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# GENERAL AGREEMENT ON TRADE IN SERVICES (G.A.T.S): ADOPTING OPEN CREDIBILITY TO CURB TAX AVOIDANCE IN NIGERIA. EVIDENCE FROM KWARA STATE

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## Abstract

*This Study focused on the General Agreement on Trade in Services (G.A.T.S). It explored the use of Openness and credibility clause to Curb Tax Avoidance in Nigeria, using Kwara State as a case study. Over the years, Kwara as a state in Nigeria has been lagging in her legal duties in terms of revenue mobilization with various loopholes in the tax system such as increasing rate of tax evasion and avoidance. In addition, Nigeria has also been seen as a country that lack credibility in making standard tax policies that can attracts investment and mobilize revenue for the government.This study examined the relationship between the practice of opencredibility and tax avoidance with the use of survey research. The study used primary data. Questionnaires were designed and distributed to seventy one respondents who are expatriates in Health, Education and Financial service sectors in Kwara State out of which sixty responses were retuned. The primary data collected were analysed using descriptive statistics and the hypotheses were tested using multiple regression, Pearson correlation and analysis of variance (ANOVA).This study was subjected to content and face validity. Some of the findings revealed that opencredibility such as Reciprocal openness, Credibility, Stronger Integration and liberalization of trade in service negotiation, have significant relationship with tax avoidance. It was therefore recommended that Kwara state should take advantage of the opportunities offered by GATS to lend credibility to reforms by committing to maintain and improve current levels of openness and also, create an enabling environment where social services are provided to support businesses.*

**Keywords:** General Agreement on Trade in Service (GATS), Revenue Mobilization, Opencredibility, Tax Avoidance and Widen tax base.

## Introduction

People's lives are now more interdependent as globalisation limits time and space and trade liberalization and deregulations are becoming common

place. Movements in factor resources across countries and regional blocks through bilateral and multilateral trade arrangements has provided opportunities more than ever before for countries, regions and even states within countries to generate tax revenues. For this reason, revenues generation from trade in services and foreign direct investment has occupied the attention of policy makers, researchers and scholars and key participants in the newly connected world. However, tax revenues from trade in services is the main focus of this study. The change in trade in services has been supported by falling barriers to trade and investment as well as technological advancement, both of which have lowered trade costs for services. However, recent World Bank research documents reported that barriers to trade in services in both high-income and developing countries are still present, and that emerging markets have barriers that are on average substantially higher than documented position of Organization for Economic Cooperation and Development(OECD) (Borchert, Gootiiz and Mattoo, 2012).

The failure of General Agreement on Trade and Tariff (GATT) gave rise to World Trade Organization (WTO). GATT was mainly about goods in terms of commodities and was perceived as 'rich countries club' that only had the interest of developed nations. However, after several discussions among World Communities in Uruguay round in 1994, there was an agreement to expand capacity on Trade in Services, Intellectual Property Rights and Trade in Goods. Nigeria is said to be performing well in Trade in Goods but still has huge gap to fill in Trade in Services and Trade in Intellectual Property Rights. In light of the above, this study is primarily on General Agreement on Trade in Services. In this study, we examined the various effects of General Agreements on Trade in Services on Revenue Generation using Open credibility and most favour nation clause as variables to determine the effects of GATS on revenue mobilization which is further divided into Tax Policy instruments, Tax avoidance and Widen tax base.

Over the years, Nigeria as a country has been lagging in her legal duties in terms of revenue mobilization with various loopholes in the tax system as increasing rate of tax evasion and avoidance has been dwindling tax revenue in the country. Open credibility is a compound word that comprises of Openness and credibility. Over time, it has been argued that being open and credible by tax authorities through dissemination of information regarding tax procedures can encourage taxpayers to be more tax compliant.

