



**COVID-19 PANDEMIC: INNOVATIVE TAX INCENTIVES AND GOOD CORPORATE GOVERNANCE MEASURES BY REVENUE AUTHORITIES IN NIGERIA**

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**Abstract**

*The Pandemic is not all stories of woe. Despite its negative impact on global economies, it also brought about the opportunity for companies, financial institutions and businessmen and women to re-think and look for new strategies to continue to do their businesses. The Pandemic made many business organisations think of innovative ways to continue to carry out their businesses. Therefore, even though the Covid-19 Pandemic adversely affected most economies of the world, it also brought about changes to business practices globally as new ideas were introduced. Some of these innovations are the use of technology and artificial intelligence. Tax authorities in Nigeria are not left behind as they introduced some innovations/ incentives in the way they carry out their functions, some of which are; the introduction of an online platform for the payment of tax and the filing of tax documents, extension of time and waivers for some categories of taxpayers by the Federal and State tax authorities. The paper used the Federal Inland Revenue Service, the Lagos State Internal Revenue Service and the Kwara State Internal Revenue Service as case study. The paper aims to examine how tax authorities can effectively continue their business activities when faced with a similar public emergency like the Covid-19 Pandemic. The paper attempts to answer some questions which are; what are the innovations, in terms of incentives and strategies introduced by revenue authorities during and after the pandemic in Nigeria; What are the good corporate governance measures or practices that must be adhered to while re-thinking revenue generation: The research method used in carrying out this work is doctrinal in nature as recourse was made to primary and secondary sources of gathering information. The paper finds out that even though revenue authorities in Nigeria did not do too badly during the Pandemic, they can still perform better given similar situations or circumstances. The paper, therefore, comes up with recommendations on how revenue generation can be enhanced, borrowing a leaf from other advanced countries. The paper, however, concludes that nothing should be done to compromise good corporate governance practices in a bid to generate more revenue.*

**Key Words:** Covid-19 Pandemic, Innovative tax collection strategies, tax incentives, Revenue generation authorities in Nigeria, Good Corporate Governance Practices

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## **Introduction**

The Covid-19 Pandemic made those in business rethink and to come up with new ideas and methods on how best to carry out their businesses so that it does not grind to a halt. Covid-19 brought changes to business practices globally, and many agencies and companies, financial institutions, and business persons no longer do business as they used to before the Pandemic. For instance, tax authorities both at the Federal and State levels in Nigeria introduced some innovations in the way they carry out their functions. One can therefore say that the pandemic positively impacted the economy because it brought the opportunity to think out of the box in its wake. For instance, it introduced innovative tax collection strategies such as online platform for payment and filing of tax documents, import duties waiver for certain commodities and some other tax incentives.

The paper aims to examine new strategies or incentives introduced by revenue agencies in Nigeria during the Covid-19 Pandemic period and the effect that the Pandemic had on revenue generation authorities' mode of operation in Nigeria. The research method used in carrying out this work is doctrinal in nature, as recourse was made to primary and secondary sources of gathering information. The paper examines the tax authority in charge of Federal Tax Administration in Nigeria, the Federal Inland Revenue Service (FIRS) and the tax authorities administering taxes in two of the states in Nigeria, the Lagos State Internal Revenue Service (LIRS) and Kwara State Internal Revenue Service (KWIRS). The paper also attempts to answer some questions which are; what are the innovations/incentives introduced during and after the pandemic to meet the income generation target of government and; what are the good corporate governance measures or practices that must be adhered to while rethinking revenue generation? The paper concludes that nothing should be done to compromise good corporate governance practices. The major objective of the research is to identify innovations introduced by Revenue agencies in Nigeria in order to enhance revenue generation despite the public health emergency occasioned by the outbreak of the Covid-19 Pandemic.

## **Advent of COVID-19 and its Effect on Economic activities**

On the 31<sup>st</sup> of December 2019, the World Health Organisation (WHO) office in the People's Republic of China picked up a media statement by the Wuhan Municipal Health Commission on

cases of ‘viral pneumonia of unknown cause’ in Wuhan.<sup>1</sup> By the 9<sup>th</sup> and 30<sup>th</sup> of January 2020 respectively, the Chinese authorities identified the outbreak of the novel Coronavirus.<sup>2</sup> The Coronavirus was declared a global public health emergency of international concern by the WHO, at the second meeting of the International Health Regulations Emergency Committee.<sup>3</sup> Africa recorded its first case in Egypt on February 2020 and since then, the WHO has recorded 666,910,083 confirmed cases of COVID-19 and 6,704,756 deaths globally as of 5<sup>th</sup> January 2023.<sup>4</sup> The Covid-19 period was a trying one for the world at large as it succeeded in disrupting every aspect of life<sup>5</sup> due to the rate of its spread and death rate, nations of the world had to shut down their economy and everything was at a standstill as a result of the lockdown.<sup>6</sup>

Covid-19 was first discovered in Nigeria on February 27<sup>th</sup> 2020, through an infected Italian Businessman. Cases increased due to the inflow of people into the country from different parts of the world. On Monday 23 March 2020 all airports in Nigeria were closed to international flights while incoming travelers were placed under supervised isolation for 14 days, and by 14<sup>th</sup> November 2021, the Nigeria Centre for Disease Control (NCDC) has recorded 213,076 confirmed cases and 2,949 deaths. As of 11<sup>th</sup> January 2023, NCDC website said there are 266,463 confirmed cases.<sup>7</sup> The rapid spread of the Coronavirus had a devastating effect on every sector of the economy, including the financial sector which necessitated the adoption and introduction of innovative measures targeted at stemming the tide and at the same time

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<sup>1</sup>Fatima Bello, NkirukaChidiaMaduekwe and IzuomaEgeruoh-Adindu, ‘Guidelines for the Justice and Legal Education Sectors to Facilitate Adherence to the National Covid-19 Guidelines’ in M.T Ladan (eds), A support document to aid Covid-19 Compliance in the delivery of Legal Education and implementation of the Administration of Criminal Justice in Nigeria (2021)

