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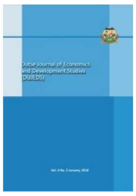

RETHINKING TAXES ON CROWD FINANCE SOURCING AS VIABLE RESOURCE FOR DEVELOPMENT IN NIGERIA

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Abstract

Crowd fund sourcing is a recently emerging concept especially in developing economies like Nigeria. This represents a new and growing source of potential capital for entrepreneurship. These sources of funding are starting to reach their potential by going into mainstream business setting around the world. Being a concept of recent origin, there is a gap in the research on crowd fund sourcing especially relating to transparency in record keeping and accountability. The need to capture the crowd fund sourced into the tax net by governments is unfortunately not researched even when other climes have gone far in that respect. To explore the objectives influencing crowd fund sourcing, this paper looks into academic articles, the crowd funding platforms, general media, newspapers, internet sources and bloggers through an exploratory content analysis to find what these studies suggest as the most important tax drivers for crowd finance with a view towards giving advice to government for tax purposes. The study employed descriptive research design where 301 questionnaires were distributed to crowd funding platforms, media houses, newspaper publishers and some bloggers using probability sampling method. The findings revealed that crowd financing platforms are effective, however, there is no proper accountability on the funds sourced through crowd financing.The findings generally point more towards accelerated development both individual crowd raisers as source of cheap money for entrepreneurship and to governments for tax purposes if well handled. It is therefore recommended that government in Nigeria should enact suitable regulation for crowd fund sourcing which will include enacting new legislation for capturing crowd funds sourced to be captured into the tax net or reworking existing ones to provide for and regulate crowd fund sourcing.

Keywords: Crowd Finance Sourcing, Transparency, Accounting, Taxation, Nigeria

Introduction

Crowd finance sourcing is today an evolving phenomenon and it is expanding rapidly as over $5.1 billion has been reported globally in 2013 alone (Hollander, 2015).This study discovered that lots of literature, research, legislation and political pronouncements have been put in place to catch up on the growing phenomena of crowd financing brought about consequent upon globalisation and its implications on the global economy (see for example: Buysere, Gajda, Kleverlaan, Marom, 2012; Hemer, 2011; Mollick, 2013; Rossi, 2014). However, because research on crowd funding is of recent origin emerging only around 2006, few scholars have researched to determine its implications on the current traditional economic and accounting models (Belleflamme et al., 2013; Golic, 2014; Mollick, 2013). Since finance are obtained through a large group of crowd sourcing platforms in the form of for example donations, tithes and many others and it is rapidly growing, the need to account for the sourcing and funding scenario becomes crucial. This is especially so for rapidly growing developing economy such as Nigeria where the need for diversification of revenue sources to meet government spending becomes very much imperative.

Mollick, (2013) and Belleflamme, Lambert and Schwienbacher (2013) in describing crowd finance observed that, it is usually individuals, group of family members or committee of friends that donate little amounts of money depending on some specified crowd funding initiative. This arrangement may include donations in churches, mosques or for some social responsibility gatherings. Crowd funding may thus be described as involving large pool of individuals donating some amounts of money to provide funds that is facilitated by crowd funding platforms who act as financial intermediaries such as churches and mosques but without authentic accounting records to back it up (Tomczak & Brem, 2013; Mollick, 2013; Hemer, 2011). Crowd funding sources can aptly be depicted in figurative form as below:

Source: Mollick, (2013)

Figure 1: Crowd Financing

Although the research on crowd fund sourcing scenario is expanding, it is still of recent phenomena with literature on the subject very scanty (Hollander, 2015). Moreover, the topics covered in earlier research and literature have narrow geographic dispersion, restricted project success and mostly deals with motives as to why contributors participate in crowd funding or go into crowd funding platforms. For instance, Mollick (2013) studied crowd fund ventures of US-based 48,526 projects on Kick starter. The study found that founders of projects make efforts to fulfill their obligations to funders, although with many of the projects being delayed. Burtch, Ghose and Wattal, (2011) empirically analysis social influence in a crowd-funding market for online journalism projects. The study employs a unique data set that incorporates contribution events and Web traffic statistics for approximately 100 story pitches. The authors find evidence that crowd funding model offers potential response and attention to funders around causes and ventures. Agrawal, Catalini and Goldfarb (2011) examine crowd fund setting that connects artist-entrepreneurs with investors over the internet for financing musical projects. Findings reveal geography effect to have some driving investor influenceand personal connection with the artist-entrepreneur.

Looking at the above review, it can be seen that, the role of record keeping and accounting for crowd finance sourcing and its application are inadvertently neglected. The perspective of crowd fund accounting has not been adequately researched perhaps due to currency of the trend across the globe. This study is an attempt to address this obvious lacuna in the literature by proposing ways in which crowd finance sourcing are to be accounted for thereby making it transparent to both the regulatory authorities and the contributing members.

