

AN APPRAISAL OF TAXATION AND THE RULE OF LAW IN NIGERIA

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**BEING A LONG ESSAY SUBMITTED TO THE FACULTY OF LAW, UNIVERSITY
OF BENIN, IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE
AWARD OF THE DEGREE OF MASTERS IN LAW (LL.M) DEGREE**

OCTOBER, 2025

CERTIFICATION

I, **Charles Ogugua OKONKWO**, with Matriculation Number, **PG/LAW2215935** hereby certify that, with the exception of references to the works and opinions of other writers duly acknowledged herein, this entire project is a product of my personal research and findings. It has, neither in whole or in part, been presented for another degree elsewhere.

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APPROVAL

We certify that this project work was researched, written, and completed by **Charles Ogugua OKONKWO** with Matriculation Number, **PG/LAW2215935**, in partial fulfilment of the requirements for the award of degree of Masters of Laws (LL.M) of the University of Benin.

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DEDICATION

I dedicate this work to God Almighty who has helped me in the past and kept on helping me throughout the period of my programme.

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TABLE OF CONTENTS

Title page	-	-	-	-	-	-	-	-	-	-	i
Certification	-	-	-	-	-	-	-	-	-	-	ii
Approval	-	-	-	-	-	-	-	-	-	-	iii
Dedication	-	-	-	-	-	-	-	-	-	-	iv
Acknowledgement	-	-	-	-	-	-	-	-	-	-	v
Table of Contents	-	-	-	-	-	-	-	-	-	-	vii
Table of Statutes	-	-	-	-	-	-	-	-	-	-	ix
Table of Abbreviations	-	-	-	-	-	-	-	-	-	-	x
Abstract	-	-	-	-	-	-	-	-	-	-	xii

CHAPTER ONE

INTRODUCTION

1.1	Background to the Study	-	-	-	-	-	-	-	-	1
1.2	Statement of The Research Problem	-	-	-	-	-	-	-	-	2
1.3	Research Questions	-	-	-	-	-	-	-	-	3
1.4	Aim and Objectives of the Study	-	-	-	-	-	-	-	-	3
1.5	Significance of the Study	-	-	-	-	-	-	-	-	5
1.6	Scope and Limitations of the Study	-	-	-	-	-	-	-	-	6
1.7	Research Methodology	-	-	-	-	-	-	-	-	6
1.8	Synopsis of Chapters	-	-	-	-	-	-	-	-	7

CHAPTER TWO

LITERATURE REVIEW

2.1	Conceptual Framework	-	-	-	-	-	-	-	10
2.1.1	Definition of Key Terms	-	-	-	-	-	-	-	10
2.1.2	Evolution of Taxation in Nigeria	-	-	-	-	-	-	-	13
2.2	Theoretical Framework	-	-	-	-	-	-	-	16
2.2.1	Legal Theories on Taxation and Governance	-	-	-	-	-	-	-	16
2.2.2	Principles of the Rule of Law in Taxation	-	-	-	-	-	-	-	18
2.3	Literature Review	-	-	-	-	-	-	-	21

CHAPTER THREE

LEGAL AND INSTITUTIONAL FRAMEWORK FOR TAXATION IN NIGERIA

3.1	Introduction	-	-	-	-	-	-	-	24
3.2	Overview of Nigeria's Tax Laws and Regulatory Framework	-	-	-	-	-	-	-	24
3.2.1	The Constitution of the Federal Republic of Nigeria, 1999 (as amended)	-	-	-	-	-	-	-	25
3.2.2	The Personal Income Tax Act (PITA)	-	-	-	-	-	-	-	26
3.2.3	The Companies Income Tax Act (CITA)	-	-	-	-	-	-	-	28
3.2.4	The Value Added Tax Act (VATA)	-	-	-	-	-	-	-	30
3.2.5	The Federal Inland Revenue Service (Establishment) Act	-	-	-	-	-	-	-	32
3.2.6	The Petroleum Profits Tax Act (PPTA)	-	-	-	-	-	-	-	34
3.2.7	Other Relevant Tax Laws	-	-	-	-	-	-	-	35

3.2.8	The Role of International Treaties and Judicial Precedents	-	-	-	39
3.3	The Role of Tax Authorities in Tax Administration	-	-	-	42
3.4	Challenges in Tax Administration in Nigeria	-	-	-	46

CHAPTER FOUR

TAXATION, THE RULE OF LAW, AND CONTEMPORARY CHALLENGES

4.1	Introduction	-	-	-	-	-	-	-	51
4.2.	Taxation and the Rule of Law-	-	-	-	-	-	-	-	52
4.2.1	The Conflict of Taxing Powers Between the Federal and State Governments of Nigeria-	-	-	-	-	-	-	-	56
4.2.2	Instances of Judicial Intervention in the conflicts of Taxing Power in Nigeria								56
4.3	The Impact of Weak Legal Frameworks on Taxation and Tax Compliance in Nigeria								
		-	-	-	-	-	-	-	59
4.4	Corruption, Tax Evasion, and Policy Inconsistencies	-	-	-					62
4.5	Enforcement Challenges in Nigeria’s Tax System	-	-	-	-	-	-	-	65

CHAPTER FIVE

GENERAL CONCLUSION AND RECOMMENDATIONS

5.1	Summary of findings	-	-	-	-	-	-	-	69
5.2	Recommendations for Strengthening Nigeria’s Tax System	-	-	-					70
5.3	Contributions to Knowledge	-	-	-	-	-	-	-	75
5.4	Areas for Further Research	-	-	-	-	-	-	-	76
5.5	Conclusion	-	-	-	-	-	-	-	77

TABLE OF STATUTES

- Capital Gains Tax Act, Cap C1, Laws of the Federation of Nigeria 2004.
- Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria 2004.
- Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria 2004.
- Constitution of the Federal Republic of Nigeria 1999 (as amended).
- Customs and Excise Management Act, Cap C45, Laws of the Federation of Nigeria 2004.
- Federal Inland Revenue Service (Establishment) Act 2007, No. 13, A199.
- Finance Act 2023.
- Personal Income Tax Act, Cap P8, Laws of the Federation of Nigeria 2004.
- Personal Income Tax Act, Cap P8, Laws of the Federation of Nigeria 2004.
- Petroleum Profits Tax Act (PPTA), Cap P13, Laws of the Federation of Nigeria 2004.
- Petroleum Profits Tax Act, Cap P13, Laws of the Federation of Nigeria 2004.
- Stamp Duties Act, Cap S8, Laws of the Federation of Nigeria 2004.
- Tertiary Education Trust Fund (Establishment, etc.) Act, 2011.
- Value Added Tax Act, Cap V1, Laws of the Federation of Nigeria 2004.
- Value Added Tax Act, Cap V1, Laws of the Federation of Nigeria 2004.

TABLE OF ABBREVIATIONS

VAT	-	value-added tax
FIRS	-	Federal Inland Revenue Service
PITA	-	Personal Income Tax Act
PPTA	-	Petroleum Profit Tax Act
CITA	-	Companies Income Tax Act
SMEs	-	Small and Medium Enterprises
SBIRs	-	State Boards of Internal Revenue
FCT	-	Federal Capital Territory
PAYE	-	Pay-As-You-Earn
CIT	-	Companies' Income Tax
VATA	-	Value Added Tax Act
TAT	-	Tax Appeal Tribunal
TETFund	-	Tertiary Education Trust Fund
CEMA	-	Customs and Excise Management Act
NCS	-	Nigeria Customs Service
DTAs	-	Double Taxation Agreements
FDI	-	Foreign Direct Investment
JTB	-	Joint Tax Board
CGT	-	Capital Gains Tax
PIT	-	Personal Income Tax
TIN	-	Taxpayer Identification Number

ABSTRACT

A company, though a legal fiction, operates through the actions and decisions of its shareholders and directors. The provisions of Companies and Allied Matters Act 2020 envisage democratic and inclusive processes that reflect on the interests of all shareholders in practice, the principle that “the majority have their way and the minority shareholders. Unarguably, it is a commonplace to see actions of majority shareholders that contradict the Act or Articles, which in result could be detrimental to the interest of the minority shareholder. Such an illegal impedes good corporate governance and could have a company destabilized.

Given the wanton injustice suffered by the latter, the letters of CAMA, though, attempts to provide safeguards in exceptional cases, the discretionary power of the court and the procedural hurdles in initiating derivative actions may deter or deny minority shareholders adequate protection.

The study adopts the doctrine methodology of research. This research critically evaluates the effectiveness of minority protection mechanisms in Nigeria and identifies the legal and institutional loopholes that allow collusion between majority shareholders and company directors. Drawing from comparative corporate law regimes in other jurisdictions, the study recommends reforms aimed at establishing a robust legal, institutional, and third-party framework that better secures the rights and interests of minority shareholders.

CHAPTER ONE

GENERAL INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Taxation may be defined as the demand by the government of a country on its citizens for a compulsory payment of part of their wealth. The aim of taxation is to raise revenue to finance government expenditure to achieve economic development and to distribute income on a socially acceptable basis. Taxation is a fundamental instrument of governance, providing governments with the revenue necessary for economic development, public service delivery, and infrastructure growth.¹ In Nigeria, taxation serves as a primary revenue source alongside crude oil earnings.² However, despite its significance, the country's tax system faces persistent challenges, including low compliance rates, tax evasion, weak enforcement mechanisms, and multiple taxation.³ These issues have contributed to revenue shortfalls, hindered economic growth, and eroded public trust in the tax system.

The rule of law plays a crucial role in ensuring that taxation is governed by clear, fair, and enforceable legal frameworks.⁴ It requires that tax policies be predictable, consistent, and applied equally to all taxpayers. However, Nigeria's tax administration is often characterised by arbitrary enforcement, corruption, and policy inconsistencies.⁵ Multiple taxation at federal, state, and local government levels places an excessive burden on businesses and individuals, discouraging voluntary compliance and investment.⁶ Additionally, frequent amendments to

¹ Cordelia Onyinyechi Omodero & Kabiru Isa Dandago, 'Tax Revenue and Public Service Delivery: Evidence from Nigeria' International Journal of Financial Research [2019] Vol. 10, No. 2.

² Obiechina, M. E. 'Analysis of Revenue Generation as a tool for socio-economic and infrastructural development in Nigeria'. CBN Bullion, [2010] vol. 34, No. 4, pp 41-54.

³ Taiwo Oyedele, 'The key issues and challenges of implementing the National Tax Policy'. <https://www.pwc.com/ng/en/assets/pdf/taxbites-november-2013.pdf> accessed 21 february 2025.

⁴ Frans Vanistendael, *Legal Framework for Taxation; Tax Law Design and Drafting* (volume 1; International Monetary Fund: 1996; Victor Thuronyi, ed.).

⁵ Roseline N. Azubuike; Honesta C. Anorue 'Tax Administration in Nigeria: A Systematic Literature Review' International Journal of Economics, Business and Management Research [2024] Vol. 8, No.09. Available at <https://doi.org/10.51505/IJEBMR.2024.8918>

⁶ Nihal Pitigala and Mombert Hoppe, 'Impact of Multiple Taxation on Competitiveness in Nigeria' <https://documents1.worldbank.org/curated/en/142421468291634393/pdf/638010BRI0Impa00Box0361527B0PUBLIC0.pdf> accessed February 22 2025.

tax laws, often without proper consultation, create uncertainty, making it difficult for taxpayers to understand their obligations.⁷

Another major challenge is the widespread distrust in tax authorities due to perceptions of mismanagement, corruption, and inefficient use of tax revenues. Many businesses and individuals prefer informal economic activities to avoid taxation, further reducing the tax base.⁸ The informal sector, which constitutes a significant portion of Nigeria's economy, remains largely untaxed due to inadequate regulatory frameworks and enforcement challenges.

This study examines the relationship between taxation and the rule of law in Nigeria, assessing the extent to which legal and institutional frameworks impact tax compliance and enforcement. By identifying key weaknesses and proposing reforms, the research seeks to promote a transparent, fair, and efficient tax system that aligns with the principles of the rule of law and fosters economic development.

1.2 STATEMENT OF THE RESEARCH PROBLEM

Despite the legal framework governing taxation in Nigeria and Nigeria's reliance on taxation as a crucial revenue source, the country's tax system is fraught with numerous challenges that undermine its effectiveness. These includes

1. Weak enforcement mechanisms: Tax laws exist but are often poorly enforced due to corruption, administrative inefficiencies, and political interference.
2. Tax evasion and avoidance: A significant portion of businesses and individuals engage in tax evasion, leading to revenue losses for the government.
3. Complex and inconsistent tax policies: Frequent changes in tax laws and multiple taxation at different government levels create confusion and reduce compliance.

⁷ Logue Kyle D, 'Tax Law Uncertainty and the Role of Tax Law Insurance.' Va. Tax Rev. (2005) vol25, no. 2 p.339-414.

