

## THE LAW AND PRACTICE OF ELECTRONIC TAXATION IN NIGERIA: THE GAINS AND CHALLENGES<sup>1</sup>

### Abstract

*Electronic taxation (E-taxation) and its automated processes are gradually phasing out manual tax administration globally. With e-taxation, taxpayers can conveniently pay their taxes electronically from the comfort of their homes, offices, shops and even while travelling. Tax authorities on the other hand, can now go after tax defaulters with the electronic tax history of taxpayers on their web portals. According to the World Bank and PwC<sup>2</sup> Paying Taxes Report 2013, sixty six economies had fully implemented electronic filing and payment of taxes as at 2010.<sup>3</sup> In 2013, about 66 countries all over the world have automated core tax processes for effective tax administration and management of taxpayers' data.<sup>4</sup> More countries like Taiwan joined in adopting e-taxation in 2014. Research reveals that the adoption of e-taxation in some countries has increased tax compliance amongst taxpayers.<sup>5</sup> This article aims at comparatively analysing the gains and challenges of utilising e-taxation in tax administration and the legal framework of e-taxation in the United States of America, Australia and Nigeria; and the gains and challenges of utilizing e-taxation in tax administration in the USA, Australia and Nigeria.*

**Key words:** *Law and Practice, Electronic Taxation, Gains and Challenges, Nigeria*

### 1. Introduction

E-Taxation like every other new issue appears to be viewed with a lot of suspicion in Nigeria. The researchers aside from making a comparison of the law and practice of E-taxation applicable in Nigeria with that of other jurisdictions also examined the prospects for E-taxation in Nigeria and the present and future challenges thereof. At the end of the research, it was discovered that the prospects for E-taxation in Nigeria are high. Aside from that, it was also discovered that the said challenges are normal teething problems usually encountered in all new schemes.

### 2. Origin and Background of E-Taxation

E-taxation is the process of assessing, collecting and administering the taxation process via an electronic media.<sup>6</sup> Properly viewed, e-taxation is one of the ways through which governments around the world utilize information and communication technologies to improve the delivery of public services and the dissemination of public administration information to the public.<sup>7</sup> This is done by governments through e-services and most modern tax agencies have also responded by expanding the scope and nature of electronic services offered to taxpayers and their agents.<sup>8</sup> The benefits of introducing electronic services to the public are enormous as experienced by some modern tax administrations. However, tax administrations in developing countries, though very much willing, face the added burden of finding adequate financial and human resources to implement these services. In several cases, where such funding is available, e-filing and e-payment systems may not be efficient because the underlying

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<sup>2</sup> Pricewaterhouse Coopers.

<sup>3</sup> Taiwo Oyedele, The Making of a Good E-Tax System. <http://businessdayonline.com/2013/09/the-making-of-a-good-e-tax-system/?cb=036790092152559173>. Accessed on 12 February, 2016 at 1.41am.

<sup>4</sup> *Ibid.*

<sup>5</sup> A C C Azmi and N L Bee, The Acceptance of the e-Filing System by Malaysian Taxpayers: A Simplified Mode (2010) 8 EJEJ p.13.

<sup>6</sup> C S Amaefule, *et. al*, The Efficacy of E-Taxation as a Strategic Tool for National Economic Development. (2012) 3 *National Journal of Banking and Finance*, p. 113.

<sup>7</sup> A A Che Azmi and Y Kamarulzaman, Adoption of Tax E-Filing: A Conceptual Paper (2010) 4 *African Journal of Business Management*, p. 599.

<sup>8</sup> D Edward-Dowes, E-filing and E-payments the Way Forward. [www.caricom.org\\_e\\_filing\\_e\\_payments\\_cartac.pdf](http://www.caricom.org_e_filing_e_payments_cartac.pdf) retrieved on 26 November, 2015.

administrative processes have not been reviewed. In addition, many tax administrations in developing countries have limited resources for IT. Overall, the gains of e-taxation outweigh the challenges.

Globally, e-taxation was first introduced in 1986 in the USA. In Australia, electronic tax filing was introduced in 1987 through its modernization programme.<sup>9</sup> By 1993, Canadian taxpayers commenced electronic filing of tax returns through the EFILE.<sup>10</sup> By 1998, Taiwan introduced electronic tax filing to its tax payers.<sup>11</sup> The Slovenian central tax authority introduced electronic tax filing services to its tax payers through the establishment of its e-taxation portal towards the end of 2003.<sup>12</sup> In 2005, Malaysia,<sup>13</sup> Netherlands,<sup>14</sup> and Uganda all introduced electronic payment of tax to their taxpayers for the convenience of both the revenue authorities and taxpayers alike. In 2009, filing of tax returns electronically was made mandatory in Ireland by its revenue authority,<sup>15</sup> pursuant to the Irish Tax Returns and Payment (Mandatory Electronic Filing and Payment of Tax) Regulations.<sup>16</sup> In October 2012, the Ethiopian Revenue and Customs Authority introduced e-tax services to its taxpayers to make the collection of taxes easier for it and tax payment easier for its taxpayers.<sup>17</sup> In March 2013, Egypt launched electronic payment of tax for its taxpayers, to keep pace with the international trend towards automating payment systems, especially for government services.

The rationale for the adoption of e-taxation globally include the following:<sup>18</sup> One is for increased revenue generation purposes. It has been observed amongst countries that have successfully commenced electronic tax administration that it actually improved revenue generation.<sup>19</sup> Again, it is for administrative and fiscal purposes within the various tax authorities at all levels of government. E-taxation is needed to effectively deal with bureaucracy by tax authorities involved in manual tax administration and its high cost. Another is improved and quicker tax refund procedure. E-taxation, with its data processing and recording processes makes it easier for taxpayers to claim tax refunds where tax is paid in excess of the amount due by taxpayers.<sup>20</sup> Quite another is to expedite the tax assessment processes. With the adoption of e-taxation, a taxpayer with his tax return can assess himself electronically with the tax authority's electronic tax calculator in the shortest possible time.<sup>21</sup> Finally, it is to help tax authorities reduce and possibly eliminate tax evasion. The electronic database of taxpayers built by tax authorities periodically in the course of e-taxation helps them easily identify tax evaders and deal with them statutorily.

