ANALYSIS OF TAX REFORMS AND ECONOMIC DEVELOPMENT IN NIGERIA

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JULY, 2026.

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LONG ESSAY SUBMITTED TO THE FACULTY OF LAW, GODFREY OKOYE UNIVERSITY, ENUGU.

IN PARTIAL FUFILLMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF LAWS (LL. B)

DEGREE OF GODFREY OKOYE UNIVERSITY

MRS NWAKEGO OGBAJI

JULY 2026.

## DEDICATION

This work is dedicated to God Almighty for his guidance, and to my family for their love and support.

## ACKNOWLEDGEMENTS

I wish to express my profound gratitude to God Almighty, for his infinite grace and favor throughout the course of this research. It is only through His benevolence that I was granted the strength to persevere and bring this study on the Analysis of Tax Reforms and Economic Development in Nigeria to realization.

I use this opportunity to specially recognize my mother, Princess Angel Chinenye Enyinnaya Orizu, whose words of wisdom, courage and strength has impacted the growth of my life as a young man. I would also like to thank my aunty, Princess Uche Nwagha Orizu, who has never failed to show up for me during difficult times. My heartfelt thanks also extends to my beloved brother who has also been a source of strength in my journey thus far. It goes without saying that the guidance of my lovely supervisor Mrs Nwakego is a major factor for the fruition of this research work and I admire her resilience for the best which has not only impacted my thesis but also my work ethic.

Finally, I wish to recognize my cousins and friends. Special mention to Mr & Mrs Orujekwe, whose unwavering support has been present since the first day I began. My Big Sister Chi-Chi, who has also been a big supporter of mine since the start of this journey. I am also deeply grateful to my entire family and friends whose impact contributed to an achievement of this feat.

## TABLE OF CONTENTS

**CHAPTER TWO: CONCEPTUAL AND THEORETICAL FRAMEWORK**



**CHAPTER THREE: EVOLUTION AND STATUTORY ANALYSIS OF NIGERIAN TAX PATHWAYS**

**LIST OF CASES**

*Attorney-General of Rivers State v. Federal Inland Revenue Service and Another (2021) Suit No: FHC/PH/CS/149/2020 (Unreported) (p. 10).*

*Matthews v. Chicory Marketing Board (1938) 60 CLR 263 (p. 17).*

**LIST OF STATUTES AND CONSTITUTIONAL INSTRUMENTS**

Constitutional InstrumentsConstitution of the Federal Republic of Nigeria 1999 (as amended), ss 4, 24(f), 162 & Second Schedule (pp. 10, 71, 97-98).

Companies Income Tax Act 1961 (p. 57).

Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria 2004 (Repealed) (p. 9).

Federal Inland Revenue Service (Establishment) Act 2007, Cap F36, Laws of the Federation of Nigeria 2010 (Repealed) (p. 9).

Finance Acts 2019–2024 (pp. 9, 30, 57).

Income Tax Management Act 1958 (p. 57).

Joint Revenue Board of Nigeria (Establishment) Act 2025, ss 5–6 (pp. 53-54).

Native Revenue Ordinance 1917 (p. 56).

Native Revenue Proclamation 1906 (p. 56).

Nigeria Data Protection Act 2023 (p. 99).

Nigeria Tax Act 2025, ss 4, 56, 57, 58, 59, 114, 147, 151, 187 & 188 (pp. 23-27, 34, 37, 59-60, 94).

Nigeria Tax Administration Act 2025, ss 6, 7, 8, 11, 23, 42 & 156 (pp. 31-32, 38-39, 53, 69).

Personal Income Tax Act, Cap P8, Laws of the Federation of Nigeria 2004 (Repealed) (p. 9).

Stamp Duties Proclamation 1903 (p. 56).

Value Added Tax Act 1993 (p. 57).

Value Added Tax Decree No. 102 of 1993 (p. 29).

**LIST OF ABBREVIATIONS**

ATRs: Advance Tax Rulings (p. 31).

CAC: Corporate Affairs Commission (pp. 38, 50, 85).

CGT: Capital Gains Tax (pp. 10, 25).

CIT: Companies Income Tax (pp. 10, 24, 43, 95).

CITA: Companies Income Tax Act (pp. 9, 57).

DRM: Domestic Resource Mobilization (pp. 74, 77).

EFS: Electronic Fiscal System (p. 32).

FIRS: Federal Inland Revenue Service (pp. 9-10, 55, 69).

GDP: Gross Domestic Product (pp. 10, 24, 34, 68, 80, 97).

HCT: Hydrocarbon Tax (p. 26).

ICT: Information and Communication Technology (pp. 50, 84).

IMF: International Monetary Fund (pp. 13, 33, 68).

ITAS: Integrated Tax Administration System (p. 84).

JRBA: Joint Revenue Board Act (p. 81).

JRB: Joint Revenue Board (pp. 39, 54, 90).

JTB: Joint Tax Board (p. 86).

MNE: Multinational Enterprise (p. 59).

MSMEs: Micro, Small, and Medium Enterprises (pp. 66, 85, 89).

NASENI: National Agency for Science and Engineering Infrastructure (pp. 27, 96).

NEC: National Economic Council (p. 95).

NELFUND: Nigerian Education Loan Fund (pp. 41, 96).

NITDA: National Information Technology Development Agency (p. 96).

NRA: Notice of Refusal to Amend

NRS: Nigeria Revenue Service (pp. 9-10, 32, 38, 55, 64-65, 71, 81, 98).

NTA: Nigeria Tax Act (pp. 33, 52, 59, 81, 83, 94).

NTAA: Nigeria Tax Administration Act (pp. 30-31, 38, 81, 89).

OECD: Organisation for Economic Co-operation and Development (pp. 13, 28, 48).

PAYE: Pay-As-You-Earn (p. 28).PIT: Personal Income Tax (pp. 23-24, 28).

PITA: Personal Income Tax Act (pp. 9, 83).

PPT: Petroleum Profits Tax (pp. 10, 26).

SAP: Structural Adjustment Programme (p. 57).

SDG: Sustainable Development Goals (pp. 10, 74).

SIRS: State Internal Revenue Service (pp. 28, 54).

TAT: Tax Appeal Tribunal

TETFund: Tertiary Education Trust Fund (pp. 41, 96).

TIN: Tax Identification Number (pp. 38, 54, 86).

UN: United Nations (p. 68).

UNDP: United Nations Development Programme (pp. 45, 74, 77).

UTIN: Unified Tax Identification Number (p. 31).

VAT: Value Added Tax (pp. 10, 21, 24, 29-33, 37, 53-54, 57, 62, 81, 83, 86, 89, 94, 98).

WHT: Withholding Tax (p. 25).

**ABSTRACT**

This study critically explores the law-institutional link between current tax reforms and economic development in Nigeria, considering the Nigeria Tax Act (NTA) 2025 and Nigeria Tax Administration Act (NTAA) 2025. Applying the doctrinal research approach, the study analyzes various legal documents and literature regarding statutes, court rulings, and constitutional provisions, assessing the effects of such legal instruments on revenue generation, private sector investment, and socio-economic equality. The findings have shown that, despite the significant success of the latest structural and legislative changes, including zero percent individual tax threshold for low-income earners, integration of digital assets into the tax regime, and cutting down of corporate tax rates, their actual effectiveness for development purposes is heavily limited. Such limitation is caused by the continuous discrepancy between "the law on the book" and "the law in action," resulting from an unaccounted informal sector, structural limitations of the system of constitutional federalism in Nigeria, and administrative duality at the sub-national level. The conclusion drawn is that modernization through legislation and technology cannot ensure sustainable economic development without solving the problems of tax conflicts across jurisdictions and the reconstitution of the fiscal bargain between the citizen and the government. The recommendations therefore include a formal constitutional amendment specifying consumption tax jurisdictions, empowering the Joint Revenue Board to make penal deductions from the revenue collections of the non-complying revenue agencies of the sub-national governments, and judicial enforcement of fiscal reciprocity.

**CHAPTER ONE (1)**

## 1.1 Background of the study

Tax has generally been described as an instrument of regulation by the government. Tax, being a compulsory contribution, is not only a financial burden imposed by the government, but also a social and economic phenomenon which the government employs for the purpose of mobilising resources, redistributing wealth, and regulating investment and consumption patterns. Taxation is a crucial means for countries to produce public money, which allows them to fund investments in human resources, infrastructure, and the provision of services to citizens and enterprises.[1] Governments have a variety of fiscal policy tools at their disposal to raise income and encourage economic growth and development, including taxation.[2] Tax income is used by governments to carry out their traditional tasks, such as providing public goods and services, maintaining law and order, and defending against external threats, as well as regulating commerce and business to preserve social and economic stability (Adereti, Sanni, & Adesina, 2011).[3]

However, in the case of Nigeria, the concept of taxation has always been compromised due to the overdependence on the revenue generated from crude oil. This mono-resource based economy made the country vulnerable to the fluctuations of the prices of crude oil, because the use of taxation in sustainable development was underutilised.[4] However, noting this challenge, different governments have sought to undertake reforms in tax laws to strengthen compliance and improve economic development.[5]

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[1] E A Modesta, 'Taxation as a significant tool for economic development' *International journal of economics and public policy* (2022) 6(1), 13. <https://www.eprints.gouni.edu.ng.> accessed 25 april 2026.

[2] Ibid.

[3] S Adereti & Others, 'Value added tax and economic growth of Nigeria'. *European Journal of Humanities and Social Science*, (2011) 10, 456-471. <https://www.scrip.org/reference/referencespapers?referenceid=3065495.> accessed 25 april 2026.

[4] V N Itumo, 'Nigeria's Mono-cultural economy: impact assessment and prospects' *European journal of interdisciplinary studies* (2016) (8) (2) 20. <https://www.ejist.ro/files/pdf/412.> accessed 25 april 2026.

[5] Aderonke Atoyebi, 'Tax reform as a catalyst for economic development'. (2026). <https://www.premiumtimesng.com.> acessed 25 april 2026.

In Nigeria, various tax reforms have been implemented, some of which are legislative and administrative in nature. Notable among them are the creation of the FIRS (federal inland revenue service) as an independent body in 2007,[6] the adoption of the National Tax Policy 2017,[7] and the enactment of the annual Finance Act of 2019 to 2024.[8] These tax reforms are geared towards repositioning taxation as a viable source of generating revenue for the state, addressing the problem of multiplicity of tax, tax evasion, etc.

The enactment of the Nigera Tax Act 2025, consolidated the previous individual tax laws such as; Personal Income Tax Act [PITA], Company Income Tax Act [CITA], and other tax laws, into a single reform. Another significant change was the name of the Federal Inland Revenue Service [FIRS] to the Nigeria Revenue Service [NRS]. These changes were made for the purpose of ensuring the effectiveness of tax in nigeria.

The underlying premise of such measures is that a well-structured taxation system not only generates revenue for the government, but it also contributes to economic development in the country. Experts have posited that taxes, when collected well and utilized, may help stimulate industrial growth, reduce inequality and achieve economic diversification in a sustainable way.[9] However, the practical relationship between tax reforms and economic development in Nigeria remains a subject of contention, with critical questions arising as to whether the desired objectives of the reforms have been met.

### 1.2 Statement of the problem

Despite several tax reforms, Nigeria's tax to GDP ratio remains one of the lowest in Africa, averaging only 10 to 11 percent, whereas the African average stands at 18 percent.[10] Challenges such as corruption,

[6] Federal Inland Revenue Service (Establishment) Act 2007, Cap F36, LFN 2010.

[7] Federal Government of Nigeria, *National Tax Policy* (2017).

[8] Finance Act 2019-2024.

[9] Manal Corwin, 'Taxation and the sustainable development goals: the role of the PCT', *Platform for collaboration on tax*, <https://www.tax-platform.org.> accessed 25 april 2026.

[10] National Bureau of Statistics, *Tax-to-GDP Ratio Revised Computation 2010-2021* (NBS 2023) 1.

lack of enforcement, multiple taxation, and the unending debate between the federal and state governments regarding revenue allocation have contributed to the stagnation of the sector. The ongoing controversy between the Federal Inland Revenue Service and the state governments regarding the control of Value Added Tax (VAT) is a notable challenge in the Nigerian tax system.[11] This dispute also has constitutional implications, as it involves sections 4 and 162 of the 1999 constitution as amended.[12] Under section 4(2) and 4(3) of the constitution, the federal government has an exclusive right to impose companies income tax, petroleum profits tax, personal income tax and capital gains tax under the exclusive legislative list. But under section 4(7) of the constitution, the state derives it's power from item 7 of the concurrent legistive list, which states that the federal government may delegate the collection and administration of personal income tax, capital gains tax, and stamp duties (for individuals) to state government. The value added tax was failed to be mentioned in either the exclusive or concurrent legislative list and by virtue of that fact it falls under the residual list which the state has the power to exercise. Section 162 of the 1999 constitution establishes the "federation account", which is the central "distributable pool" into which nearly all federal revenues are for sharing among the three tiers of government.[13] Sub-section 3 states that the national assembly prescribes how funds are shared between federal, state and local government council.[14]

Reforms are continually made, but their effectiveness seems minimal, as the Nigerian economy continues to face challenges. There is, therefore, a compelling need to critically evaluate the degree of contribution of tax reforms in Nigeria towards economic development and the challenges hindering their success.

**1.3 Research questions**

This research seeks to answer the following questions:

[11] *Attorney-General of Rivers State v Federal Inland Revenue Service and Another* (Federal High Court Port Harcourt 9 August 2021) Suit No FHC/PH/CS/149/2020 (unreported).

[12] Constitution of the Federal Republic of Nigeria 1999 (as amended), ss 4 & 162.

[13] The Constitution of the Federal Republic of Nigeria, 1999 (as amended), s 162.

[14] The Constitution of the Federal Republic of Nigeria, 1999 (as amended), s 162 (3).

A). What are the key tax reforms that have been introduced in Nigeria, especially in recent years?

B). How effective have the tax reforms been in promoting economic development?

C). What challenges hinder the success of tax reforms in Nigeria?

D). What recommendations could enhance the link between tax reforms and economic development?

## 1.4 Aim and objectives of the study

### Aim of the study

The major aim of this study is to critically analyze tax reforms in Nigeria, evaluating their effectiveness in promoting sustainable economic development in line with the constitutional and statutory provisions in Nigeria.

### Objectives of the study

The specific objectives of this study are to:

1.Examine the legal and policy framework of taxation in Nigeria.

2.Analyze the nature, scope, and evolution of tax reforms in Nigeria, particularly between 1999 and 2025.

3.Evaluate the effectiveness of tax reforms in promoting economic development in Nigeria.

4.Identify the legal, institutional, and structural obstacles to the successful implementation of tax reforms in Nigeria.

5.Proffer recommendations on the best way to enhance the tax system in Nigeria to promote economic growth.

## 1.5 Research methodology

This work employs a doctrinal method of research. It is primarily based on statutory provisions, judicial decisions, and constitutional principles relating to taxation in Nigeria. Secondary sources of information, including textbooks, journal publications, government publications, and publications by international organisations (e.g., IMF, OECD, World Bank), may also be referred to for information.

### 1.6 Scope and limitation of the study

The scope of this research covers tax reforms in Nigeria from the advent of democracy in 1999 to the present. Where necessary, some comparative cases from other jurisdictions, particularly developing countries in Africa, will be cited to illustrate some relevant points.

### Limitation of the study

The limitation of this research lies in the fact that this research is a doctrinal research, which focuses only on the tax reforms under the Nigerian law. It does not delve into empirical research.

Additionally, the study concentrates primarily on federal-level tax reforms and does not exhaustively examine all state-level tax policies except where relevant to issues of fiscal federalism. Time and resource constraints also restrict the study to reforms enacted up to the year 2025.

### 1.7 Literature Review

Scholary attention has been devoted to the subject of taxation and its relationship with economic development, particularly in developing economies such as Nigeria. Tax  reform, as deliberate alteration of tax laws, policies and administrative mechanisms, has been widely examined by scholars from legal, economic and public finanace perspectives. This section reviews existing literature on taxation, tax reforms and economic development with a view to identifying the gaps which this study seeks to fill.

Several scholars have examined the concept and objectives of taxation as a major source of government revenue and an instrument for socio-economic development. According to Ladan, "taxation plays a dual role of revenue mobilisation and redistribution of wealth, thereby serving as a tool for economic planning and development in modern states."[15] He argues that effective tax systems enhance government capacity

[15] M T Ladan, *Materials and Cases on Public Finance and Taxation* (ABU Press 2008) 1.

to fund infrastructure, education, healthcare and other developmental projects. This position is shared by Ihugba, who maintains that “taxation remains one of the most reliable and sustainable sources of public revenue when properly administered.”[16]

In the nigerian context, various authours have examined the structure and performance of the tax system. Soyode and Kajola observe that Nigeria’s tax system has historically been characterised by inefficiency, narrow tax bases and overdependence on oil revenue.[17] They contend that these flaws have led to a series of tax reforms aimed at widening the tax net and increasing revenue from non-oil sources. Kajola also lists poor administration and widening tax evasion and poor enforcement mechanisms as some of the challenges confronting the Nigerian tax system despite a series of reforms.[18] Regarding the issue of tax reforms, various perspectives on their nature and effectiveness have been presented by various scholars. James and Nobes define tax reform as a series of changes to tax policy, legislation, and administration aimed at improving equity, efficiency, and generating revenue.[19] “In this regard, it can be deduced that in Nigeria, tax reforms have been aimed at modernizing administration and harmonizing multiple taxes and aligning them with international best practice, he cites the reform of the Federal Inland Revenue Service as an autonomous body in 2007, and the enactment of Finance Acts (2019-present) as the milestones in Nigeria’s tax reform agenda.”[20]

The interrelation between tax reform and economic development has also elicited scholarly discourse. Musgrave argues that a good tax reform policy has the potential of promoting economic development by

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[16] O A Ihugba, ‘Taxation and Economic Development in Nigeria’ *Nigerian Journal of Fiscal Studies* (2012) 4(1) 1. <https://www.researchgate.net/publication/402159291.> accessed 25 april 2026.

[17] L Soyode and O Kajola, *Taxation: Principles and Practice in Nigeria* (Silicon Publishing 2006) (1) 21. <https://www.sciencepub.com/reference/60993.> accessed 25 april 2026.

[18] O Kajola., ‘Tax Administration and Revenue Generation in Nigeria’ *International Journal of Accounting* (2008) (3) 1.

[19] S James and C Nobes, *The Economics of Taxation: Principles, Policy and Practice* (16th edn, Fiscal Publications 2016) 17.

