

TAX HARMONIZATION AND BUSINESS COMPETITIVENESS IN NIGERIA

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Abstract

The need for tax harmonization stems from the existence of multiple, cumbersome, conflicting and competing tax regimes that have become a bane to business growth. The issue of multiple taxation has negatively affected many business operations resulting into business collapse, depleting capital base of listed firms, and depleting returns on investment. The study adopts a conceptual approach in analyzing the link between tax harmonization and business competitiveness in Nigeria. The study opined that the incidence of multiple taxation brings about hostile business environment for many businesses in thereby reducing their global competitiveness. The study further opined that harmonization of tax base, stimulates revenue mobilization, creation of a better business and investment climate in a country and mitigates or eliminates adverse tax competition. The study concludes that harmonization of tax promotes business competitiveness as oppose to tax competition or conflict that negatively affects business, trade and investment. In the light of the foregoing, the study suggests institutional and tax institutional reforms to harmonize and coordinate tax in order to create a conducive business environment that will stimulate business, trade and investment in Nigeria.

Keywords: *Tax harmonization, Multiplicity of tax regimes, Business competitiveness and Institutional reforms.*

Introduction

The business environment and by extension, its competitiveness is influenced by many factors, for which tax is a critical variable. Although tax policies do not represent the most important variables that influence business competitiveness, they play major impact on private investment decisions and initiative on account of their influence on the cost of capital and on the expected profitability (Ozekhome, 2022). Tax, itself, is a compulsory levy imposed or charged by tax authorities or government on business and companies profit, dividends, interest, commission, and personal income of individuals. According to Onwe (2006) a good tax system should permit efficient and non-arbitrary administration being understandable to the taxpayers as possessing the qualities of convenience, fairness, minimum distortions, simplicity and minimum cost of collection. The duplication of taxes in both state and local government level under the guise of

maximizing internally generated revenue has a negative effect on business competitiveness.

Tax harmonization is the process of fine-tuning, organizing and or synchronizing tax systems across various jurisdictions to eliminate duplicity/multiplicity, complexity and conflicting and competing tax rules or base. It is the removal of tax distortions in order to encourage business competitiveness (International Monetary Fund (IMF), 2015b). Harmonization of tax refers to an equalization of tax bases and/or tax rates across jurisdictions (states or local in this context) or regional in a bid a bid to improving the ease of doing business, and eventually promoting business. Harmonization of tax is basically predicated on the onus of allocative efficiency by harmonising tax structures and policies. The fundamental objective of tax harmonization is the attainment of tax synchrony so as to stimulate business, trade and investment

(Bénassy-Quéré, 2014; Florin, 2016; Ozekhome, 2022). The need for tax harmonization stems from the existence of multiple, cumbersome, conflicting and competing tax regimes that have become a bane to business growth. The issue of multiple taxation has negatively affected many business operations resulting into business collapse, depleting capital base of listed firms, and depleting returns on investment (Nnadiukwu, 2019).

Harmonization of tax base, for instance, can inspire and instill tax convenience, simplicity and equalization across income and profits, and enhance transparency as well as improved resource allocation. Thus, aside stimulating revenue mobilization, creation of a better business and investment climate in a country, tax harmonization can mitigate or eliminate adverse tax competition (Quak, 2018). Nevertheless, in Nigeria, the harmonization of as it were, is yet to assume a holistic course, arising from institutional and legal constraints (Ozekhome & Oaikhenan, 2019). In the absence of harmonized tax structures/rules/policies, business and trade, as well as investment has been drastically affected by conflicting, competing and duplicating/multiplicity of tax. Apart from having an unfavourable effect on business, trade and investment, it increases business transaction costs, rendering the business environment uncompetitive (Ozekhome, 2022).

The business environment in Nigeria is faced with numerous challenges ranging from high cost of operation/transaction, arising in part, from a very high and duplicative tax regime/environment, limited to low managerial skills, poor/weak infrastructure, poor access to credit and finance, weak technology, government bureaucracy, unfair competition, unfriendly business environment, arising from issues as insecurity, and unfavourable policies, and multiple taxation, amongst others (Ogbaisi & Ukwa, 2024). In Nigeria for instance, the

ease of doing business, which measures the competitiveness of the business and environment, indicating how and the extent to which government policies, regulations and institutions favour such as the rule of law or business in terms of the procedures and processes involved in setting up business in which economies are ranked on their ease of doing business, from 1–190, the Nigerian business environment has been largely unstable.