<sup>2</sup> World Health Organisation (WHO), ‘Timeline: WHO’s COVID-19 Response’ <<https://www.who.int/emergencies/diseases/novel-coronavirus-2019/interactive-timeline#!>> accessed 20 December 2022

<sup>3</sup>Statement on the Second Meeting of the Health Regulations emergency Committee Regarding the Outbreak of the Novel Covid-19 < [https://www.who.int/news/item/30-01-2020-statement-on-the-second-meeting-of-the-international-health-regulations-\(2005\)-emergency-committee-regarding-the-outbreak-of-novel-coronavirus](https://www.who.int/news/item/30-01-2020-statement-on-the-second-meeting-of-the-international-health-regulations-(2005)-emergency-committee-regarding-the-outbreak-of-novel-coronavirus)> (2019-ncov) accessed 12 December 2022

<sup>4</sup> WHO, ‘WHO Coronavirus (COVID-19) Dashboard’ <<https://covid19.who.int/>> accessed 5 January 2023

<sup>5</sup> Baber Hasnan ,Spillover effect of Covid-19 on the Global Economy TMI 177-196, 2020, (October 20, 2020). Forthcoming, Transnational Marketing Journal (TMJ), 8(2), 177-196., Available at SSRN: <<https://ssrn.com/abstract=3717456>> or <<http://dx.doi.org/10.2139/ssrn.3717456>> accessed 22 September 2022

<sup>6</sup>AdesojiFarabiyi and SimpliceAsongu, “The Economic Consequences of the Covid-19 Pandemic in Nigeria” 2020 SSRN Electronic Journal <<https://www.researchgate.net/publication/342518936>> ; <<https://www.researchgate.net/publication/342518936>>accessed 22 September 2022

<sup>7</sup> NCDC Website <<https://covid19.ncdc.gov.ng>> accessed 11 January 2023

preventing the total collapse of the economy. While many are familiar with the medical and non-medical containment measures<sup>8</sup> introduced by countries all over the world, a lot of people did not know the measures put in place by financial institutions and businesses which helped keep them afloat during and after the pandemic.

### **Effect of Covid-19 on the Economy and Introduction of New Incentives by Revenue Authorities**

Lockdown and other regulatory control affected business operations across the world<sup>9</sup> and revenue generation.<sup>10</sup> It caused a decrease in the revenue available to the various governments<sup>11</sup> in contrast to the volume of expenditure of the government to meet her myriad obligations to the citizens.<sup>12</sup> The Nigerian government introduced new incentives and strategies to beef up her revenue. Kwara State introduced a tax holiday of one year for all existing small and medium enterprises, Jigawa state did the same from 1<sup>st</sup> July 2020- 30<sup>th</sup> June 2021 and 18 months' tax holiday for new enterprises from 1<sup>st</sup> July 2020- 31<sup>st</sup> Dec 2021. In Katsina and Anambra States, a 20% and 10% rebate was issued to new taxpayers respectively. Lagos state Internal Revenue was also not left behind as it also introduced tax incentives. While some countries waived taxes on tourism and airline companies, others reduced taxes.

### **The Federal Inland Revenue Service**

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<sup>8</sup> Some of the measures include the declaration of phased lockdown, international and national travel restrictions, social and physical distancing, compulsory use of face masks, regular hand washing and use of alcohol based hand sanitisers, amongst others.

<sup>9</sup> Daniel Twesige, "Analysis of Finance and Accounting Measures to Mitigate the Impact of Covid-19 Pandemic among Businesses in Rwanda During and in a Post Covid Environment". Open Journal of Accounting, II, 199-212. doi: 10.4236/ojacct.2022.113011. < <https://www.scirp.org>> accessed 20 December 2022

<sup>10</sup> Kumaran Kanapathipillai, "The Impact of the Silent Enemy (Covid-19 Pandemic) on the Marketing Efforts Undertaken by the Automotive Industries in Malaysia" European Journal of Management and Marketing Studies (EJMMS) 2020 DOI: <<http://dx.doi.org/10.46827/ejmms.v5i4.886>> accessed 5 January 2023

<sup>11</sup> Daniel Bachman, "The Economic Impact of Covid-19" (2020) Deloitte Insights <<https://www2.deloitte.com/us/en/insights/economy/covid-19/economic-impact-covid-19.htm>> accessed 2 December 2022

<sup>12</sup> Yunfeng Shang, Haiwei Li, Ren Shang, "Public Finance have been negatively affected by the Covid-19 Pandemic: Effect of Pandemic Outbreak on Economies Evidence from Business History Context", Frontiers in Public Health Journal Published online 2021 March 12 doi: 10.3389/fpubh.2021.632043 <<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7994505>> <<https://www.frontiers.org>> fpubh.2021.632043 accessed 5 January 2023



The Federal Inland Revenue Service (FIRS) is the body responsible for the assessment, collection, supervision, accounting, and enforcement of all federal taxes in Nigeria. The Federal Inland Revenue Service (Establishment) Act, No.13, 2007, established the FIRS as a body corporate with perpetual succession, a common seal and the power to sue and be sued. In addition, it created the Federal Inland Revenue Service Board which has overall supervision of the Service, as specified under the Act and consists of an Executive Chairman and fourteen other members drawn from different government parastatals and establishments.<sup>13</sup> The Executive Chairman, according to the Act, is someone who is experienced in taxation and appointed by the President of Nigeria subject to the confirmation of the Senate. He is the Chief executive and accounting officer of the Service and is responsible for the execution of the policy and the day to day administration of the affairs of the Service.