[20] A Odusola, ‘Tax Policy Reforms in Nigeria’ UNU-WIDER Research Paper No 2006/03, (2006) 1.

encouraging investment, promoting equitable distribution of incomes, and financing public expenditure.[21] “Others contend that over-reliance or poor tax reform policy has the potential of inhibiting economic development by imposing a higher tax burden on businesses. In this regard, Tanzi cautions that tax reforms in developing countries must be sensitive to institutional capacity and economic realities in order to achieve their intended developmental outcomes."[22]

Nigerian scholars have further examined the impact of tax reforms on economic development within the country. Ariyo argues that while tax reforms have contributed marginally to increased revenue generation, their overall impact on economic development remains limited due to corruption, weak institutions and poor utilisation of tax revenue.[23] This view is supported by Unegbu and Irefin, who contended that the problem in Nigeria is not merely the absence of tax reforms but the ineffective implementation and enforcement of existing tax laws.[24]

Despite the extensive body of literature on taxation and tax reforms, there remains a noticeable gap in legal based analyses that critically examine tax reforms as instruments of economic development within Nigeria’s constitutional and statutory framework. Most of the existing literature has focused on economic or empirical approaches, while there has been little attention given to the underlying law, reform processes, and compliance with constitutional provisions of equity, fairness, and federalism.

This study attempts to bridge the existing gap by conducting a doctrinal and analytical analysis of tax reform in Nigeria, its implications for economic development, and its contribution to the existing literature by offering a perspective of how tax reform could be designed to achieve economic development in Nigeria by anchoring it in the law.

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[21] Richard A Musgrave, *The Theory of Public Finance* (5th edn, McGraw-Hill 1989) 5.

[22] Vito Tanzi, *Taxation in an Integrating World* (Brookings Institution Press 1995) 40.

[23] A Ariyo, ‘Productivity of the Nigerian Tax System’ *African Economic Research Consortium Research Paper* 67 (1997). <https://www.aercafrica.org/old-website/wp-content/uploads/2018/07/RP67.pdf.> accessed 25 april 2026.

[24] A O Unegbu and D I Irefin, ‘Impact of VAT on Economic Development of emerging nations’ *European Journal of Humanities and Social Sciences* (2011) 5.< https://www.org/10.5897/JEIF.9000061.> accessed 25 april 2026.

# CHAPTER TWO

# CONCEPTULAL AND THEORETICAL FRAMEWORK

## 2.1 Concept of Taxation: definition, nature, types of taxes in Nigeria.

### 2.2.1 Nature of taxation ; Definition of tax

In Nigeria, taxation is generally the process through which the state collects money from different entities and individuals with the objective of financing state services and development. Taxation in Nigeria is more than the simple process of paying money to the state; it is more of a contract with the state in which you have to pay a fraction of your income or profit and in return, the state is expected to create an environment in which you and others can thrive, thus bringing about an overall economic development of the country.

There is no Nigerian law that has universally defined taxation, but basing it on different sources, it is generally believed to be "a compulsory exaction of money by a public authority for public purposes enforceable by law, and not a payment for services rendered", this principle was established in the case of Matthews v. Chicory Marketing Board.[25]

Different scholars had their different definitions of tax, Anyanwu (1997) defined tax "as the compulsory transfer or payment (or occassionally of goods and services) from private individuals, institutions or groups to the government."[26] Musgrave and Musgrave (2004), defined taxation as "a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the tax payer in return."[27] It is worth noting that the legislative definition of what is tax is not provided for, and therefore there is no definition of what is tax in all our laws on tax. Therefore, it is worth basing this research on the definitions provided above.

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[25] 60 CLR 263.

[26] Anyanwu, J.C. *Monetary Economics: Theory, Policy and Institutions*, Onitsha: Hybrid Publishers (1993) 2. <https://www.iiste.org>. accessed 26 april 2026.

[27] Musgrave, R.A. & Musgrave P.B., *Public Finance in Theory and Practice*, (New Delhi: Tata McGraw Hill 2004) 5, 1.

In light of the above definitions, the working definition of tax for the purposes of the project is that a good tax, as, is backed by legislation and is a deduction which is for the treasury of the officials concerned with revenue generally. Additionally, it is worth noting the compulsory aspect of tax.

Significantly, the benchmark of the compulsory element of tax when distinguishing between a tax and a charge for a government service. Firstly, if a payment is a charge for a government service, some service should be provided exclusively to the benefit of that individual. For example, there is a difference between paying a toll on a bridge and paying a tax to be used for the defense of one's country. Secondly, the charge should be consistent with the service provided and not vary according to the ability to pay or on some other basis such as the value of his property.

This study affirms the definition provided by Ramanatha in Aiyar's Concise law dictionary (2009) to be the most suitable and comprehensive definition of what a tax is. In the definition, tax was defined as "a compulsory exaction of money by a public authority for public purposes enforceable by law and is not payment for services rendered"[28]

There are general principles that qualify a tax system to be 'ideal', meaning the tax is good and valid. Therefore, the different ingredients that form a good tax shall be taken into account by this study. A writer, Adam Smith, in his book, described the different ingredients that form a good tax as the 'cannons of taxation'

1. In the words of A. Smith, "the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."[29] This principle centers on equity, which aims at promoting equality amongst tax payers. Here, horizontal equity and vertical equity shall apply to taxpayers wherein individuals with similar incomes or circumstances are treated

[28] P Ramanatha, *Aiyar's Concise Law Dictionary* (3rd edn, LexisNexis Butterworths Wadhwa 2009) 815. <https://www.isochukwu.com>. accessed 26 april 2026.

[29] A Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (first published 1776, Oxford University Press 1976) 825. <https://www.adamsmithworks.org.> accessed 26 april 2026.

equally(horizontal euity), while those with higher capacities to pay more, generally through a progressive tax system. Together they aim for fairness: horizontal prohibits discrimination among equals, and vertical reduces inequality by taxing higher earners more.[30]

2. "The tax which each individual is bound to pay, ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise, every person subject to the tax is put more or less in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence, and favours the corruption, of an order of men who are naturally unpopular, even when they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not near so great an evil as a very small degree of uncertainty."[31] Certainty is a necessary attribution to tax because taxpayers ought to know who to pay to, what they pay for, when they pay and how to pay. This is neccesary to ensure compliance because when taxpayers are educated on these basic steps, it simplifies the administration and collection of tax.

3. "Every tax ought to be laid at a time or in a manner which may be most convenient for the contributor to pay it. A tax on the rent of land or of houses paid at the same term at which these rents are due may be said to be laid at a time when it is most convenient for the contributor to pay it; or when he is most likely to have wherewith to pay it. Taxes on articles of consumption which are also articles of luxury are all finally paid by the consumer; and this in a manner that may be said to be extremely convenient to him. He pays them little by little, and according to his occasion to consume the objects on which the taxes are laid. And as he is free to consume or not to consume these objects as he finds himself inclined to do, it is his

[30] Julia Kagan, 'Understanding Horizontal Equity in Tax Systems' (2026). <https://www.investopedia.com.> accessed 26 april 2026.

[31] Ibid.

own fault if he does not find himself under no small inconveniences from these taxes."[32] Taxpayers should be able to pay tax in a manner that is convinient for that tax to be paid, for instance being taxed by the government after the purchase of a property or certain goods. An example is the VAT (Value Added Tax) which is levied during the purchase of certain goods.

4. "Every tax ought to be so contrived as to take out and keep out of the pockets of the people as little as possible over and above what it puts into the public treasury. A tax may take out and keep out of the pockets of the people a great deal more than it puts into the treasury in four ways: first, in the number of officers that may be employed in levying it; these officers may consume a great part of the produce of the tax, and their perquisites may impose an additional tax on the people. Second, it may impede the industry of the people and discourage them from applying to some branches of business that might afford a maintenance to a great number of people. Whilst it binds the people to pay, it may also, it is possible, take from them a portion of the riches which they might have employed more easily. Thirdly, it may frequently ruin the unfortunate individuals of the community, who, endeavor to evade the tax, fall into the forfeitures which it imposes; and thus it may destroy the benefit which the community might have reaped from the employment of their capitals. An ill-placed tax is a great temptation to smuggling. But the sufferings of the smugglers must be proportioned to the temptation. The law, contrary to all the principles of justice, first tempts the people, and afterwards punishes those who have yielded to the temptation; and it often increases the punishment in proportion to the very circumstance which should certainly mitigate it, the temptation of committing the crime. Fourthly, the frequent visits of the people to the officers of the revenue, and the odious examination which they must submit to from the tax-gatherers, may expose them to much trouble, vexation, and oppression; and though vexation is not properly an expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from such vexation. It is in some one or other of these four different ways, that taxes are frequently so much more burdensome to the people than they are beneficial to the sovereign."[33] A good tax system avoids excessive

[32] Ibid.

[33] Ibid.

administrative expenses, if a large portion of the revenue is consumed by the salaries of tax collectors or bureaucratic overhead, the tax is considered inefficient and "uneconomical"[34]

"Adam Smith's classical canons equity, certainty, convenience, and economy in the context of modern tax administration, it pays special attention to Nigeria's corporate tax system by assessing its alignment with contemporary canons of taxation of neutrality, flexibility and administrative efficiency as refined by the Meade Committee.  The tension between theoretical ideals and applied fiscal policy to determining the feasibility of harmonizing the classical tax canons with the dynamic needs of emerging economies. While Nigeria's tax framework nominally embraces these principles, practical implementation is undermined by legal ambiguity, perceived inequity, high administrative costs, and inter-agency disjunctions. The paper concludes that a principled, coherent, and context-sensitive tax policy is essential to fostering compliance, transparency, and sustainable economic growth in Nigeria. The paper proffers actionable recommendations aimed at simplifying legislation, enhancing equity, strengthening institutional coordination, and modernising administrative processes."[35]

### 2.1.2  Types of Taxation in Nigeria

There are various types of taxation in Nigeria, and they are as follows:

**Personal Income Tax (PIT) :** This type of taxation is provided for in section 58 of the Nigeria Tax Act 2025, here the goal is to govern the taxation of individuals, households, communities,etc.[36] Persons based in Nigeria, those who have a permanent home abode there, or persons present in Nigeria for 183 days or more in any 12-month period are regarded as "resident persons", while individuals who are not based in Nigeria and present for less than 183 days are regarded as "non-resident persons".The Nigeria Tax Act

[34] S Nipun, *Canon of Taxation: 6 Canons|Economics* (2016). <https://www.economicsdiscussion.net.> accessed 26 april 2026.

[35] A. B. Afolabi, 'Revisiting Classical and Contemporary Canons Of Taxation: An Assessment of the Nigerian Corporate Tax System'. *LexScriptio A Journal of the Department of Jurisprudence and Public Law*,(2025). *2*(2), 664-691.< https://www.journals.kwasu.edu.ng/index.php/lexscriptio/article/view/585.> accessed 26 april 2026.

[36] Nigeria Tax Act 2025, s 58.

(2025) introduces a new 0% tax rate for individuals earning 800,000 naira or less annually, but for those earning above this a progressive scale of 5% to 25% shall apply.[37] this promotes social equity and poverty alleviation, protecting tax payers according to their capacity. Genuine personal remittances and gifts from Nigerians abroad are not considered taxable income, encouraging capital inflows for local projects and family support.[38] Studies show mixed short-term effects, personal income tax (PIT) typically has a significant positive impact on long-run GDP growth by providing stable funding for infrastructure.[39]

**Company Income Tax (CIT):** Section 56 of NTA 2025, provides for this type of tax, here the tax is levied on the profits companies make. The Act mitigates the standard CIT rate from its previous 30% to the new 25% (effective 2026) for large companies, while small companies (with an annual turnover below 100 million naira) are completely exempted.[40] This new provisions for taxation of income has put the threshold for the taxation of cost of goods sold at 100 million naira. This is one of the position reforms of the NTA as it enables SMEs to save money to invest and grow their businesses at the status that they can pay tax. However, there is a downside to it as some cost of goods sold will not grow beyond the 100 million mark so as not to pay tax.

**Value Added Tax (VAT):** is provided for in section 151 of NTA 2025, the nature of tax charged here is on consumption, which is charged at 7.5%.[41] However, the Act provides a wide redistributive shift by placing no charge on essential goods like basic food, medical supplies, and education under the second schedule.[42] This is an avenue for economic development but there are some problems that can arise from this, for instance items exempted such as; medical supplies/services that are exempted may provide a

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[37] Ibid.

[38] Koleade Charles Adeoye & Mofolajesusewa Oyelami, 'Nigeria's 2025 Tax Reform Acts Explained: Key Changes, Business Impacts, and Compliance Strategies' (2025). <https://www.bakertilly.ng.> accessed 26 april 2026.

[39] Nyamdu S. Chiya & Others, *Impact of Federal Government Tax Revenue on Economic Growth in Nigeria*, (2025) 10.

[40] Nigeria Tax Act 2025, s 56.

[41] Nigeria Tax Act 2025, s 151.

[42] Ibid.

shield for some rich people engaging in luxury medical supplies/services from paying tax of services and supplies for cosmetic surgery should be taxed except it is purely for medical reasons only.

**Withholding Tax (WHT):** This is an advanced payment of income tax. Section 114 of NTA 2025, simplifies the rates and expand exemptions, this is particularly for small businesses and specific transactions focused on reducing the compliance burden.[43]

**Capital Gains Tax (CGT):** Section 34 of NTA 2025, establishes clarity on how digital assets (cryptocurrencies and NFTs) are now subject to capital gains tax.[44] The transition from Finance Act 2021 to the Nigeria Tax Act 2025 represents a fundamental shift in the capital gains tax landscape for stock disposal and reinvestment. "The tripling of corporate CGT rates from 10% to 30%, introduction of progressive rates for individuals, enhanced thresholds, and new provisions on indirect transfers collectively create a more complex but potentially more equitable tax environment."[45] "While these changes increase the tax cost of investment transactions, the enhanced reinvestment relief provisions and expanded small company exemptions provide meaningful planning opportunities. Successful navigation of this new terrain requires:

a) Proactive planning: Understanding the rules and planning transactions accordingly.

b) Professional guidance: Engaging qualified tax advisors for complex matters.

c) Diligent compliance: Maintaining proper records and filing accurate returns.

d) Strategic positioning: Aligning investment strategies with the new tax reality."[46]

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[43] Nigeria Tax Act 2025, s 114.

[44] Ibid.

[45] Samuel Omofojoye 'Capital Gain Tax in Nigeria in 2026' *Sow professional services ltd* (2026) <https://www.sowprofessional.com.> accesssed 28 april 2026.

[46] Ibid.

"As Nigeria continues its journey toward a modernized, consolidated tax system, investors and tax practitioners must adapt to this new paradigm. The key to success lies in understanding not just the letter of the law, but also its practical implications and planning opportunities."[47]

"The Nigeria Tax Act 2025 is not merely a tax legislation; it is a comprehensive reform aimed at broadening the tax base, improving equity, and supporting economic development. For investors willing to adapt their strategies and embrace compliant planning techniques, opportunities abound even within this higher-tax environment."[48]

**Hydrocarbon Tax (HCT) :** this recent type of tax, replaced the old petroleum profits tax (PPT) for specific upstream operations under the petroleum industry act (PIA) framework, the NTA 2025 handles the assessment and collection of taxes on profits from crude oil and gas production.[49] "However, the country has considerable economic potential due to its population and natural resources. This study examined the effect of oil tax revenue on economic growth in Nigeria between 1986 to 2022. Autoregressive distributed lag modelling was used. The results indicate that oil tax revenue significantly drives economic growth in Nigeria, with a positive coefficient of 0.1966, meaning that an increase in oil tax revenue leads to a proportional increase in the long-run real GDP. However, the debt service ratio negatively impacts economic growth, as its increase leads to a decrease in log of real GDP (LRGDP). Although labor force and investment growth show positive coefficients, their effects on economic growth are statistically insignificant. Based on the study of this findings, the study recommended that the Nigerian government focus on enhancing the efficiency of oil tax revenue collection. This can be achieved by addressing challenges such as tax evasion, improving transparency, and ensuring that oil tax revenues are properly utilized for national development projects. An efficient oil tax revenue

[47] Ibid.

[48] Ibid.

[49] Nigeria Tax Act 2025, s 147.

administration system would help boost the contributions of the oil sector to the national economy, which is crucial for sustained economic growth."[50]

**The Development Levy (Consolidated Tax) :** this reform is newly introduced in the NTA 2025, where a 4% levy is placed on company profits that replaces and consolidates the previous Tertiary Education Tax, Police Trust Fund, and National agency for science and engineering infrastucture (NASENI) levies into one streamlined payment.[51] Instead of juggling multiple levies (Edcation tax, IT levy, NASENI, etc.), there's now one 4% Development Levy. At federal level, it is paid by all registered companies residing in Nigeria, falling into the medium-to-large business category. This applies to all registered resident companies in Nigeria with an annual gross turnover above 100 million naira or fixed assets above 250 million naira.[52] Small companies with a turnover below 100 million naira, Non-resident companies without a permanent establishment in Nigeria, and assessable profits generated under hydrocarbon tax rules, are all exempted from the development levy.[53]

The State development levy, is a completely separate ongoing state-level tax regulated by the State Internal Revenue Services (SIRS), here all taxable individuals and working resident living within that specific state are all subject to pay such tax.[54] It is paid by automatically deducting salaries by employers via the Pay-As-You-Earn (PAYE) system.[55] As for self-employed individuals, payment is made anually during direct self-assessment tax filings.[56]

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[50] M N Sandra & Others, 'The Effect of Oil Tax Revenue on Economic Growth in Nigeria' , *International Journal of research and Innovation in Social Science* (2025) 9(3), pg 793-805. <https://www.ideas.repec.org/a/bcp/journl/v9y2025issue-3p793-805.> accessed 26 april 2026.

[51] Nigeria Tax Act 2025, s 59.

[52] Samuel Omofojoye, Development levy in Nigeria (2025 update), SOW Professional Services ltd,2025. <https://www.sowprofessional.com.> accessed 27 June 2026.

[53] Ibid.

[54] Ibid.

[55] Ibid.

[56] Ibid.

It's cleaner and easier to understand, though medium and large firms will feel the pinch. The real question is: will people trust that this money actually goes into development projects? Transparency, hence is the key to ensuring compliance.

### 2.1.3 The Concept of Tax Reform

The authors, Richard Bird and Eric Zolt, have highlighted the fact that the share of PIT (personal income tax) in the total revenues of developing nations is less than 10%, whereas it is above 25% in the nations of the OECD (Organisation for Economic Co-operation and development).[57] Bird and Zolt have also highlighted the fact that the rich elite class dominates the tax systems of the developing nations, leading to "legalised tax avoidance."[58] In the context of the limitations of the tax reforms, the authors have suggested that the developing nations should consider a dual tax system, where labour income is taxed progressively, whereas capital income should be taxed at a flat rate so that capital does not flee the nations. The authors have different definitions of tax reforms, as it is a tool of economics as well as a tool of governance.

In Nigeria, tax reform has traditionally been influenced by the pursuit of stable sources of revenue other than crude oil, particularly since the 1980s and 1990s, as changes in global oil prices revealed the vulnerability of the Nigerian economy. Thus, tax reform is not just a matter of economic policy; it is a matter of survival.