Using various indicators in the environment in terms of those that are more conducive to the starting and operation of a business, Nigeria ranked 169 out of 189 economies in the World Bank's ease of doing business report in 2015, improved its ranking to 131 out of 190 economies, with a score of 56.9 out of 100 in 2020, with a slight improvement to a rank of 129 out of 190 countries in 2023 (World Bank, 2023). Given these performances and the place of tax in this discourse analysis, particularly with respect to multiple, conflicting and distortionary effect of tax, the need for the harmonization of tax has become imperative. Harmonization of tax, in this direction seeks to converge or synchronize tax across rule and bases in order to remove conflict, multiplicity and hazardous competition, thereby improving business competitiveness in Nigeria.

While some studies (Pitigala & Hoppe, 2011; Ajayi, 2018; Ozekhome, 2022) have examined the link between tax policies and business/foreign private direct investment in Nigeria, no existing study, to the best of the author's knowledge has examined the nexus between tax harmonization and business competitiveness in Nigeria. In addition, none of these studies considered how the changing dynamics in the current times is significantly alternating business environment. The recognition of these gaps is the motivation and value-addition of the current study. Aside the introduction and being a conceptual paper, section 2 discusses the empirical issues

relating to tax harmonization. Section 3 discusses the benefits inherent in tax harmonization. Section 4 considers the prospect of tax harmonization in Nigeria. Section 5 concludes the paper with some policy recommendations.

Literature Review

Conceptual Review

This section review concepts used in the study

Tax Harmonization

Tax harmonization entails the adjusting, organization and bringing together of tax systems across jurisdictions e.g local, state and federal to eliminate issues of duplicity/multiplicity, ambiguity, and conflicts either in the tax base or rules to enhance greater efficiency and outcomes (Ozekhome, 2022). It involves the removal of distortions in the tax system that negatively affects business trade and investment, and in so doing, improving greater ease of doing business and thus, making businesses more competitive at the domestic and international level. Harmonization of tax could involve different elements such as tax rules, tax base, tax rates and administration and enforcement, practices, procedures and processes with end-product of systematically aligning tax for greater efficiency and outcomes, such as revenue generation (Mansour, & Rota-Graziosi, 2013). To this end, it could involve the determination of effective tax rates: the tax base and statutory tax rate as well as the practice of enforcement (Pirvu, 2011; Bénassy-Quéré, 2014).

The harmonization of tax could involve direct tax, which includes individual /corporate income/profit (Osterloh & Heinemann, 2013), tax, mining tax, capital gains tax or indirect tax involving trade duties harmonization, value-added tax harmonization and excise tax harmonization. Such harmonization is generally geared toward promoting business

and trade. In practice, tax harmonization is mainly implemented by countries that are an economic bloc, such as regional market, in a bid to foster greater business and trade ties among member or participant countries to that bloc or region. An example is the tax harmonization initiative by the West African Economic and Monetary Union (WAEMU) in the French-speaking West African countries, the East- African Community, and that of the European Union (EU).

Business Competitiveness

Business competitiveness refers to the ability of business to favourably compete effectively in the market, outperform its rivals, and sustain its market position over time via a competitive edge (Ozekhome & Oaikhenan, 2019). Business competitiveness, thus refers to the capacity of local businesses to compete favourable with international businesses, given the presence of some important fundamentals (Ozekhome, 2021). In general, the competitiveness and favourability of the environment to business is measured by the World Banks, Ease of Doing Business Report of 2020. The ease of doing business measures the competitiveness of the business and trade environment in terms of regulations, and processes, procedures and institutions involved. Economies are ranked on their ease of doing business from 1–190. A high ease of doing business ranking, in the form of better ease of doing business ranking, suggests less business and trade barriers and documentations as regard regulations and the reforms) implies that the environment is highly conducive to the starting and operation of a business, while a low ease of doing business implies complex processes and procedures and unfavourable policies, regulation and institutional requirement's to business operation, The rankings are based on several indicators/variables that influence business competitiveness (Ozekhome & Oaikhenan, 2019; Ozekhome, 2021).

Some of the benefits from business competitiveness include, greater market share, improved profitability, enhanced brand reputation and loyalty, and better customer satisfaction, while some of the challenges include intense/aggressive competition from rivals, rapid technological changes, changing market trends/dynamics and globalization.