### **The Functions of the Federal Inland Revenue Service**

In Section 8 of the Act<sup>14</sup> the following functions of the Service are enumerated:

- (a) Assess persons including companies, enterprises chargeable with tax;<sup>15</sup>
- (b) Assess, collect, account and enforce payment of taxes as may be due to the Government or any of its agency;<sup>16</sup>
- (c) Collect, recover and pay to the designated account any tax under any provision of the Act or any other enactment or law;<sup>17</sup>
- (d) In collaboration with the relevant Ministries and Agencies, review the tax regimes and promote the application of tax Revenues to stimulate economic activities and development;<sup>18</sup>
- (e) in collaboration with the relevant law enforcement agencies, carry out examination and investigation with a view to enforcing compliance with the provisions of the Act;<sup>19</sup>

<sup>13</sup> Federal Inland Revenue Service (Establishment Act) 2007, s 3(2)(a-j)

<sup>14</sup> FIRS (EA) 2007 s 8(1)(a-t) and 8(2)

<sup>15</sup> FIRS (EA) 2007 s 8(1)(a)

<sup>16</sup> FIRS (EA) 2007 s (8)(1)(b)

<sup>17</sup> FIRS (EA) 2007 s (8)(1)(c)

<sup>18</sup> FIRS (EA) 2007 s (8)(1)(d)

<sup>19</sup> FIRS (EA) 2007 s (8)(1)(e)



- (f) make, from time to time, a determination of the extent of financial loss and such other losses by government arising from tax fraud or evasion and such other losses (or Revenue forgone) arising from tax waivers and other related matters;<sup>20</sup>
- (g) adopt measures to identify, trace, freeze, confiscate or seize proceeds derived from tax fraud or evasion;<sup>21</sup>
- (h) adopt measures which include compliance and regulatory actions, introduction and maintenance of investigative and control techniques on the detection and prevention of non-compliance;<sup>22</sup>
- (i) collaborate and facilitate rapid exchange of information with relevant national or international agencies or bodies on tax matters;<sup>23</sup>
- (j) undertake exchange of personnel or other experts with complimentary agencies for purposes of comparative experience and capacity building;<sup>24</sup>
- (k) establish and maintain a system for monitoring international dynamics of taxation in order to identify suspicious transactions and the perpetrators and other persons involved;<sup>25</sup>
- (l) provide and maintain access to up to date and adequate data and information on all taxable persons, individuals, corporate bodies or all agencies of government involved in the collection of revenue for the purpose of efficient , effective and correct tax administration and to prevent tax evasion or fraud;<sup>26</sup>
- (m) maintain database, statistics, records and reports on persons, organisations, proceeds, properties, documents or other items or assets relating to tax administration including matters relating to waivers, fraud or evasion;<sup>27</sup>
- (n) undertake and support research on similar measures with a view to stimulating economic development and determine the manifestation, extent, magnitude and effects of tax fraud,

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<sup>20</sup> FIRS (EA) 2007 s (8)(1)(f)

<sup>21</sup> FIRS (EA) 2007 s (8)(1)(g)

<sup>22</sup> FIRS (EA) 2007 s (8)(1)(h)

<sup>23</sup> FIRS (EA) 2007 s (8)(1)(i)

<sup>24</sup> FIRS (EA) 2007 s (8)(1)(j)

<sup>25</sup> FIRS (EA) 2007 s (8)(1)(k)

<sup>26</sup> FIRS (EA) 2007 s (8)(1)(l)

<sup>27</sup> FIRS (EA) 2007 s (8)(1)(m)



evasion and other matters that affect effective tax administration and make recommendations to the government on appropriate intervention and preventive measures;<sup>28</sup>

(o) collate and continually review all policies of the Federal government relating to taxation and revenue generation and undertake a systematic and progressive implementation of such policies;<sup>29</sup>

(p) liaise with the office of the Attorney-General of the Federation, all government security and law enforcement agencies and such other financial supervisory institutions in the enforcement and eradication of tax related offenses;<sup>30</sup>

(q) issue taxpayer identification number to every taxable person in Nigeria in collaboration with States Board of internal Revenue and Local Government Councils;<sup>31</sup>

(r) carry out and sustain rigorous public awareness and enlightenment campaign on the benefits of tax compliance within and outside Nigeria;<sup>32</sup>

(s) carry out oversight functions over all taxes and levies accruable to the Government of the Federation and as it may be required, query, subpoena, sanction and reward any activities pertaining to the assessment, collection of and accounting for revenue accruable to the Federation;<sup>33</sup> and

(t) carry out such other activities as are necessary or expedient for the full discharge of all or any of the functions under the Act.<sup>34</sup>

In addition to the above, the Secretary may, from time to time, specify the form of returns, claims, statements and notices necessary for the due administration of the powers conferred on it by the Act. The effect of the covid-19 Pandemic on revenue generation by the FIRS in Nigeria will now be examined.

### **Tax Incentives Introduced by the Federal Government During the Pandemic**

<sup>28</sup> FIRS (EA) 2007 s (8)(1)(n)

<sup>29</sup> FIRS (EA) 2007 s (8)(1)(o)

<sup>30</sup> FIRS (EA) 2007 s (8)(1)(p)

<sup>31</sup> FIRS (EA) 2007 s (8)(1)(q)

<sup>32</sup> FIRS (EA) 2007 s (8)(1)(r)

<sup>33</sup> FIRS (EA) 2007 s (8)(1)(s)

<sup>34</sup> FIRS (EA) 2007 s (8)(1)(t)



In order for countries to achieve favorable economic conditions, they introduced tax incentives. Nigeria being not an exception, introduced the following incentives and innovations during the pandemic to prevent the economy from total collapse.