<sup>9</sup> ANAO, Better Practice Guide Innovations in the Public Sector. <http://www.anao.gov.au/bpg-innovation/case-2.html> retrieved on 30 August, 2015.

<sup>10</sup> This is the service of the Canada Revenue Agency available to professional tax preparers (i.e. consultants) who file returns on behalf of taxpayers that engage their services. NETFILE on the other hand is an electronic tax filing service available to the taxpayers generally to transmit their tax returns directly to the Canada Revenue Agency. <http://www.cra-arc.gc.ca/esrvc-srvce/tx/ndvdl/netfile-impotnet> accessed on 13 February, 2016 at 3.22pm.

<sup>11</sup> Y Wang, The Adoption of Electronic Tax Filing Systems: An Empirical Study, (2002) *Government Information Quarterly*, p. 334.

<sup>12</sup> M Klun and M Decman, E-Public Services: The Case of E-Taxation in Slovenia, (2006) *Financial Theory and Practice Journal*, Vol. 30, p.240.

<sup>13</sup> A A C Azmi and Y Kamarulzaman, *op. Cit.* p. 559.

<sup>14</sup> Deloitte, E-filing in Netherlands, [http://www.deloitte.com/view/en\\_gb/uk/Sfbbd1800c0fb110VCM10000ba42f00aRCRD.htm](http://www.deloitte.com/view/en_gb/uk/Sfbbd1800c0fb110VCM10000ba42f00aRCRD.htm) retrieved on 3 October, 2013.

<sup>15</sup> Sage Ireland Blog, iXBRL | ROS, E-Filing and iXBRL Explained, <http://www.sage.ie/blog/index.php/ixbrl-explained/> retrieved on 2 October, 2013.

<sup>16</sup> No. 341 of 2008.

<sup>17</sup> F Abera Ethiopia: Online Tax Filing on the Horizon for Middle Taxpayers. <http://allafrica.com/stories/201310290176.html> retrieved on 23 March, 2015.

<sup>18</sup> Amaefule, *et al, ibid.*

<sup>19</sup> A T Chatfield, Public Service Reform through e-Government: A Case Study of e-Tax in Japan. (2009) 7 *EJEG*, p.139.

<sup>20</sup> US Tax Centre, The Benefits of Filing your Taxes Online. <http://www.irs.com/articles/the-benefits-of-filing-your-taxes-online> retrieved on 7 May, 2015.

<sup>21</sup> *Ibid.*

The objectives of adopting and utilising e-taxation include the following enhancement of taxpayers use of high speed connection at all times to access comprehensive tax information from tax authorities. With internet connectivity, taxpayers have unhindered access to tax information on the websites of the tax authorities without having to take the trip to their tax offices or stations. It also aids development of an online taxation environment to aid reduction of operating cost by the tax authorities.<sup>22</sup>For instance, where tax authorities have an electronic database of taxpayers and need to send out statutory notices to taxpayers to file their tax returns, with the internet, the notices can be sent through e-mails. This goes a long way in reducing the cost of sending the notices through tax officials or through the post office. Another objective is the establishment of a fast and barrier-free taxation service environment.<sup>23</sup>With the internet, tax administration is meant to be online with the absence of physical human traffic that slows down tax administration. Yet another aim is improvement of service delivery and administrative efficiency at tax offices.<sup>24</sup>With e-taxation, the long queues of taxpayers trying to file their tax returns are dispensed with. In an electronic environment, tax authorities can attend to so many taxpayers at the same time. It is equally geared towards enhancement of corporate and national competitiveness to conform to best international practices. Since e-taxation is the current global trend, tax authorities all over the world are subtly competing to provide the best e-taxation services and tax havens too to attract local and foreign investors. With the electronic tax filing system, every individual and company can file their tax returns through a web portal,<sup>25</sup> especially that of the tax authority.

### **3.0 Procedures Involved in Utilising E-Taxation to Pay Taxes Online**

**3.1. Electronic Registration:** To access e-taxation, the taxpayer logs into the tax authority's website to get registered through filling the Tax Payer Identification Form. In this form, the taxpayer provides certain relevant personal data about himself like his name, place of origin, age, business or employment details, marital status and several other relevant details. The form is to be submitted electronically.

**3.2. Verification and Issuance of Tax Identification Number:** Here, the relevant tax authority verifies the information supplied by the tax payer. Upon verification and validation of the information supplied, the relevant tax authority issues a Tax Identification Number<sup>26</sup> to the taxpayer that is very unique and personal to him.

**3.3. Electronic filing of Tax Return:** With his unique tax identification number, the taxpayer logs on to the tax authority's website to directly fill the electronic tax return form properly and submit same electronically. Where the relevant tax authority receives the tax return, it acknowledges receipt by sending the taxpayer an email to that effect. The tax software of the tax authority thereafter assesses the return filed by the tax payer, and determines the amount of money payable as tax.

**3.4 Payment of Tax:** When the amount of money to be paid as tax is ascertained, the taxpayer either goes to the designated bank of the revenue authority to pay manually or pays electronically by transferring the amount due from his account to the designated bank account through his mobile phone, the internet, or master/credit card. Where the bank confirms payment, an alert is sent to the tax authority which subsequently generates an electronic invoice.

**3.5. Issuance of Electronic Validation:** Having been notified of the tax payers payment of tax by the designated collecting bank, the tax authority generates and issues an electronic invoice to the tax payer, as evidence of tax payment.

**3.6. Tax Refund:** Where upon the complaint of a taxpayer, the tax authority verifies that the taxpayer paid more than the amount due as tax, he gets an electronic refund through his bank or the amount paid in excess is retained by the designated collecting bank, on the instruction of tax authority, to be deducted for the next due tax to be paid.