Nigeria has been seen as a country that lack credibility in making standard tax policies that can attracts investment and mobilize revenue for the

government. At present, tax policy instrument in operation are: simplicity of tax system in terms of (designing 'user friendly tax assessment, ensuring prompt issuance of tax clearance, and operating a less complex procedure for tax matters); ensuring autonomy of tax authority and taxing of informal sector all of which were observed to be sub – optimally used in generating expected level of revenue commensurate to the size of the economy. Consequent upon the above, the researcher expect increased revenue position from both open credibility and optimal utilization of Tax Policy Instrument in realizing growth objectives of Kwara State. Hence, this study attempted to examine the relationship between the practice of open credibility and tax avoidance.

## Literature Review

### General Agreement on Trade in Services (GATS)

GATS is an acronym for General agreement on trade in services. It defines "trade in services" as the supply of a service in one of four modes of supply (GATS, Article I:2) and is regarded as a platform where members must enter into successive rounds of negotiations with a view to achieving a progressively higher level of liberalization (GATS, Article XIX:1).General Agreement on Trade in Services is characterized by personal contact between customers and clients through foreign direct investment and labour mobility which are fundamental and highly regulated.

General Agreement on Trade in Services present four basic principles under Reciprocal openness, Credibility, Stronger Integration and liberalization trade in service negotiation as opined by Bernard and Aaditya (2012). Reciprocal openness is a principle that propagates mutual market opening. Some developing countries, like Ecuador, Ghana, Nigeria, Senegal, and Mongolia are remarkably open, while some restrictions are visible in the fast growing economies of Asia, as well as in the Middle East (Borchert, Gootiiz and Mattoo (2012). Credibility is key in trade in service as it is a binding international commitment that is costly to revoke. Hence, once a services market is declared open, keeping open requires greater policy that can make the market to attract new firms. The trade in service negotiation also emphasized deeper and stronger integration that creates a single market for service sector where all countries can benefit.

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## International trade in Services

There is no one general or universally accepted meaning as to what services is. However, according to International Monetary Fund's Balance of Payments Manual (2013), Services are economic output of intangible commodities that may be produced, transferred and consumed at the same time. As such, services cover a heterogeneous range of intangible products and activities that are difficult to capture within a single definition and are sometimes hard to separate from goods.

In spite of the substantial role that services play in the world economy for many years, they were not covered at all until the Uruguay Round of talks spanning from 1986 to 1994. Since the Uruguay trade talks, services had been growing especially in the economies of developed countries. As a result, there was a great deal of interest among these countries in increasing sales of services to foreign markets by encouraging openness in this area. Negotiations on trade in services were therefore established, and the result was the General Agreement in Trade in Services (GATS) which entered into force in January 1995. It consisted of 12 main sectors, which provided a set of rules and commitments on trade in services.

The WTO called the GATS the world's first multilateral investment agreement because its rules cover every conceivable way a service might be delivered including granting foreign corporations the right to buy or establish new companies within other countries and sending people across borders to perform services. GATS is known as a "bottom-up" agreement because most of its requirements only cover service sectors countries agree to open up for competition by foreign corporations. In reality, the GATS text is very ambiguous and can be used in unpredictable ways to challenge domestic policy.

## Liberalization Commitments in GATS

Under GATS, members of the WTO have two levels of decision that they must make with regard to any of the listed sectors: first is whether or not to schedule any commitments for that sector, and secondly what kind of commitments they are prepared to make. If a country does not submit a schedule of commitments for particular service sector, such an economy is free to be as liberal or as restrictive as it prefers. However, immediately a country submits a schedule of commitments to a particular service sector, it is compulsory for it to be transparent about its current policies towards th

[illegible] the trade regulation among the sector to other countries with the commission. It implies that no further barriers must be imposed under the commitment members of the WTO are informed. Schedule of commitments could be very complex in nature.

### Modes in International Trade in Services

There are four modes of International Trade in Services that emphasis the most distinguishing characteristics of service. Transaction of Trade in Services sometimes one consumption occur simultaneously, that other requiring direct contact between producers and consumers (mode 3), while some services are traded internationally across borders (mode 1) Sophisticated" services such as telecommunications other services may require the consumer to travel to the location of the producer (mode 2). There is possibility of consumers and producers, factors of production may have to move across national boundaries in the place of consumption. Mode 2 and mode 3 are the most important trade-related movements of factor that is, temporary or long term movement (mode 4).