⁸ Christopher Heady, 'Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research' The Journal of Development Studies, (2014) Volume 50, Issue 10, p.1325 – 1347.

4. Lack of public trust in tax authorities: Poor accountability and perceived mismanagement of tax revenues discourage voluntary tax compliance.

This research examines these issues and explores how Nigeria can strengthen the rule of law in its tax administration to enhance efficiency, fairness, and compliance.

1.3 RESEARCH QUESTIONS

This research is guided by the following key questions:

1. What are the existing legal frameworks governing taxation in Nigeria?
2. How does the rule of law influence tax administration and compliance?
3. What are the major legal and institutional challenges affecting Nigeria's tax system?
4. How do corruption and weak enforcement mechanisms contribute to tax evasion?
5. What measures can be taken to strengthen tax compliance and administration within the framework of the rule of law?
6. To what extent do multiple taxation and policy inconsistencies affect businesses and individuals in Nigeria?
7. What legal and policy reforms can improve tax enforcement and revenue generation in Nigeria?

1.4 AIM AND OBJECTIVES OF THE STUDY

Aim of the Study

The primary aim of this study is to critically appraise the relationship between taxation and the rule of law in Nigeria, assessing the extent to which the legal framework governing taxation aligns with constitutional principles, fairness, and accountability. In light of Nigeria's ongoing fiscal challenges, the study seeks to evaluate how taxation laws are applied and enforced in practice, and whether these processes uphold the tenets of legality, transparency, and non-discrimination.

Specifically, the study aims to:

- Examine the legal foundations and historical evolution of taxation in Nigeria, including constitutional and statutory provisions.
- Analyse the principles of the rule of law as they relate to tax administration, assessment, enforcement, and taxpayer rights.
- Evaluate the challenges confronting the Nigerian tax system with respect to compliance with the rule of law.
- Investigate the extent of arbitrary taxation, executive discretion, and abuse of power within tax enforcement mechanisms.
- Assess judicial responses and constitutional safeguards available to taxpayers in cases of tax disputes or administrative overreach.
- Propose recommendations for strengthening the legal and institutional framework of taxation to ensure alignment with the rule of law.

Objectives of the Study

To achieve the above aim, this research pursues the following objectives:

- To examine the legal history and framework of taxation in Nigeria.
- To evaluate how principles of the rule of law such as equality before the law, legal certainty, and accountability are reflected in Nigeria's tax laws and their enforcement.
- To examine how tax laws are interpreted and enforced by tax authorities, and the extent to which due process is observed.
- To assess the role of the judiciary in protecting taxpayer rights and upholding the rule of law in tax matters.
- To identify gaps and inconsistencies in Nigerian tax law and policy that may undermine legality and fairness.

- To recommend practical legal and institutional reforms to promote transparency, accountability, and equity in tax administration in line with rule of law principles.

1.5 SIGNIFICANCE OF THE STUDY

Taxation plays a crucial role in state-building, public finance, and economic development. However, the effectiveness of any tax system is not only measured by revenue generation but also by its consistency with the rule of law. In Nigeria, concerns about arbitrary tax practices, poor enforcement, and taxpayer alienation persist. This study is significant in that it bridges the gap between legal theory and fiscal practice by providing a critical analysis of how taxation measures align or fail to align with the rule of law.

From a practical standpoint, the research will offer insights for policymakers, legal practitioners, tax administrators, and civil society actors concerned with promoting lawful, fair, and efficient tax systems. It also contributes to academic discourse on fiscal justice, legal compliance, and constitutionalism, serving as a resource for future reforms in Nigerian tax administration and governance.

This research is significant in several ways:

1. For Policymakers: The findings will provide valuable insights into the weaknesses of Nigeria's tax system and inform the development of policies that ensure tax laws are clear, fair, and effectively enforced.
2. For Tax Authorities: The study will highlight challenges in tax administration and propose reforms to improve compliance and revenue generation.
3. For Legal Scholars and Academics: It contributes to the academic discourse on taxation, governance, and the rule of law, providing a foundation for future research.
4. For Businesses and Individuals: By identifying tax burdens such as multiple taxation and arbitrary enforcement, the study advocates for a system that is fair and predictable, fostering voluntary compliance and economic growth.

Ultimately, this research aims to promote a tax system that is legally sound, economically sustainable, and socially equitable.

1.6 SCOPE AND LIMITATIONS OF THE STUDY

This study focuses on the Nigerian tax system, specifically its alignment with the principles of the rule of law. It examines federal, state, and local tax frameworks, enforcement mechanisms, and compliance challenges. The research primarily analyses statutory laws, judicial decisions, and administrative policies governing taxation.

However, the study is limited in scope by:

1. Time constraints: The research is conducted within a fixed academic timeline, restricting the depth of field investigations.
2. Data availability: Access to official tax records and enforcement statistics may be limited due to confidentiality concerns.
3. Exclusion of certain tax types: While the study covers major taxes such as corporate income tax, value-added tax (VAT), and personal income tax, it does not comprehensively analyse sector-specific taxes.

Despite these limitations, the study provides a robust analysis of taxation and the rule of law in Nigeria.

1.7 RESEARCH METHODOLOGY

This study adopts a doctrinal legal research methodology, focusing on the critical examination of constitutional provisions, statutes, case law, and regulatory frameworks governing taxation in Nigeria.⁹ The doctrinal approach is appropriate for understanding the legal underpinnings of taxation and its interaction with principles of the rule of law.¹⁰

⁹ Nigerian Association of Law Teachers Manual Uniform Format and Citation Guide for Legal Research Writing in Nigeria for Law Faculties and Legal Research Institutions in Nigeria, A Manual on Legal Research Format and Citation Guide for Legal Research Writing (NALT's Blue Book Basic Guide) Series No.2 2021.

¹⁰ *ibid*

Legal sources such as the 1999 Constitution of Nigeria (as amended), tax legislation, judicial decisions, and government policy documents will form the backbone of the analysis.¹¹ A review of legal commentaries, journal articles, and relevant academic literature will supplement the primary sources to provide contextual depth.¹²

In addition to doctrinal analysis, the research may incorporate limited empirical insights from secondary reports, court statistics, and legal audits of tax practices.¹³ Case studies of judicial decisions and administrative practices will be used to illustrate how rule of law concerns manifest in practical tax administration.¹⁴ A qualitative synthesis will be undertaken to develop reasoned conclusions and recommendations for legal reform.

1.8 Synopsis of Chapters

Chapter One: This chapter lays the foundation for the study, providing an overview of taxation and the rule of law in Nigeria. It explores the background of taxation within the Nigerian legal and institutional framework, identifying key issues that necessitate the research. The Statement of the Research Problem outlines the major legal and practical challenges associated with tax administration and compliance in Nigeria. The Research Questions articulate the key inquiries guiding the study, while the Aim and Objectives establish the study's goals. The Significance of the Study highlights its academic, policy, and practical contributions. The Scope and Limitations define the study's focus, specifying jurisdictional and thematic boundaries. The Research Methodology explains the approach taken in data collection and analysis. Finally, the Synopsis of Chapters provides an overview of the thesis structure.

Chapter Two: This chapter provides the conceptual and theoretical underpinnings of taxation and the rule of law in Nigeria. The Conceptual Framework defines key terms, such

¹¹ *ibid*

¹² *ibid*

¹³ *ibid*

¹⁴ *ibid*

as taxation, compliance, and the rule of law, and traces the Evolution of Taxation in Nigeria, illustrating the historical and legal transformations shaping the present tax system. The Theoretical Framework engages with legal theories on taxation and governance, particularly the principles underpinning the rule of law in taxation. It examines the legal justifications for taxation, taxpayer rights, and the legitimacy of tax enforcement. The Literature Review critically analyses existing academic contributions, judicial pronouncements, and policy perspectives on taxation and governance in Nigeria.

Chapter Three: This chapter examines the legislative and institutional mechanisms governing taxation in Nigeria. It provides an Overview of Nigeria's Tax Laws and Regulatory Framework, highlighting major tax statutes, constitutional provisions, and international tax obligations. The Role of Tax Authorities in Tax Administration assesses the responsibilities and effectiveness of agencies such as the Federal Inland Revenue Service (FIRS) and the State Boards of Internal Revenue. The chapter also discusses Challenges in Enforcing Tax Laws, such as legislative gaps, regulatory conflicts, and administrative inefficiencies, which undermine tax compliance and revenue generation.

Chapter Four: This chapter analyses taxation through the lens of the rule of law and explores contemporary issues affecting tax administration in Nigeria. It starts with an introduction to Taxation and the Rule of Law, setting the stage for discussions on legal certainty, fairness, and accountability in tax matters. The chapter then delves into The Conflict of Taxing Powers Between the Federal and State Governments of Nigeria, examining constitutional disputes over tax jurisdiction. It also highlights Instances of Judicial Intervention in Taxing Power Conflicts, reviewing court decisions that have shaped Nigeria's tax regime. The chapter further explores The Impact of Weak Legal Frameworks on Tax Compliance, revealing how legislative ambiguities and enforcement deficiencies encourage tax evasion. Additionally, it assesses Corruption, Tax Evasion, and Policy Inconsistencies,

showing how these factors erode public trust and hinder effective tax collection. Lastly, it discusses Enforcement Challenges in Nigeria's Tax System, such as the difficulty of prosecuting tax offenders, inadequate technology, and lack of cooperation between tax agencies.

Chapter Five: The final chapter presents a summary of key findings and proposes policy and legal reforms to enhance Nigeria's tax system. The Summary of Findings consolidates the research's core insights, linking them to the objectives outlined in Chapter One. Recommendations for Strengthening Nigeria's Tax System offer practical strategies for improving tax laws, governance, and enforcement mechanisms. The chapter also discusses the study's Contributions to Knowledge, detailing its impact on legal scholarship and policy discourse. Areas for Further Research suggest new directions for exploring taxation and the rule of law in Nigeria. Finally, the Conclusion encapsulates the study's overall arguments, reaffirming its significance and relevance to Nigeria's legal and economic development.

CHAPTER TWO

CONCEPTUAL, THEORETICAL FRAMEWORK, AND LITERATURE REVIEW

2.1 CONCEPTUAL FRAMEWORK

Every meaningful research endeavour begins with a comprehensive exploration and clarification of the essential terminologies related to its subject matter. This study is no different, as it involves several fundamental concepts that require clear yet concise explanation. Consequently, this section is devoted to a detailed examination of the key concepts underpinning this research, ensuring a precise understanding of their meanings and relevance.

To achieve this, we will first identify the recurring terms that form the core of this study. These terms will then be defined both in their general lexical sense and within the specific context in which they are applied in this research. Establishing this definitional framework will provide a structured foundation, serving as a reference point for the discussions and analyses that follow¹⁵.

2.1.1 Definition of Key Terms

A comprehensive conceptual clarification necessitates precise and well-rounded definitions of the key terms that frequently appear in this research. This study engages with several fundamental concepts that must be carefully examined to establish their meanings and relevance. Therefore, this section is dedicated to a thorough analysis of these terms, defining them both in their general sense and within the specific context of this research.

By providing a clear definitional framework, this discussion seeks to enhance understanding, ensuring a structured and insightful exploration of the subject while laying a solid foundation for subsequent analyses. It also serves to establish the contextual meaning of key terms,

¹⁵ Ishwara, *Idea and Methods of Legal Research* (Oxford Academic 2020). <https://doi.org/10.1093/oso/9780199493098.001.0001> accessed march 1 2025.

thereby facilitating a clearer interpretation of their usage. In this study, the principal terms requiring definition include taxation, rule of law, tax compliance, tax avoidance and evasion.

Taxation

Taxation is a fundamental mechanism through which governments generate revenue to finance public expenditure, infrastructure development, and social welfare programmes.¹⁶ It entails the compulsory levy imposed by the government on individuals, corporate entities, and transactions, ensuring a steady inflow of resources to sustain governance and economic stability.¹⁷ Taxation serves not only as a fiscal tool but also as an instrument for economic regulation, redistribution of wealth, and social justice.¹⁸ According to Musgrave and Musgrave,¹⁹ taxation is the legal obligation requiring individuals and businesses to contribute a portion of their earnings to the state. This obligation is backed by law, meaning that failure to comply attracts penalties, fines, or even legal sanctions.

Rule of Law

The rule of law is a principle that ensures governance is conducted according to clear, predictable, and consistently applied legal norms.²⁰ Within the context of taxation, the rule of law ensures that tax policies and regulations are designed, implemented, and enforced fairly, without arbitrariness or undue discretion. Dicey²¹ describes the rule of law as the supremacy of legal principles over arbitrary power, where all individuals, including those in government, are subject to the law. When applied to taxation, this principle requires that tax laws be

¹⁶ Efuntade, Alani Olusegun, 'Tax Revenue and Its Effect on Government Expenditure in Nigeria' The International Journal of Business & Management [2020] vol.8 issue 9, pp 279-286.