- i. Extension of filing period of Personal Income Tax returns for Foreign Affairs, Military and Police sector till 30<sup>th</sup> of June 2020.
- ii. FIRS waived tax penalty for late returns, for taxpayers who pay taxes promptly as an encouragement for tax payment.
- iii. The federal government announced one-month extension to file Companies Income Tax (CIT), withholding tax as well as two months' delay in submission of audited financial statements and 20% tax discount for qualified taxable companies.
- iv. Import duty waiver for pharmaceutical firms and some other tax incentives.
- v. FIRS created VAT automated collection system known as VATrac. This system aided VAT collection for businesses like supermarkets, eateries and standard shops.
- vi. FIRS also encourage the public to make use of its available e-platforms which can be used for tax filing returns, payment of taxes, tax clearance certificates etc
- vii. Tax payers who faced challenges in offsetting their liabilities, were given the option of paying in naira.<sup>35</sup>
- viii. Tax payers were allowed to file their annual CIT returns without the need to accompany it with the mandatory audited accounts.

All these measures contributed immensely to the continuous generation of revenue during the period in question. For instance, the FIRS generated N5.320 in 2018, N5 trillion in 2019, N4.95 trillion in 2020, and N6.405 trillion in 2021. The 2021 figure represented a 30.6 percent increase when compared to the amount generated in 2020 and a 28 percent rise when compared to N5 trillion generated in 2019.<sup>36</sup> The fact that the Federal government of Nigeria through the FIRS generated 5 trillion naira in 2019 when there was no pandemic and 4.95 trillion naira in the heat of the pandemic shows that there is not really a wide gap between what was generated pre-covid-19 and during the covid-19. This is because the FIRS throughout the covid-19 period, continued

<sup>35</sup> Naira is the Nigerian Local Currency.

<sup>36</sup> <<https://punching.com>> firs-others-revenue-collection-cost- accessed August 8 2022





to generate revenue through innovative means and from manufacturers, e-commerce and the telecommunication sector.

Olaoye in a study on the impact of Covid-19 outbreak on tax revenue generation in Nigeria concludes that the Covid-19 outbreak did not have a remarkable negative impact on tax revenue generation in Nigeria.<sup>37</sup> The FIRS through its official website reported that it collected 5 trillion naira in 2019, 4.95 trillion Naira in 2020 and 6.405 trillion naira in 2021.<sup>38</sup> These figures show that the pandemic negative impact is minimal as one would have expected that the margin between the two years will be more than what was declared. In fact some researchers are of the opinion that the pandemic has contributed positively to the growth of tax revenue generated in Nigeria.<sup>39</sup> This growth is a result of the various innovations and strategies introduced by the government during the pandemic. Businesses such as the health sector, power generation sector, security companies, and Pay As You Earn (PAYEE), generate revenue for the country. Value Added Tax (VAT) was another source of revenue and taxes were also gotten from seaports that transported some essential cargoes needed for the survival of the nations. All the above, aided generation of revenue by FIRS.

However, some other researchers believe the effect of the pandemic is reflected more in the falling development index such as manufacturing and fixed investment.<sup>40</sup> Taxes generated from road, self-employed persons and services declined by 60% highest decline recorded for taxes paid by self-employed persons.

### **The Lagos State Internal Revenue Service**

Lagos State, remains the leading, as well as the highest revenue yielding state in Nigeria and continues to be leading other states revenue agencies.<sup>41</sup> Over the years, Lagos state has

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<sup>37</sup>Olaoye A.A, "Impact of Covid-19 on Tax Revenue Generation in Nigeria: A Differential Analysis" 2020, Journal of Economic Research & Business Administration Al-Farabi Kazakh National University 92 <<https://be.kaznu.kz>><<https://doi.org/10.26577/be.2020.v134.i4.08>>accessed December 20 2022

<sup>38</sup> ibid

<sup>39</sup> Ibid

<sup>40</sup>AdesojiFarabiyyi and SimpliceAsongu "The Economic Consequences of the Covid-19 Pandemic in Nigeria" 2020 SSRN Electronic Journal <<https://www.researchgate.net/publication/342518936>> ; <<https://www.researchgate.net/publication/342518936>>accessed 22 September 2022

<sup>41</sup> Moses Adeniyi, 'LIRS: A Leading Light for other States Revenue Agencies' <<https://lagosstate.gov.ng/vita-data-lagos-bureau-of-statistics-21>> accessed 29 March 2023

increased its Internally Generated Revenue (IGR) by introducing incentives and strategies geared towards effective revenue generation and collection. The Covid-19 pandemic period, was another period for the Lagos state government, to come up with palliative measures to grant relief to taxpayers. On the 9th of July, 2020, the Lagos Internal Revenue Service (LIRS), issued a public notice, to introduce additional measures for its taxpayers in the face of the Covid-19 Pandemic. This is preceded by a 3-month extension of the deadline for filing annual returns on incomes and claims by taxable persons from the 31<sup>st</sup> of March 2020 to the 30<sup>th</sup> June, 2020. The additional palliative include the following;<sup>42</sup>

- (i) Payment of outstanding liabilities in installments. This is in line with the provision of the Personal Income Tax Act (PITA)<sup>43</sup> which grants the LIRS the power to extend the time within which tax is paid.
- (ii) Waiver of penalty on late payment of monthly PAYE. Monthly PAYE remittances which were supposed to be made between the periods of March -May 2020 being the period of the lockdown, due to the covid-19 pandemic.
- (iii) Waiver of penalty on late filling of self-assessment return. By virtue of Section 44 of PITA, every taxable person is required to file an annual tax return on or before 31 March every year. The LIRS waived any penalty due to the late filing of 2019 returns which became due on the 30 of June, 2020, following the 3-month extension.
- (iv) Waiver of penalty and interest on all outstanding tax audit liability from 2009 -2015. This is upon the condition that the concerned entities shall present and keep to a structured payment plan that terminates on or before 31<sup>st</sup> December, 2020.
- (v) Grant of tax credit on donations. Individual taxpayers who made cash and kind donations to the Lagos State Government, due to the covid-19 pandemic, shall be granted a tax credit of 20% against their 2021-year assessment tax return. This will only be subject to a cap of 35% of the tax due in 2021, if 20% of the donations made exceeds 35% of the tax due in 2021.