Table 1: The modes of Services as classified by GATS under the Health sector

| Mode | Sector(s) of a Service | Health Services (Example) |
|---|---|---|
| Mode 1 | From the territory of one Member into the territory of any other member (Article 1:2(a)) | Telemedicine, tele-surgery, tele-health |
| Mode 2 | In the territory of one Member to the service consumer of any other member (Article 1:2(b)) | Consumption of medical services by a patient from one WTO member in the territory of another WTO member |
| Mode 3 | By a service supplier of one Member, through commercial presence in the territory of any other WTO member (Article 1:2(c)) | Foreign direct investment in another WTO member by the providers, health insurance, water, sanitation, waste disposal |
| Mode 4 | By a service supplier of one Member, [illegible] | [illegible] |

**Gats position on Health sector**

General Agreement on Trade in Service gives room for individual countries to decide which sector and subsector they are willing to operate. This allows countries to decide what degree of openness to trade they have agreed to maintain. Variation can be seen in the commitments countries have made within the four health subsector: Medical and Dental services, Services provided by Medical Personnel, Hospital Services and Other Health and Human service. Under GATS directives health insurance is classified under the financial sector. Once a country fully commits to a sector, it accepts two obligations: First, it agrees on market access and most nation favour clause. Countries also have the option of establishing limits on market access. For example, where country like Nigeria has granted market access in it health sector, authorities in the country have the right to establish need base quotas stating the number of health services to be provided in each area.

**Nigeria's commitments on Financial Services under GATS**

The financial service stands as the seventh service commitment in GATS. This service was further structured in three subs: 7.A All insurance and insurance related service. 7. B Banking and other Financial Service, and 7.C Others.

According to World Trade Organization and The World Bank (2014), GATS Schedule of Nigeria under the financial services commitment 7A state that:

(a) All government properties are to be insured with the national insurance corporation of Nigeria, unless where the Head of State approves in writing to the contrary.
(b) All imports into Nigeria to be insured locally by insurance companies registered in Nigeria.
(c) An insurance broker has to obtain approval before entering into contract with foreign insurers.

Commitments under 7.A are four in number and they consist of Life, accident and health insurance service (CFC 8121), Non –life insurance service (CPC 8129), Reinsurance and retrocession (CPC 81299) and Service auxiliary to insurance, including broking and agency services (CPC 8140).

Another commitment Nigeria has under the financial service in GATS is th 7.B that consist of Banking and other Financial Services (Excludi insurance).There are nine commitments in all in this sub sector:

(a) Acceptance of deposits and other repayable funds from the public (CPC 81115-81119).
(b) Lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transaction (CPC 8113).
(c) Guarantees and Commitments (CPC 81199**)
(d) Financial Leasing (CPC 8112)
(e) All payment and money transmission services, including credit, payment and similar cards, travellers cheques and cheques (CPC 81339**)
(f) Trading for account of customers (Money market instruments (CPC 81339**), Foreign exchange (CPC 8133),Transferable Securities(CPC 81321*) and Other negotiable instruments(CPC 81339**)
(g) Asset management (CPC 8119** + 81323*)
(h) Settlement and clearing services for financial assets including securities (CPC 8133** or 81319**)
(I) Provision and transfer of financial information and financial data (CPC 8131)

However, Victor (2002) opined that Trade in financial services is managed primarily through restrictions on entry and operations of foreign providers (commercial presence) and on cross – border exports and imports of financial services trade. The restrictions on international capital movements and opening of the domestic financial services markets to foreign competition are two interrelated yet different, components of the internationalization of financial services. A country may allow foreign firms into firms into its market yet restrict capital inflows and outflows from abroad

## Services under GATS

There are eleven basic services outlined by GATS while the last category is classified as others. According to World Trade Organization (2014), Business Service, Communication Service, Construction and related Engineering Services, Distribution Service, Education Service, Environment Service, Financial Service, Health Related and Social Service, Tourism and Travel related Service, Recreational Service, Cultural and Sporting Services, Transportation services and Others are the categories of services available under GATS directives.