¹⁷ Cordelia Omodero, *Governance Quality and Tax Revenue Mobilization in Nigeria* Journal of Legal Studies [2021] vol.28 issue 42, p.1-41.

¹⁸ Vito Tanzi, Howell Zee, 'Tax Policy for Developing Countries' <https://www.imf.org/external/pubs/ft/issues/issues27/>

¹⁹ Musgrave, R. A. & Musgrave, P. B., *Public Finance in Theory and Practice*. [5th edn. New York: McGraw-Hill 1989].

²⁰ Geoffrey de Q. Walker, *The rule of law: foundation of constitutional democracy*, (1st Ed., 1988).

²¹ Dicey, A. V., *Introduction to the Study of the Law of the Constitution*. [Macmillan: London, 1885]

transparent, just, and uniformly applicable to all taxpayers, regardless of status or influence.²²

Without adherence to the rule of law, tax policies could become tools for oppression, discrimination, or political victimisation.

Tax Compliance

Another critical concept in taxation is tax compliance, which refers to the extent to which taxpayers voluntarily fulfil their tax obligations in accordance with the law.²³ Compliance can be classified into voluntary compliance, where individuals and businesses willingly pay their taxes, and compulsory compliance, which is enforced through strict legal mechanisms.²⁴ Alm and Torgler²⁵ argue that tax compliance is significantly influenced by trust in government, perceptions of fairness, and the efficiency of tax administration. The more citizens perceive tax policies as fair and beneficial, the higher the likelihood of voluntary compliance. However, where corruption, inefficiency, or lack of accountability exists, compliance rates tend to decline.

Tax Avoidance and Evasion

Closely related to compliance are the concepts of tax avoidance and tax evasion. Tax avoidance involves legally minimising tax liabilities through permissible loopholes and strategic financial planning, whereas tax evasion refers to illegal actions taken to escape tax obligations.²⁶ James and Alley²⁷ assert that while tax avoidance is legally permissible, it raises ethical concerns, particularly when large corporations exploit legal loopholes to

²² Alexander V. Demin, Certainty and Uncertainty in Tax Law: Do Opposites Attract? <https://www.mdpi.com/2075-471X/9/4/30> accessed March 3 2025.

²³ Jack Manhire, 'What Does Voluntary Tax Compliance Mean?: A Government Perspective' University of Pennsylvania Law Review [2015] vol.164 issue 11.

²⁴ Ibid.

²⁵ Alm, J. & Torgler, B. *Culture differences and tax morale in the United States and Europe*. Journal of Economic Psychology, [2006] 27(2), p. 224–246.

²⁶ Ego, 'Differences Between Tax Avoidance and Tax Evasion' <https://risevest.com/blog/differences-between-tax-avoidance-and-tax-evasion> accessed March 4 2025.

²⁷ James, S. & Nobes, C., *The Economics of Taxation: Principles, Policy, and Practice*. [16th edn. Birmingham: Fiscal Publications 2018].

significantly reduce their tax burden. On the other hand, tax evasion is a criminal offence that undermines the integrity of the tax system and leads to revenue loss for the government.²⁸ In Nigeria, tax evasion remains a major challenge due to factors such as weak enforcement, corruption, and lack of adequate taxpayer education²⁹. Addressing these issues requires a robust legal and institutional framework that promotes accountability, transparency, and efficient tax administration.

2.1.2 Evolution of Taxation in Nigeria

The history of taxation in Nigeria can be traced back to pre-colonial times when indigenous communities operated their own tax systems.³⁰ In the northern regions, particularly among the Hausa-Fulani, a structured taxation system existed under Islamic law, with levies such as Zakat (a religious tax), Jangali (cattle tax), and Kudin-Kasa (land tax).³¹ These taxes were enforced by traditional rulers and used for community development and governance. In the Yoruba and Igbo societies, taxation was more communal, with levies imposed for specific public projects, security, and contributions to the rulers.³² Compliance was largely enforced through cultural and societal norms rather than legal structures.

With the advent of British colonial rule, the taxation system in Nigeria underwent significant changes. The colonial government introduced direct taxation, primarily to generate revenue for administrative purposes and support the economic exploitation of Nigeria's resources.³³ One of the earliest tax laws, the Native Revenue Ordinance of 1917, was implemented in northern Nigeria before being extended to the entire country. This ordinance formalised

²⁸ Akadakpo Bukola Adefunke and Ogbeide Eloghosa Ivie, 'Impact of tax evasion and tax avoidance on government revenue generated in Nigeria' African Development Finance Journal [2024] Vol 7 No.4, P 34-55.

²⁹ Olaoye, C. O., *Taxation and Revenue Generation: Issues and Challenges in Nigeria*. [Ibadan: University Press 2021].

³⁰ Adrianna Simwa, 'History of taxation in Nigeria' <https://www.legit.ng/1119115-history-taxation-nigeria.html> accessed march 4 2025.

³¹ Ibid.

³² Felix Oludare Ajiola, 'isakole and the transformation of agricultural land conflicts in colonial nigeria' Southern Journal for Contemporary History [2021] vol.46 issue 2 p68-88.

³³ Abel Gwaindepi, 'Taxation in Africa since colonial times' <https://www.aehnetwork.org/wp-content/uploads/2023/10/Abel-Gwaindepi-Taxation-in-colonial-Africa-2.pdf> accessed March 5, 2025

taxation, making it a legal requirement under British rule.³⁴ However, the imposition of colonial taxes met significant resistance, most notably in the Aba Women's Riot of 1929, where women protested against the introduction of direct taxation without adequate representation or consultation.³⁵

Following Nigeria's independence in 1960, the country's tax system was restructured to align with its economic and developmental goals.³⁶ Various tax laws were enacted, including the Companies Income Tax Act (CITA),³⁷ the Personal Income Tax Act (PITA),³⁸ and the Petroleum Profit Tax Act (PPTA).³⁹ These laws sought to establish a legal framework for revenue generation while ensuring fairness and efficiency in tax administration. However, the post-independence tax system faced several challenges, including inadequate enforcement mechanisms, low compliance rates, and widespread tax evasion.

A significant shift occurred with the introduction of the Value Added Tax (VAT)⁴⁰ in 1993, which replaced the previous sales tax system. VAT was introduced to broaden Nigeria's revenue base by taxing goods and services at multiple levels of production and consumption.⁴¹ Despite its potential benefits, VAT implementation faced resistance from businesses and state governments, particularly regarding revenue allocation and administration.

In recent years, Nigeria has undertaken several tax reforms aimed at modernising tax administration, improving compliance, and increasing revenue generation. The introduction

³⁴ Udoh Ogbonnaya, 'Federal Inland Revenue Service and Economic Development of Nigeria' African Journal of Politics and Administrative Studies (AJPAS) [2022] Vol.15 issue 1 p 49-63 Available online at <https://www.ajpasebsu.org.ng/> accessed March 5, 2025

³⁵ Okonjo, N., *Tax Reform and Governance in Nigeria: Strengthening Compliance through Legal and Administrative Measures*. [Lagos: Princeton Publishing 2019].

³⁶ Omoruyi, S.E., Growth and Flexibility of Federal Government Tax Revenue 1960 - 79. CBN Economic and Financial Review, (1983) vol.21 issue 1, p.11 - 19.

³⁷ Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria 2004.

³⁸ The Personal Income Tax Act, Cap. P8 Laws of the Federation of Nigeria, 2004.

³⁹ PETROLEUM PROFITS TAX ACT (PPTA) CAP P13 Laws of the Federation of Nigeria 2004.

⁴⁰ Value Added Tax Act, Cap. V1, Laws of the Federation of Nigeria, 2004.

⁴¹ Soyode, L. & Kajola, S. O., *Taxation Principles and Practice in Nigeria*. [Ibadan: Silicon Publishing, 2006]

of the Finance Act⁴² represents a major milestone in tax reform, addressing issues such as digital taxation, revision of tax thresholds, and the strengthening of enforcement mechanisms. The Finance Act seeks to harmonise tax policies across different levels of government and introduce technology-driven solutions for tax collection and administration.⁴³ According to Olaoye⁴⁴, these reforms have the potential to improve tax compliance and increase government revenue, but their success depends on the efficiency of implementation and the willingness of taxpayers to cooperate.

Despite these reforms, Nigeria's tax system continues to face several challenges. The prevalence of multiple taxation, where businesses and individuals are subjected to overlapping tax obligations by federal, state, and local governments, remains a significant issue.⁴⁵ Additionally, the informal sector, which constitutes a large portion of Nigeria's economy, remains largely untaxed due to weak enforcement mechanisms. There is also a persistent issue of corruption within tax administration, where tax officials engage in fraudulent practices, leading to revenue leakages.⁴⁶ Addressing these challenges requires a holistic approach that includes legal reforms, institutional strengthening, and increased public awareness about tax obligations.

The evolution of taxation in Nigeria highlights the dynamic nature of tax policies and the need for continuous reforms to ensure a fair and effective tax system. While historical developments have shaped the current tax framework, future policies must prioritise transparency, equity, and efficiency in tax administration. Strengthening the rule of law, improving taxpayer education, and leveraging technology for tax administration will be

⁴² Finance Act, 2023.

⁴³ Chikezie Paul-Mikki Ewim, 'A regulatory model for harmonizing tax collection across Nigerian states: The role of the joint tax board' *International Journal of Advanced Economics*, [2024] Volume 6, Issue 9, p. 457-470

⁴⁴ Olaoye, C. O., *Taxation and Revenue Generation: Issues and Challenges in Nigeria*. [Ibadan: University Press 2021].

⁴⁵ Chikezie Paul-Mikki Ewim (n.29).

⁴⁶ Mubaraq Sanni, 'tax fairness, perceived corruption and tax administration in nigeria' *Malet Journal of Accounting and Finance* [2022] Vol. 3 No. 2.

critical to enhancing compliance and fostering a more sustainable revenue system for national development.

2.2 Theoretical Framework

2.2.1 Legal Theories on Taxation and Governance

Taxation, as a fundamental component of governance, is underpinned by several legal and economic theories that justify its necessity, structure, and implementation.⁴⁷ These theories offer insights into the rationale for taxation, the obligations of individuals and businesses, and the role of the state in enforcing tax compliance. Among the most significant theories are the Ability-to-Pay Theory, the Benefit Theory, the Socio-Political Theory, and the Expediency Theory.⁴⁸

- **Ability to Pay Theory**

The Ability-to-Pay Theory argues that taxation should be levied based on an individual's or entity's financial capacity.⁴⁹ This principle, which has been championed by economists such as Adam Smith and John Stuart Mill, forms the basis for progressive taxation systems, where higher-income earners contribute a larger proportion of their earnings to government revenue.⁵⁰ The theory aligns with the concept of equity in taxation, ensuring that those with greater financial resources bear a higher tax burden. This principle is evident in Nigeria's tax system, particularly in the Personal Income Tax Act (PITA), which applies graduated tax rates to different income brackets. However, critics argue that the ability-to-pay approach can

⁴⁷ Seriah, Boluwatife, 'A Literature Review of Three Applicable Theories to Taxation; the Ability to Pay Theory, the Benefit Theory and the Neutrality Theory' (April 19, 2024). Available at SSRN <http://dx.doi.org/10.2139/ssrn.4800892>

⁴⁸ Jeremy Bearer-Friend, 'Taxation and Law and Political Economy' Ohio State Law Journal [2022] Vol. 83 issue 3.

⁴⁹ Boštjan Koritnik, 'The Ability-to-Pay Principle as a Primarily Constitutional Basis for Tax Norms of a Financial Nature' https://www.researchgate.net/publication/319955126_The_Ability-to-Pay_Principle_as_a_Primarily_Constitutional_Basis_for_Tax_Norms_of_a_Financial_Nature accessed march 9 2025.

⁵⁰ Nikolaos Papanikolaou, 'Tax Progressivity of Personal Wages and Income Inequality' <https://doi.org/10.3390/jrfm14020060> accessed March 9, 2025

discourage investment and productivity, particularly if high tax rates disincentivise economic participation.⁵¹

- **Benefit Theory**

The Benefit Theory, on the other hand, posits that taxation should be proportional to the benefits received by taxpayers. This theory suggests that individuals and businesses should contribute to government revenue in direct proportion to the public goods and services they utilise.⁵² A clear example of this is the taxation of road users through tolls or levies imposed on businesses benefiting from specific infrastructure developments. While the benefit theory provides a logical basis for taxation, its application in Nigeria is often inconsistent due to governance challenges and misallocation of public funds.⁵³ Many taxpayers do not perceive a direct correlation between their tax payments and government services, leading to widespread tax evasion and low compliance rates.