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<sup>42</sup> Blackwood and Stone LP Tax Law firm, 'Covid-19 Palliative Measures:Lagos State Internal Revenue Service (LIRS) Grants Further Covid-19 Reliefs to Taxpayers' <<https://blackwoodstone.com/covid-19-palliative-measures-lagos-state-internal-revenue-service-lirs-grants-further-covid-19-reliefs-to-taxpayers>> accessed 29 March 2023

<sup>43</sup> Personal Income Tax Act (PITA) 2011 s 68

(vi) Increased payment channels to make remittance of taxes easier, simpler and more convenient: During the pandemic, The LIRS provided more payment channels and made the list of additional payment channels available to the public.

(vii) Form of Tax Audit Reconciliation Committee (TARC). In order to comply with social distancing measures as stipulated by the government, tax audit reconciliation meetings will now be held via video conferencing.<sup>44</sup>

Taxpayers were advised to take advantage of these palliative measures proposed by the LIRS and make the requisite payments before the state's deadlines.

However, PITA does not have any specific provision which supports the grant of credit on donations by individuals and so the state government is expected to provide further guidance and ultimately the necessary legislation required for granting of tax credit on donations made by individuals.

In furtherance to the public notice, the executive chairman of LIRS, issued a circular, with the subject, 'Implementation Guideline- Covid-19 Tax Palliatives.' It is pertinent that LIRS achieved 88% budget performance in the year 2020 and that this level of performance is unparalleled by any other state government in the country. The Service grossed in 418 billion naira in tax revenue despite the Covid-19 pandemic impacts, and the End SARS mayhem.<sup>45</sup> The LIRS Chairman, attributed the progress to, data driven tax administration and technology adoption, the purpose driven institutional arrangements, human resourcing, social contact strengthening and the political will of the Lagos state government.

In the same vein, Lagos State had the highest IGR with 753.46 billion, representing 40% of the total IGR in 2021. Lagos is followed by the Federal Capital Territory (FCT) with 131.9 billion

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<sup>44</sup> Lagos State Government Public Notice Implementation and Tax Incentives and Reliefs for Taxpayers (Individuals and Businesses) in Lagos State.9 July 2020

<sup>45</sup> The Chairman LIRS Mr AyodeleZubair has told a delegation from the Nigeria Governors Forum (NGF) and a Federal Ministry of Finance Budget and National Planning (FMFBNP) that the Service grossed 418 billion naira in tax revenue despite the Covid-19 Pandemic. The delegation was in Lagos, as part of NGF's determination to improve internally generated revenue in states by fostering peer learning. As a pilot, six states of Gombe, Delta, Nasarawa, Ebonyi, Sokoto and Ekiti states representing each of the geopolitical zones were selected to take part in an IGR Exchange visit to LIRS, the Ministry of Finance, Land Bureau, Geographical Information System and other revenue generating agencies of the state. The theme of the 3-Day visit was, ''Exploiting New Growth Areas for Revenue Mobilisation'' Tribune Online May 30 2021 <<https://tribuneonline.com/how-lagos-grossed-n418bn-tax-revenue-in-2020--lirs-chair/>> ; The Guardian Nigerian News 16 April 2021<<https://guardian.ng/news/igr-Lagos-tops-other-states-with-n418.99bn-in-2020>>

naira and Rivers with 123billion naira.<sup>46</sup> According to Olagundoye and Olagundoye, internally generated revenue did not decline during the pandemic because taxes were paid since majority were paid salaries during the pandemic and transactions were conducted online via platforms. This proves that in times of crises, IGR may not be adversely affected, if all the channels of generating income are available to taxpayers.<sup>47</sup>

### **The Kwara State Internal Revenue Service**

In line with the Federal Government Directive that States should take steps to boost their internally generated revenue and become less dependent on the central government, the Kwara State<sup>48</sup> Internal Revenue Service (KWIRS) was established in the year 2015<sup>49</sup> to ensure compliance and block leakages occasioned by malfunctioning in the erstwhile tax agency. The Executive Chairman of the KWIRS, credited increased adoption of technology and steady blockage of leakages within the tax administrative system for the increase. She said the feat was recorded without any new raise in the tax rate adding that the agency had operated a manual tax administrative system since inception and that despite this , the Service has recorded steady IGR growth over the years with the exception of the year 2020 when the economy was almost crippled by the Covid-19 Pandemic.<sup>50</sup> The following is a breakdown of the means through which KWIRS continues to generate revenue during the 2020 pandemic.

1. Taxes were generated from PAYEE (pay as you earn), despite the pandemic and workers' salaries continued to be paid hence taxes were deducted from source from the salaries paid. This is a good source of revenue generation in Kwara State.
2. Despite the lockdown, health personnel were allowed to go to work. Taxes were deducted from the services rendered by these personnel and from drugs bought by the

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<sup>46</sup>Pascal Oparada, 'The Nigerian States with the Highest Internally Generated Revenue' Business Economy, January 19, 2023 Business Economy.<<https://www.legit.ng/business-economy/1498215-the-nigerian-states-highest-internally-generated>>

<sup>47</sup> Femi Olagundoye& O Olagundoye, "The impact of Covid-19 on Internally Generated Revenue of South- West Nigera" International Journal of Finance and Accounting ijfa/10.47604/ijfa 7(4)18-34 .<<https://doi.org/10.47604/ijfa> 1666 > accessed 30 March 2023

<sup>48</sup>One of the 36 states in Nigeria.

<sup>49</sup>Known as the Kwara State of Nigeria Law No. 6 of 2015.

<sup>50</sup><<https://kwarastategov.ng> ; <https://www.vanguardngr.com>> accessed November 14 2022

patients. KWIRS had its officials placed in hospitals who were in charge of collecting tax rates.