Trend in Nigeria tax system

Experts on taxation in developing countries strongly agree that there is considerable potential to increase tax revenue in most low income countries. Mimmie, and Bayraktar (2012) opined that most low income countries have both low tax collection and low tax effort. Hence, the difference between potential and actual tax collected or actual revenue generated is the tax gap. One of the main reasons for low tax is tax evasion. James and Nobes (2009), opined that tax evasion can be viewed in two ways: The narrowed and the broader way. The narrow definition states that tax evasion is the illegal manipulation of an individual or firm's affairs to reduce amount of tax to be paid. A broader version defines tax evasion as set of actions, legal or illegal that individuals and firms can adopt to reduce their tax payments. Hence, for the course of this study, James and Nobes (2009) broader definition of tax evasion was adopted since it encompasses tax avoidance and aggressive tax planning which are considered not illegal but morally wrong.

Oduscia (2006), opined that the tax system in Nigeria is greatly affected by the federal system that we operate as a nation. In Nigeria, the fiscal power is based on three tier tax structure that is divided between the federal, state and local governments, each of which has its own tax jurisdictions. In the modern trend of tax system in Nigeria, the Decree no 7 Of 1975, created the uniform taxation provisions which is known as Income Tax Management. This singular decree unified reliefs and rates throughout the country. Hence, 1979 constitution gave power to legislate taxation of income, profits and gains. Self - assessment schemes was introduced in 1992 to prevent double taxation. However, 1992 amendments consist of: Increase in personal income tax allowances, introduction of rural investment allowance, treating withholding tax and increase in the table of tax rates for personal income tax. The most widely based tax is on income taxation. Liability to personal income tax in Nigeria does not depend on the domicile or nationality of the tax payer. Profits arising from businesses of business, profits, trade, profession or vocation, from any source inside or outside Nigeria, are chargeable under personal income tax decree 1993 as amended in 2011. If the taxpayer is resident in Nigeria .Once a company is incorporated, it becomes a legal entity. While Nigeria companies are assessed on their whole income, the foreign companies are liable to only the portion of their profits which is attributed to businesses operated in Nigeria.

his study is based on the three theories of taxation as given: ability to pay rinciple, benefit approach and equal distribution principle. However, in this tudy we considered ability to pay principle.

### Ability to –pay principle

As the name suggests, it says that taxation should be levied according to an individual's ability to pay. It says that public expenditure should come from 'him that hath'' 'instead of 'him that hath not'. The principle originated from the sixteenth century, the ability to pay principle was scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean-Baptiste Say (1767 - 1832) and the English economist John Stuart Mill (1806 - 1873).

## Methodology

By the survey nature of the study it is designed to gather the opinions of those engaged in providing and annexing foreign services in selected sub service sector in Nigeria on the effects of GATS in curbing tax avoidance. The survey used 5points psychometric Likert structured questionnaire to collect primary data from selected provider of financial, health and education services in Ilorin metropolis, Kwara State. It is supported with case study which is designed to measure the identified variables in the study. This study was therefore designed to ascertain the effects of General Agreement on Trade in Services (opencredibility) on tax avoidance in an urban area like Ilorin metropolis, Kwars State. To attain the above measurement objective, explanatory and descriptive measures were adopted. In order to establish causal relationships between identified variables, explanatory study was used. The research is cross-sectional because the phenomenon of our investigation was studied at one particular time and not over several years.

The population for this study consists of all the experts in the twelve service sectors as stated by GATS in Kwara State. There are 400 experts within these services which include, Business Service, Communication Service , Construction and related Engineering Services, Distribution Service, Education Service , Environment Service , Financial Service , Health Related and Social Service, Tourism and Travel related Service, Recreational Service , Cultural and Sporting Services, Transportation services and Others. The study was carried out in Kwara State in which three service sectors (financial

service, Health Service and Education Service) were randomly selected. Table below present the distribution of the population according to the selected service sectors.