### 2.1.4 Forms of Tax Reforms

The various dimensions of the tax reforms in Nigeria are as follows:

(a) **Structural Reforms:** This deals with the structure of the tax system, like the type of tax, the rate of tax, and the tax base. The tax system in Nigeria has undergone a major structural reform, like the introduction of Value Added Tax (VAT) in place of Sales Tax in 1993, through the Value

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[57] Richard Bird and Eric Zolt, 'The Limited Role of Personal Income Tax in Developing Countries' *Journal of Asian Economics*, (2008) 19( 1), 74.

[58] Ibid.

Added Tax Decree of 1993.[59] "The principal objective was to create a more uniform, revenue-yielding, and administratively efficient system capable of reducing distortions in interstate commerce and broadening the tax base"[60]

The second structural tax reform is the Finance Act reform series (2019-2013), whereby the provisions of the existing tax laws are annually amended in line with the changing environment. For instance, the Finance Act 2019 reduced the rate of income tax for companies with a turnover of less than ₦25 million to encourage entrepreneurship, while at the same time increasing the VAT from 5% to 7.5% to raise more revenue from non-oil products.[61] In comparison, structural reforms in countries like Ghana and South Africa have also been aimed at broadening the tax base as well as reducing their dependence on narrow sources of revenue. Nigeria is faced with the challenge of balancing the generation of revenue with the social aspect of equity without burdening the citizens.

(b) **Procedural/Administrative Reforms:** These refer to the how of taxation, the rules or steps followed in the collection of taxes. In the article "Administrative Dimensions of Tax Reform," Richard M. Bird postulates that the how of taxation is the fundamental aspect of taxation, which is often overlooked in the context of developing countries. He suggests that the administration of taxes should be simplified with the aim of encouraging voluntary compliance through the client approach to taxpayers as well as the local context of the reform process.[62]

The fiscal reforms in 2025 were anchored on an overarching procedural reform via the implementation of the Nigeria Tax Administration Act (NTAA) 2025, with a primary focus on the

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59 Value Added Tax Decree No. 102 of 1993.

60 Chioma Bernadine Nwankwo PhD & Emeka Charles Nwankwo Esq, 'Value Added Tax (VAT) in Nigeria: Changes and Challenges Under The Nigeria Tax Act, 2025.' *Awka Capital Bar Journal (ACBJ)* (2025) 4(1) 121. <https://www.journals.ezenwaohaetorc.org.> accessed 30 april 2026.

61 Federal Ministry of Finance, Finance Act 2019 Explained (FMF, 2020), <https://www.finance.gov.ng.> accessed 24 march 2026.

62 Richard M. Bird, 'Administrative Dimensions of Tax Reform' *Annals of Economics and Finance, Society for AEF*, [2014] vol. 15(2), pages 963-992.

digitalization, simplification, and harmonization of the compliance architecture. One of the key building blocks of this modern system is the statutory requirement for mandatory e-payment.[63] This requires corporate bodies to utilize an electronic fiscal system that incorporates all the invoicing, filings, and payment processes. Through real-time monitoring and verification, the revenue authority avoids any manipulation of accounts at the post-transaction stage and ensures immediate control over input/output VAT calculation.

In order to effectively address the operational challenges inherent in multi-agency administration, the reform introduces an administratively integrated structure.[64] The introduction of a Unified Tax Identification Number (UTIN), which will serve as a unique identification number to all taxpayers in the federation, is stipulated by this provision. UTIN serves as a common data sharing identifier linking the federal, state, and municipal tax systems and thus makes redundant duplicate sub-national registration systems and brings down compliance costs for corporations.[65] In order to protect large investments from potential political shocks and guarantee commercial certainty, the NTAA 2025 provides for a system of Advance Tax Rulings (ATRs).[66] Through this provision, taxpayers can obtain legally binding guidance from the Nigeria Revenue Service on the tax treatment of future complicated transactions.

On a practical note, procedural reforms also involved efforts towards minimizing bureaucratic hurdles through the introduction of electronic payment methods, reducing paperwork, and the establishment of taxpayer service centers.

(c) **Technology – Driven Reforms:** Section 157 of the Nigeria tax act requires taxable persons to adopt the fiscal tools that may be developed by the tax authorities, which may include electronic

[63] The Nigeria Tax Administrative Act 2025, s 23.

[64] The Nigeria Tax Administrative Act 2025, s 6.

[65] Ibid.

[66] The Nigeria Tax Administrative Act 2025, s 42.

devices and software solutions for electronic invoicing and data transfer.[67] Section 23 of the Nigeria tax administration act requires any person making taxable supplies to adopt any Electronic Fiscal System (EFS) for the purpose of recording transactions if the NRS implements the EFS.[68] An example of the EFS implemented by the NRS is the VAT automation and electronic invoicing system. This particular reform was not just about introducing technology; it was a cause for introducing reforms because it aimed at reducing leakage through minimizing physical interactions between the taxpayer and the authorities, which otherwise would have led to corruption. During face-to-face interactions where tax officials collect tax from the tax payer, there is a high tendency of corruption to arise where tax officials in their discretion take more than they should from a taxpayer. Which is why a digital system shall thrive over a manual system.

To summarize, the aim of tax reform is not the reform of the tax system per se, but the creation of a sustainable state. In the case of Nigeria, the structural dimension creates the legal foundation of the system, the procedural dimension guarantees fairness and efficiency of operation, while the technology-driven dimension brings the system into the 21st century and plugs loopholes. These dimensions of reform create the foundation of the tax system which can sustain the economy, reduce oil dependence, and increase citizens' trust in the government.

According to Tanzi, the "real" tax system in developing countries is shaped less by the "laws" or "statutes" than by the "administration" of the system itself.[69] In the case of Nigeria, the reform process must therefore be more than just the creation of laws, it must be the creation of value for the economy as a whole.

**2.1.5 The Concept of Economic Development**

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[67] Nigerian Tax Act 2025, s 157.

[68] Nigerian Tax Act 2025, s 23.

[69] Vito Tanzi, *Tax Reform in Developing Countries* (International Monetary Fund, 1987) 5. <https://www.elibrary.imf.org.> accessed 30 april 2026.

In their view, Micheal Todaro and Stephen Smith write that development should be considered a multidimensional process rather than the sole measurement of economic development.[70] In this context, the authors emphasize the “inner meaning” of development through the three basic elements of Sustenance, Self-Esteem, and Freedom from Servitude.[71] The Nigeria Tax Act (NTA) 2025 directly correlates with the "sustenance" concept of Micheal Todaro and Stephen Smith in that it aims to significantly reduce the tax burden on the basic necessities of life in order to preserve the purchasing capacity of the poor. In the NTA 2025, a wide range of agricultural and aquatic basic food items were upgraded from "Exempt" to "Zero-Rated" (0% VAT) under Section 187 of the NTA 2025.[72] Unlike exemptions, zero-rating enables the manufacturers of the affected products to reclaim the VAT incurred on the products used in the manufacturing process (e.g., equipment, fuel services), which would eventually reduce the price of the products for the end consumer.[73]

In Nigeria, the significance of economic development is heightened by the Nigerian paradox, characterized by its abundance of resources on the one hand and poverty, inequality, and unemployment on the other. This, therefore, calls for the evaluation of economic development not only by the expansion in the Gross Domestic Product (GDP) but by the extent to which the people are impacted.

Though the terms "economic development" and "economic growth" are often used interchangeably, they, however, refer to two different concepts. Economic Growth is simply defined as an expansion in the output of a given economy, often expressed by the Gross Domestic Product (GDP). For example, an economy may be growing at a high rate, say, because the price of oil has gone up, but still, the people may not be better off. Economic Development, on the other hand, is a much wider concept, capturing

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[70] Michael Todaro and Stephen Smith, *Economic Development* (12th edn, Pearson, 2015) 22. <https://www.gbv.de/dms/zbw/782106943.pdf.> accessed april 30 2026.

[71] Ibid.

[72] Nigeria Tax Act 2025, s 187.

[73] Ibid.

welfare, equity, and institutional improvements. A developed economy is not only a rich economy but also a healthy, educated, and equitable economy.

The Nigeria Economic Report: Improved Economic Outlook in 2014 and Prospects for Continued Growth Look Good, specifically tackles what it refers to as a "puzzling contrast" or "puzzle in the Nigerian economy.[74] The report reveals that Nigeria experienced robust economic growth over the past decade, averaging 7 percent annual growth, but the poverty rate did not improve over the past decade and remains over 60 percent, indicating no significant progress in poverty reduction. This is an example of how growth without development is feasible. On the other hand, development is achieved when policies are implemented to ensure growth translates into human welfare.

In the words of Sen, "the idea of development must be thought of in terms of the enlargement of human freedom to live the kind of lives we have reason to value, the focus on income is not on the level of income but on income levels."[75] This quotation is frequently used in taxation literature to justify the imposition of taxes and the use of the funds collected, on the basis that the state must raise taxes to create the "social opportunities" and "protective security" necessary for sustainable development.

### 2.1.6 Relationship between taxation and economic development

One of the most powerful policy tools available to governments is taxation. Taxation is used to raise revenues, shape investment, income distribution, the relationship between citizens and the state, and even the economy itself. The link between taxation and economic development can be explored under four major themes like; Revenue mobilisation, redistribution, equity and burdens. However, these themes should also be appreciated in terms of theoretical perspectives and real-world experiences.

[74] World Bank, Nigeria Economic Report: 'Improved Economic Outlook in 2014 and Prospects for Continued Growth Look Good' (No 2, World Bank 2014) 2–6.

[75] Amartya Sen, *Development as Freedom* (Oxford University Press 1999) 36.

**Taxation as a Tool for Revenue Mobilisation:** This is perhaps the most obvious way in which taxation can be linked to economic development. Taxes enable a government to raise money to fund its development projects.

Modesta A Egiyi, stated that “Taxation has the potential to be a significant weapon for fostering economic development in a country, in addition to being a source of money.[76] The basic purpose of taxation is to enable a government to raise money to fund its development projects. Many of the things that are required for a functioning society across the world, like health care and education, are paid for with taxes.”[77] In the words of (Apere, 2003), “taxation is a micro-economic fiscal policy tool for the transfer of resources from the private sector to the public sector for the achievement of economic and social goals. It is a powerful tool that the government employs to tax, access, and control the informal sector of the economy, which dominates the world’s emerging economies”.[78] Taxation and Redistribution of Wealth: Taxes are developmental because they redistribute wealth. By means of “progressive taxation,” the government ensures that the rich contribute more, so that the wealth of the rich may be redistributed through social programs.

Piketty states that the "progressive tax" is a "central institution of the social state" and the only means of preventing the concentration of wealth from getting so great that it threatens the stability of democratic systems.[79] This view establishes 4 concepts which are; The problem, The danger, The solution and The result. The problem here is wealth naturally grows faster than the general economy, therefore the danger lies where extreme wealth leads to extreme political power, resulting to the death of democracy.

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[76] Modesta A Egiyi, ‘Taxation as a Significant Tool for Economic Development’ *International Journal of Economics and Public Policy* (2022) 6(1) 12. <https://eprints.gouni.edu.ng> accessed 1 may 2026.

[77] Ibid.

[78] U Wambai and B Hanga, ‘Taxation and Societal Development in Nigeria: Tackling Kano’s Challenges’ *International Journal of Academic Research in Business and Social Sciences* (2013) 3(3) 113. <https://www.hrmars.com/papers_submitted/9510/taxation-and-societal-development-in-nigeria-tackling-kanos-hidden-economy.> accessed 1 may 2026.

[79] Thomas Piketty, *Capital in the Twenty-First Century* (Arthur Goldhammer tr, Harvard University Press 2014) 493-497.< https://www.piketty.pse.ens.fr/files/Piketty2014Chap1316.pdf.> accessed 1 may 2026.

Progressive Taxation acts as a solution regulating the brake on wealth accumulation, therefore resulting to the preservation the middle class and ensuring the state has funds for social mobility (like education). The new progressive rates and the 800,000 tax exempt are mainly provided in section 58 of the NTA 2025, as well as the fourth schedule of the NTA 2025.[80] It includes the 0% rate for individuals who earn 800,000 or less per annum.[81]

Moreover, section 188 of the NTA 2025 allows the president of the country to exempt specific supplies from the Value Added Tax (VAT) via an official gazette order.[82] This is in addition to other provisions, including section 187 of the NTA 2025, which provides exemptions for essential supplies (food, medical, education) as well as zero-rated supplies (exports).[83] Taxation and Equity: As discussed above, it is evident that Equity is of critical importance as a principle of an "ideal tax" as discussed above based on the above-discussed principles of a good tax. Horizontal equity demands equal treatment of individuals who are in the same position, while vertical equity demands equal treatment of individuals who are in different positions but should be taxed in proportion to their capability.

The National Tax Policy of Nigeria officially states that the first principle of the Nigerian taxation system is the principle of "equity and fairness" and refers to the need to achieve horizontal and vertical equity in the taxation system to ensure a "just" distribution of the tax burden.[84] The Nigeria Tax Administration Act (NTAA) 2025 achieves Horizontal Equity, which is the principle that likes should be treated alike, by removing the fragmented administration systems that previously allowed for the phenomenon of "multiple taxation."[85] Section 7(1) states that every taxable person must register with the relevant tax

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[80] Nigeria Tax Act 2025,s 58.

[81] Ibid.

[82] Nigeria Tax Act 2025, s 188

[83] Nigeria Tax Act 2025, s 187.

[84] Federal Ministry of Finance, *National Tax Policy* (Federal Republic of Nigeria 2017) para 2.1, pg 3. <https://www.taxaide.com.ng.> accessed 1 may 2026.

[85] Nigeria Tax Administration Act 2025.

authority for a TIN (Tax Identification Number).[86] Sub-section (2) states that the TIN must be clearly displayed on all tax returns, correspondence, and documents submitted to any tax authority in Nigeria.[87] This ensures that every taxpayer, irrespective of where he or she is in Nigeria or outside Nigeria, has a single unique digital footprint and will therefore not suffer disparate treatment.

Under Section 8(1) of the NTAA 2025, it has been stipulated that no person shall be allowed to open or operate a bank account for business purposes unless a valid TIN is provided.[88] Sub-section 2 of this Act extends this requirement to existing accounts and mandates banks to update their records with details of all their account holders' TIN.[89]

Under Section 11 of the NTAA 2025, government agencies like the National Identity Management Commission and Corporate Affairs Commission, and other private bodies are required to provide access to their databases to the Nigeria Revenue Service (NRS) to enable them to create a "Unified Taxpayer Database" managed by the Joint Revenue Board (JRB).[90]

In conclusion, it is evident that taxation is a financing as well as a development tool. For it to be effective in Nigeria, it has to be based on; Broad-based mobilisation, Equitable redistribution, Fair sharing, as well as Credible utilisation of the proceeds. An efficient tax system enhances the fiscal contract between the state and its citizens, reduces inequality, as well as spurs development by supporting critical investments in areas such as infrastructure and human development.

Therefore, it is evident that the connection between taxation and development is complementary, implying that development is reliant on efficient taxation, while visible development in turn encourages taxpayers to comply with the tax law.

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[86] Nigeria Tax Administration Act 2025, s 7(1).

[87] Nigeria Tax Administration Act 2025, s 7(2).

[88] Nigeria Tax Administration Act 2025, s 8(1).

[89] Nigeria Tax Administration Act 2025, s 8(2).

[90] Nigeria Tax Administration Act 2025, s 11.

## 2.2 Theoretical framework

A theoretical framework gives existing intellectual guidelines and studies upon which a particular work of research is built. It includes the identification of the theories that explain the subject matter of the study. In this study on tax reforms and economic development in Nigeria, the theories of taxation are indispensable in explaining the rationale for taxation, the pattern of tax burden allocation, and the level of contribution of the tax system to socio-economic development. This study is anchored on the established theories of taxation, namely the benefit theory of taxation and the ability to pay theory of taxation. These two theories provide a normative framework upon which the effectiveness of tax reforms in Nigeria in terms of equity, fairness, efficiency, and development can be evaluated. Similarly, the effectiveness of tax reforms in promoting socio-economic development in Nigeria can be evaluated through the application of the established theories of taxation.

### 2.2.1 Theories of Taxation

**The Benefit Theory of Taxation**

This is one of the oldest and most influential theories that was put forward to justify the levying of taxes by the state. Richard and Peggy Musgrave, in their book *Public Finance in Theory and Practice* (5th edn, 1989), have presented an exhaustive account of the 'benefit principle' of taxation. According to them, taxes must be seen as the price we pay for public services.[91] By relating the amount of tax we pay to the benefits we receive, it is theoretically possible for the public sector to achieve an efficient allocation of resources in line with the preferences of consumers/taxpayers.[92] Unlike the 'Ability to Pay' principle, the 'benefit principle' stresses the direct relationship between the citizen and the state.[93]

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[91] Richard A Musgrave and Peggy B Musgrave, *Public Finance in Theory and Practice* (5th edn, McGraw-Hill 1989) 219–222.< https://www.nispa.org.> accessed 1 may 2026.

[92] Ibid.

[93] DT Krauss, 'The Benefit Theory of Taxation' *Tennessee Law Review* (1933) 11(4) 220.< https://www.ir.law.utk.edu.> accessed 1 may 2026.

Although it was Smith who founded the "Ability to Pay" principle, the first maxim of Smith also relates to the benefit theory in its assertion that individuals should contribute to the state "in proportion to the revenue which they respectively enjoy under the protection of the state."[94]

Section 59(1) of the NTA, states a 4% levy is imposed on the assessable profits of all companies except small and medium-sized enterprises below the threshold.[95] Sub-section 2 of the act specifically provides for the remittance of the proceeds of the levy into a special fund, a substantial portion of which is to be directed towards the Nigerian Education Loan Fund (NELFUND) and the Tertiary Education Trust Fund (TETFund).[96] This is the application of the Benefit Theory at the corporate level.

**Ability to Pay Theory of Taxation**

Ability to Pay Theory of Taxation is one of the most important theories of taxation which is widely accepted as the basis of taxation systems around the world. Unlike the benefit theory of taxation, which is based on the concept of mutual benefits, the Ability to Pay Theory is based on the concept of equity or social justice. This is the "First Maxim" of Taxation. Smith states that “The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.”[97]

Professor Abdulrazaq argues that “the Ability-to-Pay theory remains the most widely accepted theory in the Nigerian tax system.” He further argues that “the theory rationalizes the use of progressive tax scales and personal allowances (reliefs) to ensure that the tax imposed does not interfere with the person's basic

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[94] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (first published 1776, Oxford University Press 1976) 825.<https://www.adamsmithworks.org.> accessed 1 may 2026.

[95] Nigeria Tax Act 2025, s 59(1).

[96] Nigeria Tax Act, s 59(2).