### **4.0 Prospects and Challenges of E-Taxation**

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<sup>22</sup>*Ibid.*

<sup>23</sup>*Ibid.*

<sup>24</sup>*Ibid.*

<sup>25</sup>E-invoicing Platform, Electronic Tax Filing at the European Union. <http://eeiplatform.com/489/elctronic-tax-filing-at-the-european-union/>, accessed on the 31<sup>st</sup> of May, 2014.

<sup>26</sup>Hereinafter referred to as TIN.

As innovative as e-taxation is, it is neither a bed of roses nor a bush of thorns. E-taxation has its numerous gains and attendant challenges which are looked at below.

#### **4.1 Prospects of E-Taxation**

**4.1.1. Benefit to Tax Authorities and Taxpayers Alike:** A successful implementation of e-taxation, is advantageous to tax authorities and taxpayers alike. For tax authorities, e-taxation has numerous benefits such as reduction of operational costs, tracking tax evaders whose details are contained in the tax authority's database. On the part of taxpayers, the benefits include convenience since they can pay their taxes from the comfort of their homes where they have internet access; faster tax refunds, several other benefits.

**4.1.2. Accessibility:** with e-taxation, taxpayers now have quick and uninterrupted access to the tax authority to make enquiries and to pay their taxes anywhere they are. A taxpayer outside the country can pay his taxes with little or no stress at all where he has internet access and the tax authority's website or server is functioning properly. Also, many taxpayers with internet access can have access to the tax authority's website at the same time.

**4.1.3. Time Saving and Convenience:** Prior to the introduction of e-taxation, taxpayers crowd the offices of the tax authorities that are generally short-staffed most times to file returns. Getting assessed is another hurdle altogether that could last for days or weeks. With the e-taxation system, taxpayers can now pay taxes even from the convenience of their homes and save the bulk of time that would have been wasted at hounding tax officers in their offices for tax assessment and even tax refund where the need arises.

**4.1.4. Early Detection of Errors:** The tax software and applications used by most tax authorities utilising e-taxation are developed such that problems in returns filing are detected and can be fixed quickly. Hence, without the resolution of such diagnosed errors, a taxpayer doing his taxes cannot progress in the e-taxation process.

**4.1.5. Corrupt Practices of Tax Authorities are Appreciably Curbed:** with the e-taxation system, those tax officers in the habit of corruptly negotiating with taxpayers for the latter to pay less tax, collecting bribes from individual and non-individual taxpayers, is taken care of to a large extent. With the way the e-taxation procedures are, the tax histories of taxpayers known to the tax authorities and taxpayers alike are already permanently available in the database of the tax authorities. Hence, where a taxpayer does not pay his taxes as at when due, it reflects in the tax authority's website such that the payment of penalty or lesser amount cannot be negotiated by the taxpayer with corrupt tax officers.

**4.1.6.** With E-taxation, numerous taxpayers in different locations can enjoy access to the tax authority through their website at the same time whilst the privacy of the taxpayers are protected. This is different from manual tax administration system wherein tax officials of the tax authority can be accessed by one taxpayer at a time, millions of taxpayers can now have access to the tax authority at the same time from different parts of the world. While taxpayers can have multiple access to the tax authority's website independently, whilst their privacy is also guaranteed.

**4.1.7. Availability of Taxpayers' Tax History for the Perusal of the Tax Authorities and the Taxpayers:** With e-taxation, tax authorities and taxpayers have access to taxpayers' tax history up to when the taxpayer first registered with the tax authority for documentation and other purposes.

**4.1.8. Tax Evasion by Taxpayers is Curbed to some Reasonable Extent:** the availability of taxpayers' tax history makes it easy for tax authorities to track and prosecute tax evaders. This helps to reduce tax evasion.

**4.1.9. Enhancement of the enforcement of tax laws:** with taxpayers' tax histories at their disposal through the adoption of e-taxation, tax authorities can effectively enforce the provisions of the various tax legislation that the taxpayers are likely to have breached against such taxpayers.

**4.1.10.** Taxpayers can easily make tax enquiries from the tax authorities through their websites and get answered quickly. This is made possible through the Frequently Asked Questions<sup>27</sup> page of the website of most tax authorities offering e-taxation services. These FAQs segments helps taxpayers to clarifies issues that include how to use the tax authorities' electronic tax filing system and the taxpayers' tax history and tax liability.

**4.1.11. Improvement of Tax Compliance amongst Taxpayers:** When taxpayers appreciate how e-taxation works and its attendant benefits, it increases tax compliance immensely. This is clearly seen in countries like USA, Australia and Japan where electronic tax filing is made optional to manual tax filing the number of electronic tax filers which is a greater percentage, largely surpasses the number of taxpayers that pay their taxes manually and the latter group keeps diminishing in number.

#### **4.2 Likely and Practical Challenges to Effective Utilization of E-taxation**

1. Likelihood of Tax Authorities Manipulation of Data Published on the Tax Authorities Websites: Since the tax authorities are in control of matters published on their website or portal there is a possibility that they can manipulate every or certain information they publish on their website.

2. Low Computer Literacy Level amongst Taxpayers: Where taxpayers are not very computer literate, it can affect their tax compliance in utilising e-taxation to pay their taxes.

3. Non-provision of Computer Centres with Constant Internet Access to be Freely Accessed by Taxpayers: This can affect the effective use of e-taxation by taxpayers to pay their taxes.