3. Taxes were deducted from the incentives paid by the government such as health hazards paid to health workers, and security agencies
4. Citizens were encouraged through online platform of the benefit of paying their taxes, especially during the pandemic. This agency via its platform enlightened the citizens on the need to pay tax to enhance the smooth running of the State.
5. KWIRS employed alternative dispute resolution (ADR) for recovery of tax to generate revenue.<sup>51</sup>

KWIRS generated 19 billion naira in the year 2020, despite the pandemic, although it is less than the N30.64 billion generated by the same agency in the previous year. The next section will look at some of the incentives and innovations introduced by the KWIRS which enabled the state government to continue to make money.

### **Kwara State Internal Revenue Press Statement On Palliatives Provision and Measures On COVID-19<sup>52</sup>**

Following the outbreak of Coronavirus Pandemic across the world and the official announcement of the first case in Nigeria on the 27th of February, 2020, and the subsequent spike in the number of active cases, which necessitated a shutdown pronouncement by the Kwara State Government in line with the Federal Government directive on the 23rd of March, 2020, the Kwara State Internal Revenue Service, implemented the following measures to safeguard the lives of its Staff, ease the burden on taxpayers, and ensure business continuity in line with best practices as an ISO Certified organization:<sup>53</sup>

1. Donation of palliatives to Informal Sector Tax payers to cushion the effects of Covid-19 on their businesses in April and June, 2020.

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<sup>51</sup> Ibid

<sup>52</sup> Press Statement on Palliatives Provisions and measures on Covid-19, July 30, 2020 <https://twitter.com/kwarairs/status/1278716699395739648> accessed 11 July 2022  
Press Release of Thursday July 30 2020

<sup>53</sup> Press Statement on Palliatives Provisions and Measures on Covid-19, July 30, 2020 <https://twitter.com/kwarairs/status/1278716699395739648> accessed 11 July 2022



2. A further extension of the deadline for filing Annual Returns from 31st of March to 30th of September, 2020.
3. 30% discount/waiver on arrears on ground rent and land charge for property owners and land occupiers, if they pay between 1st April and 30th September, 2020.
4. Granting of a moratorium ('Grace Period' during which Personal Income Tax collection is suspended) to informal sector taxpayers to enable them to recover from the financial stress caused by Covid-19 from 1st May 2020 to 30th June, 2020.
5. Suspension of all enforcement activities on tax defaulters in Informal Sector, Educational Sector, Hospitality Sector, Low-Income Earners, and Property owners from 1st April to 30th of September, 2020.
6. Waiver of interest and penalty for High Net worth Individuals (HNIs) and Corporate Organisations that pay up their tax arrears between 1st June 2020 and 30th of September, 2020.
7. Implementation of alternative dispute resolution (ADR) in the process of tax recovery under the guidance of Covid-19 safety measures.
8. Deployment of Personal Protective Equipment (PPE); Nose masks, face shields and hand sanitizers to taxpayers and staff.
9. Introduction of Virtual meetings for the KW-IRS Management Team and different Committees.
10. Reduction in the workforce by a way of duty schedule to allow for compliance to physical distancing in our offices.
11. Deployment of temperature monitors, wash hand basins with running water and soap and hand sanitizers across our offices.
12. Encouragement of taxpayers to make payments to the Kwara State IGR Accounts via PAYDIRECT at any of the local commercial banks.<sup>54</sup>

For further enquiry and assistance as it relates to Revenue payments, taxpayers were also furnished with the Telephone number, Email address and the website of the KW-IRS.<sup>55</sup> The above measures were in response to the reality that the entire world was going through a tough

<sup>54</sup> Press Release signed by Shade Omoniyi Executive Chairman of KWIRS

<sup>55</sup> Telephone : 07006959477, Email: [Info@kw-irs.com](mailto:Info@kw-irs.com), Website: [www.kw-irs.com](http://www.kw-irs.com)

time and the need for everyone to adjust to the new situation and abide by all the safety guidelines as provided by the State Government. At least seven out of the twelve measures stand out as touching on safeguarding the total collapse of the economy. They are;

- i. Extension of deadline for filing of annual returns for six months from 31<sup>st</sup> March to 30<sup>th</sup> September 2020 in order to enhance payment by tax payers.
- ii. 30% waiver on arrears on ground rent and land charge for property owners to encourage payment of tax.
- iii. Granting moratorium (temporary suspension) to informal sector taxpayers, to enable them recover from the financial stress caused by Covid-19 during the lockdown from 1<sup>st</sup> May, 2020 to 30<sup>th</sup> June, 2020
- iv. Suspension of all enforcement activities on tax defaulters in informal sector, Educational Sector, Hospitality Sector, Low Income Earners and Property owners from 1<sup>st</sup> April-30th September 2020
- v. Waiver of interest and penalty for High Net Worth Individuals (HNIs) and Corporate Organisations that pay up their tax arrears by 30<sup>th</sup> September 2020 penalties and interest for high paying taxpayers and corporate organizations in order to encourage citizens to pay their taxes.
- vi. Implementation of alternative dispute resolution (ADR) in the process of tax recovery under the guidance of covid-19 safety measures and
- vii. Encouragement of taxpayers to make payment to the Kwara State IGR account via PAYDIRECT at any of the local commercial banks.

