Review

Tax Havens and the Dynamics of Development in Nigeria

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The African development question has a long pedigree and is a complex debate that no single scholar or author can effectively capture all the details in one breath. Situating the concept of development within the global context has generated a pocket of conferences, seminars, symposia, books, journals, articles, essays, etc; but the development question still remains with us, especially, people of the Third World countries. The dynamics of development in Nigeria in particular seems to be the most widely-debated topic among academics, researchers, policy-makers, activists, students, professionals, etc, not only in the country but also abroad and different factors have been noted to be responsible for the underdevelopment. While some scholars or authors look at the issue of development in Nigeria from the perspectives of factors such as imperialism or colonialism and neo-colonialism, others look at it from the perspective of factors such as wars and conflicts. This paper seeks to address the issue of development in Nigeria from the standpoint of the havoc which the existence of tax havens has wrecked on the economy so far. Tax havens are located in well-known locations worldwide and are not as hidden as they may seem to be. Tax haven countries offer foreign investors very low tax rates and other tax features designed to attract investment and thereby stimulate economic activity in their own country, but most times to the detriment of the investors' countries. Rising volumes of international investment contribute to the growing importance of tax havens, which in turn has exposed tax havens' activities to greater scrutiny and has prompted a number of policy responses in higher-tax countries, this is not to mention the fact that the Third World countries are equally frowning at the activities of these tax havens. Furthermore, the paper aims to examine how much of Nigeria's assets and wealth which could have been used to develop the nation to an enviable standard are hidden away in these tax haven countries which may and may never be recovered. On a final note, the paper will examine the various means by which the existence of tax havens has stunted economic growth in Nigeria.

Keywords: Tax Havens, Development, Assets, Investment and Nigeria.

TAX HAVENS AND THE DYNAMICS OF DEVELOPMENT IN NIGERIA

The G-8 world leaders, meeting in July 2009, recognized the particularly damaging effects of tax evasion for developing countries because effective states require effective, efficient and equitable tax systems\(^1\) which are often lacking in most developing countries as can be exemplified in most African countries. Creating the commitment of citizens not to evade taxation is a political process central to state building; bad governance manifests itself through an

unjust tax system and rampant tax evasion (the illegal avoidance of paying taxes) because throughout history, tax has been a symbol of state authority, with tax evasion being a symbol of political resistance.

The provision of public services and infrastructure is a key factor for economic development and growth, but it is quite depressing that many developing countries fail to raise the tax revenue required to finance their public sectors. As reported as at 2005, the average tax revenue to GDP ratio in the developed world was approximately 35%, while in the developing countries, it was equal to 15% and in the poorest of these countries, the group of low income countries, tax revenue was just 12% of GDP. Despite the growth resurgence of the past two decades, Africa is still saddled with very high and stubborn poverty rates, as well as high and often increasing levels of inequality, most probably because the continent is a source of large and increasing volumes of unrecorded capital outflows or capital flight.

Tax avoidance and tax evasion are widely believed to be important factors limiting revenue mobilisation in any economy. Capital flight and tax avoidance by the elite and the multinational corporations (MNCs) have been responsible for underinvestment in infrastructure, education and health services in South Asia and sub-Saharan Africa; the MNCs in developing countries are shrinking the tax base and the impact on social investment is immediate. Existing empirical studies on tax revenue losses due to tax avoidance and tax evasion in developing countries distinguish between a domestic component and an international component. The domestic component includes tax evasion which occurs due to the domestic shadow economy while the international component includes profit by corporations and offshore holdings of financial assets by private individuals.

Tax evasion and the other major sources of illegal flows (criminality and corruption) flourish in the absence of the political ambition to build a legitimate, effective state; such effectiveness, including the effectiveness of tax systems, derives from informal institutional arrangements that establish state legitimacy, promote prosperity, and raise public revenue. This requires that political leaders and tax payers perceive the need for effective tax systems to provide the state with the resources necessary to enforce their own property rights, deliver political stability and promote economic growth: the extent and form of tax evasion derive from the political consensus to tax effectively and develop the administrative capacity to do so.