4. Astronomical Cost of Initiation: The cost of initiating e-taxation is very high and can delay or discourage its initiation. In Japan for instance, the sum of ¥50 billion<sup>28</sup> was expended by the Japanese Government in acquiring its E-tax through which taxpayers pay their taxes electronically.<sup>29</sup>

### **5. E-Taxation in Selected Jurisdictions**

#### **5.1. E-Taxation in the USA**

The central revenue authority in the USA is the Internal Revenue Service,<sup>30</sup> and is centrally charged with tax administration. In the USA, electronic tax filing was formally introduced in three cities i.e. Cincinnati, Raleigh-Durham, and Phoenix wherein 5 tax preparers filed 25,000 tax returns electronically.<sup>31</sup> In 1987, electronic tax filing was extended to 7 more cities which involved 66 tax preparers and 78,000 tax returns were filed electronically. IRS E-File was expanded to 16 IRS Districts which involved an increased number of taxpayers and about 583,000 returns filed electronically.<sup>32</sup> In 1989, the implementation of e-filing was extended to 36 states with 1.1 million returns filed electronically that year. By 1990, e-filing was extended throughout the USA as 4.2 million returns file electronically. Telefile was introduced in 1992 for the electronic submission of individual federal income tax return for taxpayers with taxable income of less than \$50,000.<sup>33</sup>

The Restructuring and Reform Act<sup>34</sup> was enacted by the US Congress to aid the IRS change its organisational culture, restructure, modernise and improve taxpayers' protection and rights generally.<sup>35</sup>

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<sup>27</sup> FAQs.

<sup>28</sup> This approximately ₦79,193,539,625.00.

<sup>29</sup> A T Chatfield, Public service reform through e-Government: a case study of e-Tax in Japan. (2009)7 *EJEG*, p. 139.

<sup>30</sup> Hereinafter referred to as IRS.

<sup>31</sup> IRS, IRS E-file: A History, <http://www.irs.gov/uac/IRS-E-File:-A-History>, accessed on 18 December, 2015 at 9.31am.

<sup>32</sup> *Ibid.*

<sup>33</sup> *Ibid.* Telefile was a telephone based system that allowed taxpayers to file their tax returns by telephone. Life tips, Taxes FAQ: what is Telefile <http://taxes.lifetips.com/faq/108927/0/what-is-telefile/index.html> retrieved on 3 December, 2015 at 9.38am.

<sup>34</sup> Of 1998.

<sup>35</sup> Treasury Inspector General for Tax Administration, The Internal Revenue Service Restructuring and Reform Act of 1998 was substantially Implemented but Challenges Remain,

The US Restructuring and Reform Act set a goal of 80% e-file rate per all federal taxes and information returns. By 1999, electronic payments of tax through credit cards and direct debit was introduced in the USA. Also, the IRS piloted alternative programmes for digital signatures, replacing the mailing of signature forms by taxpayers.<sup>36</sup>In 2002, the IRS introduced the use of Personal Identification Number<sup>37</sup> to sign e-file returns, making the e-file process a totally paperless process.<sup>38</sup> The following year, the IRS partnered with Free File Alliance, a consortium of tax software companies to debut and make available the free file, a free tax preparation software available mainly to individual taxpayers<sup>39</sup> for businesses, the quarterly form 941 for employment taxes and annual form 944 for small business could now be filed electronically that same year.<sup>40</sup>

Modernised E-File<sup>41</sup> known as the next generation of electronic filing, was introduced in 2004. The essence of the Modernised e-File was to ensure that acknowledgement of e-filed reforms was sent within minutes to taxpayers upon filing returns as against the usual 48 hours. Thus, where a return is rejected, a more detailed message is sent timeously to the taxpayer to quickly correct errors and resend the return.<sup>42</sup> The modernised e-file is now utilised with the Customer Account Data Engine<sup>43</sup> to replace the IRS master file tapes in order to provide the foundation for future electronic transactions by taxpayers and preparers. This is to eventually provide real-time access to accounts and speed up tax refunds to a matter of a few days instead of weeks.<sup>44</sup> So far, the IRS has been working tirelessly to ensure that a very convenient, conducive, taxpayer-friendly atmosphere is created to ensure maximal tax compliance by taxpayers generally. Although electronic filing and payment of tax are voluntary in the USA, as manual tax filing and payer are still optional, a far greater percentage of American taxpayers in the USA do their taxes electronically.

In the USA, there are three ways through which taxpayers can file tax returns and make tax payments *viz.*<sup>45</sup>

1. **Paper Filing:** This is the regular manual filing of tax returns to the tax authorities for assessment. Having observed that some taxpayers prefer this form of tax filing to the modern electronic system such taxpayers are allowed to continue using paper filing. This is actually the slowest mode of tax filing and payment.
2. **Tax Preparation Software:** this is the most popular mode of filing tax returns. The IRS in collaboration with tax consulting firms have made this tax software available to taxpayers to assist the firms and taxpayers file returns electronically, get assessed electronically, make payments electronically and facilitate tax refunds where necessary.
3. **Tax Professional:** This involves a taxpayer engaging a tax Professional to assist in preparing tax returns, filing same electronically and payment of the amount due in taxes. It is mostly companies that engage the services of Tax Professionals to help out with tax returns, tax payment and tax refunds.

The following are the procedures to successfully and effectively file returns and pay tax electronically:

1. **Acquisition of a Taxpayer's Identification Number:** To use the IRS<sup>46</sup> E-File to pay tax, a taxpayer must first obtain a Taxpayer's Identification Number. Section 6109 (a) of the US Inland Revenue Code

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<http://www.treasury.gov/tigta/iereports/2010reports/2010IER002fr.html>, retrieved on 18 December, 2015 at 9.41am.

<sup>36</sup>IRS, IRS E-file *op.cit.*

<sup>37</sup>PIN.

<sup>38</sup>*Ibid.*

<sup>39</sup>*Ibid.*

<sup>40</sup>*Ibid.*

<sup>41</sup>MeF.

<sup>42</sup>*Ibid.*

<sup>43</sup>CADE. This is an IRS programme currently under development, which is an update to the IRS e-file system. The CADE was not exactly a success and further development of it was stopped in 2009. Currently, the CADE 2 solution is being developed to deliver a modern tax processing system to the IRS.

<sup>44</sup>*Ibid.*

<sup>45</sup>US Tax Center, How to File your Income Tax Return, <http://www.irs.com/articles/how-to-file-your-income-tax-return>, retrieved on 18 December, 2015 at 9.47am.