The Kwara State government generated N30.7 billion in 2019 but this dropped to N19.604 billion in 2020, a 56 percent decrease. However, there was remarkable improvement in the revenue generated in 2021 when a total of N29.96 billion was generated, representing 95.61 percent achievement of its annual budgetary target.<sup>56</sup>

### **Good Corporate Governance Measures and Global Best Tax Practices**

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<sup>56</sup> This was the highest target hit since the agency was founded in 2015

Good corporate governance is the art of directing and controlling the organisation by balancing the needs of the various stakeholders.<sup>57</sup> The Cadbury Report<sup>58</sup> which was released in the UK in 1991 outlined that:

Corporate governance is the system by which businesses are directed and controlled and a key factor in underpinning the integrity and efficiency of a company. The core principles of good corporate governance are, fairness, accountability, responsibility and transparency.<sup>59</sup>

Core principles of good corporate governance include:

**(a) Fairness:**

Fairness refers to equal treatment of all stakeholders, including employees, communities and public officials. The fairer the entity appears to stakeholders, the more likely it is that it can survive the pressure of interested parties.<sup>60</sup> When we link this principle with the relationship between tax authorities and taxpayers, there should be fairness in the way taxpayers are treated. That is, taxpayers in the same category should be treated equally. If tax authorities abide by this principle, taxpayers will comply more with tax laws, and this will result in more revenue for the government.

**b) Accountability**

Corporate accountability refers to the obligation and responsibility to give an explanation or reason for the company's actions and conduct.

- The board should present a balanced and understandable assessment of the company's position and prospects;
- The board is responsible for determining the nature and extent of the significant risks it is willing to take;

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<sup>57</sup> <<https://www.managementstudyguide.com>> accessed November 15 2022

<sup>58</sup> <<https://www.jbs.cam.ac.uk/cadbury/report/index.html>>

<sup>59</sup> The Core Principles of Good Corporate Governance Wed 19 February 2014 Pearse Trust

<sup>60</sup> Principles of Good Corporate Governance <<https://www.pearse-trust.ie/blog/bid/108866/the-core-principles-of-good-corporate-governance>> accessed January 5 2023





- The board should maintain sound risk management and internal control systems;
- The board should establish formal and transparent arrangements for corporate reporting and risk management and for maintaining an appropriate relationship with the company's auditor, and
- The board should communicate with stakeholders at regular intervals, a fair, balanced and understandable assessment of how the company is achieving its business purpose

**a) Responsibility**

The Board of Directors is given the authority to act on behalf of the company. They should therefore accept full responsibility for the powers that it is given and the authority that it exercises. The Board of Directors is responsible for overseeing the management of the business and affairs of the company, appointing the chief executive and monitoring the performance of the company. In doing so, it is required to act in the best interests of the company. Accountability goes hand in hand with responsibility. The Board of Directors should be made accountable to the shareholders for the way in which the company has carried out its responsibilities. However, the LIRS and the KWIRS, like other tax authorities in Nigeria, are responsible to the government because the executives are appointed to their offices by their respective state governments. However, in the case of the FIRS the chief executives are appointed by the President. They, therefore, owe their allegiance to the president or governor that appoints them. This is in tandem with the dictum which says 'he who pays the piper dictates the tune.'

**d) Transparency**

Transparency refers to the openness and willingness to disclose financial performance figures which are truthful and accurate. Disclosure of material matters concerning the organisation's performance and activities should be timely and accurate to ensure that all investors have access to clear, factual information which accurately reflects the financial, social, and environmental position of the organisation. Organisations should clarify and make publicly known the roles and responsibilities of the board and management to provide shareholders with a level of accountability. Transparency ensures that stakeholders can have confidence in the decision-making and management processes of a company.

## Global best practice in Tax Administration

Tax administration is a complex phenomenon and good governance has been described as key to its effective and efficient functioning.<sup>61</sup> This has engendered several international initiatives being taken to establish good practices and set an international benchmark in assessing tax administration.<sup>62</sup> While tax burden is always one of the primary concerns for corporate management and finance, it is questionable whether tax has always been among the core factors of corporate governance.<sup>63</sup> Christian Nowotny mentioned this in an earlier paper when he said;

Without doubt, taxation is one of the most powerful motivational forces in corporate life. Tax consequences are important determinants of capital structure, dividend payments and the arrangement of groups of companies, among many other things. In view of this, it seems quite surprising that codes of “good” corporate governance promulgated in many European countries during the past years typically do not mention taxation explicitly.<sup>64</sup>

He further points out possible reasons for this relative low profile of tax as a corporate governance issue; tax is considered as too technical to be discussed at the board of directors, as the minutes on the discussion of tax issues at the board of directors may attract the attention of tax authorities, and secondly, corporate governance codes are primarily designed for attracting investment.<sup>65</sup> as opposed to tax agencies that are expected to generate as much revenue as they could for the government. Nevertheless, this traditional relationship between tax and corporate governance has been changing, and tax is pushing forward its frontiers into what has traditionally

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<sup>61</sup> Vegh Gyongyi and Hans Gribrau. “Tax Administration and Good Governance” EC Tax Review Vol.27 ,January 2018 [https://www.researchgate.net/publication/26235752\\_Tax\\_Administration\\_Good\\_Governance](https://www.researchgate.net/publication/26235752_Tax_Administration_Good_Governance) accessed January 7 2023.

<sup>62</sup> Vegh Gyongyi and Hans Gribrau. Ibid accessed January 7 2023.

<sup>63</sup> Christian Nowotny, “The Low Profile of Tax in Corporate Governance or as a Corporate Governance Issue”. 2018

<sup>64</sup> Christian Nowotny, “Taxation, Accounting and Transparency: The Missing Trinity of Corporate Life” (2007) <<https://www.semantic-scholar.org/paper/taxation%2c-Accounting%2c-and-Transparency%3A> DOI:10.1007/978-3-540-77276-7\_8>

<sup>65</sup> Ibid



been considered corporate governance affairs. Many tax authorities, particularly in the advanced member economies of the Organisation for Economic Co-operation and Development (OECD), are adopting a new cooperative compliance approach, which aims to ensure tax compliance through the voluntary enhancement of internal control and corporate governance.<sup>66</sup> Whilst a cooperative compliance programme aims at the voluntary raise of compliance level on the part of corporate taxpayers, high standards cannot be met without working on governance and internal control. As Wolfgang Schön (2008) points out, companies are not a single individual, but a nexus of contracts, and tax obligations are allocated within the organisation and legal framework of company. Even though management has the willingness to comply with tax rules, non-compliance could occur in business operations without the knowledge of the management and accounting division.