Tax is an issue of fundamental importance for development; if developing countries are to escape from aid dependency and from poverty more broadly, therefore, it is imperative that their revenue authorities are able to collect taxes effectively. Tax revenues represent a more predictable and sustainable source of revenue than aid flows ever can; in addition, the ability to collect taxes also has implications for the quality of governance and taxpayers have a legitimate right to expect something in return, namely - a functioning state - so are more likely to hold their governments to account...
if they underperform. There is hardly any topic that provokes political tempers as much as taxation does and this is not surprising given that establishing tax regimes is as close as polities get to a collective decision about how to divide social advantages.

Tax has been defined from different perspectives and it serves different purposes but all related to development. A tax is a financial duty that a government levies on its citizens either on the basis of certain activities they engage in or in virtue of their holding of wealth. According to Ordu and Anele, a tax is a fee or a charge levied by a government on a product, income or activity; if it is levied directly on a personal or corporate income, it is called a direct tax and if it is levied on the price of a good or service, then it is called an indirect tax. Personal income taxation tends to constitute only a very small proportion of the tax take in developing countries while custom duties and other forms of trade-based taxation constitute a much more significant share. In countries that do collect a lot of income tax, most comes from the PAYE system, so salaried workers contribute the vast majority of personal income tax. Furthermore, the institute of Chartered accounts of Nigeria and the institute of Taxation of Nigeria defined tax as an enforced contribution of money to government pursuant to a defined authorized legislation. Taxation has equally been defined as a compulsory levy by the government on individuals, companies, goods and services to raise revenue for its operations and to promote social equity through the redistribution of income.

Taxes raise revenue for the provision of public goods and other government activities, they help to redistribute income and wealth according to the collective conception of justice, they influence behaviour as in the case of taxes on alcohol or petrol, and finally taxes can be employed to smoothen the economic cycle. In line with this frame of thought, taxation is a source of government revenue by which individuals and corporate bodies are mandatorily required to pay a certain proportion of their earnings to the government for the course of development. In the same vein, taxation provides a predictable and a stable flow of revenue to finance development objectives. Taxes can be used in promoting investment in certain economic zones initially not very popular to investors and this is applicable in a country where the government extends tax holidays, tax exemptions, tax remissions and other tax benefits to the investors in specified economic sectors or regions.

The implication of the above definitions is that taxation is intricately linked to development and economic growth, therefore, its evasion in whatever form is usually frowned at by any responsible government of any nation and is to be handled legally. A further implication is that in any nation in which there is no proper remittance of taxes, rapid development should not be expected. That is the more reason why the global world, particularly, the developing world does not look favourably to tax haven countries because of the fact...
that they encourage individuals, public office holders, corporations, etc, to hide their assets away from their home governments thereby denying the respective governments the revenue that should have accrued to them from their earnings through proper taxation and should have been used to develop their home countries.

But more importantly, some of such hidden assets are usually acquired illegally and that is the major reason why the “owners” of such assets opted to hide them, not minding the grievous consequences. Moreover, the existence of modern financial instruments, variance in tax systems and tax rules/practices provides transnational corporations (TNCs) and resident taxpayers with opportunity for tax planning manoeuvres. With reference to international tax avoidance and evasion, a convergence in accounting and tax rules/practices will be of immense benefit to Nigeria; this is because it will aid in the removal of the variance which makes tax planning manoeuvres attractive to transnational companies.

In essence, the relevance of taxes cannot be over-emphasised because taxes underwrite the capacity of states to carry out their goals, thereby forming one of the central arenas for the conduct of state-society relations and they shape the balance between accumulation and redistribution that gives states their social character. Consequently, African nations need to re-examine their own tax systems and remove currently stated exemptions and inherent inefficiencies in those tax systems, in order to raise revenues and fund development. This is a critical time in the history of Nigeria when the government may need to rely on taxation as the main source of sustainable revenue because as mentioned earlier, if Nigeria, being one of the developing countries of the world is to escape from aid dependency and from poverty more broadly, it is imperative that the revenue authorities are able to collect taxes effectively. Individuals and businesses must be up and doing with their taxes and works with the government to reform the tax system.

