, extracts from the same report shows that about $77.5million was unresolved differences between what the companies should pay and what the government recieved for all revenue flows, and this trend have not changed till date.

Sources of Revenue Leakages

- Expired Memorandum of Understanding - The rates for the computation of the royalties and taxes were outdated and the companies were still using them to pay taxes even ten (10) years after expiration.
- secrecy and Non-disclosure - most of the contract signed by these institutions are not made open to the public for monitoring the owners of these companies are most times not known as well so leaving little on no room to evaluate how much from this sector goes out of the country.

Sources of Revenue Leakages Cont'd

- Non-existence of measuring facilities - The amount of crude that is produced in Nigeria is not even known, all the measurements is done at the export terminal which thousands of kilometers away from the production wel-head, what happens to the quantity in trtansit is never accounted for.
- no - automated and real time remittances - this breeds a lot of loophole for corruption to thrive in, as the exact amount for payments made are not always reconciled between both parties.

Sources of Revenue Leakages Cont'd

- The informal sector is totally un-checked and this also contributes to a huge gap as the number of the people that should be captured in the tax net are not reached, and it should be of note that the informal sector consitutes about 80% of the workforce in the country.
- shift to consumption taxes - this totally exonerates the companies as a company as an entity do not consume anything rather the share holders who in most cases are not captured in the tax net because they may not citizens of the country.

Sources of Revenue Leakages Cont'd

- secrecy jurisdictions and tax havens - most of the companies are registered in the tax havens and often declare their profits in those jurisdictions and rob their country of residence the benefits of their operations.

NEGATIVE EFFECTS OF TAX AVIODANCE

124 children die before age 5, 78 die before age 1, only 58% are in school at the primary level (UNICEF 2014)

60% of our youths do not have jobs

No legislation and budgetary allocation to favour projects for people with disabilities.

Conclusion

- Generally there is weak economic growth in these developing countries because they donot have any comparative advantage to compete with the bigger economies which they have entered agreements with, this will obviously lead to societal unrest due to low infrastural developments and the risk of insecurity and vulnerability increases and most cases migration is the option next door

WHAT CAN WE DO BRING CHANGE

- If citizens especially **non-state actors** are **sufficiently sensitized and educated** on their rights, **encouraged to work together as a united platform** and **empowered to engage government** and the **duty bearers**, this will bring about the desired change in the economy as the **resources will be managed well** compelled by **frequent monitoring** of the system informed by **authentic and fact based reseach, data and/or information**

AT LAST

- Citizens will be informed about their civic obligations and their rights, there will be a better managed tax system, that will guarantee improved services and infrastructural development, the citizens will pay only legal and fair taxes and this will reduce poverty and inequality among them, especially the women.

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