- **Socio-Political Theory of Taxation**

The Socio-Political Theory of Taxation extends beyond economic justifications, arguing that taxation serves as an instrument for wealth redistribution and social justice.⁵⁴ This perspective aligns with the principles of modern welfare states, where tax revenues are used to fund social programmes, healthcare, and education for the less privileged.⁵⁵ Nigeria's tax system incorporates elements of this theory through various fiscal policies aimed at promoting economic inclusivity, such as tax exemptions for small businesses and incentives for industries that contribute to national development.⁵⁶ However, the effectiveness of these

⁵¹ Zakariya'u Gurama, 'Tax Evasion and Nigeria Tax System: An Overview' Research Journal of Finance and Accounting [2015] Vol.6, No.8.

⁵² Ira K. Lindsay, 'Benefits Theories of Tax Fairness,' in Studies in Tax Law History, Volume 9, Peter Harris & Dominic de Cogan, eds., (Hart Publishing, 2019)., Available at SSRN: <https://ssrn.com/abstract=3548057>

⁵³ Seriah, Boluwatife, 'A Literature Review of Three Applicable Theories to Taxation; the Ability to Pay Theory, the Benefit Theory and the Neutrality Theory' (April 19, 2024). Available at SSRN: <http://dx.doi.org/10.2139/ssrn.4800892>

⁵⁴ Richard W. Tresch, *Theory of Taxation* (Third Edition, Public Finance 2015)

⁵⁵ Ibid.

⁵⁶ Aliyu, Abubakar Biliksu and Mustapha, "Impact of tax revenue on economic growth in Nigeria (1981-2017)," Bullion: (2020) Vol. 44 issue 4, Article 5. Available at: <https://dc.cbn.gov.ng/bullion/vol44/iss4/5>

policies is often undermined by corruption, weak enforcement, and administrative inefficiencies.

- **Expediency Theory**

The Expediency Theory suggests that taxation should be based on practical considerations rather than strict theoretical frameworks.⁵⁷ According to this theory, governments impose taxes in ways that are administratively convenient and politically feasible. This approach is evident in Nigeria's frequent tax policy changes, which are often driven by short-term revenue needs rather than long-term economic planning.⁵⁸ While expediency is necessary to address immediate fiscal challenges, reliance on ad hoc tax policies can create uncertainty for businesses and investors, ultimately undermining economic stability.

These legal theories provide a foundation for understanding the rationale behind taxation and its implications for governance. A well-balanced tax system must incorporate elements of all these theories, ensuring fairness, efficiency, and sustainability in revenue generation. In Nigeria, aligning tax policies with these theoretical principles remains a major challenge due to enforcement gaps, governance deficiencies, and public distrust in the tax administration system.

2.2.2 Principles of the Rule of Law in Taxation

The rule of law is a fundamental principle that ensures legal certainty, equality before the law, and the prevention of arbitrary governance.⁵⁹ In the context of taxation, the rule of law guarantees that tax policies are formulated and implemented within a clear legal framework, thereby protecting taxpayers from unlawful or discriminatory taxation.⁶⁰ Several key

⁵⁷ E.E. Chigbu and Akujuobi, 'An Empirical Study on the Causality between Economic Growth and Taxation in Nigeria' *Current Research Journal of Economic Theory* [2012] vol.4 issue 2 p. 29-38.

⁵⁸ Ayokunle Olumide Odusina, 'Taxation and Revenue Generation in South-Western Nigeria' *Federal University Otuoke Journal of Management Sciences* [2023] Volume 7, No.2. p 85-95.

⁵⁹ Geoffrey de Q. Walker, *The rule of law: foundation of constitutional democracy*, (1st Ed., 1988).

⁶⁰ *Ibid.*

principles underpin the rule of law in taxation, including legality, certainty, neutrality, and fairness.

- **Principle of Legality**

The principle of legality asserts that taxation must be grounded in clear legal authority.⁶¹ This means that no tax can be levied, increased, or abolished without statutory backing. In Nigeria, this principle is upheld through tax legislation such as the Companies Income Tax Act (CITA), the Personal Income Tax Act (PITA), and the Petroleum Profit Tax Act (PPTA). These laws establish the framework for tax collection, ensuring that revenue authorities do not exercise arbitrary powers.⁶² However, challenges persist in enforcing this principle due to frequent amendments to tax laws, inconsistent judicial interpretations, and administrative inefficiencies.

- **Principle of Certainty**

The principle of certainty ensures that taxpayers have a clear understanding of their obligations, including the amount payable, the due dates, and the consequences of non-compliance.⁶³ Certainty in taxation is crucial for economic planning, as individuals and businesses require predictable tax policies to make informed financial decisions.⁶⁴ In Nigeria, uncertainty in tax laws has been a major issue, particularly with frequent changes in VAT rates and the introduction of new levies without adequate public awareness.⁶⁵ Unclear tax policies contribute to disputes between taxpayers and the government, often resulting in prolonged litigation and loss of revenue.

⁶¹ Dargie, Alekaw Assefa, 'Legality Principle of Taxation in Ethiopia: At the State of Porosity or its Non-Existent from Inception?' (2016). Available at SSRN: <http://dx.doi.org/10.2139/ssrn.2733017>

⁶² Odusola, Ayodele, 'Tax policy reforms in Nigeria'(2006) WIDER Research Paper, No. 2006/03, ISBN 9291907677, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki available at: <https://hdl.handle.net/10419/63285>

⁶³ Alexander V. Demin,'Certainty and Uncertainty in Tax Law: Do Opposites Attract?' <https://www.mdpi.com/2075-471X/9/4/30> accessed March 13 2025.

⁶⁴ Ibid.

⁶⁵ Omesi, Israe,'Tax Reforms in Nigeria: Case for Value Added Tax (VAT)' AFRREV, [2015] VOL. 9(4), S/NO 39. Available at <http://dx.doi.org/10.4314/afrev.v9i4.21>

- **Principle of Neutrality**

The principle of neutrality demands that tax policies should not unfairly favour or disadvantage specific individuals, industries, or economic sectors.⁶⁶ A neutral tax system ensures that taxation does not distort market competition or economic behaviour. In Nigeria, however, neutrality is often compromised due to tax incentives that disproportionately benefit multinational corporations at the expense of small and medium enterprises (SMEs).⁶⁷ Additionally, inconsistencies in tax enforcement across different states create an uneven playing field for businesses, undermining economic growth and investment.⁶⁸

- **Principle of Fairness**

The principle of fairness is perhaps the most critical aspect of taxation under the rule of law. Fairness requires that tax policies do not place an undue burden on specific groups, ensuring that the tax system is equitable and just.⁶⁹ Progressive taxation, which levies higher rates on high-income earners, is an example of fairness in taxation. However, Nigeria's tax system has often been criticised for being regressive, as the burden of indirect taxes such as VAT disproportionately affects lower-income individuals.⁷⁰ Moreover, the lack of transparency in tax administration, coupled with issues of corruption, undermines public trust and willingness to comply with tax laws.⁷¹

In ensuring compliance with the rule of law, Nigeria must strengthen its tax institutions, enhance judicial oversight, and promote greater transparency in tax administration. The use of digital tax platforms, as introduced by the Federal Inland Revenue Service (FIRS), is a step

⁶⁶ Ricardo de Moraes E Soares, 'The neutrality principle and the economic efficiency of tax policy: an exploratory study of the legal-economic approach' *Management and Administrative Professional Review* [2023] vol.14 issue 10, p.18512-18529.

⁶⁷ Abdul, Z.H., Aruwa, S.A.S., & ADAMU, 'Tax Incentives and Entrepreneurship in Nigeria' *Journal of Taxation and Economic Development*, Chartered Institute of Taxation (2018)17(1) 179 – 188.

⁶⁸ Owa John T, 'Effect of Tax Evasion and Avoidance on Economic Development of Grassroots in Nigeria' *Journal of Policy and Development Studies (JPDS)* [2023] Vol. 14. Issue 2.

⁶⁹ Brian Galle, 'Tax Fairness' <https://scholarship.law.georgetown.edu/facpub/1827> accessed March 11 2025.

⁷⁰ Agbede, Fopefoluwa Gabriel, Over-Taxed, Under-Served: The Consequences of Over-Taxation in Nigeria. Available at SSRN:<http://dx.doi.org/10.2139/ssrn.5118756> accessed March 12 2025.

⁷¹ Ibid.

towards improving efficiency and reducing corruption.⁷² However, achieving full compliance with the rule of law in taxation requires a holistic approach, including taxpayer education, legal reforms, and the elimination of discretionary tax policies.

2.3 LITERATURE REVIEW

The taxation system plays a crucial role in governance, economic development, and wealth distribution. Scholars have extensively examined taxation and the rule of law, highlighting their interplay in ensuring compliance, economic efficiency, and social equity. Adam Smith,⁷³ in *The Wealth of Nations*, outlined four key principles of taxation equity, certainty, convenience, and efficiency arguing that a well-structured tax system must be fair, predictable, easy to comply with, and cost-effective in administration. These principles remain relevant in contemporary discussions on tax reform, particularly in developing economies like Nigeria, where inefficiencies in tax administration persist.⁷⁴

The relationship between taxation and the rule of law has been explored by several scholars. Dicey⁷⁵ emphasised the supremacy of the law, asserting that tax policies must be based on legal authority rather than arbitrary government actions. This perspective aligns with Nigerian tax legislation, where statutes such as the Companies Income Tax Act (CITA) and Personal Income Tax Act (PITA) govern tax imposition. However, studies indicate that weak enforcement mechanisms and corruption undermine the effectiveness of these laws.⁷⁶ According to Ojo,⁷⁷ the legal and institutional framework for tax enforcement and their application to tax practice is as inequation for effective tax administration. He also examined

⁷² Nairametrics, 'FIRS collaborates with Flutterwave for digital payment collection' <https://nairametrics.com/2025/03/20/firs-collaborates-with-flutterwave-for-digital-payment-collection/> accessed March 12 2025.

⁷³ Smith, A. (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: Strahan & Cadell.

⁷⁴ Olaoye, C. O., *Taxation and Revenue Generation: Issues and Challenges in Nigeria*. [University Press, Ibadan 2021].

⁷⁵ Dicey, A. V., *Introduction to the Study of the Law of the Constitution*. [Macmillan London, 1885].

⁷⁶ Adekanbi, J. O., *Challenges of Tax Compliance in Developing Economies: A Nigerian Perspective*. [Legal & Fiscal Studies Institute, Abuja 2020].

⁷⁷ Ojo, S., *Fundamental Principles of Taxation in Nigeria*, [Sagribra Tax Publications, Lagos-Nigeria 2003].

several mechanisms employed by the tax administrators in enforcement and recovery of tax in Nigeria, amongst which are distress, litigation, use of tax clearance certificate, monetary penalties and criminal prosecution and search and seize. Although Ojo,⁷⁸ discusses tax from the accounting perspective, his work contains issues of relevance to the law. His work, however, examines the basic principles of taxation in Nigeria amongst which includes various tax laws e.g. Value Added Tax (VAT),⁷⁹ Stamp Duties Act, Petroleum Profit Tax, Personal Income Tax, Capital Gain Tax, taxation of companies, partnership assessment, taxation of non-residents, and administration of tax in Nigeria as well as the management of taxation in Nigeria. Some of the topics in his work made a lot of references and quotations from the existing laws as at that time and these laws have been amended. For example, the former administrative machinery, which was the Federal Board of Inland Revenue (FBIR), has now been replaced with the FIRS and also the composition of each of these machineries has also been changed. Abdulrazaq's work titled: 'Tax laws and foreign investment in Nigeria'⁸⁰, is also relevant. He postulates that Nigerian tax statutes requires serious amendments to suit changing times, but he did not analyse the Nigerian national tax policy at all.⁸¹ Umenweke's work titled: 'Impact of tax statutes on investment in Nigeria'⁸² is also relevant to this work. In this book, the writer presented a clear picture on Nigerian tax laws and its implication on foreign investment in Nigeria.⁸³ Several studies have examined tax compliance in Nigeria, revealing that factors such as perceived fairness, trust in government, and economic conditions significantly influence taxpayers' willingness to comply.⁸⁴ Despite

⁷⁸ Ibid.

⁷⁹ Philips, D. (2004) Nigerian Tax System: Which Way Forward? A paper presented at the 6th Annual Tax conference of the chartered Institute of taxation in Nigeria, held at Abuja, on May 13, p. 1. conference of the chartered Institute of taxation in Nigeria, held at Abuja, on May 13, p. 1.

⁸⁰ Tax laws and foreign investment in Nigeria [Malthouse Publications Ltd Lagos, 2005] p12-16

⁸¹ Ibid. p.26.

⁸² Impact of tax statutes on investment in Nigeria [Nolix Educational Publication Ltd Enugu, 2008] p40-56

⁸³ Ibid. p.60.

⁸⁴ Alm, J. & Torgler, B., 'Culture differences and tax morale in the United States and Europe.' Journal of Economic Psychology, (2006) 27(2), p. 224–246.

recent tax reforms, the informal sector remains largely untaxed, posing challenges for revenue generation.⁸⁵

In light of these findings, scholars advocate for legal reforms, technology driven tax administration, and improved transparency to strengthen tax compliance and governance.⁸⁶

As Nigeria continues to reform its tax framework, ensuring adherence to the rule of law remains essential in fostering a just and efficient taxation system.