It is now common place knowledge that the existence of tax havens has wrecked untold havoc on the Nigerian economy since its “usefulness” became known to interested individuals; this is because tax havens add an additional element to the basic problem that globalisation means for taxation. Tax havens have different definitions but with the same implication because there is no universally accepted definition of a tax haven. Generally speaking, tax havens are jurisdictions that allow companies and individuals to evade taxes; this evasion can be illegal but there are also legal techniques that are routinely used by multinational firms in particular.

A tax haven usually but not necessarily has the following three criteria. First, there are low taxes or no taxes at all for certain assets (intellectual property rights, bonds, shares), often only granted to foreign residents. Second, there is a low level of regulation regarding legal entities such as companies, foundations or trusts. This can mean one does not need any initial capital to set up a legal entity, can hide the real ownership of that entity, or does not face strong due diligence requirements. Third, strong secrecy is guaranteed; for example, through secret bank accounts, no public registration of entities, or no co-operation with foreign tax authorities. Quoting Jeffrey Owens, the Director, Centre for Tax Policy Administration, Organisation for Economic Co-operation and Development (OECD), Alex Cobham says, “many citizens of developing (and developed) countries now have easy access to tax havens and the result is that these countries are losing to tax havens almost three times what they get from developed countries in aid because if the taxes on this income were collected, billions of dollars would become available to finance development.”

In the same vein, he quoted Gordon Brown, a former Prime Minister of the United Kingdom to have said in March 2009 that “we will set down new measures to prevent tax evasion.”


to crack down on those tax havens that siphon money from developing countries, money that could otherwise have been spent on bed nets, vaccinations, economic development and jobs.\textsuperscript{31} We stand ready to take agreed actions against those jurisdictions which do not meet international standards in relation to tax transparency... we are committed to developing proposals, by end 2009, to make it easier for developing countries to secure the benefits of a new co-operative tax environment.\textsuperscript{32}

One other source described tax havens as countries that have secrecy laws in relation to banking and finance as well as generating little or no tax liability on the part of customers.\textsuperscript{33} Customers with accounts in tax haven countries may be required to pay taxes in that region (even if they are not citizens in that country or region), but if those taxes are considerably lower than what the customer would pay on that income in his or her home country, the savings can become considerable, especially, over the long term\textsuperscript{34} and that is how the existence of tax havens has become a constant threat to the economic well-being and security of Nigeria. In the light of the foregoing, tax havens have equally been described by a former Director of Fiscal Affairs at the International Monetary Fund (IMF) as “Fiscal Termites” and their role has been the cornerstone of the process of globalisation enabling transnational corporations to remove themselves either partially or wholly from nationally based tax regulatory regimes.\textsuperscript{35}

In 2005, Raymond Baker estimated that more than US$540 billion flowed out of developing countries each year due to a combination of tax evasion, fraud in international trade, drug trafficking and corruption while in 2007, Christian Aid and the Tax Justice Network produced studies reporting similar figures.\textsuperscript{36} These reports had implications for those looking for ways to fill the development finance gap. In the same vein, he proposed that the total annual illicit financial flows (IFFs) might amount to US$ 1 trillion, asserting, in the process that these flows pass illegally across borders aided by an elaborate dirty money structuring comprising tax havens’ financial secrecy jurisdictions, dummy corporations, anonymous trusts and foundations, money laundering techniques, and loopholes intentionally left in the laws of western countries; of these, he estimated that US$500 billion a year flows from developing and transitional economies.\textsuperscript{37}

Historically, the available evidence indicates that tax havens have flourished in the years since 1982,\textsuperscript{38} while another source has it that tax havens existed before the twentieth century but that it was around the World War I that the wealthy increased the use of their services, when the US income tax, as well as increasing taxes in European countries, motivated capitalists to seek safety in low or no-tax locales.\textsuperscript{39} Switzerland became more popular as a place to pack assets after it passed strong banking secrecy laws in 1934.\textsuperscript{40} The history of tax havens during the decades before the World War II is still little known; to date, studies that have focused on the 1920s and 1930s have presented either a very general perspective on the development of tax havens or a narrow national point of view.\textsuperscript{41} During the 1920s and 1930s, countries claimed to call


\textsuperscript{37} Murphy, R. 2012. “Accounting for the Missing Billions”.


themselves tax havens (that wasn’t necessarily true), but the first large country that did was Switzerland. Within this general environment, the fiscal strategies of a tax haven like Switzerland differed from those of a great financial power like Great Britain, whereas, the Swiss administration readily placed itself at the service of the banking community; British policy was more balanced between the contradictory interests of the Board of Inland Revenue, the Treasury and the English business circles.  