The contribution of this paper should therefore be viewed in the light of the recentness of the crowd funding phenomena and the need for research in the field of accounting for crowd funds collected through the crowd sourcing platforms.

This paper is expected to shed new light on the aspect of accounting and record keeping for crowd fund sourcing and application in a developing country-Nigeriathereby further enriching existing literature on the subject. The study is also an attempt to proffer suggestionsto crowdfund platform managers and government on the need for crowd fund accounting and crowd fund taxation to boost internally generated revenue sources. Conclusively, following scholarly tradition in exploratory studies, this paper seeks to contribute in this important subject by proffering suggestions on the need for crowd fund sourcing accountability by both government for tax purposes and the platform funders and managers for financial planning and control (Mathur, 2015). Apart from the introduction, the rest of the paper is organize into section 2, literature review, section 3, is the materials and methods used, section 4 is the data presentation and discussion of the results and section 5 is the conclusion and policy recommendations

Literature Review

Concept of Crowd Finance

Crowd finance is a revenue sources generating funds which do not follow government regulatory requirements for registration. These revenue sources are not transparently accountable and are not captured into the tax net as sources of government revenue (Asimiyu & Kizito, 2014). Although crowd finance revenue sourcing is acknowledged in financial management literature, there are very little management accounting research about them (Bruton, Ireland & Ketchen, 2012). This paper is an attempt to outline key issues about crowd fund sourcing and the potential accounting questions that financial management researchers could help to address. The paper is thus, helping in forming potential research agenda for accountability and taxation in this promising area of scholarship.

This paper is also based on the financial management literature which indicates that, the amount of research attention devoted to a phenomenon should match the importance attach to it within the world of advancement (Bruton, Ireland &Ketchen, 2012). Hence, when a spectacle is very important but has attracted relatively little scholarly attention, profoundopportunities exist for scholars to build a new research paradigm taking cognisance of the new knowledge base. It is therefore the considered opinion of this paper that, there is perhaps no greater opportunity to explore than the area of accounting for crowd finance sourcing and crowd fund taxation in a developing economy such as Nigeria.

Types of Crowd Funding Sources

There are four sub-categories of crowd funding sources. This include, donation crowd-funding, reward crowd funding, peer-to-peer lending and equity crowd-funding (Mollick, 2013). This study is particularly interested in donation crowd fund sourcing because churches and mosques in Nigeria are currently sitting on huge revenues collected from these sources of funding which largely remains unaccounted for (Mollick, 2013).

Donation Crowd-Funding

Donation crowd-funding and tithes crowd-funding are a way of fund-raising forcharitable causes or religious activities.These arise through donations in churches, mosques and other social gathering activities. Donation crowd funding and tithes crowd funding are collectively referred to as “community crowd-funding” (Dauda, 2018). These crowd fund sources do not provide any financial return in the form of a yield or return on investment to the donors and are therefore not subjected to any accountability (Asimiyu & Kizito 2014). These sources of finance are also not captured into government tax net and therefore have no value to the public at large (Eugene & Abigail, 2016). This paper view that, these sources of funding should not be allowed to continue on accounted for and untaxed. This is because of the twin need of investor protection and revenue generation by government through taxation.

Crowd fund Regulatory Regimes and Trends

The regulation of crowd-funding varies from jurisdiction to jurisdiction, with each jurisdiction requiring a different regulatory approach. There are three aspects to regulating crowd funding as seen in the UK and USA. These according to Kirby and Worner (2014) are the borrower or issuer side; the lender/investor side, and the online or crowd fund platform. With these working frameworks, many jurisdictions around the world have embraced crowd fund sourcing as an acceptable method of raising funds. These countries have individually enacted suitable rules to govern the application of crowd financing in their territories. For example, in the United States of America, the Jumpstart Our Business Startups Act was enacted in 2012 specifically to make crowd funding sourcing possible to provide financial support to private companies. Moreover, the Securities and Exchange Commission (SEC) went further to relax regulations that dramatically increased early-stage Crowd funders’ offering capacity. These expanded the pool of eligible investors by effectively bringing equity crowd sourcing and funding opportunities to small-time retail investors in 2015. Furthermore, in the United Kingdom, the British Financial Services and Markets Act which regulates all kinds of securities activities was amended in 2014 to facilitate crowd fund sourcing in the UK.

However, there is as yet no regulation guiding crowd fund sourcing in Nigeria. This is so due to lack of definition regarding the service provided to the donors and because of lack of statistics of the crowd funds generated. Moreover, government in Nigeria still consider the donations and tithes generated as too small to attract regulation (Eugene & Abigail, 2016). However, this paper stronglyview the need for Nigerian government to follow the international best practice by capturing crowd funds into the tax net hence, the main reason for this current study.