[97] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (first published 1776, Oxford University Press 1976) 825.<https://www.adamsmithworks.org.> accessed 1 may 2026.

standard of living."[98] Section 58 of the NTA 2025, is the statutory embodiment of the Ability-to-Pay Theory. The exemption of individuals earning ₦800,000 or less (0% rate), recognizes that individuals have zero "ability to pay" tax after meeting basic subsistence costs.[99] To conclude, the Ability-to-Pay Theory is the "social justice" twin of the Benefit Theory. While the Benefit Theory views tax as a price (allocation), the Ability-to-Pay Theory views it as a sacrifice (distribution).

**Optimal Taxation Theory**

Sir Mirrlees was awarded the Nobel Prize for his work on this theory. He solved the "information problem" of the government being unable to see a person's "innate ability," only their "income," which is dependent upon how much they choose to work.[100] It also proposes that if tax rates are too high, people with "innate ability" will work less, thus decreasing the "pie" for redistribution.[101]

Slemrod extended the theory from a strictly mathematical explanation of the theory of optimal taxation to include the field of tax administration.[102] He proposes that in order for the tax system to be "optimal," the costs of tax collection must be considered, as well as the issue of tax evasion.[103]

The reduction of the Company Income Tax (CIT) from 30% to 25% is a direct application of the optimal tax theory.[104] This is done in the hopes of decreasing the "distortionary" effect of high corporate income

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[98] MT Abdulrazaq, *Principles and Practice of Nigerian Taxation* (2nd edn, Batay Law Publications 2012) 11.

[99] Nigeria Tax Act 2025, s 58.

[100] James A Mirrlees, 'An Exploration in the Theory of Optimum Income Taxation' Review of Economic Studies (1971) 38(2) 175. <https://www.uib.cat/depart/deaweb/webpersonal/amedeospadaro/workingpapers/bibliosecpub/MirrleesRES1971.pdf.> accessed 1 may 2026.

[101] Ibid.

[102] Joel Slemrod, 'Optimal Taxation and Optimal Tax Systems' *National Bureau of Economic Research* (1990) 4(1) 157.< https://www.nber.org/system/files/working_papers/w3038/w3038.pdf.> accessed 1 may 2026.

[103] Ibid.

[104] Nigeria Tax Act 2025, s 56.

tax rates.[105] Essentially leading to a gap between what a buyer pays for, and what a seller receives, which causes the market to reduce below its most operative level.

**Modernisation and Development Theories**

Modernisation and development theories offer an even broader framework for understanding the relationship between public policy and institutional reform and economic development. Such theories are highly applicable to a study on tax reform, as it is not only a fiscal policy but also an instrument for state-building and economic development. Under this framework, tax reform is seen as an integral part of a broader process of institutional modernisation geared towards promoting efficiency, growth, and development.[106]

Modernisation theory, which is closely associated with Walt Rostow and other proponents, is based on the assumption that societies develop through identifiable stages of development, shifting from traditional economic forms to modern industrial societies. A key aspect of this theory is the role of the state in facilitating economic development through policy and institutional reform and good governance.

In this context, taxation is viewed as a vital tool for the state to raise funds to finance infrastructure, social, and development-oriented projects, which can propel the process towards modern economic structures.[107]

Theories of development take this idea a step further by underlining the significance of fiscal policies as a tool to address structural issues faced by developing countries. According to this school of thought, development is possible through state intervention to correct market failures, inequalities, and so forth. Tax reforms, therefore, go beyond the mere objective of generating revenues; they have a significant role to play in influencing economic behavior and aligning individual economic pursuits with national

[105] Ibid.

[106] Todaro M and Smith S, *Economic Development* (12th edn, Pearson 2015) 12. <https://www.gbv.de/dms/zbw/782106943.pdf.> accessed 1 may 2026.

[107] WW Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge University Press 1960) 4 pg 46.< https://www.cia.gov/readingroom/docs/CIA-RDP78-0306A001100030001-6.pdf.> accessed 1 may 2026.

development priorities.[108] In developing countries such as Nigeria, modernisation and development theories have placed significant emphasis on the strengthening of fiscal institutions as a prerequisite for development. Tax reforms aimed at improving tax administration, broadening the tax base, and strengthening tax compliance have been considered as significant steps towards reducing over-reliance on revenues from natural resources and achieving fiscal sustainability. The use of technology-based tax administration, harmonisation of tax laws, and institutional reforms in revenue authorities can be considered as measures towards modernising the Nigerian tax system in conformity with development principles.[109]

In spite of their appropriateness, development-oriented critiques warn against the wholesale adoption of modernisation-inspired reforms without due consideration of the socio-economic realities. The structural factors, which might impede the success of tax reforms, include the prevalence of poverty, a large informal sector, and the weakness of institutions and administrative capacity. The reforms, which might be poorly conceived and executed, might exacerbate the problems faced by the disadvantaged segments, thereby defeating the purpose of development.[110]

However, despite the limitations, modernisation theory and development theory offer useful frameworks for the assessment of tax reforms in Nigeria. This is because they offer a framework for evaluating the extent to which tax reforms have enhanced development in Nigeria. In the study, modernisation theory

[108] Joseph E Stiglitz, *Economics of the Public Sector* (3rd edn, W.W. Norton 2000) 5. <https://www.scribd.com/document/449633601/204314151-stiglitz-economics-of-the-public-sector-1-pdf.> accessed 3 may 2026.

[109] Vito Tanzi and Howell Zee, 'Tax Policy for Developing Countries' (2000) IMF Working Paper. <https://www.elibrary.imf.org/display/book/9781589060203/CH001.xml?tabs=fulltext.> accessed 3 may 2026.

[110] Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspectiv*e (Anthem press, 2002) 135.< https://www.kamjournal.org/wp-content/uploads/2021/08/microsoft-word-vol-3-No-1.-final-copy.docx_6_1-9.pdf.> accessed 3 may 2026.

and development theory will be used to evaluate the extent to which tax reforms have been incorporated into the development strategy in Nigeria, particularly in relation to state, growth, and development.[111]

**Legal Theories of Reform and the Social contract theory**

The legal theories of reform form the basis for understanding the normative and institutional underpinnings that shape the evolution of law as a response to the realities that confront societies. In the case of taxation, the theories form the basis for understanding the rationale for amending, repealing, or restructuring tax law as a response to the challenges that emerge and as a means to achieve societal goals. A prominent figure to acknowledge here is Lon Fuller, who posited that "if a tax system is arbitrary or unclear, it is a failure of the rule of law."[112] Therefore for a country like Nigeria to bring the informal sector into the tax sytem, fuller argues that the government must first of all prove that the tax laws they plan to enact are "morally" valid through clarity and consistent application. Thus, tax reform, from a legal theory perspective, is not a random exercise but a rational process underpinned by the principles of justice, efficiency, and the rule of law.

One of the major legal theories that is relevant in the context of tax reforms is the theory of law as an instrument of social change. This theory, which was advocated by jurists like Roscoe Pound, asserts that the law should be used as a tool for balancing different social interests. In the context of taxation, the law as an instrument of social change supports tax reforms that shape the economy through the tax law, promote investment, redistribute income, and achieve development objectives.[113] In this context, tax reforms are justified when they address the changing needs of the economy and the general interest of the people.

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[111] UNDP, 'Africa Sustainable Development Report' (UNDP Report, 2018) 39. <https://www.files.acquia.undp.org/public/migration/africa/undp-rba-asdr-2018_en.pdf.> accessed 2 may 2026.

[112] Edwin W Tucker, "The morality of Law, by Lon L Fuller," *Indiana Law Journal* (1965) 40(2) 5 276. <https://www.respository.law.indiana.edu.> accessed 2 may 2026.

[113] Roscoe Pound, *Social Control Through Law* (Yale University Press 1942). <https://www.doi.org/10.1177/000271624222300194.> accessed 1 may 2026.

Closely related to the above is the institutional theory of legal reform, which highlights the significance of the role played by legal institutions to ensure the effectiveness of the law. Thus, the effectiveness of tax reform is not just dependent on the actual provisions of the tax laws but also on the capacity, integrity, and efficiency of the institutions which implement or enforce the tax laws. Reforms introduced to strengthen the tax authorities, to resolve disputes effectively, and to promote transparency in Nigeria illustrate the institutional approach to legal reform in the context of the country's tax system.

Another theory that guides the tax reforms is the rule of law theory. This theory emphasizes the significance of the rule of law in the formulation and implementation of tax laws. In this regard, the tax reforms have to be formulated through the due legislative process, clearly stated, and equally applied to all. In addition, arbitrary taxation, discretionary powers without adequate checks, and retrospective taxation undermine the rule of law. In this respect, the rule of law theory requires that the tax reforms ensure fairness, certainty, and respect for the rights of the taxpayers.[114]

According to the theory of legal realism, "the efficacy of tax reform should be measured on the basis of its law in action as opposed to the law on the books. This theory supports the empirical analysis of the tax laws to ensure that the objectives of the reform have been met. This theory is relevant to Nigeria because the country is faced with the problem of tax evasion, which may affect the efficacy of the tax reform statutes."[115]

Therefore, all these theories of law provide a complete framework for analyzing tax reforms in Nigeria. They also establish the rationale for the continuous reform of tax laws in order to conform to economic changes, enhance institutions, and uphold the rule of law. In this study, the theories of law are used in

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[114] A .V. Dicey, *Introduction to the study of the Law of the Constitution* (10th edn, Macmillan 1959). <https://www.files.libertyfund.org.> accessed 1 may 2026.

[115] Karl N Llewellyn, *The Bramble Bush* (Oxford University Press 1930). <https://www.global.oup.com/academic/product/the-bramble-bush-9780195368451.> accessed 1 may 2026.

assessing whether or not the tax reforms in Nigeria are legally sound, institutionally effective, and economically viable for development.[116]

In a nutshell, all these legal theories of reform collectively underscore the need for tax laws to always be responsive to the evolving economic and social conditions of society. They all underscore the fact that tax reform is not just about changing laws but making laws that are useful to society and that can sustain institutions and foster a sense of fairness and accountability. In this regard, these theories of reform in Nigeria underscore the fact that for there to be effective tax reforms in Nigeria, it does not only need to be backed by good laws but also good institutions and a respect for the rule of law and a sense of socio-economic realities.

[116] OECD Tax Administration 2019: 'Comparative Information on OECD and Other Advanced and Emerging Economies' (OECD Publishing 2019). <https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/09/tax-administration-2019_.> accessed 1 may 2026.

## CHAPTER THREE

## EVOLUTION AND ASSESSMENT OF TAX REFORMS IN NIGERIA

### 3.1 Evolution of tax reforms in Nigeria

"The efficient management of taxes is vital in the development of the economy. Tax revenue is significant in the development of the economy since it is used in the provision of public services and the development of infrastructure. The development of the economy is promoted through the provision of public services and the development of infrastructure."[117] Here the authors stated that "The robustness check analysis also established that apart from firm age, all firm-specific variables have a significant influence on foreign direct investment, indicating that tax incentive cannot drive massive investments in the manufacturing sector."[118] They posit that "eliminating routine redundancy associated with the administration of tax incentives is to attract foreign funding to grow manufacturing companies in Nigeria."[119]

However, the inefficient management of taxes can affect the economic development of the country by reducing the revenue of the government which can limit the development of the economy and discourage foreign investments, also limiting the creation of job opportunities in the economy.[120]

ICT is regarded by Pantamee and Mansor as being the life blood of the contemporary tax system.[121] The computerization of the interface between tax officers and the taxpayer limits the need for human interaction, thus reducing instances of bribing or corrupt practices.[122] In the modern tax model, the

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[117]Ezekiel Oluwagbemiga Oyerogba & Others, 'Tax incentives and foreign direct investment:Evidence from the Nigeria Listed Manufacturing Firms,' *Journal of Tax Reform, Graduate School of Economics and Management, Ural Federal University*, (2024).vol. 10(2), pages 355-380. https://www.doi.org/10.15826/jtr.2024.10.2.173. accessed 7 May 2026.

[118] Ibid.

[119] Ibid.

[120] Ibid.

[121] A A Pantamee & M B Mansor, 'A modernize tax administration model for revenue generation', *International Journal of Economics and Financial Issues*, 2016, 6(S7) 192-196. https://www.econjournals.com. accessed on 7 May 2026.

[122] Ibid.

“compliance costs” of the taxpayer become low enough, thus increasing voluntary tax payments.[123] What the article supports is “Single Taxpayer View” whereby all information available in different government departments such as the CAC (Corporate Affairs Commission) becomes integrated into a single taxpayer record.[124] “It is true that the dependency of Nigeria on oil revenues has been much greater than the dependency on revenues from taxes, but it is for this reason that the Nigerian government has engaged in several attempts at taxation reform that would allow increasing the tax base, improving the efficiency of tax administration and collecting tax payments from individuals and businesses in Nigeria.”[125]

“Traditionally, the Nigerian government has been dependent on oil revenues to meet its financial obligations. Nevertheless, due to the instability of global oil prices, coupled with falling revenues from oil sales, the government has had to look for additional sources of revenue, namely through the use of taxes. Hence, several attempts have been made to reform the existing Nigerian tax system.”[126]

The introduction of the latest changes in the Nigerian tax framework can be seen in the passing of the Nigeria Tax Act 2025.[127] The Act includes a number of changes intended to make the process of tax collection easier, enhance compliance with tax obligations, and solve the problem of multiple taxation, common among Nigerian businesses.[128]

In addition, the Nigeria Tax Administration Act 2025 is geared towards increasing transparency and accountability in tax administration through more detailed guidelines regarding the duties and powers of the tax administrators, it seeks to foster the use of electronic systems in tax administration so as to enhance efficiency in tax management and minimize instances of corruption.[129] "To provide a procedural counter-weight to these enhanced powers, the modern framework establishes the Office of

[123] Ibid.

[124] Ibid.

[125] Ibid.

[126] Ibid.

[127] Nigeria Tax Act 2025.

[128] Ibid.

[129] Nigeria Tax Administration Act 2025, s 23.

the Tax Ombuds. Operating as an independent, non-judicial arbiter, this office is legally empowered to review citizen complaints, mediate administrative overreach, and protect taxpayer rights from arbitrary fiscal enforcement. This addition provides a critical administrative safeguard, ensuring that the state's aggressive drive for expanded revenue generation does not systematically dismantle the rule of law or trample on taxpayer protections."[130]

**3.2 Major Tax Reform Policies under the Nigeria Tax Act 2025**

"The enactment of the Nigeria Tax Act (NTA) 2025 represents the structural culmination of decades of piecemeal legislative adjustments, building upon the foundational gaps left unaddressed by the 2003 Study Group Reforms and the subsequent National Tax Policies of 2012 and 2017. As observed by Oriakhi and Rolle, previous reform pathways often failed to balance revenue collection with business survival, a statutory mismatch that the modern consolidated framework explicitly seeks to rectify."[131]

The introduction of the Nigeria Tax Act 2025 can be considered as one of the greatest changes to the fiscal structure and tax regime of Nigeria in recent times. The Nigeria Tax Act 2025 was introduced by the government in an attempt to make the country's tax structure and system more effective and transparent. This act has been introduced with the objective of solving many of the prevailing issues in Nigeria's tax structure.

"Another significant reform measure that has been adopted through the Nigeria Tax Act 2025 is the broadening of the tax base. Over the years, Nigeria has had the problem of having a narrow tax base, where most economic transactions have been taking place in the informal sector and hence have not

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[130] Chijioke Uwaegbute & Others, 'Nigerian Tax Reforms, 2025', *PricewaterCoopers insight series,* 2025. <https://www.pwc.com/ng/en/assets/pdf/nigeria-tax-reform-insight-series-sectoral-analysis.pdf.> accessed 13 June 13, 2026.

[131] JG Oriakhi and O Rolle, 'Assessing the Impact of Nigeria's New Tax Reform on Small Businesses: A Financial Perspective'*International Journal of Humanities Social Sciences and Management* (2025) 6(6) 114, 116.

been paying taxes. Through the Act, there are measures that will be put in place in order to ensure that more taxpayers are identified and registered under the law."[132]

"The other key policy reform that can be found in the Act is the improvement of tax administration procedures. In the past, many tax payers in Nigeria have had a tough time understanding how to comply with complicated tax rules and processes. This was because the process involved complicated procedures which discouraged many people from complying with the tax requirements leading to cases of tax evasion. The Nigeria Tax Administration Act 2025 has made things much simpler by improving the procedures of taxation."[133] "An essential procedural innovation within this simplified framework is the introduction of a strict 30-day statutory window for processing verified input VAT refund applications, especially for businesses whose output VAT is withheld at source. To check historic bureaucratic delays, the statute introduces a self-executing legal remedy: where the tax authority fails to clear the refund within this 30-day timeline, the taxpayer gains an immediate statutory right to independently offset the pending refund amount against any other concurrent federal tax obligations. This operational rule shifts the financial burden of administrative delays back onto the state, protecting business liquidity."[134]

In addition to the measures designed to improve compliance, the Nigeria Tax Administration Act 2025 also includes provisions intended to mitigate the issue of double taxation, which has been a serious headache for many businesses in Nigeria.[135] "Before the implementation of new legislation, various governmental bodies, including those operating at federal, state, and municipal levels, were known to levy numerous types of taxes on firms. These practices led to considerable financial pressure on

[132] Nigeria Tax Act 2025, s 83.

[133] Nigeria Tax Administration Act 2025, s 23.

[134] Chijioke Uwaegbute & Others, 'Nigerian Tax Reforms, 2025', *PricewaterCoopers insight series,* 2025. <https://www.pwc.com/ng/en/assets/pdf/nigeria-tax-reform-insight-series-sectoral-analysis.pdf.> accessed 13 June 13, 2026.

[135] Nigeria Tax Administration Act 2025, ss 6–8.

taxpayers. The Nigeria Tax Act 2025 seeks to resolve this issue by clearly delineating the types of taxes that could be collected by each level of government."[136]

"Section 5 of the Joint Revenue Board (Establishment) Act is the functions of the board. Paragraph (a) says that the Board shall coordinate and manage a database of TINs for all taxable individuals in Nigeria in conjunction with the Nigeria Revenue Service, State Internal Revenue Service, Federal Capital Territory Internal Revenue Service, Local Government Revenue Committee, and other governmental institutions. Paragraph (c) says that the Board shall offer advice to the government on the issue of double taxation in Nigeria. Paragraph (d) says that the Board shall settle any conflicts among various tax jurisdictions."[137] "However, Makar, Pillah, and Ayeh point out that the main issue is the new Value Added Tax (VAT) allocation formula. It changes how funds are distributed, moving away from a fair population-based method to one that's strictly based on state contributions, with 60% going to a derivation baseline.[138]This statutory change unfairly benefits rich southern states while hurting less developed areas, creating a big financial split. It's beyond an ordinary board's power to fix this issue, since they don't have the needed constitutional authority."[139]

"In addition to this, the Act ensures enhanced accountability and transparency in tax administration. Taxation requires more than just tax laws; the effectiveness of such taxation relies heavily on the reliability and efficiency of the bodies that enforce such laws. With this in mind, the Joint Revenue Board of Nigeria (Establishment) Act, 2025 enhances the regulatory framework guiding tax agencies by laying out their powers, duties, and procedures."[140]

Another reform brought about by the Nigeria Revenue Service (Establishment) Act 2025 is the encouragement of voluntary tax compliance."The change from FIRS to the independent NRS is a

[136] Joint Revenue Board of Nigeria (Establishment) Act 2025, Preamble.