The role of taxation in the transformation of Swiss banks into a refuge for capital flight after the World War I has already been identified by several historical studies. The costs of the war and reconstruction brought about considerable tax increases in the former warring countries which in turn increased the incentive to relocate assets in order to escape tax controls. First, he pointed out the historical emergence from the late nineteenth century to the 1930s of three distinct instruments of tax haven: low or zero taxation for non-residents, easy methods of incorporation, and legally protected secrecy. The second section of Palan’s study describes the phase of multiple tax havens from World War I to 1970, a phase characterized by the importance of Switzerland, regarding the easy development of tax havens’ regimes and the first institution of protection of assets secrecy. The third section brings into light the period 1970-1990, the true explosion of tax havens across the globe. The last section follows the intensification of international concerns since 1998, regarding the impressive volume of financial assets through the tax havens hands, the beginning of several OECD’s publications and reports of harmful tax competition, and the real efforts of the European Union to combat and to pressure the activity of such financial shields, along with the consequences of the 2007 crisis that intensified the global reaction to the huge expansion of the Offshore Financial Centres (OFCs).

One other distinguishing feature of tax havens is the use of artificial structures as part of its schemes to assist fraudulent individuals. In 2008, it was revealed about the Ugland House, a small building in the Cayman Islands, where 12, 748 companies were registered and supposedly conduct their business (among them, Coca Cola and Intel Corp.), whereas no real activity was going on inside the building. Tax havens generally rely on the existing global infrastructure and have traditionally facilitated capital flows and improved financial market liquidity, thereby making tax havens have a large adverse impact on the revenue bases of developing countries.

Tax havens are at the heart of the inequality crisis, enabling corporations and wealthy individuals to dodge paying their fair share of tax. Since tax havens offer a way to minimise taxes and to obtain financial confidentiality, they appeal to corporate and individual investors, enabling the affairs of taxpayers, particularly, their bank accounts, to be effectively shielded from the scrutiny by the tax authorities of other countries and all of these potentially cause harm to the tax systems of around the world.

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developing countries of which Nigeria is a part. Taxation plays a key role in helping African Countries to reach their Millennium Development Goals (MDGs), but tax evasion and the siphoning of funds to tax havens, countries deprive African countries of the fiscal benefits of such growth.\textsuperscript{51}

Consequently, Nigeria faces a series of challenges when it comes to optimising taxation while aiming to reach development targets. Nigeria loses several billions of dollars in tax revenues every year due to unrefomed tax regimes and ineffective tax legislation that have aided tax avoidance and evasion by wealthy individuals and local and multinational corporations; the country loses US$8 billion annually to capital flight in the upstream activities of the oil and gas industry.\textsuperscript{52} The above anti-social and predatory behaviour of the elite and the MNCs cannot be easily perpetuated in any nation or economy without the advice, collaboration, or at the very least connivance of some professionals such as lawyers, bankers and accountants, who, acting in violation of their statutory duties to the public, provide their professional services to wealthy individuals, the ruling elite, private and public companies and MNCs by assisting them to transfer their illicit wealth, thereby removing any possible criminal links associated with the wealth acquired.\textsuperscript{53}

Of all these professionals, it is the accountants who have the knowledge and the professional expertise to plan and create environments of tax justice within any commercial and legal environment because as Mitchelle et al. also noted that it is the accountants, among others, who are knowledgeable of the world’s financial systems; it is the accountants who are able to create and manipulate the complex transactions which make it difficult to identify and trace the origins and the ultimate destiny of the illicit funds or, when acting as auditors, are reluctant to reveal and report such activity.\textsuperscript{54} Tax havens have the backing of some economists, politicians and voices from the general public; they are said to help investment and capital formation by encouraging savings and therefore, constitute a major source of capital in the world.\textsuperscript{55} They are implied to help countries to reduce wasteful expenditure on bureaucracy and ineffective public sectors, because countries cannot find enough resources to finance their wasteful spending.\textsuperscript{56}