⁸⁵ Soyode, L. & Kajola, S. O., *Taxation Principles and Practice in Nigeria*. (Silicon Publishing, Ibadan 2006).

⁸⁶ Okonjo, N., *Tax Reform and Governance in Nigeria: Strengthening Compliance through Legal and Administrative Measures*. [Princeton Publishing, Lagos 2019].

CHAPTER THREE

LEGAL AND INSTITUTIONAL FRAMEWORK FOR TAXATION IN NIGERIA

3.1 INTRODUCTION

Taxation is a fundamental aspect of governance and serves as a primary source of government revenue essential for national development. It enables governments to fund public services, infrastructure, and social welfare programmes.⁸⁷ The effectiveness of taxation is contingent on a robust legal and institutional framework that ensures compliance, fairness, and efficiency in tax administration. In Nigeria, the legal and institutional structure governing taxation is underpinned by constitutional provisions, statutory laws, and administrative agencies responsible for tax collection and enforcement. These frameworks provide the legal basis for imposing and regulating taxes at the federal, state, and local government levels.

However, the effectiveness of tax administration is often impeded by various challenges, including tax evasion, administrative inefficiencies, and jurisdictional conflicts between different levels of government. Additionally, corruption, lack of public awareness, and multiple taxation further complicate tax enforcement.⁸⁸ Understanding the legal and institutional framework is crucial for evaluating the strengths and weaknesses of Nigeria's tax system. This chapter examines Nigeria's tax laws, regulatory bodies, and enforcement mechanisms, providing an in-depth analysis of how these institutions function, the roles of tax authorities, and the challenges that hinder effective tax administration in the country.

3.2 OVERVIEW OF NIGERIA'S TAX LAWS AND REGULATORY FRAMEWORK

Taxation in Nigeria operates under a multifaceted legal and regulatory framework that governs tax assessment, collection, and enforcement. The legal basis for taxation is derived from constitutional provisions, statutory laws, subsidiary legislation, international treaties,

⁸⁷ Efuntade, Alani Olusegun, 'Tax Revenue and its Effect On Government Revenue and Expenditure' The International Journal of Business & Management [2020] Vol 8. Issue 9. ISSN 2321-8916

⁸⁸ Umenweke. 'Tax Avoidance and Evasion In Nigeria: A Critical Examination of The Legal Framework' Naujopl [2024] 1 (1).

and judicial decisions. These instruments collectively ensure the efficiency, fairness, and legality of tax administration. Below is a detailed analysis of the major tax laws and regulatory instruments that guide Nigeria's tax system.

3.2.1 The Constitution of the Federal Republic of Nigeria, 1999 (as amended)⁸⁹

The Constitution of the Federal Republic of Nigeria, 1999 (as amended) serves as the fundamental legal authority governing taxation in Nigeria.⁹⁰ It provides the framework for allocating taxing powers among the three tiers of government federal, state, and local ensuring an organised and efficient tax system. The constitutional provisions on taxation are designed to prevent jurisdictional conflicts, promote fairness, and uphold the principles of legality and accountability in tax administration. By clearly defining tax responsibilities, the Constitution ensures that revenue collection is structured, reducing the risk of arbitrary taxation and excessive fiscal burdens on individuals and businesses.⁹¹

Taxing powers are categorised under two primary legislative lists contained in the Second Schedule of the Constitution: the Exclusive Legislative List and the Concurrent Legislative List. The Exclusive Legislative List, found in Part I of the Schedule, grants the National Assembly exclusive authority to legislate on taxes such as companies' income tax, customs and excise duties, value-added tax (VAT), and stamp duties.⁹² These taxes fall under the purview of the Federal Inland Revenue Service (FIRS), which administers them on behalf of the federal government. This ensures uniform tax policies and centralised administration of key revenue sources critical to national development.⁹³ Conversely, the Concurrent Legislative List allows both the federal and state governments to impose and regulate specific

⁸⁹ Constitution of the Federal Republic of Nigeria, 1999 as Amended.

⁹⁰ Kolawole Oyekan, *'the 1999 constitution and the allocation of taxing powers: where lies the principle of fiscal federalism?'* Nnamdi Azikiwe University Journal of Commercial and Property Law [2020] Vol. 7(1).

⁹¹ Ibid.

⁹² Aladekomo A.S., 'Division Of Taxing Powers In The Federation Of Nigeria', <https://doi.org/10.53982/Apblj.2019.0301.03>, Accessed March 15 2025.

⁹³ Emmanuel Utebor, Bolarinwa Lebile, 'Examining The Conflict Between The Federal And State Governments of Nigeria In The Administration Of The Value Added Tax Act' <https://doi.org/10.53982/Apblj.2019.0301.03-J> accessed 15 March 2025.

taxes, such as personal income tax. However, where a conflict arises between federal and state tax laws, the Constitution mandates that federal legislation takes precedence.⁹⁴ This supremacy of federal tax laws prevents inconsistencies and ensures nationwide coherence in tax administration. Additionally, the Fourth Schedule of the Constitution outlines the taxation responsibilities of local governments, granting them the power to collect tenement rates, market taxes, licensing fees, and other local levies.⁹⁵ This decentralisation of tax collection allows local governments to generate revenue for grassroots development while ensuring that taxation remains within legally defined limits. By structuring tax powers across different levels of government, the Constitution promotes fiscal responsibility, prevents excessive taxation, and maintains administrative efficiency within Nigeria's tax system.

3.2.2 The Personal Income Tax Act (PITA)

The Personal Income Tax Act (PITA)⁹⁶ is the primary legislation governing individual taxation in Nigeria. It applies to all employees, sole proprietors, business partners, and self-employed individuals earning income within the country. Unlike corporate taxation, which falls under federal jurisdiction, personal income tax is mainly administered by the State Boards of Internal Revenue (SBIRs) within each state.⁹⁷ However, taxation for individuals in the military, police, foreign service, and residents of the Federal Capital Territory (FCT) falls under the jurisdiction of the Federal Inland Revenue Service (FIRS).⁹⁸

A key feature of PITA is its progressive tax system, which ensures that individuals are taxed based on their income levels. The tax rates range from 7% to 24%, with higher earners paying

⁹⁴ Kolawole Oyekan, 'THE 1999 CONSTITUTION AND THE ALLOCATION OF TAXING POWERS: WHERE LIES THE PRINCIPLE OF FISCAL FEDERALISM?' Nnamdi Azikiwe University Journal of Commercial and Property Law [2020] Vol. 7(1).

⁹⁵ Akanle O, *The Government, The Constitution and the People* In Akanle O. (Ed.) Tax Law And Tax Administration In Nigeria (Lagos, Nigerian Institute Of Advanced Legal Studies, 1991).

⁹⁶ PERSONAL INCOME TAX ACT, CAP. P8 LAWS OF THE FEDERATION OF NIGERIA, 2004.

⁹⁷ KSIRS, 'Tax Administration' <https://irs.kt.gov.ng/Tax-Information/Tax-Administration.Php> accessed 17 march 2025.

⁹⁸ Ierkwagh, Kwaghkehe, 'The Role Of The Nigerian Courts In Tax Administration: An Appraisal' <https://www.bsum.edu.ng/W3/Files/Lawjournal/Vol8n1/Article5.Pdf> accessed 17 march 2025.

a higher percentage of their income.⁹⁹ This structure aims to promote tax equity by preventing undue burdens on low-income earners while ensuring that high earners contribute more to government revenue.

PITA also provides various allowable deductions¹⁰⁰ and tax reliefs¹⁰¹, including pension contributions, life insurance premiums, and mortgage interest payments, which help to reduce taxable income.¹⁰² Additionally, certain income categories, such as gratuities and interest on government securities, may be exempt from taxation.¹⁰³ These provisions encourage savings, investment, and long-term financial security among taxpayers.

To ensure compliance, PITA imposes strict penalties for tax evasion, failure to file tax returns, and underreporting of income.¹⁰⁴ Individuals who fail to comply may face monetary fines, interest on outstanding taxes, and legal prosecution.¹⁰⁵ The Act also mandates that employers deduct Pay-As-You-Earn (PAYE)¹⁰⁶ tax from employees' salaries and remit it to the appropriate tax authority.¹⁰⁷

By regulating individual taxation, PITA ensures that tax revenues are equitably distributed among the states, contributing to national development. However, challenges such as low compliance rates, tax avoidance, and inefficient tax administration continue to affect its effectiveness.¹⁰⁸ There have been ongoing calls for tax reforms, including the expansion of the tax net to capture the informal sector, which constitutes a significant portion of Nigeria's workforce.

⁹⁹ Yemi, O,' Types Of Taxes In Nigeria' <https://Risevest.Com/Blog/Types-Of-Taxes-In-Nigeria> accessed 19 march 2025.

¹⁰⁰ PITA, S.20.

¹⁰¹ PITA, S.33.

¹⁰² Ibid.

¹⁰³ Ibid.

¹⁰⁴ PITA. s.76.

¹⁰⁵ O. Atoyebi,' An Examination Of The Legal Framework Against Tax Fraud In Nigeria' <https://Omaplex.Com.Ng/An-Examination-Of-The-Legal-Framework-Against-Tax-Fraud-In-Nigeria/> accessed 19 march 2025.

¹⁰⁶ PITA. s.81.

¹⁰⁷ Adekoya, A. Augustine, Oyebamiji, T. Adewale, Lawal, A. Babatunde, "Forensic Accounting, Tax Fraud And Tax Evasion In Nigeria – Review Of Literatures And Matter For Policy": International Journal Of Emerging Trends In Social Sciences': Consideration Vol. 9, No. 1, Pp. 21-28, 2020.

¹⁰⁸ Ibid.

PITA remains an essential instrument for government revenue generation, wealth redistribution, and economic development, ensuring that individuals contribute their fair share towards national progress.

3.2.3 The Companies Income Tax Act (CITA)

The Companies Income Tax Act (CITA)¹⁰⁹ serves as the primary legislation governing corporate taxation in Nigeria. It provides the legal framework for the assessment, computation, and collection of companies' income tax (CIT), which is a vital source of government revenue. The Act applies to all resident and non-resident companies deriving income from Nigeria, except for those engaged in petroleum operations, which are subject to taxation under the Petroleum Profits Tax Act (PPTA).¹¹⁰ By defining the tax obligations of companies operating in Nigeria, CITA ensures that corporate entities contribute to national development while promoting a structured and transparent tax system.¹¹¹

One of the key provisions of CITA is the differentiation of corporate tax rates based on company size, a policy aimed at fostering economic growth and supporting businesses of varying capacities.¹¹² Large companies, with an annual turnover exceeding N100 million, are subject to a 30% tax rate, while medium-sized companies, with a turnover between N25 million and N100 million, are taxed at a 20% rate.¹¹³ The Act also provides for the Tax Identification number of all company in Nigeria.¹¹⁴ To encourage the growth of small businesses, companies with a turnover below N25 million enjoy a 0% tax rate, ensuring that emerging enterprises are not unduly burdened with tax obligations at an early stage. This

¹⁰⁹ Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria 2004.

¹¹⁰ CITA. s.9.

¹¹¹ Olokooba S.M., 'Nigerian Taxation Law, Practice And Procedure Simplified' (Singapore, Springer Nature Singapore Pte Ltd. 2019)

¹¹² Pwc, 'Corporate - Taxes on corporate income, <https://taxsummaries.pwc.com/nigeria/corporate/taxes-on-corporate-income> accessed 21 march 2025.

¹¹³ Nigeria Economics 'Nigeria Corporate Tax Rate' <https://Tradingeconomics.Com/Nigeria/Corporate-Tax-Rate> accessed 21 march 2025.

¹¹⁴ CITA. s.10.

progressive tax structure promotes entrepreneurship, job creation, and business expansion, ultimately contributing to economic stability.

CITA also provides detailed guidelines for computing taxable profits,¹¹⁵ ensuring that businesses have clarity on their tax liabilities.¹¹⁶ The Act permits various deductions, exemptions, and incentives, such as capital allowances, investment tax credits, and pioneer status relief.¹¹⁷ These provisions serve as incentives to attract investment, stimulate industrial growth, and encourage companies to reinvest in their operations. Through such tax incentives, the government fosters a business-friendly environment, positioning Nigeria as an attractive destination for both local and foreign investors.¹¹⁸ The Federal Inland Revenue Service (FIRS) is the regulatory body responsible for administering and enforcing CITA.¹¹⁹ FIRS oversees tax assessments, audits, collection, and compliance monitoring to ensure that businesses meet their tax obligations. Companies are required to file annual tax returns, and failure to comply with CITA's provisions attracts penalties,¹²⁰ interest charges, and possible legal action.¹²¹ By maintaining strict compliance measures, FIRS enhances tax transparency and efficiency, ensuring that corporate entities contribute fairly to national revenue.