[137] Joint Revenue Board of Nigeria (Establishment) Act, 2025, s 5

[138] TD Makar and others, 'New Tax Reforms 2025: You Earn, Spend, Buy, Sell and Pay on Goods and Services Already Taxed; A Comprehensive Analysis' *IRASS Journal of Economics and Business Management* (2025) 2(5)10, 14. https://www.irasspublisher.com/journal-details/IRASSJEBM. accessed 4 June 2026.

[139] Ibid.

[140] Joint Revenue Board of Nigeria (Establishment) Act, s 5 and 6

move to update domestic revenue tracking for the digital age, aligning it with global standards. So, this shift aims to modernize how Nigeria manages its revenues."[141] "According to Makar, Pillah, and Ayeh, this change isn't just about rebranding, it gives the service real legal power to crack down on big tech companies and cross-border e-commerce that usually dodge taxes. Through the NRSA 2025, the government wants to set up solid, data-backed rules for digital taxes. Their goal is to boost non-oil revenue without harshly enforcing rules on local businesses that are already struggling."[142] The government acknowledges that enforcing a tax law does not ensure the effectiveness of the law. Therefore, according to section 4(1)(r) of the Act, there should be awareness campaigns targeting taxpayers in order to educate them about tax laws and its significance in national development.[143] There are some incentives and tax relief schemes for small scale businesses in order to foster entrepreneurship and growth as provided by section 56 of the NTA 2025.[144] Furthermore, section 58 of the Act establishes the individual income tax exempt threshold of 800,000 naira.[145] It is a "relief" that plays a very important role in ensuring that those who have lower incomes and operate small businesses do not have the burden of paying taxes immediately.

Although all these progressive changes have been made, the success of the Nigeria Tax Act 2025 will primarily depend upon the capability of the tax authority in administration and compliance from citizens when it comes to paying taxes. Otherwise, it is highly likely that the desired goals of these reforms will not be realized at all. "Beyond the economic uncertainty caused by rapid legislative changes, the primary structural challenge of past and present reforms remains the friction of constitutional federalism. Because an ordinary statute cannot override the constitutional taxing powers of sub-national governments embedded in the 1999 Constitution, statutory harmonization remains

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[141] TD Makar and others, 'New Tax Reforms 2025: You Earn, Spend, Buy, Sell and Pay on Goods and Services Already Taxed; A Comprehensive Analysis' *IRASS Journal of Economics and Business Management* (2025) 2(5)10, 14. [https://www.irasspublisher.com/journal-details/IRASSJEBM.](https://www.irasspublisher.com/journal-details/IRASSJEBM) accessed 4 June 2026.

[142] Ibid.

[143] Nigeria Revenue Service (Establishment) Act 2025, s 4(1)(r).

[144] Nigeria Tax Act 2025, s 56.

[145] Nigeria Tax Act 2025, s 58.

fragile, further compounded by the administrative mismatch between advanced electronic enforcement laws and Nigeria's stark digital infrastructure deficits."[146]

In general, the introduction of the Nigeria Tax Act 2025 can be seen as a huge effort made by the Nigerian government to improve its tax system to bring it in line with international standards.

**3.3 Effect of the Current Tax reform**

"To comprehensively evaluate the developmental trajectory of fiscal legislation in Nigeria, the effects of modern reforms must be historically benchmarked against the earliest colonial enactments. The origin of formal statutory taxation in Nigeria began with the Stamp Duties Proclamation of 1903, followed closely by the Native Revenue Proclamation of 1906, which sought to harmonize various pre-colonial traditional levies into a structured cash-based system. Following the amalgamation of 1914, these fragmented laws were unified under the Native Revenue Ordinance of 1917. While these early enactments successfully generated revenue to fund the British colonial administration, their primary development effect was extractive rather than redistributive, establishing an historic legacy of civic distrust toward the state's taxing powers."[147]

"Following independence in 1960, the legislative focus shifted toward utilizing tax statutes as tools for domestic sovereignty and national development, codified through the landmark Companies Income Tax Act (CITA) of 1961 and the Income Tax Management Act (ITMA) of 1958. However, the commercial discovery of oil in the 1970s radically altered the economic effect of these statutes. As oil rents dominated the federation account, non-oil tax administration suffered severe legislative neglect and administrative decay. Tax enforcement became weak and secondary, allowing a vast informal economy to grow completely unmapped by the formal tax net."[148]

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[146] SO Akewushola, 'Global Perspectives, the 2025 Tax Reforms, and Practical Implications' *Journal of Accounting and Financial Management* (2025) 11(8) 359, 362.

[147] David Nabena and others, *The 'State' of Tax Reforms in Nigeria* (Nigeria Governors' Forum Publishing 2022) 12.<https://www.ngfrepository.org.ng:8443/bitstream/123456789/5384/1/The%20%27State%27%20of%20Tax%20Reforms%20in%20Nigeria.pdf. accessed 30 May 2026.

[148] JO Osakwe, 'Recent Reforms in Personal Income Taxation in Nigeria' *Central Bank of Nigeria Economic and Financial Review* (1999) 37(3)18, 22. https://www.doi.10.33429/1957-2968.1446. accessed 30 May 2026.

"The collapse of global oil prices in the 1980s forced a structural pivot back to domestic resource mobilization under the Structural Adjustment Programme (SAP). This era produced a significant post-colonial tax reform: the introduction of the Value Added Tax (VAT) Act of 1993, which effectively replaced the state-administered sales tax with a federal consumption tax mechanism. While VAT grew into an essential, non-oil revenue stream, the subsequent return to democracy in 1999 exposed severe jurisdictional overlaps. The introduction of consecutive Finance Acts from 2019 to 2023 attempted to patch these systemic holes, but their rapid, piecemeal amendments inadvertently triggered policy flip-flops, complex compliance burdens, and corporate anxiety."[149]

"It is against this century-long backdrop of extractive colonial laws, oil-boom neglect, and democratic policy instability that the modern tax reform acts were signed into law. Unlike its predecessors, the consolidated legislative framework acts as a sweeping overhaul, legally repealing obsolete frameworks to streamline administration into a single, predictable statute. By re-aligning corporate tax obligations and establishing strategic exemptions for small businesses, the reform attempts to legally correct the historic inequities of the tax system, shifting Nigeria from resource dependence into a sustainable, tax-led economic development model."[150]

Before the introduction of the Nigeria Tax Act 2025, the tax laws in Nigeria were comprised of various individual acts such as the Companies Income Tax Act, Personal Income Tax Act, Petroleum Profits Tax Act, Capital Gains Tax Act, and Value Added Tax Act. Under the Nigeria Tax Act 2025, these individual acts have been consolidated into one law that is intended to ease tax compliance.

The second key effect of this reform is the expansion of the tax base. Article 4(1) (a) of the NTA 2025 indicates that any income, gain, or profit of a person which accrues in or is derived from Nigeria, including; prizes, winnings, honoraria, grants, awards, laurels, etc.; gains or profits of any transaction

[149] MT Abdulrazaq, 'Judicial and Legislative Approaches to Tax Evasion and Avoidance in Nigeria' (1985) *Journal of African Law* 29(1) 59. https://www.doi.org/10.1017/S0021855300005623. accessed 30 May 2026.

[150] See the foundational statutory provisions and long titles setting out the unified framework in the *Nigeria Tax Bill 2024* , (HB. 1759), ch 1, s 1, which consolidated 11 legacy tax statutes into a singular legislative mechanism. https://fiscalreforms.ng/wp-content/uploads/2024/12/HB.-1759-The-Nigeria-Tax-Bill-2024.pdf. accessed 30 May 2026.

of digital or virtual assets are all taxable.[151] For decades now, the tax base in Nigeria has been characterized by very few people paying taxes, while most parts of the Nigerian economy have been off the grid. The Nigeria Tax Act 2025 ensures that the tax base encompasses more modern methods of earning incomes, such as digital assets and other financial transactions.[152] "This digital growth isn't just about income levels; the 2025 changes also increase excise duties on digital services and e-commerce. So it covers more ground, which is pretty significant.[153] According to Makar, Pillah, and Ayeh, while it boosts non-oil revenue, this rule creates a big upfront cost for online service providers. It also hurts Nigeria's growing tech startups, making them less competitive."[154] "The purpose of the reform in capturing all these sources of income that were not previously taxed is that these should also generate money for the government.

Further still, the reform provides for other measures geared towards maximizing government revenue in a manner that is fair. One of the major measures in this context provided for under the reform includes the provision of minimum effective tax rate of 15% for multinational corporations and high-turnover entities."[155] The core provision for the introduction of the minimum effective tax rate of 15 percent is found in section 57 of NTA 2025. Section 57(2), NTA 2025 states that the provision is applicable to two main categories of taxpayers; the first category being companies that constitute an entity of an MNE Group and the second being any company whose aggregate turnover is 20,000,000,000 naira and above in the relevant year of assessment.[156] This provision is an anti-avoidance aimed at discouraging aggressive tax planning and base erosion by multinational corporations in Nigeria. The government is expecting to gain more revenues through taxation from the large companies by making sure that they do not pay less than the minimum level of tax.

[151] Nigeria Tax Act 2025, s 4 (h) & (j).

[152] Ibid.

[153] TD Makar and others, 'New Tax Reforms 2025: You Earn, Spend, Buy, Sell and Pay on Goods and Services Already Taxed; A Comprehensive Analysis' *IRASS Journal of Economics and Business Management* (2025) 2(5)10, 14. https://www.irasspublisher.com/journal-details/IRASSJEBM. accessed 4 June 2026.

[154] Ibid.

[155] B Onanuga, 'Nigeria Tax Act 2025: Navigating Growth, Compliance, and Revenue Challenges' *Federal Government Fiscal Commentary*,(2025). See also,Nigeria Tax Act 2025, s 57.

[156] Nigeria Tax Act 2025, s 57.

Not only have there been changes with respect to corporate taxes, but the Personal Income Tax Act has also undergone amendments within the Nigeria Tax Act 2025 to make its provisions more progressive in nature. Under the reformed regime, any individual who earns less than approximately ₦800,000 is exempted from paying personal income taxes, while those with higher incomes pay taxes according to their marginal rate, which can be as high as 25 percent. Accordingly, the structure of the new income tax is more progressive being set up in a way that will ensure that poorer citizens pay less tax than richer citizens who have more money.[157]

"A key aspect of the reform includes the creation of a development levy of 4 percent on the assessable profits, thereby consolidating and replacing other sectoral levies into one tax. The consolidated taxes include: Tertiary Education Tax, Information Technology Levy, and Police Trust Fund Levy. The consolidation of such levies into one development levy has simplified the process of tax administration and ensure efficiency. The consolidated levy would also serve the purpose of ensuring that funds collected from corporate profits go toward national development."[158]

"The Nigeria Tax Act 2025 further creates economic incentives that are meant to support investments and economic development through industry. Some examples of such incentives include offering tax credits for investment in essential industries in Nigeria to encourage establishment of such industries. In addition, business organisations get deductions of a certain percentage of capital costs incurred towards investment in equipment, structures, and plants as tax incentives."[159] "While critics argue that supply-side tax incentives historically result in fiscal leakages without guaranteed domestic manufacturing growth, the NTA 2025 structurally pivots by tying corporate tax reliefs directly to verifiable local productivity metrics. This legislative design serves a dual macroeconomic purpose: it cushions formal entities against harsh domestic operating costs while legally safeguarding the state's

[157] Nigeria Tax Act 2025, s 58.

[158] Nigeria Tax Act 2025, s 59.

[159] AS Abubakar, 'Balancing Revenue Mobilization and Investment Promotion: An Assessment of Tax Incentives Benefits under the Nigerian Tax Act, 2025' *Journal of Intellectual Property and Tax Law,* (2026) 5(3) 8.

domestic resource mobilization targets, aligning with recent legislative impact assessments which emphasize that tax relief must be structurally tethered to output to yield sustainable development."[160]

“A third important reform involves the encouragement of research and development. The new law permits firms to deduct a certain amount of money that is spent on research and development from their taxes, thus promoting technological progress and development. The reform hopes to boost industrial growth by backing research-based sectors in Nigeria.”[161]

“In addition, the Nigeria Tax Act 2025 will also strive towards making improvements in the enforcement mechanisms employed by the tax system. Under the Nigeria Tax Act 2025, more stringent measures have been put in place in order to penalize individuals who fail to register themselves as taxpayers, who fail to declare their taxable income on time and those whose declaration is inaccurate. For instance, failure by firms to register as taxpayers will be met with certain penalties.”[162]

“The other sphere in which the reform is predicted to influence positively is the simplification of the tax system as well as improvement in the business environment. Before the implementation of this reform, businesses in Nigeria had complained a lot about the complicated tax structure, as well as the existence of many different forms of taxes levied by various departments of the government. With the implementation of this new act, the aim is to make business much easier for the Nigerian business community.”[163]

“Nonetheless, even though there may be numerous advantages associated with the new tax reforms, their implementation has also met its fair share of criticism from a few individuals. This is due to the

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[160] Policy and Legal Advocacy Centre (PLAC), *Analysis of the Nigerian Tax Reform Bills* (PLAC Legislative Report 2025) 2.

[161] Presidential Committee on Fiscal Policy and Tax Reforms, 'Understanding the New Tax Law: Key Changes and Implications' (2026), https://www.naltf.gov.ng/understanding-the-new-tax-law-key-changes-and-implications. accessed 2 june 2026.

[162] IH Obiajuru, 'Insights into Nigeria Tax Policy 2026 and Beyond: Stricter Measures for Tax Non-Compliance' *Nigerian Journal of Tax Law* (2026) 9(1) 12.

[163] O Orji, 'A Critical Assessment of the Nigerian Tax Reform Acts, 2025' *Social Science Research Network Electronic Journal* (2025) 11(4) 3.

fact that some people feel certain elements of the tax reforms could end up raising the cost of living in light of other economic reforms such as fuel subsidy cut-off and devaluation of the currency."[164] "The economic strain led to legislative changes in March 2025. The National Assembly voted to delay raising the VAT from 7.5% to 12.5%. They did this to protect households from cost-push inflation.[165] Despite this deferral, the regressive tax net keeps expanding to include digital services and basic electronic transactions. This still makes corporations anxious about consumer buying power. It shows that pushy revenue goals could hurt the formal business world if enforced during tough economic times."[166]

"Regardless, most policy experts consider the Nigeria Tax Act 2025 as a major milestone towards fiscal sustainability and modernity. Through better revenue generation, tax collection processes, and ensuring that Nigeria's tax laws are consistent with international standards, the tax reform is likely to improve the country's capacity to fund its developmental activities. In the long run, these developments will positively impact economic development, poverty alleviation, and national development."[167]

Overall, the Nigeria Tax Act 2025 is a remarkable change for the tax regime in Nigeria. The reforms that seek to enhance the tax base, promote tax compliance, attract investments, and streamline the process of tax administration will go a long way in fostering economic growth. Nonetheless, for the success of these reforms, their implementation and effectiveness will be key.

### 3.4 Challenges of Current Tax Reforms in Nigeria

Although tax reform efforts in Nigeria have achieved great successes with its many innovative structures as stipulated under the Nigeria Tax Act 2025, the process of tax reforms in Nigeria is still

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[164] IE Davidson, 'Taxation in an Inflationary Economy: A Critical Review of the Nigeria Tax Act 2025' *Nigerian Journal of Fiscal Studies* (2026) 14(2) 45.

[165] TD Makar and others, 'New Tax Reforms 2025: You Earn, Spend, Buy, Sell and Pay on Goods and Services Already Taxed; A Comprehensive Analysis' *IRASS Journal of Economics and Business Management* (2025) 2(5)10, 14. https://www.irasspublisher.com/journal-details/IRASSJEBM. accessed 4 June 2026.

[166] Ibid.

[167] AA Bello, 'Fiscal Modernization and the Trajectory of National Development Under the Nigeria Tax Act 2025' *Journal of Sustainable Development Law and Policy* (2026) 10(2) 112.

encountering a lot of difficulties that continue to hinder effective progress towards achieving its desired goals. This has been influenced greatly by the current nature of the economy of the country among other factors.

"One of the biggest problems that have been identified by Okoro when it comes to reforms in taxes in Nigeria is the problem of tax avoidance and evasion. Many people and businesses in the country are not declaring their true income or even registering with the tax authorities at all. That is why Okoro refers to the Nigerian informal economy as an economy that includes businesses that are not registered with any tax authorities and do not maintain proper financial records that enable them to report their true income levels."[168] According to Okoro, the inability of tax authorities to effectively control the informal sector results from its inherent structural deficiencies, such as cash-based transactions and the lack of any comprehensive database for taxpayers.[169]

Closely linked to the problem mentioned above, is the problem of the informal economy being too large. According to Okoro, "a significant percentage" of economic transactions in Nigeria ranging from 60 to 65 percent take place beyond formal regulations resulting in identification problems with respect to the NRS (Nigeria Revenue Service).[170]

Institutional weaknesses and inefficiencies pose another significant problem in this field. According to Okoro, the Nigeria Tax Act 2025 makes an effort to bring about "a systematic modernization of the tax structure," but its success depends on whether the Nigeria Revenue Service (NRS), recently created by the Act, has the ability to undertake the task, which most of the time, tax administration lacks proper funds, competent staff, and technology to perform their duties efficiently.[171]

The issue of double taxation is another key area that continues to pose a great deal of difficulty for Nigeria, notwithstanding the attempts made in trying to solve it through reforms. Okoro states that

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[168] V C Okoro, 'A Critical Review of Nigerian Tax Reforms: Legal Ramifications and Judicial Developments',*International Journal of Law, Politics and Humanities Research* (2026), 12, 1, 929. https://www.doi.org/10.70382/caijlphr.v10i6.086. accessed 6 May 2026.

[169] Ibid.

[170] Ibid.