But looking at it critically, the argument above serving as rationale for tax havens is a baseless argument because the mere fact that tax havens operate on a secret arrangement kept away from the home governments of the concerned individuals calls for attention. That is the reason why the Nigerian society has not looked favourably on the Nigerians whose names were mentioned in the Panama Papers of 2016 as having secret assets in tax havens' countries. Some of those mentioned include the following with the names of their secret establishments.\textsuperscript{57} James Ibori, allegedly working through a Swiss asset management firm, Clamorgan S. A. in Geneva, established several offshore companies, including Stanhope Investments Limited, Julex Foundation and The Hopes Trust, enlisting himself, his wife and daughters as beneficiaries. T.Y. Danjuma, the retired general and former Defense Minister was named in the Panama papers as a user of offshore companies. The Mossack Fonseca files exposed his interest in Eastcoast Investments Inc, allegedly incorporated in Nassau, in the Bahamas. An online medium, Premium Times reported that aside Danjuma running such shell interests, he was fingered among

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global personalities found to maintain secret accounts, operated with codes, with the Swiss branch of banking giant, HSBC. "He was linked to HSBC account 15731CD, which was opened in 1993 and closed in 2001.

David Mark, no fewer than eight companies were reportedly linked to David Mark and they are: Sikera Overseas S.A, Colsan Enterprises Limited, Goldwin Transworld Limited, Hartland Estates Limited, Marlin Holdings Limited, Medley Holdings Limited, Quetta Properties Limited, and Centenary Holdings Limited. However, Section 6 (b) of the Code of Conduct Act provides that a public office holder shall not, "except where he is not employed on full-time basis, engage or participate in the management or running of any private business, profession or trade. Bukola Saraki, he is majorly linked on issues bothering on hidden interests of his wife, Toyin, whose holdings in some companies, he failed to declare in full. There are at least four of such offshore assets listed under his wife's name. The assets include a property in London's plush Belgravia neighbourhood, two companies registered in the British Virgin Islands and a third in the Seychelles. The hidden property is said to be located at #8 Whuttaker Street, Belgravia, London SW1W 8JQ. It has title number NGL802235.

Aliko Dangote and Sayyu Dantata; Dangote is reported to be one of the most prominent clients of Mossack Fonseca, with 13 Shell Companies registered by the firm directly linked to persons and companies connected to the billionaire and his allies. Aliko Dangote and Sayyu Dantata, the founder of MRS Holdings, which bought Chevron-Texaco's with equal shares of 12,500 each from OVLAS S.A, a Shell Company registered in Seychelles and a well-known tax haven used by businessmen, politicians, celebrities, etc.,. On the same date also, a company they both own as at 2003, MRS Oil and Gas Co. Limited, bought 25,000 shares from OVLAS S.A.

The fact that tax havens encourage secret savings is questionable and calls for concern; if tax havens really want to reduce wasteful expenditure on bureaucracy and ineffective public sectors, they should make their operations open to the respective governments of their customers and clients. The fact that they allow secret operations have encouraged fraudulent individuals, corrupt politicians and other public office holders in Nigeria to hide away huge sums of money that could have benefitted the teeming population in the country if such has been used on developmental projects. The several billions of dollars that have been hidden away in the tax havens secretly could have been used for road maintenance instead of the present situation in which lives are being lost almost on a daily basis in ghastly motor accidents due to bad roads. As a result of the death of parents and benefactors resulting from these auto crashes, many have been rendered orphans and have turned to the streets to become nuisance to the Nigerian society, and with this kind of situation, development is still far-fetched. In the same vein, the several billions of dollars that are hidden away from Nigeria by these fraudulent individuals could have been useful in establishments that would create jobs for the teeming youths, thereby reducing anti-social activities such as armed robbery, prostitution, and the likes.

The list of the development challenges which the Nigerian society is facing is endless due to the existence of tax havens and this is just the right time that the Nigeria's government must seek a permanent solution; if possible, challenge these tax havens' authorities not to harbour Nigeria's wealth illegally brought by individuals who are trying to hide Nigeria's stolen wealth with them.

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