<sup>46</sup>Inland Revenue Service.

makes it mandatory for any person who is required by law to make returns, statement, or other document with the IRS, to include in such returns, statement or other documents and identifying number for securing proper identification of such person.<sup>47</sup> Identification number is either issued by the Social Security Administration<sup>48</sup> that issues Social Security Number<sup>49</sup> or the IRS which issues Taxpayers Identification Number. There are various kinds of TINs and they include the Social Security Number, Employment Identification Number,<sup>50</sup> Individual Taxpayer Identification Number,<sup>51</sup> Taxpayer Identification Number for pending U.S Adoptions and Preparer Taxpayer Identification Number.<sup>52</sup> To get a social security number, the relevant application form has to be downloaded from the social security administration website<sup>53</sup> and filled correctly.<sup>54</sup> Upon submission of the downloaded form, evidence of identity, age, and other relevant documents must be submitted.<sup>55</sup> To obtain the Employer Identification Number used to identify business entities, estates and trusts, the relevant application form is to be filled online on the IRS website.<sup>56</sup> Once the application is completed, where the information supplied is validated, an EIN is issued immediately. An application for EIN can also be made by fax, by mail or by telephone.<sup>57</sup> To obtain an Individual Taxpayer Identification Number,<sup>58</sup> the taxpayer must complete the relevant form that requires documentation of substantiating foreign/alien status and true identity for each individual.<sup>59</sup> This documentation is to be mailed with the form to the address on the form, submitted at any of the IRS walk-in offices or submitted through an authorised IRS Acceptance Agent. The Individual Taxpayer Identification Number<sup>60</sup> is issued six weeks after the documents and information furnished are validated. To obtain an Adoption Taxpayer Identification Number,<sup>61</sup> an application is to be made by downloading and filling the relevant form and annexing the relevant documents. The form is to be dropped off at any IRS walk-in offices for validation after which the ATIN would be issued; usually a nine-digit number. Once the adoption of the child is final, the adopting parents are to obtain social security number and notify IRS. If within two years, the IRS is not informed, the ATIN will be automatically deactivated.

Usually preparer Tax Identification Number is issued to Professional Tax Preparers that help taxpayers to prepare their tax returns and file same on behalf of the taxpayers for fees.<sup>62</sup> After having obtained a valid Identification Number with the IRS or SSA the taxpayer still needs to apply for and acquire an electronic filing personal identification number by filing the IRS electronic filing Personal Identification Number Form.<sup>63</sup> After filling in the relevant data in the required fields, the form is submitted. Upon verification and validation of data furnished by the tax payer, the E-Filing PIN is issued and does not replace the Identification numbers issued by IRS or SSA.

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<sup>47</sup>Legal Information Institute: 26 U.S Code 3610 Identifying Numbers, <http://www.law.cornell.edu/uscode/text/26/6109>, retrieved on 17 December, 2015 at 4.05pm.

<sup>48</sup>SSA.

<sup>49</sup>SSN.

<sup>50</sup>EIN.

<sup>51</sup>ITN.

<sup>52</sup>PTIN.

<sup>53</sup>i.e. <http://www.ssa.gov/>

<sup>54</sup>IRS, TIN, *op.cit*

<sup>55</sup>*Ibid.*

<sup>56</sup>*Ibid.*

<sup>57</sup>*Ibid.*

<sup>58</sup>This is available only to certain non-resident and resident aliens, their spouse and dependent that cannot obtain social security number. *Ibid.*

<sup>59</sup>*Ibid.*

<sup>60</sup>Usually a nine-digit number.

<sup>61</sup>Adoption Taxpayer Identification Number (ATIN) is issued by the IRS as a temporary taxpayer identification number for the child in a domestic adoption where the adopting taxpayers do not have and/or are unable to obtain the child's social security number. The ATIN is to be used by the adopting taxpayers on their Federal Income Tax return to identify the child while final domestic adoption is pending. The ATIN serves the purpose of identification for the child being adopted. See IRS website, <http://www.irs.gov/Individuals/Adoption-Taxpayer-Identification-Number>, retrieved on 5 March, 2014.

<sup>62</sup>IRS, TIN, *op.cit*.

<sup>63</sup>IRS.gov, Get my Electronic Filing PIN-Help, <http://sa1.www4.irs.gov/irfof-efp/start.do;sessionid=shpcuhtu2seTo2xOgbsprWh>, retrieved on 17 December, 2015 at 4.14pm.

**2. File Tax Returns Electronically:** In the USA, taxpayers have several options open to them to file their tax returns and they are: Manual Paper Filing, Electronic filing i.e. E-filing or engaging the services of Professional Tax Preparers.<sup>64</sup> These options are available for paying Federal and state taxes alike. Before proceeding to file the tax return, the taxpayer or tax preparer filing on behalf of the taxpayers must possess an email address, the tax return to be filed and other relevant documents relating to the taxpayer's income and suchlike. With this, the taxpayer tax preparer needs to log on to the IRS website with the filing PIN to download the relevant tax return form as there are various kinds which include:<sup>65</sup> (a). Form 1040 --Individual Tax Return form long form; (b). Form 1040A--Individual Income Tax Return short form; (c). Form 1040EZ --Income Tax Return form for single and joint filers with no dependants; and (d). Form 1040NR--Non-Resident Alien Tax Return, and so on.

After downloading the relevant form, various pertinent information must be filled in such as the taxpayer's name, address, identification number, filing status, exemptions, incomes, tax credits/deductions, other taxes and payments, amount owed<sup>66</sup> and so on.<sup>67</sup> After filling the tax return form, the taxpayer/tax preparer signs the tax return using a self-select Personal Identification Number<sup>68</sup> and files it using IRS Free File tax software or other commercial tax software made available by authorised IRS e-file providers at a fee.<sup>69</sup> Upon submission of the filled return form, the returned and entire electronic record is transmitted to the IRS for processing where Free File is being used or a third party transmitter where other commercial tax filing software is being utilised. An email is sent to the taxpayer/tax preparers as soon as the tax return is received. Subsequently, the tax return is assessed, with the taxpayer's tax calculated within 48hours. Where errors are detected, an error message is sent to the transmitter to correct and re-transmit the return to the IRS.<sup>70</sup> It is pertinent to mention that US taxpayers have the option of filing state and federal returns at the same time with IRS in about 37 states and the District of Columbia participating in Federal/State e-File Programme.<sup>71</sup>