Tax Harmonization and Business Competitiveness

The theoretical literature on tax harmonization is hinged on the works of Brennan and Buchanan (1980), Zodrow and Mieszkowski (1986), Edwards and Keen (1996), Osterloh and Heinemann (2013) holds that tax competition is detrimental to business, investment and trade. The proposition goes further to argue that harmonization of tax has the capacity to effectively organize, coordinate and synchronized for better outcomes as opposed to tax conflict or ambiguity or multiplicity for better outcomes (Letet, 2012; 2001; IBFD, 2013; Zodrow, 2003). Accordingly, tax harmonization promotes business, trade and investment, by minimizing tax discrepancies and conflicts, thereby promoting global competitiveness. Essentially, tax harmonization addresses harmful tax competition, minimizing risks, tax evasion as well as the erosion of national tax bases (IMF, 2015b; Diakité et al., 2017).

In the same vein, harmonization of tax encourages tax reform (Nnyanzi et al., 2016). For instance, tax rates equalization enables greater scope of institutional reforms in the tax systems. Harmonization of taxes also promote regional cooperation in business and investment. Basically, the harmonization of taxes are more explicit in their efforts to deal with the challenges of harmful tax competition, tax multiplicity and ambiguity. Tax harmonization seeks to remove unnecessary tax conflict, ambiguity and duplicity/multiplicity, and in so doing synchronizes tax for common national

objective (Nnyanzi, et al, 2016). Following this, the quality of institutions matter to tax harmonization as good institutions provides the legal backing and framework for harmonization policy and binding agreements. Notwithstanding the presumed benefits, tax harmonization, could suppress competition and engender loss of tax independence, especially where it involves member countries in a regional grouping.

2.3. Empirical Review

Banderlipe (2015) examines the prospect of coordinated taxation policy in the Association of Southeast Asian Nations (ASEAN) regime. The study revealed that coordination and harmonization of tax in the sub-region has greater business and trade prospect. International Monetary Fund (2015b) examines the impact of effective and efficient use of tax coordination and incentives for investment in Central American countries. The findings show that the existence of a positive and significant link between tax harmonization and investment. Other studies that found positive links between tax harmonization and business competitiveness/investment are Gastaldi et al (2015), Nnyanzi et al. 2016, Bossuyt (2016), Diakité et al. (2017) and Quak (2018). Hageman and Schmitt (2014), using conceptual approach based on the US finds that in the absence of indirect tax harmonization, such as in Sales and Use Tax (SUT), business, trade and investment is stifled.

In Nigeria, Azuka (2017) utilizes a conceptual and literature-based review approach to examine the nexus between tax harmonization and sustainable development in Africa, using Nigeria as a case study, as well as the potentials and paradoxes of the harmonization of tax based on the need for multiplicity of policy options when designing and implementing tax policies by governments. The study revealed that harmonization of tax is a critical variable for promoting business and competitiveness and cooperation in Africa. Clausing (2018)

finds similar evidence of a positive effect of tax harmonization on business and in the EU countries. Quak (2018) revealed that integration has facilitated the harmonization of tax. Omozuwa and Edosa (2023), using conceptual and review-based approach also concludes that tax harmonization fosters trade integration in the ECOWAS.

Gastaldi, Liberati and Sciala (2015), Gastaldi et al. (2015), Boss (2016) and Simms and Simms (2017) found negative harmful effect of tax harmonization. According to these studies, tax harmonization engenders inefficiencies, financial weakness and concentration, and corruption.

Ajayi (2018) examined the effect of multiple taxation (non-synchronized or non-harmonized tax) on businesses in Nigeria focusing on taxes and levies applicable to four key sectors of economy. The study focused on sectors such as oil and gas, manufacturing and service, telecommunications, and insurance. Using a review based approach, the study found that the different fiscal power of the different tiers of government and that constitutional position is perhaps unwittingly compromised by the taxes and levies Act which has expanded the list of taxes collected by the different levels of government which has resulted into multiple taxes and levies, and thereby affecting business. The study recommend that there is an urgent need to review the taxes and levies, and possibly harmonize them to eliminate ambiguities in order to promote business competitiveness in Nigeria.

Other studies on tax harmonization and business competitiveness in East Africa are Nnyanzi Babyenda and Bbale (2016), Bossuyt (2016), Diakité et al. (2017), Azuka (2017), Manriho and Mutava (2017), Velayos (2017), Kopits (2017), Clausing (2018). The studies all revealed positive relationship between tax harmonization and business competitiveness.

From the review of the literature, there is paucity of literature on the link between tax harmonization and business competitiveness in Nigeria as the existing literature tend to have overwhelmingly dwell on cross-country analysis, with very few or no country-specific studies like Nigeria. Given the peculiarity of a country like in Nigeria as regards high incidence of duplicity/multiplicity of taxes, conflicting and distortionary tax regimes and policies, and the objective of enhancing business competitiveness, this study become important as it represents a critical attempt to fill the gap in literature by extending the literature and discourse on the link between tax harmonization and business competitiveness nexus.