Ultimately, CITA plays a crucial role in Nigeria's tax system and economic sustainability. By balancing revenue generation with investment incentives, the Act ensures that businesses contribute fairly to national development while fostering a conducive environment for economic growth. Through a well-structured tax framework, CITA strengthens Nigeria's fiscal policies and supports long-term economic prosperity.

¹¹⁵ Ibid. s.23.

¹¹⁶ Olumide K. Obayemi' *Competition In The Nigerian Telecommunications Industry*' Beijing Law Review, Vol.5 No.4, December 26, 2014.

¹¹⁷ Second Schedule to the CITA.

¹¹⁸ Third Schedule (pursuant to Section 11) to the CITA.

¹¹⁹ CITA, s.30.

¹²⁰ Ibid. s.82.

¹²¹ Pwc,' It's Tax Filing Season: What You Need To Know' https://Pwcnigeria.Typepad.Com/Tax_Matters_Nigeria/2022/03/Its-Tax-Filing-Season-What-You-Need-To-Know.Html accessed 23 march 2025.

3.2.4 The Value Added Tax Act (VATA)

The Value Added Tax Act (VATA)¹²² establishes the legal foundation for the administration of Value Added Tax (VAT) in Nigeria. VAT is a consumption-based tax levied on the supply of goods and services, ensuring that the government generates revenue from economic activities.¹²³ Unlike income tax, which is deducted from an individual's or business's earnings, VAT is an indirect tax included in the price of taxable goods and services, making it ultimately payable by consumers.¹²⁴ The current VAT rate in Nigeria stands at 7.5%, following an increase from 5%¹²⁵ in 2020, a move aimed at boosting government revenue for national development.¹²⁶ As a consumption tax, VAT ensures that revenue generation is spread across economic activities rather than being dependent solely on income taxation. VATA provides clear guidelines for the administration and collection of VAT,¹²⁷ ensuring compliance among businesses and taxpayers.¹²⁸ The Act mandates that businesses with an annual turnover of N25 million or more must register for VAT and collect it on behalf of the government.¹²⁹ Businesses with lower turnover are exempt from VAT registration to reduce their tax burden and encourage small business growth. VAT applies to most goods and services, except those explicitly exempted by law. To protect low-income consumers and essential sectors, VATA exempts basic food items, medical services, educational services, and pharmaceuticals from VAT.¹³⁰ Additionally, zero-rated goods and services, particularly exports, are taxed at a 0% VAT rate to encourage international trade and improve Nigeria's

¹²² Value Added Tax (VAT) Act, Cap V1, LFN 2004.

¹²³ Ibid. s.2.

¹²⁴ Ibid. s.12.

¹²⁵ Ibid. s.4.

¹²⁶ Oluwatosin Ogunjuyigbe.' National Assembly Considers Bill Seeking To Increase VAT From 7.5% To 10% By 2025' <https://Businessday.Ng/Business-Economy/Article/National-Assembly-Considers-Bill-Seeking-To-Increase-Vat-From-7-5-To-10-By-2025/> Accessed 24 march 2025.

¹²⁷ VATA, s.7

¹²⁸ VATA, s.14.

¹²⁹ BRC,' Value Added Tax In Nigeria: A Beginner's Guide' <https://www.bomesresourcesconsulting.com/value-added-tax-nigeria-guide.html> Accessed 24 march 2025.

¹³⁰ S. Oloruntimileyin,' Goods And Services Exempted From Value Added Tax (VAT) In Nigeria' <https://www.soloruntimehin.com/wp-content/uploads/2020/11/Goods-And-Services.pdf> accessed 27 march 2025.

global economic competitiveness.¹³¹ Through these provisions, the VAT system aims to balance revenue generation with social welfare considerations.

The remittance of VAT is a key aspect of its administration.¹³² Registered businesses act as collecting agents for the Federal Inland Revenue Service (FIRS) and are responsible for remitting the VAT they collect from consumers to the government.¹³³ This ensures a structured approach to revenue collection and enables the government to use VAT proceeds for essential public expenditures. However, VAT administration in Nigeria has been a subject of legal and constitutional disputes, particularly concerning which level of government has the right to collect VAT. Some states argue that VAT collection should be under their jurisdiction rather than the federal government's control, citing constitutional provisions on tax powers.¹³⁴ This has led to ongoing litigation, with some states enacting their own VAT laws to assert control over tax revenues generated within their territories.¹³⁵ The controversy over VAT collection and revenue sharing raises broader issues of fiscal federalism and the need for a clearer legal framework for tax administration in Nigeria. Some stakeholders advocate for a review of VATA, arguing that states should have the autonomy to administer VAT within their jurisdictions rather than relying on federal remittance.¹³⁶ This debate reflects deeper concerns about revenue allocation, economic independence for states, and efficient tax governance. A well-structured tax framework that clarifies VAT administration responsibilities could help address these conflicts and promote a more stable fiscal system.

¹³¹ Ibid.

¹³² VATA, s.16.

¹³³ Adekoya, A. Augustine, Oyebamiji, T. Adewale, Lawal, A. Babatunde, "Forensic Accounting, Tax Fraud And Tax Evasion In Nigeria – Review Of Literatures And Matter For Policy": International Journal Of Emerging Trends In Social Sciences': Consideration [2020] Vol. 9, No. 1, p. 21-28.

¹³⁴ Kreston Pedabo, 'Administration of value added tax (vat) in Nigeria: federal high court decides' <https://Krestonpedabo.Com/Administration-Of-Value-Added-Tax-Vat-In-Nigeria-Federal-High-Court-Decides/>

¹³⁵ In 2009, The Lagos State House Of Assembly Enacted The Hotel Occupancy And Restaurant Consumption Tax Law Cap H8, Laws Of Lagos State 2015.

¹³⁶ Aradhana Gole, 'Tax Reform Bill To Shake-Up VAT Revenue Split Between Regions' <https://www.vatcalc.com/Nigeria/Nigeria-Reforms-Vat-Revenue-Distribution/> accessed 27 march 2027.

Despite the challenges associated with VAT administration, VAT remains a crucial revenue source for Nigeria. The tax helps fund key government expenditures, including infrastructure projects, healthcare, and education, playing a vital role in economic development.¹³⁷ Ensuring efficient VAT administration and compliance is essential for achieving sustainable economic growth, improved public services, and greater financial autonomy for government institutions. With ongoing debates over tax jurisdiction, a harmonised approach to VAT administration will be necessary to maintain stability, enhance tax collection efficiency, and ensure that the revenue generated continues to support national development.

3.2.5 The Federal Inland Revenue Service (Establishment) Act

The Federal Inland Revenue Service (Establishment) Act¹³⁸ provides the legal foundation for the Federal Inland Revenue Service (FIRS), which is the principal federal tax authority in Nigeria. This Act establishes the powers, functions, and responsibilities of the FIRS in tax administration, ensuring effective tax collection and enforcement at the federal level.¹³⁹

Under this Act, the FIRS is empowered to:

Assess, collect, and enforce the payment of federal taxes, including corporate income tax, petroleum profits tax, value-added tax, and other levies under its jurisdiction.¹⁴⁰

Conduct tax audits and investigations to ensure that companies and individuals comply with their tax obligations and report their earnings accurately.¹⁴¹

Prosecute tax offenders and impose penalties for offences such as tax evasion, false declarations, and non-remittance of collected taxes.¹⁴²

¹³⁷ Efuntade, A.O., 'Value Added Tax And Its Effect On Revenue Generation In Nigeria' *KIU Interdisciplinary Journal Of Humanities And Social Sciences*, (2020) 1(2), p.353-369.

¹³⁸ Federal Inland Revenue Service (Establishment) Act 2007 No. 13. A199.

¹³⁹ DS Ochenchi & AD Kuzhe: A Review Of The Powers Of The Federal Inland Revenue Service Vis-À-Vis Rights To Privacy And Information, *Kampala International University Law Journal (KIULJ)* [2024] Vol. 6, Issue I. Pp 208 – 220.

¹⁴⁰ FIRS Act, s.8(b).

¹⁴¹ *Ibid.* s.8(e).

¹⁴² *Ibid.* s.8(h).

Maintain tax records and provide advisory services to the government on tax policies, reforms, and strategies to improve revenue generation.¹⁴³

A key feature of the Act is that it grants the FIRS extensive enforcement powers to enhance tax compliance. For instance, the agency has the legal authority to freeze bank accounts, seal business premises, and recover unpaid taxes through court orders.¹⁴⁴ These enforcement mechanisms help to curb tax evasion and ensure that taxpayers fulfil their obligations.

The FIRS also plays a crucial role in tax education and awareness, engaging in public enlightenment campaigns to inform individuals and businesses about tax laws, benefits, and compliance procedures.¹⁴⁵ This function is essential in addressing issues of low tax compliance and widespread ignorance about tax obligations.

Furthermore, the Act establishes provisions for the Tax Appeal Tribunal (TAT), which provides an avenue for resolving tax disputes between taxpayers and tax authorities.¹⁴⁶ This ensures that tax administration in Nigeria is conducted in a fair, transparent, and legally compliant manner.

Overall, the Federal Inland Revenue Service (Establishment) Act is vital for ensuring an efficient and sustainable tax system in Nigeria, strengthening the federal government's capacity to mobilise revenue for national development.

3.2.6 The Petroleum Profits Tax Act (PPTA)

The Petroleum Profits Tax Act (PPTA)¹⁴⁷ regulates the taxation of companies involved in petroleum exploration, production, and sales. Given that the oil and gas sector remains a dominant force in Nigeria's economy, the taxation of petroleum profits is a major revenue

¹⁴³ Ibid. s.8(i).

¹⁴⁴ Ibid. s.8(p).

¹⁴⁵ Innocent Jooji, Margaret Oyekan, 'The Federal Inland Revenue Service (FIRS), Tax Compliance And The Fight Against Corruption In Nigeria' International Journal Of Professional Business Review 2023 Vol.8 Issue 9.

¹⁴⁶ FIRS Act, s.59.

¹⁴⁷ PETROLEUM PROFITS TAX ACT (PPTA) CAP P13 LFN 2004.

source for the government.¹⁴⁸ The PPTA ensures that oil companies contribute a fair share of their profits to national development while also providing incentives and deductions to encourage investment in the sector. The Act prescribes a graduated tax rate for petroleum companies, as follows: 85% for established companies engaged in petroleum operations.¹⁴⁹ 65.75% for new companies during their first five years of operation, to encourage investment in the industry.¹⁵⁰ The PPTA also outlines deductions and incentives available to oil companies, including: Capital allowances, allowing companies to deduct expenses incurred in acquiring assets such as drilling rigs, pipelines, and exploration equipment.¹⁵¹ Cost recovery mechanisms, enabling oil firms to recover certain production costs before tax is assessed, ensuring that taxation does not stifle investment. Investment tax credits and allowances, which incentivise companies to reinvest in oil exploration and infrastructure.¹⁵² The Federal Inland Revenue Service (FIRS) is responsible for administering and enforcing petroleum profits tax. Oil companies operating under joint ventures, production-sharing contracts, or service agreements with the government are required to file tax returns, submit financial records, and remit PPT payments promptly.¹⁵³ Failure to comply with PPTA provisions attracts severe penalties, including hefty fines, interest on unpaid taxes, and potential revocation of operating licences.¹⁵⁴ Given the high stakes in the oil and gas sector, tax

¹⁴⁸ Gloria Iroegunam, 'Taxation Of Petroleum Profits In Nigeria' <https://Resourcegovernance.Org/Sites/Default/Files/Taxation%20of%20Petroleum%20Profits%20in%20Nigeria.Pdf> accessed 31 march 2025.

¹⁴⁹ PPTA, s.21.

¹⁵⁰ Ibid. s.21(b).

¹⁵¹ Udo-Udoma and Bello Osagie, 'The Oil And Gas Companies (Tax Incentives, Exemption, Remission, Etc.) Order, 2024' <https://Uubo.Org/Wp-Content/Uploads/2024/03/Client-Update-On-The-Oil-And-Gas-Companies-1.Pdf> accessed 31 march 2025.

¹⁵² EDUARDO G. PEREIRA, 'EVOLVING TRENDS IN PRODUCTION SHARING AGREEMENTS & COST RECOVERY SYSTEMS' *Oil And Gas, Natural Resources, And Energy Journal* VOLUME 8 NUMBER 3 2023 Pp 603 -692.

¹⁵³ Archibong, Saviour, 'An Overview Of Taxation In Nigeria (January 1, 2024)'. Available At SSRN: <http://Dx.Doi.Org/10.2139/Ssrn.4680787>

¹⁵⁴ Queeneth Agu, 'The Petroleum Profits Tax Act, The Petroleum Industry Act And The Proposed Amendments In The Finance Bill' <https://Www.Mondaq.Com/Nigeria/Corporate-Tax/1327644/The-Petroleum-Profits-Tax-Act-The-Petroleum-Industry-Act-And-The-Proposed-Amendments-In-The-Finance-Bill>

compliance is strictly monitored, with regular audits conducted to detect tax evasion, profit shifting, and underreporting of revenues.