Table 2: Population of expatriates in the selected sectors

| S/N | Sectors | Population Strength |
|---|---|---|
| 1. | Financial Sector | 22 |
| 2. | Education Sector | 25 |
| 3. | Health Sector | 24 |
| | Total | 71 |

*(Source: Field Survey, 2017)*

**Sample size Determination**

By using Yamane (1967) formula for determining the sample proportion, the sample size for this study is sixty (60). Yaro Yamane formula is expressed below

$$n = N/1+N(e)2$$

Where n = Sample size
N = Population
e = level of significance

By using the expression above,

$$n = 71/1+71(0.05)2 = 60.3$$

Table 3: Stratified sample from the population

| S/N | Sectors | Sample size |
|---|---|---|
| 1. | Financial Sector | 19 |
| 2. | Education Sector | 21 |
| 3. | Health Sector | 20 |
| | Total | 60 |

*(Source: Author's Computation, 2017)*

The study employed probability sampling and stratified techniques. Multiple regression models was used to investigate the extent to which the predictor variables explain the hypothesized variable in the three services sector in Kwara State. The co- efficient of determination ($R^2$) is obtained and it helped in assessing the significance of the model. The F-test is employed to determine the predictive ability of the model while the standard error (SE) and t-values is used to determine the significance of the explanatory [illegible] the mean and standard deviation are calculated.

ıtent validity in this study was attained by letting superior authorities and perts review and judge the instrument before the data collection.

r the face validity, the researcher seek for the opinion of others to know hether or not the instrument used was appropriate enough to measure hat was supposed to be measured.

## Result and Discussion

### Research Objectives

The study was design to determine the extent to which Tax Avoidance in Kwara State, Nigeria is encouraged by opencredibility. To acieve this it was hypothsised that there is no relationship between opencredibility and tax avoidance in revenue system.

Table 4 shows that R-square value is 0.802, which implies that there is a strong effect of the independent variables (Openness and Credibility) on tax avoidance. This model also shows that the coefficient of determination ($R^2$) which is 0.802 implies that 80.2% variation in Tax Avoidance is explained by Opencredibility in the model while the remaining 19.8% is explained by other variables outside the model or which are not considered.

Table 4: **Model Summary of Tax Avoidance**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .895[a] | .802 | .789 | .41066 |

Source: Researcher's Field Survey, 2017

Predictors: (Constant), Economy integration, Openness and credibility, Foreign Competition

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## Conclusion and Recommendations

he showed that absence of opencredibility makes individuals and firms to ngage in tax avoidance. It is important for Nigeria as a nation to assess the otential costs and benefits of opening education and health services. Such n understanding will enable us to improve our negotiating tactics under ATS and to take necessary domestic measures to offset any potentially dverse consequences.

n the words of Dale H. (2011), *'developing nations often lack international redible mechanism for making commitments which has contributed to difficulty in attracting more employment generation type of investments that can boost tax returns'*. Hence, this also explains the need for credibility in our trade in services. Before opencredibility can be fully established or attained, there should be a well-structured policies to promote competition with improved institutional infrastructure, such as, establishment of reforms that will improve tax enforcement, strengthen financial market regulation and can ensure all participate have a level competition field.

Hence, taking advantage of GATS directives will increase the level of welfare gains as a result of increase in competition, reduction in capital constraints, and increase in the level of technology transfer and know how, as well as improve level of management. Opening up to other foreign direct investments and foreign competition will bring about increase in various service options and at lower prices that will further boost the level of revenue generation. In the service sector, for every expert that experienced complexity, inconsistency or poor services, about 59 percent would be unlikely to go back or voluntarily comply.

Based on the findings in this study, we make recommendations that may guide or be of great importance to administrators, Heads of Departments or Directorates in the revenue service and those assigned with the responsibility of revenue collection in Nigeria and Kwara state in particular. This also includes, Stakeholders in administration, politicians and others that have various stakes in the welfare of the society. This study will also further [illegible] areas in revenue generation. Hence,

Nigeria has to be more open in its service sectors by improving on her level of credibility which is hunted by corruption, bureaucracy, lack of transparency and discrimination. Kwara state could take advantage of the opportunity offered by GATS to lend credibility to reforms by committing to maintain and improve current levels of openness.

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