Co-operative compliance programmes are intended to be beneficial both for taxpayers and tax authorities. Dave Hartnett, former Permanent Secretary for Tax at Her Majesty Revenue and Customs puts it thus ‘for corporate *who embrace corporate responsibility, we see the business as a lower risk and where the compliance track record is sound, we audit less often and then focus on bigger risks*’<sup>67</sup>. Thus enhanced governance and internal control are a key to a stable relationship with the tax authorities

The following are the suggested good corporate governance practices in revenue generation;

- (i) Introduction of Automated Tax Administration System (ATAS): The norm is that people detest tax collectors generally because of lack of trust, but digitisation of the tax system will take people out of the picture, thus building taxpayers’ trust and building trust will inevitably shore up the revenue
- (ii) Employing the services of external auditors to check tax authorities’ accounts; This is a good governance global best practice. It is against the rule of accountability and transparency for the auditor to be a staff of the agency it is auditing, as there is the

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<sup>66</sup> Satori Araki, Tax and Corporate Governance ; What Tax Authorities Expect of Companies March 18 2018 <[www.International American Centre of Tax Administrations \(CIAT\)><www.ciat.org/tax-and-corporate-governance-what-tax-authorities-expect-of-companies>](http://www.International American Centre of Tax Administrations (CIAT)><www.ciat.org/tax-and-corporate-governance-what-tax-authorities-expect-of-companies>)

<sup>67</sup><<https://www.ciat.org/tax=and-corporate-governance-what-tax-authorities-expect-of-companies/?lang=en>>

tendency to dance to his master’s tune. This is in line with the adage,” He who pays the piper dictates the tune”

- (iii) Accountability, fairness, transparency, independence, and social responsibility
- (iv) Safeguarding integrity in Financial reporting
- (v) Making timely and balanced disclosure
- (vi) Respecting the rights of taxpayers
- (vii) Recognising and managing risks
- (viii) Laying a solid foundation for management and oversight
- (ix) Structuring the Board to add value
- (x) Promoting ethical and responsible decision- making.

### **Conclusion and Recommendations**

The social distancing that the Covid-19 Pandemic introduced snuffed economic growth, which led to the shutdown of financial markets, corporate offices, businesses, and events by the exponential rate it spread and the fear and uncertainty about how bad it could get.<sup>68</sup> The rising number of Covid-19 cases and rising number of death cases led to a significant increase in global inflation rate, global unemployment rate and global energy commodity index. That the Covid-19 pandemic has devastated the global economy, and that it has rendered many of the world's population impoverished is an understatement. Moreover, the pandemic has generated some uncertainties regarding economic and social policies and this phenomenon is lately the brunt of every government across the globe.<sup>69</sup> Almost all the sectors of the Nigerian economy, such as the manufacturing sector, entertainment industry and other service sectors like education and distribution were economically affected because monetary policy decisions and international travel restrictions seriously affected the level of economic activities. However, the pandemic’s negative impact on revenue is more pronounced in countries that are most dependent on

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<sup>68</sup>OziliArun, “ Spillover of covid-19; Impact on the Global Economy” 2020 DOI:10.2139/ssrn.3562570 2022 Article in SSRN Electronic Journal · March 2020 DOI: 10.2139/ssrn.356257 <<file:///C:/Users/User/Downloads/oziliandaruncovidspilloverglobaleconomy>> accessed September 9, 2022

<sup>69</sup>Prince Asare, Vitenu Sackey and Richard Barfin, “The impact of Covid-19 on Global Economy” The Economic Finance Letters 2021 Vol.8. No.1 22-43 ISSN#: 2212-430 DOI 10: 13140/RC22.27511.41921 accessed September 10 2022

international trade, tourism and petroleum exports.<sup>70</sup> The good news is that sub-Saharan African tax collectors have performed almost the same way as their counterparts in the much wealthier Latin America and substantially better than South Asian Countries.<sup>71</sup> This is because despite the total lockdown, Nigeria still recorded substantial revenue from tax sources in the second quarters of 2020. This is contrary to IMF Projection<sup>72</sup> which predicts slower growth for the Nigerian Economy.<sup>73</sup>

In conclusion, this paper has attempted to expose the impact Covid-19 Pandemic had on revenue agencies at both the Federal and State levels in Nigeria. This work is therefore a contribution to this line of knowledge as not much has been done on the impact of Covid-19 on revenue authorities. Other literary works on the impact of Covid-19 have concentrated on its impact on tourism, insurance implications, travel restrictions, and the general economy, among others.

The paper therefore puts forward the following recommendations;

- i. That all the other states of the federation should borrow a leaf from Lagos State so as to replicate their success story in the area of revenue generation.
- ii. That our revenue agencies should borrow a leaf from other advanced countries by giving their staff the option to continue to work from home, post COVID -19.
- iii. Digitisation of the tax system, will minimise one-on-one interaction between tax officials and taxpayers thus, building taxpayers' trust and building trust will inevitably shore up the revenue.
- iv. That tax disputes resolution proceedings should be conducted virtually as this will save both human and material resources.

Finally, that in a bid to generate more revenue, nothing should be done to compromise good corporate governance practices.

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<sup>70</sup>Feldstad and Therkilsen, ‘‘ Implication of the covid-19 Pandemic for revenue generation in poor countries’’ 2020 DIIS working Paper No 13 ,p61.

<sup>71</sup> Ibid

<sup>72</sup> IMF Fiscal Affairs Projection 2020

<sup>73</sup>AyodeleAdegboyega, ‘‘IMF Predicts slower growth for Nigeria Economy, Nigeria Economy, October 11 2022 <<https://punching.com>>nigeria-economic-growth>