[171] Ibid.

while 11 tax laws have been consolidated into the Nigeria Tax Act 2025, it is not uncommon for business firms in Nigeria to be taxed twice by various government authorities because of the existence of jurisdictional issues, hence the attempt by the Nigeria Tax Act 2025 to bring about tax harmonization notwithstanding, there is still much room left for confusion as the duplication of taxes still persists.[172]

"Moreover, the problem of corruption in tax administration is one of the major problems that need to be addressed. Bribery, record manipulation, and misappropriation of tax funds erode people's trust in the tax system. The author observes that bribery and record manipulation are not only administrative problems; they are structural problems in tax management because they cause revenue loss for the NRS, people will not want to pay taxes willingly when they believe that the system is unfair or corrupted, it is an act of rationality for individuals to avoid paying taxes when they feel cheated."[173]

Another major issue is the problem of public mistrust of government institutions. According to Okoro, the "main impediment" to the effectiveness of the Nigeria Tax Act 2025 is both practical and psychological, as most Nigerians refuse to pay taxes owing to perceptions of government's failure to manage financial resources transparently.[174] Okoro posits that the poor quality of infrastructure and service delivery increases the conviction that government does not make efficient use of taxes collected, thus diminishing the social compact, he further argues that without visible changes in the government's attitude and practices, the aggressive targets for taxation set by the new law will be hard to attain.[175]

Additionally, poor tax education among taxpayers is another reason for non-compliance. According to Okoro, the historic lack of tax awareness resulting in poor education is one of the primary reasons for non-compliance by SMEs.[176] Most people do not have full knowledge of their tax liabilities and

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[172] Ibid.

[173] Ibid.

[174] Ibid.

[175] Ibid.

[176] Ibid.

processes of compliance, despite efforts by the Nigeria Tax Act 2025 to promote tax education, the author says that these programs are inadequate, especially in the informal sector and rural areas.[177]

"An additional problem is associated with the difficulty of tax legislation despite the tax reforms. As mentioned by Okoro in the study, although the Nigeria Tax Act 2025 intends to make the tax process easier, there still exist several provisions that are complicated and hard to comprehend for the ordinary tax payer, thus, pushing the MSMEs (micro, small and medium entreprises) into hiring tax advisors and lawyers to stay compliant, thus imposing a high cost on them to join the formal economy."[178] As stated in the work, such a high "cost of compliance" may serve as a disincentive for MSMEs to join the tax register.[179] "Makar, Pillah, and Ayeh build upon this idea by warning that taxing both corporate income and basic transactions creates big problems. When taxes get really complicated and enforcement gets strict, small businesses avoid joining the formal economy altogether. Instead, they go deeper into hidden cash dealings to stay under the radar. This totally contradicts the aim of broadening the tax base, which is what makes things even worse."[180] Moreover, economic factors affect the success of tax reforms negatively. According to Okoro, poverty and unemployment rates are high among the population; this makes paying taxes even more difficult, as people view taxation as something that adds more problems to their lives, as such, it is hard to have a voluntary compliance rate among citizens.[181]

Fourthly, the inconsistent nature of policy decisions and the frequent revision of tax laws contributes to the uncertainty facing taxpayers and investors. As stated by Okoro, "the repeated policy flip-flops," together with "the successive passing of the Finance Acts (2019-2023)" had contributed to creating an

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[177] Ibid.

[178] Ibid.

[179] Ibid.

[180] TD Makar and others, 'New Tax Reforms 2025: You Earn, Spend, Buy, Sell and Pay on Goods and Services Already Taxed; A Comprehensive Analysis' *IRASS Journal of Economics and Business Management* (2025) 2(5)10, 14. https://www.irasspublisher.com/journal-details/IRASSJEBM. accessed 4 June 2026.

[181] V C Okoro, 'A Critical Review of Nigerian Tax Reforms: Legal Ramifications and Judicial Developments',*International Journal of Law, Politics and Humanities Research* (2026), 12, 1, 929. https://www.doi.org/10.70382/caijlphr.v10i6.086. accessed 6 May 2026.

environment of uncertainty which made planning and investing rather difficult.[182] The author explains how through the new Nigeria Tax Act 2025, the fragmented nature of legislation has been addressed via consolidation and harmonization into one coherent statute aimed at ensuring stability.[183] The author makes it clear that passage of legislation is just the first step towards success, while the subsequent consistency of policy measures will be key to achieving desired results.[184]

### 3.5 Evaluation of the Effectiveness of Tax Reforms in Nigeria

Evaluation of the success of the reforms in tax in Nigeria, more specifically, as stated by the Nigeria Tax Act 2025, should not only be based on intentions but also on results. Despite being an important milestone in restructuring the taxation system in Nigeria, the reforms have brought both successes and shown weaknesses.

According to Chamba, the proposed reforms represent a move to a "sustainable fiscal management" as Nigeria reduces its heavy dependency on revenue collection from unstable sources.[185] Nevertheless, the degree of success is still quite low compared to international levels, taking into account the low share of taxes in Nigeria's GDP.[186] According to page 1 of this article, despite the fact that Nigeria experienced some improvements as a result of the tax reforms introduced (especially at the beginning of 2000), such improvements did not pay attention to the fact that Nigeria's ratio was much lower than the minimum threshold of 15%, proposed by international bodies such as; International Monetary Fund (IMF), World bank and United Nations (UN) for the purpose of developing nations to ensure economic stability and growth.[187] The implication is that while there has

[182] Ibid.

[183] Ibid.

[184] Ibid.

[185] A O Chamba, 'Evaluating Nigeria's New Tax Reform and its Impact on Fiscal Sustainability', *AUN Journal of Social Sciences* (2025), 1, 1, 14. https://www.journals.aun.edu.ng/index.php/aunjss/article/view/177. accessed 6 May 2026.

[186] O A Ihugba, 'Taxation and Economic Development in Nigeria' *Nigerian Journal Fiscal Studies* (2026) 4 1.

[187] Ibid.

been some success, the reforms are still not reaching their fullest potential."Nigeria's historically depressed tax-to-GDP ratio, which has stubbornly hovered between 6% and 10.8% over the past decade, serves as a stark metric of legislative and administrative inefficiency. Evaluating effectiveness under a qualitative legal framework reveals that past laws failed because they over-taxed a narrow band of formal entities while leaving the vast informal economy uncaptured; thus, the efficacy of the 2025 reforms will not be measured by its elegant statutory draftsmanship, but by its practical enforcement capacity to broaden the tax base without inducing corporate liquidations."[188]

A critical indicator of efficiency is voluntary tax compliance. The Nigeria Administration Tax Act 2025 places emphasis on simplicity and modernization in its attempts to promote compliance, this initiative has led to the creation of conditions conducive to compliance on the part of certain taxpayers in particular, the formal sector.[189] However, compliance is still low and particularly among the informal sector because of ineffective measures of enforcement and poor understanding of tax responsibilities.[190]

"The efficiency of the proposed tax reforms may be assessed based on how well they help to achieve the objectives of fairness and equality in taxation. In this regard, the implementation of the progressive tax policies, like the exemption of low-income individuals and charging richer people with higher taxes, is seen as the way to make sure that the tax burden would be shared more equitably."[191]According to page 4 of the report, the main aim of these tax reforms (consolidated now as Nigeria Tax Act 2025) is "to protect the poor and vulnerable", which is to say that the mechanism for ensuring equity will be the exemption of low-income individuals from personal income tax and charging higher net-worth individuals with higher tax rates.[192] In theory, this is consistent with

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188 Federal Inland Revenue Service (FIRS), *Impact Assessment of Tax Reforms in Nigeria* (Bureau of Public Service Reforms Report 2025) 14.

189 Nigeria Tax Administration Act 2025, s 156.

190 A Odusola, 'Tax policy reforms in Nigeria', *UNU-WIDER Research paper no 2006/03*, (2006) 18. https://www.wider.unu.edu/sites/default/files/rp2006-03.pdf. accessed 7 May 2026.

191 Presidential Fiscal Policy and Tax Reforms Committee, The Nigerian Tax Reform Bills: You Ask, We Answer (FGN 2024) 4.

192 Ibid.

traditional tax theories, especially the concept of ability- to-pay. Nonetheless, in reality, tax evasion by individuals and businesses makes it difficult to attain equity in the tax system.[193]

"Also, tax reforms are expected to help promote economic development and investment through improved business environments. The Nigeria Tax Act 2025 achieves this goal by facilitating the simplification of taxes and minimizing multiple taxes."[194] "This has the capacity to enhance the business environment and facilitate investments. However, the existence of bureaucratic hurdles, inconsistent policies, and tax administration overlaps impedes the achievement of these goals."[195]

"In addition, it would be relevant to assess the efficiency of the tax administration process when analyzing the effectiveness of tax reforms. Indeed, with the emergence of computerized systems of tax administration and the development of regulatory framework, which allows to minimize the involvement of people into the process, to decrease the number of corrupt officials, and to ensure higher transparency of processes in place, there was an obvious improvement in this sphere."[196] Nevertheless, all these measures can prove to be inefficient due to lack of resources in terms of IT facilities and expertise.

"To see how well these tech rules work, Nigeria should check out what its neighbors have done. According to Makar, Pillah, and Ayeh, South Africa's auto-audit system raised collections by 25%, and Rwanda cut VAT fraud by 60% with electronic invoicing. Plus, Kenya increased small business compliance by 40% thanks to mobile payments.[197] So, to boost tax revenues, the Nigeria Revenue Service should avoid harsh fines. Instead, they should use proven tech methods from Africa to make it easier and cheaper to be officially registered, boosting their tax-to-GDP numbers."[198]

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[193] Ibid.

[194] Nigeria Tax Act 2025.

[195] Ibid.

[196] Nigeria Tax Administration Act 2025, s 23.

[197] TD Makar and others, 'New Tax Reforms 2025: You Earn, Spend, Buy, Sell and Pay on Goods and Services Already Taxed; A Comprehensive Analysis' *IRASS Journal of Economics and Business Management* (2025) 2(5)10, 14. https://www.irasspublisher.com/journal-details/IRASSJEBM. accessed 4 June 2026.

[198] Ibid.

Moreover, the efficacy of tax reform initiatives has been found to be strongly associated with the amount of trust the population has in government agencies.[199] "Taxation is not only a legal requirement but also a social contract between the government and the people. In this policy paper, the concept of the social contract has been employed to redefine the fiscal relationship between the Nigerian state and its citizens."[200] The document makes it abundantly clear that although taxation is a legal requirement.[201] It draws its legitimacy from the "social contract" where citizens contribute their resources in return for public goods, security, and infrastructure provided by the government.[202] Clearly, then, it would be difficult for taxpayers to comply with tax obligations if they felt that the tax payment made to the government did not result in the anticipated benefits for themselves.[203]

In general, the assessment of tax reform in Nigeria shows that the country has made some progress, but still does not have an efficient system in place. Tax reforms have brought many positive changes to the legal and administrative aspects as well as increased revenues. At the same time, there are certain limitations caused by some structural issues.

### 3.6 Chapter summary

In conclusion, this chapter has examined the process of evolution of tax reforms in Nigeria from a qualitative legal and historical perspective ending with the structural transformation enabled by the enactment of the Nigeria Tax Act (NTA) 2025 and the supporting regulations. Through examining the evolution of the fiscal system from the extractive nature of the colonial period under the Native Revenue Ordinance 1917 to the neglectful period after independence in the oil boom years, the analysis has proven that modern tax reforms are crucial structural changes aimed at ensuring that the country shifts from being resource-based to becoming economically sustainable through taxes. From a doctrinal point of view, the NTA 2025 is premised on the concept of using tax reforms as a tool of

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[199] Federal Ministry of Finance, *National Tax Policy* (Federal Republic of Nigeria 2017) para 2.2.1. https://www.vi-m.com/national-tax-policy/national-tax-policy-fec-approved-2017. accessed 7 May 2026.

[200] Ibid.

[201] The constitution of the federal republic of Nigeria 1999 (as amended), s 24(f).

[202] Ibid.

[203] Ibid.

social engineering with measures such as the ₦800,000 personal income tax exemption threshold in Section 58, manufacturing relief in Section 56, and a 15% minimum corporate tax rate in Section 57 to address multinational erosion.

Nevertheless, this qualitative legal study shows that despite being one of the most advanced legal reforms seen in history in terms of statute law modernization and text draftsmanship, the sustainability of these reforms in the long run continues to be seriously undermined by various paradoxes in the system and institutions involved. The first of these challenges is represented by the inherent tension created by constitutional federalism whereby routine federal legislation struggles to achieve statutory harmonization amid inherent overlapping jurisdictions as defined under the 1999 Nigerian constitution. Additionally, efforts to achieve digitized tax collection, data automation, and creation of “Single Taxpayer View” as prescribed in Section 23 of the Nigeria Tax Administration Act of 2025 face several infrastructural challenges in the domestic setting.

Overall, through legal realism analysis, this chapter ends up showing that broadening the statute tax system and ensuring sustainable macroeconomic change cannot be done only through punitive measures or legislative tweaks. The stagnancy of Nigeria's single digit percentage of its gross domestic product spent on taxation shows an underlying flaw in the social contract of finance, resulting from the unconstitutionality where there is an unjustifiable gap between the citizen's obligation to pay taxes under Section 24(f) being enforcible while the government's counterpart of providing public goods under Chapter II of the constitution is not justiciable. As such, for the 2025 fiscal reforms to succeed, it will take institution of transparency, protection of taxpaying personal data, and earning back public confidence.

## CHAPTER FOUR

## TAX REFORMS AND ECONOMIC DEVELOPMENT: ANALYSIS, IMPACT AND CHALLENGES

### 4.1 Conceptual link between tax and development

"Social Contract can be defined as the connection between the two terms (tax and development). It is a theory that states taxation as a form of fiscal contract. This means that through the payment of tax by citizens, the government in turn offers them public goods, facilities, and security needed to support development. According to the writings of Mick Moore, a prominent economist in the literature of public finance, taxation forms a social contract whereby citizens offer part of their financial gains to the government and in turn receives security and an environment in which businesses can flourish. The effectiveness of this contract results into human capital development and economic expansion. The theoretical relationship between tax and development is subject to a different type of structural strain in developing countries, especially in the Sub-Saharan African environment."[204]

According to the Domestic Resource Mobilization (DRM) theory proposed by the UNDP through its Sustainable Development Goals (SDG), sustainable development must not be dependent on uncertain external finance such as foreign aid or export of primary commodities indefinitely.[205] This concurs with SDG Target 17.1 where stable internal taxation becomes the foremost tool through which to fund government investments.[206] In Nigeria, the nexus that exists between both concepts has traditionally been explained through the Resource Curse Hypothesis or Rentier State Approach. The presence of rich resources like crude oil can be detrimental to the local economy in certain way[207] The existence

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[204] Brautigam D, Fjeldstad OH, & Moore M (Eds.), *Taxation and state-building in developing countries: Capacity and consent.* Cambridge university press (2008) 34 . <https://www.scispace.com/pdf/taxation-and-state-in-developing-countries-13v9qi5rr9.pdf.> accessed 19 May 2026.

[205] United Nations Development Programme, 'UNDP Launches a new initiative to help countries leverage taxation to make progress on sustainable development goals' (2022).< https://www.undp.org. > accessed 19 May 2026.

[206] United Nations. 'Transforming our world: The 2030 Agenda for Sustainable Development' (A/RES/70/1) (2015). <https://www.un.org.> accessed 19 May 2026.

[207] R M Auty, 'sustaining development in mineral economies: the resource curse thesis.' (1993) 1. <https://www.doi.org/10.4324/9780203422595.> accessed 20 May 2026.

of external rents of oil made the Nigerian state independent from its people; thus, there was no need for the establishment of a proper and efficient internal taxing system by the state.[208] The discovery of oil hindered the development of state revenues from the taxation of its people, and hence the lack of accountability is observed. Basically, for a thorough understanding of the link between taxation and development in Nigeria, it is important to look at the shift from the use of oil to the development of an extensive tax system.

**4.1.1 The Fiscal Social Contract: Tax Compliance and Public Goods**

"The intersection between taxation and economic development has the most convincing justification for its governance in the fiscal social contract theory. Under this theory, taxes are seen as not an extractive force of wealth exercised by a sovereign government on the governed but as a reciprocity, that is, a mutually binding contract or law between the state and its subjects."[209] This is based on the fundamental basis that legitimacy and the powers of governance of the state are a result of the endorsement of those whom the state governs, who willingly relinquish some part of their economic resources in terms of payment of tax.[210] In return, the state makes a binding constitutional and economic obligation to efficiently use these collected resources toward providing public goods such as; critical infrastructural networks, security and institutional frameworks that reduce transaction costs within the macroeconomy.[211]

"As a result, the fiscal agreement can be seen to form the basis for the creation of the state and institutional change according to the literature on public finance. If the government depends on domestic tax revenues instead of relying on lucky breaks from outside sources, it will be necessary to establish an efficient bureaucracy and also a legal system capable of raising taxes. The institution-

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[208] H Mahdavy, 'The patterns and problems of economic development in rentier states: The case of Iran.' in MA Cook(ed), *Studies in the Economic History of the Middle East* (oxford university press 1970) 428.< https://www.doi.org/10.4324/9781315000312.> accessed 20 May 2026.

[209] Deborah Bräutigam, Odd-Helge Fjeldstad and Mick Moore (eds), *Taxation and State-Building in Developing Countries: Capacity and Consent* (Cambridge University Press 2008) 12-15.

[210] Jean-Jacques Rousseau, 'The Social Contract' in Jonathan Bennett (ed), Early Modern Texts. <https://www.earlymoderntexts.com.> accessed 23 May 2026.

[211] James A Mirrlees, 'An Exploration in the Theory of Optimum Income Taxation' *Review of Economic Studies* (1971) 38(2) 175, 178.

building process increases state capability."[212] Simultaneously, the payment of taxes turns ordinary individuals into stake holders in the state because they become directly interested in the performance of the state through their fiscal investment.[213] Thus, a positive feedback mechanism is created through the fiscal social contract as the efficient management of the taxation process enables citizens to hold the tax authorities accountable for the money raised, infrastructural development raises confidence, thereby increasing voluntary tax compliance.[214]

"On the other hand, the failure of the fiscal contract due to its structural components results in serious implications regarding economic development. Repeated failure of the state to use tax proceeds to deliver development measures such as electricity provision, development of transport infrastructure, health care infrastructure and security, causes civic trust to break down. In turn, this leads to a situation where there is an increase in tax evasion, growth of the underground economy and stiff opposition to any attempts at reforming the fiscal system. In a developing country context, this results in a vicious cycle whereby poor tax compliance creates fiscal problems for the state, leading to limited public expenditure and hindering economic development."[215]

### 4.1.2 Tax Revenue as a Tool for Domestic Resource Moblization

In the context of sustainable development financing, DRM is considered to be the least unstable method of raising public funds.[216] The dependency of developing countries on unpredictable external financial resources like foreign direct investments, sovereign loans between governments, and official development aid makes domestic development strategies vulnerable to external economic

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212 Mirrlees (n 8) 179.

213 Mick Moore, 'Between Coercion and Contract: Competing Narratives on Taxation and Governance' *IDS Bulletin* (2008) 38(1) 34, 36-38.

214 Margaret Levi, *Of Rule and Revenue* (University of California Press 1988) 52-60.

215 Odd-Helge Fjeldstad, 'Tax Compliance and Citizen-State Relations in Developing Countries' *Chr. Michelsen Institute Brief* (2007)33(2) 1, 3. <https://www.cmi.no.> accessed 23 May 2026.