Ultimately, the Petroleum Profits Tax Act (PPTA) remains central to Nigeria's fiscal framework, ensuring that the government derives maximum benefit from its vast petroleum resources while maintaining a competitive and investor-friendly environment.

3.2.7 Other Relevant Tax Laws

Beyond the major tax statutes governing corporate and individual taxation, several other laws regulate specific forms of taxation in Nigeria. These supplementary tax laws ensure a comprehensive and structured tax system, allowing the government to generate revenue from various economic activities while addressing specific policy objectives. They cover aspects such as capital gains, document processing, education funding, and international trade taxation.

1. Capital Gains Tax Act

The Capital Gains Tax Act¹⁵⁵ regulates the taxation of capital gains, which arise from the sale, exchange, or disposal of chargeable assets such as:

- Real estate (e.g. land, buildings, and other immovable property).¹⁵⁶
- Shares and securities (e.g. stocks in publicly traded or private companies).¹⁵⁷
- Business goodwill and intellectual property.¹⁵⁸

The current capital gains tax rate is 10%, which is imposed on the net gain derived from asset disposal. However, certain exemptions exist.¹⁵⁹ For instance, gains from the disposal of principal private residences or assets transferred between spouses or within the same company group may be exempt. To ensure compliance, taxpayers are required to report and

¹⁵⁵ Capital Gains Tax Act Cap C1 LFN 2004.

¹⁵⁶ Ibid. s.3(c).

¹⁵⁷ Ibid. s.3(b).

¹⁵⁸ Ibid. s.3(a).

¹⁵⁹ Taxpal, 'Understanding Capital Gains Tax In Nigeria' <https://Blog.Taxpal.Africa/Capital-Gain-Tax-In-Nigeria/> accessed 31 march 2025.

remit capital gains tax within a specified period after completing a taxable transaction. The administration of this tax falls under the Federal Inland Revenue Service (FIRS) and State Boards of Internal Revenue (SBIRs), depending on whether the transaction involves corporate entities or individuals.

2. Stamp Duties Act

The Stamp Duties Act¹⁶⁰ imposes stamp duties on various legal instruments and financial transactions, ensuring that documents used in business and commerce are properly registered and recognised by law. These instruments include:

- Contracts and agreements, particularly those involving large financial transactions.¹⁶¹
- Property transactions, including land purchases and lease agreements.¹⁶²
- Share transfers and securities issuance, requiring official stamping for validation.¹⁶³

Stamp duty serves as an important revenue source for both the federal and state governments.¹⁶⁴ The division of revenue between federal and state authorities depends on the nature of the transaction. The Federal Inland Revenue Service (FIRS) collects stamp duties on corporate transactions. State tax authorities collect stamp duties on individual transactions conducted within their jurisdictions.¹⁶⁵ Recent reforms have expanded the scope of stamp duty collection, particularly with the growth of electronic transactions.¹⁶⁶ Banks and financial institutions are now required to deduct and remit stamp duties on electronic money transfers exceeding a specific threshold, further boosting government revenue.

3. Tertiary Education Trust Fund (TETFund) Act

¹⁶⁰ Stamp Duties Act, CAP S8 LFN 2004.

¹⁶¹ Ibid. s.[4]

¹⁶² Ibid.

¹⁶³ Ibid.

¹⁶⁴ Aniefor, Sunday Jones, 'STAMP DUTY TAX AND ECONOMIC GROWTH: EVIDENCE FROM NIGERIAN ECONOMY' Journal Of Global Accounting Vol.8 Issue 1 2022 Pp 65 -73.

¹⁶⁵ Ibid.

¹⁶⁶ AO2LAW, 'HIGHLIGHTS OF THE NIGERIA TAX REFORM BILLS' <https://Ao2law.Com/Highlights-Of-The-Nigeria-Tax-Reform-Bills/> accessed 1 april 2025.

The Tertiary Education Trust Fund (TETFund) Act¹⁶⁷ imposes an education tax of 2% on assessable profits of Nigerian companies, with the revenue dedicated to funding higher education institutions.¹⁶⁸ This tax is compulsory for all corporate entities operating in Nigeria and is administered by the Federal Inland Revenue Service (FIRS).

The purpose of the TETFund tax is to:

- Improve funding for public universities, polytechnics, and colleges of education.¹⁶⁹
- Support research and development initiatives in higher institutions.¹⁷⁰
- Finance the construction and renovation of academic infrastructure such as lecture halls, libraries, and laboratories.¹⁷¹
- Enhance staff training and professional development within the education sector.¹⁷²

The tax is collected annually, and companies are required to submit accurate tax returns reflecting their assessable profits.¹⁷³ Non-compliance with TETFund tax obligations attracts penalties and interest charges.

4. Customs and Excise Management Act (CEMA)

The Customs and Excise Management Act (CEMA)¹⁷⁴ regulates the taxation of imported and exported goods in Nigeria. It establishes the legal framework for customs duties, excise duties, and import tariffs, which are essential for:

- Protecting local industries from foreign competition by discouraging excessive imports.¹⁷⁵

¹⁶⁷ Tertiary Education Trust Fund (Establishment, Etc.) Act, 2011.

¹⁶⁸ TETFUND, TETFUND MANDATE' <https://Tetfund.Unn.Edu.ng/Mission/> accessed 1 april 2025.

¹⁶⁹ Ibid. s.7[a].

¹⁷⁰ Ibid. s.7[c].

¹⁷¹ Ibid. s.7[b].

¹⁷² Ibid. s.7[d].

¹⁷³ PUNCH, ' Tax Reform: No To Scrapping Of TETFUND' <https://Punchng.com/Tax-Reform-No-To-Scrapping-Of-Tetfund/> accessed 2 April 2025.

¹⁷⁴ Customs And Excise Management Act (CEMA) Cap. C45 Laws Of The Federation Of Nigeria 2004.

¹⁷⁵ Ibid. s.24.

- Generating revenue for the government through levies on cross-border trade.¹⁷⁶
- Regulating international trade and ensuring compliance with customs regulations.¹⁷⁷

Customs duties are imposed on imported goods, with rates varying based on the type of product and Nigeria's trade policies.¹⁷⁸ Excise duties, on the other hand, apply to locally manufactured goods, particularly those deemed non-essential or harmful, such as alcoholic beverages and tobacco products.¹⁷⁹ The Nigeria Customs Service (NCS) is responsible for enforcing CEMA,¹⁸⁰ ensuring that all importers and exporters pay the required duties and comply with import/export regulations. The Act also provides for penalties on smuggling, tax evasion, and non-compliance with customs laws.

These supplementary tax laws contribute to a broad and well-structured tax system in Nigeria. By addressing specific aspects of taxation, they help the government mobilise revenue across diverse economic sectors, ensuring sustainable public finance. However, their effectiveness depends on proper enforcement, compliance, and continuous reforms to align with economic realities and international best practices.

3.2.8 The Role of International Treaties and Judicial Precedents

Nigeria's tax system is shaped by both domestic regulations and international obligations. As global trade and investment continue to grow, international treaties and judicial precedents play a significant role in determining how taxation is administered in the country.¹⁸¹ Nigeria

¹⁷⁶ Ibid. s.37.

¹⁷⁷ Ibid. s.36.

¹⁷⁸ James Emejo And Sunday Aborisade, 'Customs Targets N6.58tn Revenue For 2025, Collected N6.11tn In 2024' <https://www.thisdaylive.com/index.php/2025/01/15/customs-targets-n6-58tn-revenue-for-2025-collected-n6-11tn-in-2024/> accessed 3 April 2025.

¹⁷⁹ **JULIA KAGAN**, 'Excise Tax: What It Is And How It Works' <https://www.investopedia.com/terms/e/excisetax.asp> accessed 2 April 2025.

¹⁸⁰ MUSA OMALE, '*INSTITUTION OF PROCEEDINGS UNDER THE NIGERIAN CUSTOMS AND EXCISE MANAGEMENT ACT (CEMA)*' IEEE-SEM, [2019] Volume 10, Issue 6, Pp 1-37.

¹⁸¹ PML, 'NIGERIAN TAX SYSTEM: STRUCTURE AND ADMINISTRATION' <https://pml.com.ng/nigerian-tax-system-structure-and-administration/> accessed 3 April 2025.

is a signatory to several Double Taxation Agreements (DTAs),¹⁸² which are designed to prevent individuals and businesses from being taxed twice on the same income earned in different jurisdictions. These agreements serve as a framework for international tax cooperation, ensuring that companies engaged in cross-border trade are taxed fairly and not subjected to excessive tax liabilities. By providing clarity on tax obligations for multinational corporations, DTAs help to foster foreign direct investment (FDI)¹⁸³ and promote economic growth.

One of the primary benefits of DTAs is the prevention of double taxation. Without such agreements, businesses operating in multiple countries may be required to pay taxes on the same income in both Nigeria and the foreign jurisdiction, increasing their financial burden. DTAs address this issue by allowing for tax credits, exemptions, or the allocation of tax rights between the countries involved. Additionally, these agreements contribute to investment promotion by providing tax certainty for foreign investors.¹⁸⁴ Multinational corporations looking to establish operations in Nigeria are more likely to do so if they are assured that their tax obligations will be predictable and not subject to arbitrary changes. This stability encourages foreign companies to expand into the Nigerian market, leading to job creation and economic development.

Another crucial aspect of DTAs is the establishment of dispute resolution mechanisms. Given the complexities of international taxation, disagreements may arise between tax authorities of different countries regarding tax liabilities.¹⁸⁵ DTAs provide structured frameworks for resolving these disputes through diplomatic negotiations, preventing conflicts that could hinder international business relations. By setting clear guidelines on taxation, these

¹⁸² BRC, 'Nigeria: Double tax treaty with other countries' <https://www.bomesresourcesconsulting.com/nigeria-double-tax-treaty-other-countries.html> accessed 3 april 2025.

¹⁸³ Ibid.

¹⁸⁴ UNCTAD, 'Double taxation treaties and their implications for investment' <https://unctad.org/publication/double-taxation-treaties-and-their-implications-investment> accessed 4 april 2025.

¹⁸⁵ Benjamí Anglès Juanpere, 'The Resolution of Tax Disputes and International Tax Arbitration' *EJBMR*, *European Journal of Business and Management Research* [2020] vol.5 issue 1.

agreements promote cooperation between countries and ensure smoother tax administration.¹⁸⁶

Beyond international treaties, judicial precedents play a vital role in Nigeria's tax administration. Tax disputes often arise due to ambiguities in tax laws, and judicial rulings provide much-needed legal clarity. The Tax Appeal Tribunal (TAT) and higher courts in Nigeria adjudicate cases that influence tax policy and enforcement.¹⁸⁷ Through their decisions, courts interpret tax statutes, define taxpayer rights, and establish legal principles that shape the future application of tax laws. These rulings serve as binding precedents that guide both tax authorities and taxpayers in their obligations and entitlements.

One of the most contentious issues frequently addressed by Nigerian courts is the jurisdiction over Value Added Tax (VAT) collection. There have been ongoing legal battles regarding whether VAT should be controlled by the federal government, through the Federal Inland Revenue Service (FIRS), or by individual states.¹⁸⁸ Court rulings on this matter have significant implications for revenue allocation and the fiscal autonomy of state governments. Similarly, corporate tax assessments are often the subject of legal disputes, particularly concerning the computation of taxable income, the applicability of tax incentives, and the extent of corporate tax liability.¹⁸⁹ Judicial precedents provide guidance on how tax authorities should interpret and apply tax laws in such cases, ensuring consistency and fairness.

Another area where judicial intervention is crucial is in safeguarding taxpayer rights. Businesses and individuals often challenge tax audits, penalties, and enforcement actions

¹⁸⁶ Ibid.

¹⁸⁷ Ibifubara Berenibara, 'Tax appeal tribunal jurisdiction under enabling act not in conflict with jurisdiction of the federal high court over tax disputes' <https://www.aalex.com/Wp-Content/Uploads/2018/02/Jurisdiction-Of-The-Tax-Appeal-Tribunal-Confirmed-By-Court-Of-Appeal.Pdf>. accessed 5 april 2025.

¹⁸⁸ Chisa Theodora Uba, 'The VAT quagmire:

An analysis of the decision of the Port-Harcourt Division of the Federal High Court of Nigeria' <https://www.dentons.com/en/insights/articles/2022/april/1/the-vat-quagmire> accessed 5 april 2025.