**3. Payment of Tax Due:** Upon being notified of tax due by email, US taxpayers have four options through which payment can be made viz:<sup>72</sup> (a). By debit or credit card through which payment is done through a payment processing company at a fee such as payUSAtax,<sup>73</sup> TurboTax,<sup>74</sup> and several others; (b). By Direct Debit with this payment option, the IRS automatically withdraws the amount owed from the taxpayer's account with his financial institution with additional fees;<sup>75</sup> (c). Payment through the IRS Electronic Federal Tax Payment System<sup>76</sup> this tax payment service is provided free by the US Department of the Treasury.<sup>77</sup> The EFTPS website contains a step-by-step guide on how to make payments through EFTPS; and (d). Payment through Cheque or money Order; the cheque must contain the taxpayer's name, address, identification number, phone number, and so on; and mailed along with

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<sup>64</sup>US Tax Center, How to File your Tax Return, *op. cit.*

<sup>65</sup>*Ibid.*

<sup>66</sup>Where self-assessed.

<sup>67</sup>U.S Tax Centre, *op.cit.*

<sup>68</sup>*Ibid.*

<sup>69</sup>Free File is a free electronic tax filing software made available by the IRS on its website to US taxpayers on an annual income of \$58,000 or less, to pay their Federal taxes. See Free File, Do your Federal Taxes for Free, <http://www.irs.gov/uac/free-file:-Do-your-federal-taxes-for-free>, retrieved on 19 December, 2015 at 7.14am.

<sup>70</sup>IRS.gov, Authorised IRS e-file Providers for Individuals, <http://www.irs.gov/uac/authorised-irs-e-file-providers-for-individua#QA>, retrieved on March, 2014.

<sup>71</sup>*Ibid.*

<sup>72</sup>IRS, Make a Payment, <http://www.irs.gov/payments>, retrieved on 8 March, 2014.

<sup>73</sup>payUSAtax, IRS Authorised Payment service: FAQs, <http://www.payusatax.com/faq.aspx>, retrieved on 8March, 2014.

<sup>74</sup>TurboTax Support, Options for Paying Your Federal Income Tax, <http://ttlc.intuit.com/questions/1901676-options-for-paying-your-federa-income-tax>, retrieved on 8 May, 2014.

<sup>75</sup>*Ibid.*

<sup>76</sup>EFTPS.

<sup>77</sup>EFTPS, Welcome to EFTPS Online, <http://www.eftps.gov/eftps/>, retrieved on 19 December, 2015 at 7.24am.



the IRS Form 1040-V by April 15, the tax filing deadline to avoid payment of penalty.<sup>78</sup> Where a taxpayer does not have the money to pay for the tax due, he can apply for an IRS instalment agreement which attracts additional fees of about \$120 or more.<sup>79</sup>

There is a refund remedy. Once a taxpayer has e-filed his tax return, he can use the IRS Where is My Refund tool on IRS website to check his tax refund status where there is a likelihood that he has overpaid tax.<sup>80</sup> Where tax is being processed by the IRS, the taxpayer can monitor tax refunds status in three stages: Return Received, Refund Approved and Refund Sent.<sup>81</sup> Return Received status means that the IRS has received the taxpayer's tax return and it is being processed. Refund Approved status implies that the IRS has finished processing the taxpayer's tax return and has approved that the taxpayer is entitled to tax refund.<sup>82</sup> Refund Sent Statues means that the IRS has sent the taxpayer's refund to his financial institution for Direct Deposit. It also informs the taxpayer when the refund is sent to the bank.<sup>83</sup> Usually tax refunds take about 21days to process.<sup>84</sup>

## 5.2. E-Taxation in Japan

The National Tax Authority (NTA)<sup>85</sup> which is the central tax authority of the Japanese government is charged with tax administration in Japan and was established in 1949.<sup>86</sup> Since the establishment of the National Tax Agency in Japan in 1949, there have been several tax reforms in Japanese Tax Administration. The commencement of e-taxation in Japan by the NTA cost the Japanese government ¥50 billion.<sup>87</sup> The Japanese E-Tax was initially piloted in Nagoya City, Japan, in 2004 and rolled out nationwide after three months of piloting.<sup>88</sup> The initial e-Tax software system has been operational since 2004 on NTA's website and has undergone many continuous revisions and changes pursuant to user's feedback and suggestions.<sup>89</sup> Several factors influenced the NTA's adoption of e-Tax and they include the following:<sup>90</sup> (a) Desire to transform the NTA bureaucratic tax public administration existing prior to the e-tax system to a modern, citizen-centred service organisation; (b) To achieve policy outcome i.e. better tax law compliance by taxpayers in line with global standards; (c) Desire to provide more convenient services for the public;<sup>91</sup> and (d) Adequate management of growing number of taxpayers left unattended to by limited number of tax officers.

Prior to the introduction of e-tax in Japan, the NTA was short-staffed and the number of taxpayers kept increasing such that taxpayers had to wait for hours to receive NTA's services.<sup>92</sup> In fact, there was an explosion in taxpayers' complaints concerning this. To address this, the NTA embarked on a comprehensive review of administrative reform to tax consultation. Subsequently, the e-tax system which is an integrated online self-service tax return filings and payment through the internet was launched nationwide by NTA in 2004.<sup>93</sup> To ensure that taxpayers effectively take advantage of the NTA

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<sup>78</sup>TurboTax Support, *op.cit*

<sup>79</sup>*Ibid*

<sup>80</sup>IRS, 2014 Tax Season Refund Frequently Asked Questions, <http://www.irs.gov/Refunds/2014-Tax-Season-Refund-Frequently-Asked-~Questions>, retrieved on 19 December, 2015 at 7.27am.