216 United Nations, 'Addis Ababa Action Agenda of the Third International Conference on Financing for Development' (1st edn, United Nations 2015) 8-11.< https://www.unfccc.int.> accessed 24 May 2026.

disturbances and strict macroeconomic conditions.[217] As such, the organized use of domestic tax collection is universally acknowledged to be the fundamental fiscal mechanism that is needed to finance the substantial funding gaps impeding essential infrastructure projects.[218] By turning local economic activity into consistent sources of revenue for the government, taxation enables a country to have sufficient fiscal capacity to pursue its own development policies without additional external debts.[219]

Resource dependent countries have an added reason why they need to take advantage of their revenue through taxes. The over-dependence on natural resources like crude oil as export commodities exposes countries to volatile revenues as a result of fluctuating international market prices.[220] The constant boom-and-bust cycle not only makes budget planning extremely difficult, but it results in untimely termination of important infrastructure projects and ultimately leads to economic instability.[221] However, through the implementation of tax policies that broaden the non-oil tax base, a nation can be able to insulate itself from the effects of commodity price instability on public expenditure budgets.[222] Consequently, domestic resource mobilization becomes the means to protect a country from market volatility while providing a reliable revenue system for economic transformation.[223]

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217 United Nations Development Programme, 'Tax for SDGs' (Global edn, UNDP 2022) sec 3. <https://www.undp.org.> accessed 24 May 2026.

218 United Nations, 'Transforming our World: The 2030 Agenda for Sustainable Development' (1st edn, United Nations 2015) 28. <https://www.un.org.> accessed 24 May 2026.

219 International Monetary Fund, 'Revenue Mobilization in Developing Countries' (IMF Policy Paper Series, International Monetary Fund 2011) 6-9. <https://www.imf.org.> accessed 24 May 2026.

220 Richard M Auty, Sustaining Development in Mineral Economies: The Resource Curse Thesis (1st edn, Routledge 1993) 22-35.< https://taylorfrancis.com.> accessed 24 May 2026.

221 Hossein Mahdavy, 'The Patterns and Problems of Economic Development in Rentier States: The Case of Iran' in MA Cook (ed), Studies in the Economic History of the Middle East (1st edn, Oxford University Press 1970) 428-440.

222 Federal Inland Revenue Service, 'National Tax Policy' (Revised edn, Federal Republic of Nigeria 2017) 14-16. <https://www.firs.gov.ng.> accessed 24 May 2026.

223 World Bank, 'Tax Revenue (% of GDP)' (World Development Indicators Database, World Bank Group 2024) series code GC.TAX.TOTL.GD.ZS. <https://www.worldbank.org.>

### 4.1.3 Regulatory and Redistributive Functions of Taxation

Apart from its main purpose of earning government revenues, taxation plays a vital role in the economic regulation process as well as overcoming inherent socio-economic disparities within a growing economy.[224] The redistribution mechanism of taxation stems from welfare economics in that unrestricted market mechanisms result in economic concentration of wealth, hence the disparity created between the rich and the poor within society.[225] By means of a graduated tax system in which taxes increase according to a person or company's capability to earn, the government achieves economic equity.[226] The proceeds from highly paid workers are thereafter injected into the economy through social welfare schemes, provision of cheap health facilities, and free primary education, hence contributing to human capital development.[227]

"In parallel with this, the regulating effect of taxation enables the government to manipulate individual economic activity towards conforming to national economic developmental objectives. Through financial instruments such as tax incentives, pioneer status exemptions, and investment allowances, the state can strategically steer private investment away from speculation into areas of greater significance like manufacturing, technology, and agriculture."[228] On the other hand, corrective taxes like; excise duties and tariffs on luxury goods or socially damaging imports may be imposed on activities that generate negative economic externalities.[229] For a developing country, the combination

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[224] James A Mirrlees, 'An Exploration in the Theory of Optimum Income Taxation' Review of Economic Studies (1971) 38(2) 175, 179-182. <https://www.scrip.org.> accessed 24 May 2026.

[225] Joseph E Stiglitz, 'Taxation, Public Policy, and the Distribution of Income' Journal of Public Economics (2015) 43(2) 121, 124-128.< https://www.sciencedirect.com.> accessed 24 May 2026.

[226] Thomas Piketty, *Capital in the Twenty-First Century* (Harvard University Press 2014) 520-532. <https://www.harvard.edu.> accessed 24 May 2026.

[227] International Monetary Fund, 'Fiscal Policy and Long-Term Growth' IMF Policy Paper (2015) 1, 14-18.< https://www.imf.org.> accessed 24 May 2026.

[228] Federal Inland Revenue Service, 'Understanding Tax Incentives in Nigeria' (Information Guide Series, FIRS 2021) 4-8. <https://www.firs.gov.ng.> accessed 24 May 2026.

[229] Nicholas Stern, 'The Economics of Climate Change' American Economic Review(2008) 98(2) 1, 4-7. <https://aeaweb.org> accessed 24 May 2026.

of both regulatory and redistributing effects of taxation would ensure that its fiscal policy avoids purely focusing on blind economic growth but rather ensures balanced economic development.[230]

### 4.1.4 The Nigerian Context: Moving from Oil Dependence to Tax-led Growth

The history of Nigeria's public finance is a classical example of the Rentier State Theory and fiscal structural distortion of the social contract.[231] After the commercialization of oil, the state of Nigeria gradually moved from its agrarian, tax-based economy to an oil-producing mono-product economy where the rents from oil constituted the lion's share of foreign exchange earnings and federal tax receipts.[232] This fiscal disassociation between sources of revenue generation for the government and local taxation prevented Nigerian governments from becoming directly accountable to the people, undermined the capability of local revenue generating bodies, and promoted a widespread practice of evading taxes.[233] As a result, the tax-to-GDP ratio in Nigeria historically remained at a single-digit percentage, with as little as 5.3% – below the regional average in sub-Saharan Africa at 16.1% and the minimum level suggested by the World Bank at 15%.[234]

"To rectify these deep fiscal imbalances and stimulate long-term non-oil economic growth, Nigeria embarked on a sweeping structural overhaul of its revenue architecture through the legislative enactment of the Tax Reform Acts. This comprehensive legal framework unified the nation's fractured tax landscape into four primary statutes: the Nigeria Tax Act (NTA), the Nigeria Tax Administration

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[230] United Nations University World Institute for Development Economics Research (UNU-WIDER), 'The Role of Domestic Resource Mobilization in Reducing Inequality' (Research Programme Report, UNU-WIDER 2020) 14-18. <https://www.wider.unu.edu.> accessed 24 May 2026.

[231] Hossein Mahdavy, 'The Patterns and Problems of Economic Development in Rentier States: The Case of Iran' in MA Cook (ed), *Studies in the Economic History of the Middle East* (Oxford University Press 1970) 428-433.

[232] Richard M Auty, Sustaining Development in Mineral Economies: The Resource Curse Thesis (Routledge 1993) 30-42.< https://www.taylorfrancis.com.> accessed 24 May 2026.

[233] Mick Moore, 'Between Coercion and Contract: Competing Narratives on Taxation and Governance' (2008) 38(1) *IDS Bulletin* 34, 39-41.

[234] Organisation for Economic Co-operation and Development, 'Revenue Statistics in Africa 2025: Nigeria' (OECD Publishing 2025) 1-2. <https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/11/revenue-statistics-in-africa-2025-country-notes_ee0ba7f7/nigeria_798060d4/fc80552b-en.pdf.> accessed 24 May 2026.

Act (NTAA), the Nigeria Revenue Service Act (NRSA), and the Joint Revenue Board Act (JRBA)."[235] Rather than increasing the tax burden on compliant citizens, these reforms targeted structural optimization: harmonizing multiple taxes to a single-digit list, introducing advanced digital infrastructure such as electronic invoicing ( e-invoicing), exempting low-income earners making below ₦800,000 annually from personal income tax, and removing value-added tax (VAT) from basic household essentials like food, health, and education.[236]

"The early economic results of this shift toward tax-led growth have drastically restructured the federation's revenue composition. Driven primarily by aggressive non-oil tax enforcement, total federally collected tax revenues nearly tripled within a three-year window, rising from ₦10.18 trillion to over ₦28.29 trillion."[237] Furthermore, the non-oil sector grew to account for over 70% of federally collected taxes, successfully driving Nigeria's overall tax-to-GDP ratio upward to approximately 13.5%.[238] By shifting the baseline of public investment away from volatile petroleum rents and toward a predictable, diversified domestic tax net, these ongoing reforms are fundamentally reshaping the conceptual link between taxation and development in Nigeria proving that sustainable macroeconomic transformation requires an accountable, tax-funded state.[239]

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[235] 'The Nigerian Tax Reform Acts, 2025' *Punuka Business Law Review*, (2025) 2 <https://www.punuka.com/wp-content/uploads/2025/07/tax-reform-act-2025_article.pdf.> accessed 1 June 2026.

[236] Policy and Legal Advocacy Centre (PLAC), 'Analysis of the Nigerian Tax Reform Bills', *PLAC Legislative Report*, (2025) 4< https://wwwplacng.org/i/wp-content/uploads/2025/01/Analysis-of-the-Nigerian-Tax-Reform-Bills.pdf.> accessed 1 June 2026.

[237] For the certified empirical data verifying the transition from the ₦10.18 trillion baseline to the ₦28.29 trillion fiscal collections performance driven by the Nigeria Revenue Service (NRS), see the statutory assessment published by, *The Nigerian Tax Reform Acts*, (PwC Nigeria Fiscal Policy Publications,2025). <https://www.pwc.com/ng/en/publications/the-nigerian-tax-reform-acts.html.> accessed 1 June 2026.

[238] On the non-oil sector threshold indices and the 13.5% Tax-to-GDP macroeconomic baseline metric, see, *Fourth Quarter National Revenue Performance and Macroeconomic Framework Report* (NBS Publications 2026) 18; see also technical overviews by the Presidential Fiscal Policy and Tax Reforms Committee, 'Strategic Milestones in Domestic Resource Mobilization' (Executive Briefing Notes, September 2025). <https://www.fiscalreforms.ng.> accessed 1 June 2026.

[239] SO Akewushola, 'Global Perspectives, the 2025 Tax Reforms, and Practical Implications' *Journal of Accounting and Financial Management* (2025) 11(8) 359, 364. <https://iiardjournals.org/get/JAFM/VOL.%2011%20NO.%208%202025/Accounting%20and%20Taxation%20in%20Nigeria%20359-377.pdf.> accessed 1 June 2026.

## 4.2 Qualitative and Statutory Analysis of Nigerian Tax Reform Pathways

In this case, this section provides a qualitative analysis of the structure, achievements, and challenges that characterize the development process of tax reform policies in Nigeria. The reason behind the selection of a qualitative analysis of the tax reform process in Nigeria is due to the fact that mathematical measurements are not fully considered in this analysis. It entails an examination of the endeavors to widen the tax base.

### 4.2.1 The Historical Imperative for Tax Base Expansion and the Informal Sector

The underlying cause for the ongoing tax reforms in Nigeria is the critical need to diversify the revenue sources of the government from its heavy reliance on unstable revenues from oil.[240] Historically, the instability and volatility in global oil prices, together with unpredictable domestic oil production figures, have continuously threatened the finances of the federal budget.[241] To counter this problem, there was continuous efforts by the Nigerian government to diversify their revenue sources and broaden the narrow tax base. This has been done doctrinally in different statutory stages: The Early Modern Stage: Value Added Tax (VAT) was introduced to the economy with the promulgation of the Value Added Tax Act in 1993 to broaden the tax base to include non-oil revenues from consumer goods.The Consolidation Stage: There have been subsequent enactments of Finance Acts from 2019 to 2023 to update existing laws such as Companies Income Tax Act (CITA) and Personal Income Tax Act (PITA).[242] The Current Phase – Modernization Digital Phase: In the current Nigeria Tax Act, there is a clear evolution from the previous legislation in that transactions involving digital/virtual assets are now taxed under the law.[243]"Alongside the inclusion of digital assets, the NTA fundamentally alters corporate residency principles by expanding the definition of a 'Nigerian company' to include foreign-incorporated entities whose 'central or effective place of management or

[240] A O Chamba, 'Evaluating Nigeria's New Tax Reform and its Impact on Fiscal Sustainability' *AUN Journal of Social Sciences* (2025) 1(1) 14, 14. <https://www.aun.edu.ng.> accessed 24 May 2026.

[241] O A Ihugba, 'Taxation and Economic Development in Nigeria' *Nigerian Journal of Fiscal Studies* (2026) 4 1, 1.

[242] V C Okoro, 'A Critical Review of Nigerian Tax Reforms: Legal Ramifications and Judicial Developments' *International Journal of Law, Politics and Humanities Research* (2026) 12(1)9, 22-24.

[243] Nigeria Tax Act 2025, s 4(h) & (j).

control' is located within Nigeria. This represents a significant doctrinal shift away from the traditional physical presence or strict country-of-incorporation rules. By codifying the effective management test, the statute brings Nigeria's tax architecture into alignment with international anti-avoidance standards, legally checking the use of artificial offshore holding fabrics to shield domestic earnings."[244] Although there has been evident evolution in terms of the legislative process, the main problem in broadening the tax base has been the large proportion of activities conducted through the informal sector, which constitutes roughly 60 to 65 percent of Nigeria's economic activities.[245] These businesses operate using cash transactions and hence do not have any proper accounting procedures for keeping records.[246] Hence, although there has been a successful effort at expanding the definition of taxable income through tax legislation over the decades, there has been difficulty in implementing this due to problems with the informal sector.[247]

**4.2.2 The Evolution of Technological Systems and Administrative Capacity**

The move towards ICT use in administration is one of the important milestones towards ensuring the success of tax reform in Nigeria.[248] The problem with the traditional manual system of tax collection was that it involved numerous procedural difficulties, as well as making it difficult for field officials to exercise discretion because of the high risk of corruption, bribery, and even falsification of records.[249] "In order to address these fundamental problems, the reforms undertaken in Nigeria's tax administrative regime involved ICT to streamline procedures: Automation Initiatives: The initial attempts to automate the system included projects like the ITAS. It was later followed by initiatives

[244] Chijioke Uwaegbute & Others, 'Nigerian Tax Reforms, 2025', *PricewaterCoopers insight series,* 2025. <https://www.pwc.com/ng/en/assets/pdf/nigeria-tax-reform-insight-series-sectoral-analysis.pdf.> accessed 13 June 13, 2026.

[245] V C Okoro (n 39) 12.

[246] Ibid, 14.

[247] Ibid, 15.

[248] A A Pantamee and M B Mansor, 'A Modernize Tax Administration Model for Revenue Generation' *International Journal of Economics and Financial Issues* (2016) 6(S7) 192, 192. <https://www.econjournals.com.> accessed 24 May 2026.

[249] V C Okoro (n 39) 25.

like TaxPro-Max, which automated registration, assessment, and payment procedures."[250] Integration Framework: Current procedural laws, such as the Nigeria Tax Administration Act, have codified this technological transition in terms of legitimizing a "Single Taxpayer View".[251] In this regard, the integration framework refers to the merging of information contained in distinct government databases, such as the Corporate Affairs Commission (CAC), in one unified taxpayer account.[252] From a doctrinal perspective, the automation of the tax process reduces the costs of compliance, which increases voluntary tax compliance.[253] "Nevertheless, the empirical findings indicate that the effectiveness of these technological improvements is significantly constrained by institutional capabilities. In all periods of reforms, there have been deficiencies of finances, modern ICT systems, and specialized technical skills in the revenue organizations."[254] Moreover, inadequate tax knowledge prevents MSMEs from navigating the portals of tax administration.[255] This makes it necessary for the enterprises to seek the services of costly tax advisors in order to stay compliant with the requirements of the law. [256]

### 4.2.3 Constitutional Federalism and the Persistent Crisis of Multiple Taxation

The most complicated and contentious issue that has remained unresolved since the beginning of Nigerian tax reform processes has been the issue of dual taxation.[257] "Under the country's federal system, the powers to impose taxes are shared between the federal, state, and local levels. Due to overlapping jurisdictions and ambiguity in the statutes regarding the taxing powers of various governments, there had been multiple levies of taxes, rates, and consumption duties on the same

[250] A A Pantamee and M B Mansor (n 8) 194.

[251] Nigeria Tax Administration Act 2025, s 23.

[252] A A Pantamee and M B Mansor (n 8) 195.

[253] Ibid, 193.

[254] V C Okoro (n 39) 23.

[255] Ibid, 28.

[256] Ibid, 30.

[257] Ibid, 24.

companies."[258] In order to solve the issues associated with jurisdictions, the following statutory measures have been taken: The Taxes and Levies Act: Through this act, taxes to be levied at each government level were precisely defined in order to avoid any overlap.[259] Joint Tax Board (JTB): For many years, the JTB operated as the major tool for addressing the problems of double taxation. Modern Revenue Architecture: In recent times, this architecture has been transformed into the Joint Revenue Board with statutory powers to manage a Tax Identification Number database and resolve tax issues between jurisdictions.[260] Despite these constant efforts through legislation to attain fiscal harmonization, the problem of multiple taxation still presents itself as a real menace to enterprises.[261] "Due to reduction in statutory revenue contributions to their coffers by the central federation account, sub-national governments often search for other sources of internal revenue. In doing this, sub-national governments consistently ignore federal laws and misconstrue constitutional clauses while still imposing arbitrary charges and market tolls."[262] "To directly suppress this friction, the new framework alters the Value Added Tax (VAT) distribution formula, cutting the Federal Government's allocation to 10%, while scaling up the allocations for States and Local Governments to 55% and 35% respectively. Critcially, the statute mandates that 30% of this subnational allocation must be derived strictly based on the 'place of consumption' via digital fiscalisation. While this fiscal carrot aims to disincentivize arbitrary state-level market tolls, it creates a deeper constitutional paradox: using a federal statute to structurally redistribute consumption returns directly challenges the legislative autonomy of subnational states under the 1999 Constitution."[263]

Although the reform has not completely resolved the challenge, however it transformed a chaotic administrative problem into a constitutional and structural paradox.

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[258] Nigeria Tax Act 2025.

[259] Taxes and levies act.

[260] Nigeria Tax Act 2025, s 5.

[261] V C Okoro (n 39) 24.

[262] Ibid.

[263] Chijioke Uwaegbute & Others, 'Nigerian Tax Reforms, 2025', *PricewaterCoopers insight series,* 2025. <https://www.pwc.com/ng/en/assets/pdf/nigeria-tax-reform-insight-series-sectoral-analysis.pdf.> accessed 13 June 13, 2026.