The need for Crowd Fund Sourcing Regulation in Nigeria

Countries the world over have been exploring opportunities to mitigate the various constraints in their domestic resource mobilization towards selfreliance. Nigeria as giant of Africa, a low income generating country with an estimated population of 200 million people is also not left out. There is further the realisation by jurisdictions across the globe of the need to regulate crowd finance sourcing to assist in its effective governance. For Nigeria as a country struggling to expand her revenue bases, taxation awareness to increase tax-payer morale through equitable tax administrations have been suggested by various scholars (Asimiyu & Kizito, 2014; Eugene & Abigail, 2016). Reforms on tax issues are therefore suggested as a way to mobilize more domestic sources of finance (Adesoji & Chike, 2013).

However, it has been noted that, many of the constraints for an effective tax reform in Nigeria as in many other African countries relate to underdeveloped tax systems, lack of transparency, corruption and general low capacity of education on the part of tax administrators (Eugene & Abigail, 2016). These authors furthermore, see political constraints such as lack of support by the legislative arm through unpopular changes in legislations, large scale elite influence from the private sector, deep-rooted bureaucratic bottlenecks, and general mistrust of government by civil society.

While countries around the world are embracing the concept of crowd fund sourcing and drawing up regulatory framework for same, surprisingly, the Nigerian regulatory authorities released a statement directing that equity crowd fund sourcing activities regulation in Nigeria should be suspended due to “legal challenges”(This Day ,2018). According to This Day press reader (2018), the Securities and Exchange Commission (SEC) reported that, the rationale behind this statement is that the Companies and Allied Matters Act (CAMA) which are the relevant laws, have no provision for crowd fund sourcing and the Investment and Securities Act (ISA) does not support it (CAMA, 1990; ISA, 2007).

Crowd fund regulation around the World

According to Kirby and Worner (2014) several countries of the world have been making effort towards regulating and in some instances enforcing taxes on crowd finance. Some examples may suffice here.

The United States of America

The USA regulatory crowd financing regime is structured at the Federal level with each crowd finance platform required to be registered with the SEC. Additionally each donation or tithes collected by the platforms must be registered with the SEC. Each platform is also treated like a public company, having to fully disclose their finances, loan origination and practices. Next level is the state regulation. In the United States of America states like Texas are not so much predispose to crowd funding and have only in some instances (e.g. peer to peer lending and equity crowd funding) out rightly ban the practice.

Other states for instance California place limits on the type of investors using the platforms to lend. Additionally, platforms that wish to activate across various state boundaries must apply separately to each state and obtain permission unless the crowd funding platform is registered as public business through an initial public offering. This has led to some platforms operating in states where there are no competing platforms hence the operations of these platforms are spread across multiple states. However, no crowd funding platform operates without registration and accounting records that is declared at end of every financial year for regulatory scrutiny and taxation.

Current Regulatory Trends

Kirby and Worner (2014) observed that beside USA that are more advanced in crowd-funding regulation, many other jurisdictions now consider the need for crowd-funding platforms regulation as an efficient vehicle for funding small and medium enterprises and as sources of government revenue. However, many of these countries are seeking to encourage the practice without compromising investor protection through specific, targeted regulation of the industry. Moreover, since the industry is still at its infancy or even non-existent, many countries of the world are still in consultations by issuing papers in seminars, workshops and conferences on the issue and encouraging crowd-fund sourcing, investment, investor protection and of course government taxation. These countries include the government of Australia through the corporations and Markets Advisory Committee, the government of France using *Un Nouveau Cadre Pour Faciliter le Developpement du Financement Participatif and the* European Union through a Consultation document on crowd funding using the European Commission and the Financial Conduct Authority (FCA). Other regulatory commissions such as the Ontario Securities Commission and the Securities and Exchange Commission are into various stages of proposing rules on crowd funding.

The Concept of Revenue Generation

Universally, the function of government is all encompassing as it is in charge of giving some fundamental services to the citizens such as provision of Schools, Hospitals, Roads, Railway lines, Airports, Sea ports and general defence and protection of life and properties of the citizens from all forms of aggressions (Adesoji & Chike, 2013). By and large, government performs social, political and financial capacities in order to boost social and monetary welfare of its nationals. Keeping in mind the end goal to play out these capacities, government requires vast measure of assets. These assets are frequently alluded to as open income which comprises of income from duties, income from authoritative exercises, for example, charges, rates, licenses, rents and ventures. The more these revenues are generated, the more government will be able to perform its duties. It is important to note that, effective and efficient revenue generated by government is the heart and pathway to modern development (Adesoji & Chike, 2013).