<sup>81</sup>*Ibid.*

<sup>82</sup>*Ibid.*

<sup>83</sup>*Ibid.*

<sup>84</sup>*Ibid.*

<sup>85</sup> NTA

<sup>86</sup>Y Kimura, Japan's Tax Administration, Reform and the Self-Assessment System. Seminar paper presented at the Tax Administration Course III, Asian Development Bank Institute, Cambodia, on the 22<sup>nd</sup> of March, 2006, p. 1.

<sup>87</sup>AT Chatfield, *op.cit.* p.139

<sup>88</sup>*Ibid.* p.142

<sup>89</sup>*Ibid.*

<sup>90</sup>*Ibid.*

<sup>91</sup>*Ibid.*p.139

<sup>92</sup>*Ibid.*

<sup>93</sup>*Ibid.*

e-Tax, several walk-in ICT centres were established in various cities across Japan.<sup>94</sup> NTA observed that computer literacy level among taxpayers was low, hence established the walk-in ICT centres and encouraged taxpayers to use same to pay their taxes. In Japan utilisation of the NTA e-Tax is optional as taxpayers are still at liberty to file their taxes manually.

### 5.3. E-Taxation in Nigeria

The Nigerian Government at the Federal and State levels have taken active steps towards the automation of the Nigerian Tax System. The Lagos Internal Revenue Service, in conjunction with Alpha Beta Consulting Limited started the process by introducing electronic tax clearance for taxpayers of Lagos State.<sup>95</sup> In the second quarter of 2005, the Lagos Internal Revenue Service extended electronic tax clearance certificate to taxpayers in the informal sector of the economy of Lagos State which includes transport workers, traders and sundry artisans.<sup>96</sup> In 2008, the Akwa Ibom State Internal Revenue Service made electronic tax payment services available to its taxpayers.<sup>97</sup> Several other states across the Federation are at various stages of commencing e-taxation like Edo State, Ogun State, and Cross River State.

At the Federal level, the idea of automating of tax administration came when at the invitation of the Federal Government, officials of the International Monetary fund were invited to appraise the Nigerian tax System in line with global standards. Upon a critical scrutiny of the Nigerian tax system, the IMF recommended the modernisation of the FIRS for it to remain virile and relevant amidst economic realities.<sup>98</sup> In line with the recommendations of the IMF, the FIRS adopted a seven-fold programme of reforms which included re-engineering and automating tax collection and tax administration generally.<sup>99</sup> To actualise this, the FIRS adopted what it called a Modernisation Plan to cover 2004 - 2009 with several components that included acquisition, development and implementation of an Integrated Tax Administration System (ITAS).<sup>100</sup> To make e-taxation a reality, the FIRS has embarked on several projects which include:<sup>101</sup> (a). Project FACT-Friendly Accurate Complete and Timely;<sup>102</sup> (b) Bank Payment Process Automation and Taxpayers Database Development Project;<sup>103</sup> (c) Integrated Tax Administration System, ITAS, Project; and (d) Record Management and Documentation Tracking.<sup>104</sup> It is believed that by the time Federal Inland Revenue Service concludes its Integrated Tax Administration System (ITAS) project, it will create a centralized platform through which taxpayers can pay all forms of taxes, levies, and rates existing at the Federal, State and Local levels.

Recently, the Federal Inland Revenue Service finally launched the FIRS e-Tax Pay Solution in Lagos assuring taxpayers that they can now pay their taxes online by logging onto the internet banking platform of any commercial bank in Nigeria.<sup>105</sup> At the time of this research, it is uncertain if the FIRS

<sup>94</sup>A T Chatfield, A T, Public Service Reform through e-Government: A Case Study of e-Tax in Japan. (2009) 7 *EJEG*, p.135-146.

<sup>95</sup>O Andu, Electronic Tax Clearance for Lagos Residents. *This Day Newspaper*, November 12, 2004, p. 31.

<sup>96</sup>B Adeyemi, Lagos Extends Electronic Tax System to Informal Sector. *The Guardian Newspaper*, May 13, 2005, p. 49.

<sup>97</sup>B A Akpan, Notice to General Public on the Introduction of Electronic Monitoring of Payments into Collecting Banks in Respect of Internally Generated Revenue. <http://www.icmaservices.com/ICMASERVICES/articles3.htm> retrieved on 19 December, 2015 at 11.26am.

<sup>98</sup>*Ibid.*

<sup>99</sup>*Ibid.*

<sup>100</sup>*Ibid.*

<sup>101</sup> *Ibid.*

<sup>102</sup> I Omoigui-Okauru, Tax Reforms, op. cit. p.165. The purpose to be achieved by this project is to ensure that funds collected by banks as tax are not delayed, converted or diverted by the banks.

<sup>103</sup> This is basically the automation of the bank payment process, developing a reliable and comprehensive national tax payer's database and assigning taxpayers identification number, inter alia.

<sup>104</sup> This project is essentially aimed at re-engineering records and documents handling, filling and retrieval process with information and information technology.

<sup>105</sup> I Anumihe, FIRS Launches Online Tax Payment. <http://sunnewsonline.com/new/?p=107330> retrieved on 19 December, 2015 at 11.38am .

e-Tax Pay Solution has practically and actually started because so far proper public enlightenment through the mass and print media has not been done by the FIRS.