#### 4.2.4 Equity, Progressive Fiscal Policy, and the Social Contract

The assessment of the Nigerian tax reform in the long run reveals that a shift has taken place in the policies toward the promotion of equity through adoption of progressive tax measures that safeguard the interests of vulnerable people.[264] In various tax legislations, there have been efforts to allocate the burden of taxation according to the "ability-to-pay" criterion in the economy.[265] This has been made possible through granting statutory tax exemptions to small enterprises as well as increasing the marginal rate of taxation for high-income individuals to 25 percent.[266] An important turning point in this regard has been the setting of a statutory tax-exemption limit of ₦800,000 to ensure that low-income earners as well as micro-enterprises are spared from any direct taxation.[267] Nevertheless, it can be seen from the qualitative analysis of the policy that there is a severe breach of the fiscal social contract.[268] Taxation is grounded on the mutual governance contract where citizens invest their economic assets in government coffers, and the government commits itself to offer public goods, security, and development services in turn.[269] Historically, in the case of Nigeria, such a social contract was largely violated because of various forms of government corruption, bribery, falsification of records, and non-transparency in budgeting.[270] With regard to this aspect, the lack of changes regarding the provision of good roads, constant electricity, and basic government services makes citizens doubt the effectiveness of such institutions as taxation. [271] This means that tax avoidance appears to be a logical step in view of taxpayers' inability to get any tangible economic benefits from

[264] Presidential Fiscal Policy and Tax Reforms Committee, *The Nigerian Tax Reform Bills: You Ask, We Answer* (FGN 2024) 4.

[265] Ibid.

[266] Nigeria Tax Act 2025.

[267] Ibid, s 58.

[268] V C Okoro (n 39) 26.

[269] Federal Ministry of Finance, *National Tax Policy* (Federal Republic of Nigeria 2017) para 2.2.1. <https://www.vi-m.com.> accessed 24 May 2026.

[270] V C Okoro (n 39) 25.

[271] Ibid, 26.

tax contributions.[272] Therefore, the history of tax reforms in Nigeria shows that statutory and technological innovations cannot ensure economic development without rebuilding the social contract in accordance with the principles of government transparency and development.[273]

### 4.3 Discussion of Findings

The discussion of the tax reform path taken in Nigeria in a qualitative and statutory manner entails a complex pattern of legislative process amidst deeply embedded structures and socio-psychological impediments.[274] The results obtained from Section 4.2 offer vital empirical and doctrinal data for the discussion of the theoretical relation between tax reforms and economic development in Nigeria.[275]

#### 4.3.1 The Paradox of Statutory Modernization vs. Administrative Capacity

One key result of this research work is the increased gap between progressive tax legislations and real institutional capabilities.[276] In terms of doctrine, the emergence of tax reforms entails the unification of split codes via modern tax legislation; thereby creating one of the milestones in the domain of public finance law.[277] Explicit statutory taxation of digital assets through Sections 4(h) & (j), automated filing processes under Section 23 of the Nigeria Tax Administration Act, and Single Taxpayer View are all examples of legislative progressions towards international best practices.[278] However, it has been confirmed that these fears have materialized into reality.[279] However, the recently formed tax collection agency does not have enough technical capacity, field staff, and

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[272] Ibid, 27.

[273] Ibid, 27.

[274] A O Chamba, 'Evaluating Nigeria's New Tax Reform and its Impact on Fiscal Sustainability' *AUN Journal of Social Sciences* (2025) 1(1) 14, 14.

[275] O A Ihugba, 'Taxation and Economic Development in Nigeria' *Nigerian Journal of Fiscal Studies* (2026) 4 1, 1.

[276] Maimuna Katuka, 'Tax Reform Acts 2025: A Strategic Reset to Repair Nigeria's Fiscal Architecture' *Nigerian Association of Law Teachers Forum*, (2026) 4. <https://naltf.gov.ng.> accessed 24 May 2026.

[277] Ibid.

[278] Nigeria Tax Act 2025, s 4(h) & (j); Nigeria Tax Administration Act 2025, s 23.

[279] A A Pantamee and M B Mansor, 'A Modernize Tax Administration Model for Revenue Generation' *International Journal of Economics and Financial Issues* (2016) 6(S7) 192, 194. <https://econjournals.com.> accessed 24 May 2026.

financial independence to effectively enforce such sophisticated statutory mandates.[280] Thus, the legal paradox is that the law manages to bring about modernized definitions of taxable income on paper but fails to collect these taxes due to inefficient administration.[281] Such administration can be best evidenced by the informal sector, which continues to flourish through its cash dealings.[282]

### 4.3.2 Constitutional Friction and the Fragility of Tax Harmonization

Another discovery made is that multiple taxes pose a serious threat to businesses despite years of statutory efforts at harmonization.[283] The formation of the modern Joint Revenue Board together with the dispute resolution powers given to it according to Section 5 are great legislative measures towards inter-tier tax coordination.[284] However, as shown in legal criticisms recently, sub-national states and local government agencies usually disregard such important central regulations.[285] In response to dwindling allocation from the federation account, the local councils maintain their arbitrary taxes, market tolls, and transport charges.[286] In this light, it is clear that the problem of multiple taxation is not just a failure on the part of law drafters but also an inherent problem of our constitutional federalism.[287] Until the Joint Revenue Board is capable of enforcing its own decision against the sub-state entities, legislative harmonization will fail to establish a conducive environment for business.[288]

### 4.3.3 The Breakdown of the Social Contract and the Rationality of Non-Compliance

[280] V C Okoro, 'A Critical Review of Nigerian Tax Reforms: Legal Ramifications and Judicial Developments' *International Journal of Law, Politics and Humanities Research* (2026) 12(1) 9, 23.

[281] Ibid, 24.

[282] Ibid, 12.

[283] Ibid, 24.

[284] Joint Revenue Board of Nigeria (Establishment) Act 2025, s 5.

[285] V C Okoro (n 76) 24.

[286] Ibid.

[287] Ibid.

[288] Ibid, 25.

The central concern in this study is the utter collapse of fiscal reciprocity in the context of Nigerian statehood. As a matter of principle, taxation is founded on the reciprocal contract of governance.[289] In accordance with Paragraph 2.2.1 of the National Tax Policy, the citizen cedes private economic gains to the state, and the latter commits itself to providing the public good in exchange.[290] It is found that this reciprocity has been broken.[291] Due to perceptions of widespread corruption, bribery, record falsification, and lack of transparency, trust in government bodies has been completely destroyed.[292] Citizens, being dissatisfied with power supply, transport logistics, and public security, become resistant to fulfilling their obligations to pay taxes.[293] Companies are compelled to behave like "mini-governments," utilizing their own resources to establish their own infrastructure while, at the same time, having to deal with intricate taxation processes.[294] In such an environment, tax evasion and avoidance can be logical decisions on the part of citizens feeling exploited by the government.[295] Therefore, a progressive statute, such as the ₦800,000 tax-exempt threshold, will not promote economic development until the government rebuilds its trust through development-oriented expenditures. [296]

**4.4 Summary of Chapter Four**

In this chapter, we have presented a structured evaluation of the interdependence between tax reform and economic development in Nigeria using a combination of qualitative and statutory analysis that compares the existing legislative trends with governance constraints.[297] The first part of this chapter

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[289] Federal Ministry of Finance, National Tax Policy (Federal Republic of Nigeria 2017) para 2.2.1. https://www.vi-m.com. accessed 24 May 2026.

[290]Ibid.

[291] V C Okoro (n 49) 26.

[292] Ibid, 25.

[293] Ibid, 26.

[294] Ibid, 27.

[295] Jean-Jacques Rousseau, 'The Social Contract' in Jonathan Bennett (ed), Early Modern Texts. <https://www.earlymoderntexts.com.> accessed 23 May 2026.

[296] Nigeria Tax Act 2025, s 58.

[297] A O Chamba, 'Evaluating Nigeria's New Tax Reform and its Impact on Fiscal Sustainability' *AUN Journal of Social Sciences* (2025) 1(1) 14, 14.

has set up the conceptual basis by introducing theories behind our research questions: Fiscal Social Contract Theory, Domestic Resource Mobilization approach, and Rentier State Theory. They helped us understand how oil dependency undermined the social contract.[298] The second section of this chapter took the analysis further by evaluating Nigeria's ongoing process of tax reform statutorily. It emphasized key policy moves, namely, tax law harmonization, tax base widening under Section 4 of the Nigeria Tax Act, and digitization of administration under Section 23 of the Nigeria Tax Administration Act.[299] Nevertheless, this particular section brought out the significant operational challenges as well, proving that the unchecked nature of the informal sector, insufficient financial support of institutions, and constant sub-national taxation duplications continue to undermine the efficiency of legislative changes mentioned above.[300] Lastly, Section 4.3 generalized these results with regard to assessing the state of health of the fiscal social contract. It was shown that statutory progressive measures like ₦800,000 individual tax threshold cannot ensure spontaneous compliance nor bring about macroeconomic change alone.[301] In summary, the chapter illustrated how despite successful tax reform, which modernized the fiscal system, transformation of tax receipts into economic development is only possible provided that the state regains the trust of its citizens via proper use of finances.[302]

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[298] Federal Ministry of Finance, *National Tax Policy* (Federal Republic of Nigeria 2017) para 2.2.1. <https://www.vi-m.com.> accessed 24 May 2026.

[299] Nigeria Tax Act 2025, s 4; Nigeria Tax Administration Act 2025, s 23.

[300] V C Okoro, 'A Critical Review of Nigerian Tax Reforms: Legal Ramifications and Judicial Developments' *International Journal of Law, Politics and Humanities Research* (2026) 12(1)9, 23-24.

[301] Nigeria Tax Act 2025, s 58.

[302] V C Okoro (n 96) 27.

CHAPTER FIVE

# FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

## 5.1 Findings

The chapter represents the culmination of legal analysis of the subject matter discussed in this thesis. The intersections between doctrine, statutes, and concepts will be summarized in this chapter. Taxation is a legally recognized term which refers to the imposition of compulsion for public purposes as discussed in chapter 1.1 of this study. It does not involve a voluntary payment of money in exchange for exclusive services provided.

This study examined the role played by the introduction of tax reform in the development of the economy of Nigeria. The subsequent chapters will discuss the key findings and propose practical recommendations regarding statute, constitution, and institutions.

### 5.1.1 The Evolution and Modern Structure of Nigerian Tax Reforms

The main findings of this study reveal that the development of Nigerian tax law has taken place in three main stages. Initially, the Nigerian tax law was an extractive policy under colonial rule; then, it moved to post-colonial oil-boom era structural laws and has eventually arrived at the consolidated system of the Nigeria Tax Act (NTA) 2025.

The new consolidated system of NTA 2025 succeeds in consolidating all the scattered tax legislation into one comprehensive document. Moreover, it widens the scope of modern tax base as provided under Sections 4(h) and (j) by incorporating digital/virtual assets into capital gain taxes. Nevertheless, qualitative analysis shows that it is fairly easy to expand the statutory definition of the taxable income in paper form. The actual problem lies in making an effort to incorporate the cash-rich informal sector, which constitutes 60%-65% of the entire economy.

### 5.1.2 Direct Legal Impacts of Tax Reforms on Economic Development

In terms of development, the current tax acts have deliberately adopted the use of tax laws to achieve social engineering. It directly achieves what Roscoe Pound theorized on social change.

Section 58 NTA 2025 stipulates that any individual who earns the national minimum wage of ₦800k should be free of income tax liability. The equality canon by Adam Smith states that citizens should pay tax according to their ability. This concept has been achieved in the ability-to-pay doctrine which holds that taxation should be based on a person’s financial status. Higher paid individuals therefore face a bigger sacrifice. Thus section 58 ensures that citizens who earn zero or low incomes are not taxed but the rich pay a bigger portion of their income in taxes.

Section 56 NTA 2025 streamlines Nigeria's corporate tax system, while still keeping the same baseline of 30% applicable to large corporations. However, through this section, the Nigerian President is empowered, with the advice of the NEC, to reduce the corporate income tax rate from 30% to 25%. Section 56 of the NTA 2025 largely resembles the basic concept behind the theory of Optimal Taxation introduced by Nobel laureate James Mirrlees and then further developed by Joel Slemrod. The basis of James Mirrlees’ theory of Optimal Taxation is that optimal taxation must not have economic distortion but should not also dissuade production. Through reducing the CIT rate to 25%, the deadweight loss is reduced and profits can be retained within the company. According to Slemrod, an ideal tax system should take into account the costs associated with tax administration and avoidance. Section 56 brings together the existing layers of taxation on corporate income and creates a very predictable flat tax system. The predictability inherent in the design eliminates any tax avoidance practices, making compliance less expensive for corporations. The 25% corporate tax rate is therefore ideal for putting Nigeria back in competition with other regional players who can now consider it a prime investment location.

In section 59, Nigeria does away with its complicated system of corporate taxes like TETFund, NITDA, NASENI, among others, by introducing a single Development Levy of 4% based on the assessable profits made by medium and large corporations. Applying the benefit theory of taxation formulated by Musgrave & Musgrave, there is an immediate link established between the transaction and the public good being purchased by corporations.

In fact, the 0% rate of Personal Income Tax is designed to ensure minimum living standards.

Secondly, the reduction of Corporate Income Tax to 25% is aimed at reducing market distortions, which fits perfectly into Optimal Taxation theories.

Lastly, the 4% Development Levy rate serves to fund directly the Nigerian Education Loan Fund (NELFUND). This follows the theory of benefit taxation and facilitates sustainable domestic resource mobilization for human capital development.

### 5.1.3 Constitutional Federalism and Structural Obstacles

In this qualitative review, it has been illustrated that multiplicity of taxation continues to pose a structural threat to economic growth in that the problem does not emanate from ineffective drafting of laws but a lack of resolution in the conflict inherent in Nigeria's constitution regarding federalism.

The subnational units suffer due to reduced statutory transfers from the federation account through Section 162 of. As such, they tend to evade the harmonized tax code of the federation while erroneously interpreting certain constitutional provisions to enact discriminatory taxes. Notwithstanding the establishment of the Joint Revenue Board through Section 5 of the Joint Revenue Board (Establishment) act 2025, it is not equipped to prevent any form of deviation from the unified framework.

### 5.1.4 Evaluation of Efficacy: The Law in Action Paradox

A Legal Realist perspective on the subject highlights the stark imbalance in public finance law. There is an enormous gap between the "law on the books" and "the law in action". The tax to GDP ratio in Nigeria has consistently remained at a low-single digit and well below the World Bank threshold of 15%.

Fiscal reforms will not spur economic growth where the fiscal social contract is breached. Under section 24(f), payment of taxes is a mandatory legal obligation for citizens. On the contrary, section 16 of chapter II which mandates state responsibility for development and provision of infrastructure is legally non-justiciable. This inequality gives rise to severe civic disillusionment. Citizens have been compelled to be "mini governments," financing electricity, security, and logistics. Under these circumstances, non-compliance within the informal sector becomes a rational course of action as opposed to being a basic criminal offense.

### 5.2 Recommendations

In order to make the practical application of taxation law consistent with sustainable economic development principles, the following recommendations are proposed in this research:

#### 1. Constitutional Revisions of the Legislative Lists

**The Recommendation:** The National Assembly should amend Section 4 and the Second Schedule of the 1999 Constitution.

**The Action Plan:** Taxes on consumption, such as VAT should be specifically included on either the Exclusive or Concurrent Legislative List because their exclusion from the list makes them fall under the category of the Residual List where interjurisdictional conflicts become inevitable, for instance, the case of Attorney-General of Rivers State v FIRS. The clear constitutional placement will attract foreign direct investments.

#### 2. Granting of Legal Power to the Joint Revenue Board

**The Recommendation:** It is necessary to revise Section 5 of the Joint Revenue Board Act 2025 and grant the board enforcement powers.

**The Action Plan:** The Board should have powers to enforce penalties against the non-compliance of the sub-national revenue agencies and local governments against the single-digit list of taxes. Any sub-national tier collecting unapproved, non-harmonized market tolls should face automatic cuts to its monthly statutory allocations under Section 162(3) of the 1999 constitution of the federal republic of Nigeria.

#### 3. Harmonization of Automated Administration with Right to Privacy

**Recommendation:** The Nigeria Tax Administration Act of 2025 should include stringent data privacy protections as per (chapter 4).

**Implementation:** The Nigeria Revenue Service (NRS) is consolidating its data into one taxpayer database through integration of platforms such as Corporate Affairs Commission (CAC) and commercial banks. The automated "Single Taxpayer View" will have to adhere strictly to the provisions of the Nigeria Data Protection Act. By setting boundaries to the extent of data sharing through statute, compliance concerns for micro enterprises will be reduced and informal sector players can adopt financial technologies securely.

**4. Judicial Enforcement of Tax Reciprocity**

**Recommendation:** The judiciary of Nigeria needs to pursue a development-friendly interpretation of tax disputes.

**Implementation:** Courts need to follow Lon Fuller's theory of the rule of law in order to rein in any administrative excesses. When there are punitive measures against taxpayers that involve ambiguous statutory language, courts have to settle the dispute in favor of the taxpayer. The judges will have to employ judicial activism in issuing orders for the ring fencing of development levies to be spent on such ring-fenced statutory projects. This will assist in rebuilding institutional trust and repairing the ruptured social contract.

## 5.3 Conclusions

The law revision in 2025 is a clear indication that development through taxation cannot be achieved through good legislation only; it needs addressing some issues in the constitution in addition to fixing the broken social contract in the fiscal area. When examined through the lens of Roscoe Pound on Social Engineering, Section 58 addresses the canons of taxation according to Adam Smith in terms of equity and ability to pay, whereby high income earners must sacrifice more as compared to protecting vulnerable low income earners. Additionally, lowering of corporate tax rate to 25% as per Section 56 is in line with James Mirrlees and Joel Slemrod’s theories of optimal taxation.

Nevertheless, the continued functioning of this framework is jeopardized by the fissures that exist within the structure of the federation in Nigeria. With reference to the Benefit Theory of Taxation by Musgrave and Musgrave, Section 59 makes explicit the association between transactions made and provision for public goods such as the Nigerian Education Loan Fund (NELFUND). However, as pointed out from a Legal Realism approach, any statutory changes come second to the structural survival drive of sub-national jurisdictions. In instances where reduced amounts from the federal government's accounts jeopardize the budgets of states, the latter will continue to abuse the ambiguities found in the constitution in order to make predatory charges. Given that the state expects compliance under Section 24(f) but does not meet its infrastructural obligations through Chapter II, the fiscal bargain has been violated. Therefore, any true modernization entails going beyond revenue tables and tackling the fundamental constitutional imbalances behind non-compliance.

**5.4 Contribution to Knowledge**

The present thesis departs from standard economic literature focused on quantitative analysis and taxation seen only in terms of an input-output revenue spreadsheet. Through the application of legal research methods, this research work sets up a novel doctrine framework. It shows conclusively that taxation-led development in Nigeria is unattainable merely through good legal writing. Development requires addressing the underlying constitutional conflict, securing data privacy and integrating equity into the fiscal social contract.

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