Benefits of Tax Harmonization

Harmonization framework ensures tax synchrony and organization (notably statutory tax rates), with the ability to stimulate revenue generation among different tax jurisdictions or levels/tiers of government (Quak, 2018). Through amenable institutional quality, tax harmonization has the capacity to promote the accountability of government and ensure the prevention of leakages, as well as tax evasion. Effective institutions are necessary to for effective following and monitoring (IMF, 2014). Harmonization of tax can stimulate domestic revenue base greater priority in tax harmonization frameworks. By means of broadening of the tax base, strengthening of tax administration and elimination of unnecessary, ambiguities, duplicity/multiplicity, distortion, conflicts, competition and exemptions, greater domestic revenue can be mobilized. Government and policy makers in Nigeria should not undervalue the derivable benefits of tax harmonization framework, particularly, with respect to essential institutional support and other frameworks, as well as directives and regulations to achieve greater domestic resource mobilization objectives (Ozekhome, 2022).

Tax harmonization makes the business and investment environment safe, stable and certain. Thus, promoting business competitiveness. Being less knowledgeable of a country's environment, entrepreneurs and private investors view the business decisions influenced by the business environment by others as a good signal of a favourable condition, to reduce uncertainty. Harmonization of tax leads to greater efficiency, accountability, aligning and administration of tax for effective results (Ozekhome, 2022). A reformed and harmonized tax system and structures reduces business transaction costs. The harmonization of tax may enable the simplification, standardization and of tax and best practices in line with global standards, practices process and administration, thereby promoting private business and investment. Finally, harmonization of tax, and by implication, reforms in the tax system are clear indications of improvements in the ease of doing business, and this has the effect of stimulating businesses, trade and investment (Ozekhome, 2022).

Prospect of Tax Harmonization in Nigeria

Several challenges have been highlighted as constraints to business competitiveness in Nigeria. They include: High and multiple tax regime; Inconsistent taxation policy taxation; Poor infrastructure (e.g. the epileptic power supply, bad road network, poor port facilities; Macroeconomic instability (in terms of exchange rates, inflation and interest rates, leading to high cost of business transaction/operation; Political instability and security concerns; Weak technological base and innovation; Lack of adequate take-off incentives for business start-ups and initiative, and Inadequate talent acquisition and retention/experience (Ozekhome, 2022).

A number of important prospects and policy issues are discernible from the link between tax harmonization and business

competitiveness in Nigeria. First, non-harmonized tax regime creates ambiguity, duplicity/multiplicity, conflicts and competition in tax, and deters business. Harmonization of tax will greatly improve the ease of doing business, by creating a favourable business environment in Nigeria. Tax harmonization, will greatly align tax, stimulates interactions, interface and collaborations between different tiers of government (e.g local, state and federal), and among countries for greater revenue outcome. Finally, governments and policy makers should consider greater scope of tax harmonization in Nigeria, as this will not only creates coordinate tax policies, but will enhance resource generation. Such uniformity in tax rate/rules and administration will simplify tax, make it consistent with global standards through institutional tax reforms.

Conclusion and Policy Perspective

Harmonization of tax, without doubt, will stimulate business and investment in Nigeria. In contrast to tax competition, ambiguity conflict, duplicity or multiplicity, it creates a strong framework for greater collaborations among countries (where it is done among countries) and tiers of government (e.g local, state and federal) where it is carried out in a country. Besides, harmonization of tax removes differential tax rates and structures, as well as the adoption of uniform administration. It also allows equalization of taxes, a common definition of tax bases including uniform application of agreed tax rules. To effectively make tax harmonization successful, institutions should be strengthened in Nigeria to create certainty the bedrock or framework for such synchrony of tax. The reform of the tax is also important in this regard, as both are inter-twined as efforts to harmonize tax will, in principle, entails institutional reform of the tax system.

Nigeria and other countries may benefit greatly through a reform of their tax

as well as its harmonization. The creation of a favourable business environment through better ease of doing business, will entail a robust reform of the tax system and administration, and by extension, the harmonization of tax across all the tiers of government in Nigeria (local, state, and federal). The stimulating revenue generation in Nigeria through a robust tax system can only be realized through a comprehensive reform and harmonization of tax. This paper clearly submits that harmonization of tax will greatly promote business competitiveness in Nigeria, through the creation of a favourable, safe stable and certain macroeconomic and business environment.

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