As part of the drive towards automating tax administration in Nigeria, the Federal Government through the Joint Tax Board commenced the registration of taxpayers across the federation and issuing them with Tax Identification Numbers in conjunction with the various State Boards of Internal Revenue. The Joint tax Board UTIN Project fully was flagged off in July, 2008, with the expectation that it would reach its completion by August, 2011, barring any review of fixed timelines.<sup>106</sup> The cost estimate of the project was ₦7.94 billion to be funded using the sharing formula which is consistent with the ownership of the project i.e. the federal government through the FIRS is 52% and the States through their Boards of Internal Revenue all together is 48%.<sup>107</sup> The UTIN Project has gone live in almost all the States of the Federation and the FCT, Abuja. In 2006, the Nigerian Customs Service introduced an e-trade platform known as the Nigeria Integrated Customs Information System<sup>108</sup> meant to effect Automated Systems for Customs Data.<sup>109</sup>ASYCUDA is a computerised customs management system which covers most foreign trade procedures.<sup>110</sup>The ASYCUDA software was developed in Geneva by UNCTAD<sup>111</sup>. The NICIS was fully implemented on the 1<sup>st</sup> of February, 2010, as self-assessment and implementation were also introduced.<sup>112</sup>The NICIS is made up of the ASYCUDA processing and risk management system enhanced by a number of modules which have been developed by the Nigeria Customs Service in association with Webb Fountaine and which are known as the Trade World Manager.<sup>113</sup>

## **6.0. Comparative Analysis of the Utilisation of E-taxation in Selected Foreign Jurisdiction and Nigeria**

**6.1. E-taxation practised in developed countries like the USA and Japan is complete e-taxation unlike e-taxation practised in Nigeria.** In the USA, taxpayers can fully pay their taxes from online assessment to receiving automated receipt and refund where necessary. On the other hand in Nigeria in States that have commenced e-taxation like Cross River State and Akwa Ibom State, the taxpayer still has to go physically to the designated banks to pay their taxes and still go to the tax authority to collect payment receipt and tax clearance certificate as evidence of tax payment.

**6.2. Electronic tax filing in the USA is more comprehensive, detailed and easier to use in contradistinction with what is obtainable in Japan.** A tour through the IRS website and feedback of their taxpayers reveal how detailed and easy it is to pay taxes electronically in the USA. In Japan, there is actually difficulty for foreigners in paying their taxes electronically as most of the information is written in Japanese language. It is believed that the various tax authorities in Nigeria would emulate the IRS in making the processes of electronic tax filing very comprehensive and easy to utilise.

**6.3. In foreign jurisdictions, taxpayers are motivated with incentives to utilize e-taxation to pay their taxes.** In the USA, taxpayers are given incentives such as tax discounts by the IRS when they pay their taxes on time and utilise electronic tax filing to pay their taxes. In Japan, the NTA set up walk-in ICT Centres wherein taxpayers can access the internet to pay their taxes even with guides to assist them in the face of any difficulty encountered.

**6.4. Computer literacy level amongst taxpayers in the USA and Japan is higher than that of Nigerian taxpayers.** It is common knowledge that the literacy level amongst taxpayers in the USA and Japan is higher, given the period their tax authorities introduced electronic tax filing to their taxpayers. For example, the IRS introduced electronic tax filing as far back as 1986. The FIRS in Nigeria is yet to

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<sup>106</sup>UTIN Project: A Call for Support, *JTB News*, p.10.

<sup>107</sup>*Ibid.*

<sup>108</sup>NICIS.

<sup>109</sup>ASYCUDA. See M D Jatau (ed.), *Customs Reforms and Modernisation in Nigeria: Towards a Comprehensive Vision*. <http://www.globalsouthgroup.com/wp-content/uploads/2013/08/download0b30.pdf>, accessed on 16<sup>th</sup> April, 2014.

<sup>110</sup>*Ibid.*

<sup>111</sup>ASYCUDA, <http://www.asycuda.org/aboutas.asp>, accessed on 16/4/2014.

<sup>112</sup>M D Jatau, *op. cit.*

<sup>113</sup>TWM.

practically introduce electronic tax filing to Nigerian taxpayers it is only in the news but taxpayers throughout the Federation have not started using it to pay their taxes.

**6.5. In the USA, there are several laws that cloth electronic tax filing with some level of legitimacy unlike in Nigeria where there is none.** In the USA, there exist several laws that back up electronic tax filing such as the Tax Reform Act<sup>114</sup> and the Restructuring and Reform Act<sup>115</sup> enacted by the US Congress with the aim of having the IRS change its organisational culture, restructure, modernise and improve taxpayers' protection and rights generally.<sup>116</sup> Since 2002 that the FIRS started making plans to modernise and automate tax administration in Nigeria, not a single statute has been enacted by the National Assembly till date to legitimise the whole process.

## **7.0 Conclusion and Recommendations**

From the foregoing, e-taxation is an indispensable and effective tool for transforming tax administration and aptly exploiting taxation for national development. In as much as there are challenges of utilising e-taxation in tax administration, the gains of e-taxation outweigh the perceived and practical challenges seen above. No doubt, the USA has a thriving economy sustained through an efficient and effective tax system hugely aided by e-taxation. Where the Nigerian government at all levels effectively adopts and practically introduces e-taxation in tax administration to taxpayers it would aid the tax authorities to properly capture taxpayers, in the Nigerian economy and collect taxes from them. On the other hand, it would protect taxpayers from the arbitrary excesses of the various tax authorities.

For e-taxation to effectively transform the Nigerian Tax System, the following suggestions may be relevant. First, there should be constant and periodic registration of persons with taxable income; as well as proper maintenance of the existing database of taxpayers. This will efficiently aid the relevant tax authorities to keep tabs on taxpayers and effectively enforce the provisions of the various tax legislation. Again, specific laws should be enacted by the legislature at the Federal and State levels to properly back up and clothe the e-taxation process with legality. This will forestall and curb needless litigation tax evaders who may want to question the legality of e-taxation. Massive awareness should be created amongst taxpayers, persons with taxable income on the gains of e-taxation to national development and taxpayers alike. More still, upon the full implementation of e-taxation for Federal, State and Local government taxes, it is suggested that taxpayers should not be given the option of choosing how they want to pay their taxes- either electronically or manually as it may become an excuse or opportunity for tax evasion by some taxpayers. Finally, the various tax authorities ought to send constant reminders to taxpayer of their liability, especially before the due date that tax becomes payable, so that they do not rely on the contrary and evade tax.

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<sup>114</sup>Of 1986.

<sup>115</sup>Of 1998.

<sup>116</sup>Treasury Inspector General for Tax Administration The Internal Revenue Service Restructuring and Reform Act of 1998 was substantially Implemented but Challenges Remain, <http://www.treasury.gov/tigta/iereports/2010reports/2010IER002fr.html>, retrieved on 3 March, 2014.