Tax Revenue

Taxes are an important and effective source of public revenue generation by government. They are compulsory payments to the state by corporate bodies, individuals and institutions without expecting direct benefit or return by the tax payer. Taxation provides definite source of revenue to enable the implementation of government projects (Asimiyu & Kizito, 2014). Generally, taxes are collected by government to generate sufficient revenue to enable it provide public welfare services that have common benefits to all citizens. Eugine and Abigail (2016) assert that tax is a reliable and sustainable source of revenue for government and a tool for fiscal policy and macro-economic management. Adesoji and Chike (2013) opined that, revenue derived internally from various sources particularly taxes are important for infrastructural development. Therefore, tax revenue has been considered as a significant source of revenue to the government all over the globe.

Methodology

To explore the objectives influencing crowd finance sourcing this paper looks into various academic articles, the crowd funding platforms, and writings in the general media, in newspapers and magazines, on the internet and bloggers by doing an exploratory content analysis to find out what these sources suggest as the most important drivers. An Online survey was created and the link sent to the targeted population (crowd funding platforms, media houses, newspapers publishers and some bloggers) at the reach of the researcher.

This paper tries to marry the successes recorded so far on crowd fund sourcing with the possibility that with proper regulation, it could be a useful source of additional revenue to government. As a descriptive design, the sample size was drawn using the Cochran's probability sampling technique for undefined population below:

$$\text{Cochran's Formula Sample Size} = \frac{Z^2 x(P)x(1-P)}{e^2}$$

By applying Cochran's formula on the entire universe of the research interest, it gives us a total sample size or population of 323 respondents. The Cochran's probability sampling methodology was employed because it helps to avoid biasness and generalize data gained from sample respondents thereby avoiding errors which often arises from other methods of sampling.

Discussion of Findings

Findings from this research study are hereby discussed below.

Table 1: Questionnaire Distribution and Response Rate

Number of Distributed Questionnaires	Number Retrieved	Percentage
323	301	93%

From the online surveys as reported in Table 1 above, it was observed that out of the 323 distributed questionnaires, only 301 (93%) were responded to and returned.

Table 2: Frequency & Percentages

Category	Frequency	Percentage
Gender		
Male	184	61%
Female	117	39%
Total	301	100%
Previous Participation		
Yes	301	100%
No	0	0%
Total	301	100%
Effectiveness		
Effective	268	89%
Undecided	23	7%
Ineffective	10	2%
Total	301	100%
Transparency and Accountability		
Transparent		
Undecided	0	0%
Not Transparent	0	0%
Total	301	100%
	301	100%
Recommendation as a useful Revenue Generation		
Yes	301	100%
No	0	0%
Total	301	100%

Source: Authors compilation from the field work (2019)

Findings from the returned questionnaires in Table 2 show that 61% of the respondents were males while the remaining 39% were females. Furthermore, the responses show that all the respondents had participated in one form of crowd fund sourcing or another. On the effectiveness of crowd fund sourcing, 89% of the respondents informed that the exercise is effective, 7% were undecided while 2% said that the exercise has not been effective. On transparency and accountability however, all the respondents indicated that there is no transparency and proper accountability of the funds sourced through crowd financing. On recommending crowd financing as a new source revenue generation to the Nigerian government, all the respondents were of the view that the platform could further serve as a useful source of revenue generation for the Nigerian government but they advised that the procedure should be properly captured by the relevant tax authorities so as to enhance transparency.

Findings from the various studies suggest the need for crowd-funding platforms regulation as an efficient vehicle for funding small and medium enterprises and as sources of government revenue without compromise for investor protection. Therefore, the twin need for accounting and proper record keeping information as source for accountability and transparency and the need for government to generate revenue for developmental purposes is the main objective of this study as already highlighted.

Conclusion and Recommendations

It has been seen that Crowd fund sourcing can be a very viable means of fund raising and by implication a potential revenue generating medium for the overall development of an economy. Therefore, in order to promote transparency and accountability and ensure the growth of the Nigerian economy, the authorities concerned should seriously consider enacting a suitable regulation for crowd fund sourcing which will include enacting new legislation for capturing crowd funds sourced to be captured into the tax net or reworking existing ones to provide for and regulate crowd fund sourcing, investments and taxation in Nigeria. However, this paper hastens to add that the tax authorities should avoid over-regulation which may have adverse impact of stifling the intended purpose.

Based on the findings or the paper, it was recommends that, through the process of ensuring transparency and accountability in crowd fund sourcing, this study has identified new area for further research hence, new research agendas are established. The paper further hammer on openness and transparency as important attributes in seeking to find out the benefit of crowd funding sourcing and investment and further indicates the need for more accountability and transparency.

The theoretical contribution of this paper is important because it suggests new insights that previously are scantly researched. The twin role of transparency and accountability and the need for capturing crowd funds into the tax net as identified are due for intensive research. As stated earlier, the field of crowd funding is still nascent and this study contributes by expanding existing literature within the field of crowd funding. Moreover, the current research works as a good guide to researchers that would like to explore and research the field of crowd fund sourcing, investment, accounting and new source of revenue generation.

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