¹⁸⁹ The Attorney General of Rivers State v The Federal Inland Revenue Service & Attorney General of The Federation Suit No. FHC.CS.149/2020

imposed by tax authorities, arguing that such measures violate due process or are based on incorrect assessments.¹⁹⁰ Courts play an essential role in determining the legality of these actions and ensuring that taxpayers are treated fairly.¹⁹¹ Through judicial decisions, the tax system becomes more transparent, as courts hold tax authorities accountable for their administrative actions. As Nigeria's economy continues to grow and evolve, judicial precedents will remain instrumental in refining tax policies and resolving legal uncertainties. Courts not only serve as arbiters of tax disputes but also contribute to the broader development of tax jurisprudence.¹⁹² By interpreting existing tax laws and setting legal standards, judicial rulings help to maintain a fair and predictable tax environment.¹⁹³ Strengthening the judicial framework for tax administration will be crucial for fostering investor confidence, ensuring compliance, and promoting economic stability.

International treaties and judicial precedents significantly influence Nigeria's tax system by providing legal frameworks for cross-border taxation and ensuring fair tax enforcement. Double Taxation Agreements help to prevent multiple taxation, encourage foreign investment, and facilitate dispute resolution between nations. At the same time, judicial precedents clarify tax laws, resolve disputes, and protect taxpayer rights. As Nigeria navigates complex tax challenges, both international treaties and judicial rulings will continue to shape its tax policies, ensuring a balanced and efficient tax system that supports economic growth and development.

The Nigerian tax system is supported by a comprehensive legal and regulatory framework, incorporating constitutional provisions, statutory tax laws, regulatory agencies, and international treaties. These components collectively ensure effective tax administration and

¹⁹⁰ ALF, 'Judicial Intervention in Tax Dispute Resolution' <https://alliancelawfirm.ng/judicial-intervention-in-tax-dispute-resolution/> accessed 6 april 2025.

¹⁹¹ Ibid.

¹⁹² Ibid.

¹⁹³ Ibid.

revenue mobilisation. However, persistent challenges such as legal ambiguities, enforcement difficulties, and intergovernmental disputes over tax jurisdiction hinder tax efficiency.

3.3 THE ROLE OF TAX AUTHORITIES IN TAX ADMINISTRATION

Tax administration in Nigeria is a multifaceted process involving various government agencies at the federal, state, and local levels. These agencies play distinct roles in tax collection, enforcement, dispute resolution, and policy formulation, ensuring the efficient functioning of the country's tax system. The major tax authorities include the Federal Inland Revenue Service (FIRS), State Boards of Internal Revenue (SBIRs), Local Government Revenue Committees, the Joint Tax Board (JTB), and the Tax Appeal Tribunal (TAT). Each of these institutions contributes to revenue generation and tax compliance, although challenges such as tax evasion, weak enforcement, and jurisdictional disputes persist.

The Federal Inland Revenue Service (FIRS)

The Federal Inland Revenue Service (FIRS) is the foremost tax authority in Nigeria, responsible for administering and enforcing federal taxes.¹⁹⁴ Established under the Federal Inland Revenue Service (Establishment) Act,¹⁹⁵ the FIRS oversees the collection of key taxes such as Companies Income Tax (CIT), Petroleum Profits Tax (PPT), Value Added Tax (VAT), Withholding Tax (WHT), and Education Tax.¹⁹⁶ Its mandate extends beyond tax collection to compliance enforcement,¹⁹⁷ taxpayer education,¹⁹⁸ and advisory roles in tax policy development.¹⁹⁹ The FIRS possesses wide-ranging enforcement powers, including the

¹⁹⁴ FIRS Act. S.25.

¹⁹⁵ Ibid. s.1.

¹⁹⁶ Ibid s.7; Forviz mazar, 'Examining the Powers of the FIRS in The Administration of Tax' <https://www.forvismazars.com/ng/en/insights/publications/local-insights/examining-the-powers-of-the-firs> accessed 8 april 2025.

¹⁹⁷ Ibid. 8[e].

¹⁹⁸ Ibid. s.8[r].

¹⁹⁹ Ibid. s.8[d].

ability to freeze bank accounts, seal business premises, and prosecute tax defaulters.²⁰⁰ Additionally, the agency has embraced digitalisation by introducing electronic tax filing and automated payment systems to enhance efficiency and transparency.²⁰¹ Despite these efforts, the FIRS faces significant challenges, including tax evasion, corruption, and resistance from businesses and individuals unwilling to comply with tax obligations. Strengthening enforcement strategies and expanding taxpayer education initiatives can improve compliance and boost revenue collection.

State Boards of Internal Revenue (SBIRs)

At the state level, State Boards of Internal Revenue (SBIRs) administer taxes within their respective states, focusing primarily on Personal Income Tax (PIT) for individuals, sole proprietors, and business partners. The SBIRs also manage other state-imposed taxes such as Capital Gains Tax (CGT), Stamp Duties, Road Taxes, and Business Premises Levies.²⁰² These agencies play a crucial role in tax enforcement by ensuring that individuals and businesses operating within their jurisdictions are properly registered and comply with tax regulations. Furthermore, SBIRs engage in public awareness campaigns to educate taxpayers about their obligations and the benefits of tax compliance.²⁰³ However, many SBIRs struggle with political interference, inadequate resources, and weak enforcement mechanisms, which often lead to low tax compliance rates. Addressing these challenges requires capacity-building measures, greater autonomy for state tax agencies, and the adoption of technology-driven solutions for tax administration.

Local Government Revenue Committees

²⁰⁰ Banwo and Ighodalo, 'Proper Exercise of the Powers of the FIRS to Freeze Defaulting Taxpayers' Accounts And Appoint Banks As Tax Collecting Agents' <https://banwo-ighodalo.com/grey-matter/proper-exercise-powers-firs-freeze-defaulting-taxpayers-accounts-appoint-banks-tax-collecting-agents> accessed 9 april 2025.

²⁰¹ Rotimi Oladele, 'Digitalization of Tax Services and Tax Compliance among Corporate Taxpayers in Nigeria' *International Journal of Innovative Research in Accounting and Sustainability* [2024] vol. 9, No.3.

²⁰² Godwin Emmanuel Oyedokun, 'Overview of Taxation and Nigerian Tax System' *Tax Management and Compliance in Nigeria* OGE Business School 2020 (pp.1-53).

²⁰³ Ibid.

At the grassroots level, Local Government Revenue Committees are responsible for collecting revenue from tenement rates, market fees, motor park levies, and other local taxes. These committees ensure that local businesses and residents contribute to the financial resources needed for community development projects, infrastructure maintenance, and service delivery. However, local tax administration is often plagued by corruption, inefficiency, and revenue leakages, as many local government authorities lack the necessary institutional frameworks to ensure accountability. The introduction of digital revenue collection systems and transparent governance mechanisms could enhance local tax efficiency and curb mismanagement of funds.²⁰⁴

Joint Tax Board (JTB)

The Joint Tax Board (JTB)²⁰⁵ serves as a coordinating body that ensures uniformity and consistency in tax policies across federal and state levels. It operates under the Personal Income Tax Act²⁰⁶ and is chaired by the Executive Chairman of the FIRS. One of its key responsibilities is harmonising Personal Income Tax (PIT) administration across states to prevent multiple taxation and ensure fairness. Additionally, the JTB oversees the Taxpayer Identification Number (TIN) system, which is critical for tracking taxpayer compliance nationwide.²⁰⁷ The board also plays an advisory role in tax legislation by providing recommendations on tax reforms and emerging tax issues. However, the effectiveness of the JTB is often limited by coordination challenges and a lack of enforcement power. Enhancing its authority and fostering better collaboration between federal and state tax agencies could improve tax administration in Nigeria.

²⁰⁴ Asomba, Ifeyinwa I, 'E-Governance and Improved Public Revenue Generation in Nigeria: Issues and Prospects' *Journal of Policy and Development Studies (JPDS)* (2024) Vol. 16. Issue 1.

²⁰⁵ PITA. S. 85.

²⁰⁶ PITA. s.86.

²⁰⁷ FIRS, Organization Structure, <https://www.firs.gov.ng/firs-organization/history-and-milestones> accessed 12 april 2025.

Tax Appeal Tribunal (TAT)

Dispute resolution is a crucial aspect of tax administration, and the Tax Appeal Tribunal (TAT) plays a key role in resolving conflicts between taxpayers and tax authorities. Established under the Federal Inland Revenue Service (Establishment) Act,²⁰⁸ the TAT provides an alternative mechanism for resolving tax disputes before they escalate to formal litigation in regular courts.²⁰⁹ This tribunal adjudicates cases involving tax assessments, penalties, and enforcement actions, ensuring that taxpayers have a fair platform to challenge decisions made by tax authorities. Additionally, the rulings of the TAT help clarify ambiguous tax laws, thereby contributing to the development of Nigeria's tax jurisprudence. By reducing the burden on regular courts, the tribunal facilitates quicker resolution of tax cases, promoting efficiency in tax administration. However, the TAT faces challenges such as delays in adjudication, limited jurisdiction, and enforcement difficulties. Strengthening its capacity and ensuring timely resolution of disputes will enhance taxpayer confidence and compliance.

The effectiveness of tax administration in Nigeria depends on the coordinated efforts of the FIRS, SBIRs, Local Government Revenue Committees, the JTB, and the TAT.²¹⁰ These institutions are instrumental in tax collection, enforcement, policy formulation, and dispute resolution. However, challenges such as tax evasion, corruption, weak enforcement, and jurisdictional disputes continue to hinder the efficiency of the system. Addressing these issues requires stronger enforcement mechanisms, digital transformation of tax administration, improved taxpayer education, and enhanced inter-agency collaboration. By strengthening the capacity of tax authorities and implementing reforms that promote compliance and fairness,

²⁰⁸ FIRS Act, s.59.

²⁰⁹ Anyebe, P. A. (2019). Tax Disputes Resolution In Nigeria: Going Beyond The Traditional Court And Administrative Resolution System. *Advances in Social Sciences Research Journal*, 6(12) 236-252.

²¹⁰ Nwonyuku, Kalu, Impact of Collaboration Amongst Tax Authorities on Revenue Generation and Service Delivery to Taxpayers in Nigeria (September 16, 2017). Available at SSRN: <http://dx.doi.org/10.2139/ssrn.3038525>

Nigeria can build a more effective and sustainable tax system to support economic growth and development.

3.4 CHALLENGES IN TAX ADMINISTRATION IN NIGERIA

The Nigerian tax system, despite its robust legal and regulatory framework, faces numerous challenges that hinder its efficiency and effectiveness. These challenges include tax evasion and avoidance, multiple taxation, inadequate enforcement mechanisms, poor taxpayer education and compliance, corruption and mismanagement, weak institutional capacity, and intergovernmental tax disputes. Addressing these issues is critical for improving tax administration and increasing government revenue.

Tax evasion and avoidance.

One of the most pressing issues in Nigeria's tax administration is tax evasion and avoidance. Many individuals and corporate entities deliberately underreport income, inflate deductible expenses, or operate outside the formal economy to avoid paying taxes. The informal sector, which constitutes a significant portion of Nigeria's economy, largely remains untaxed due to weak enforcement mechanisms. Additionally, high-profile businesses exploit loopholes in tax laws to engage in aggressive tax avoidance strategies, depriving the government of much-needed revenue. The lack of a comprehensive database of taxpayers and weak enforcement of tax identification systems further exacerbates the problem. Strengthening the enforcement of tax laws, implementing stringent penalties for defaulters, and enhancing the use of technology for tracking financial transactions could help mitigate this challenge.

Multiple taxation

Another significant issue is multiple taxation, which affects businesses and individuals operating across different tiers of government. Due to Nigeria's federal structure, taxes are imposed at the federal, state, and local levels, often leading to overlapping tax obligations.

Businesses are frequently subjected to corporate income tax at the federal level, personal income tax at the state level, and various levies at the local level. This duplication of taxes increases the cost of doing business, discourages investment, and fosters non-compliance. Small and medium enterprises (SMEs) are particularly vulnerable, as they struggle with excessive tax burdens that hinder their growth. Harmonising the tax structure, clarifying the tax jurisdiction of different government levels, and reducing redundant taxes will enhance tax efficiency and boost investor confidence.

Inadequate enforcement mechanisms

Inadequate enforcement mechanisms pose another challenge to tax administration in Nigeria. While tax laws provide for penalties and sanctions against defaulters, enforcement is often weak or inconsistent. The Federal Inland Revenue Service (FIRS), State Boards of Internal Revenue (SBIRs), and Local Government Revenue Committees lack the necessary tools and resources to track tax evaders effectively. Many businesses and individuals simply refuse to file returns or remit taxes, knowing that enforcement is weak. Additionally, some enforcement actions, such as the closure of businesses or seizure of assets, often lead to prolonged legal battles, delaying tax collection. Enhancing enforcement through digitalisation, automation of tax processes, and stronger inter-agency collaboration would help improve compliance and revenue generation.

Poor taxpayer education and compliance

Poor taxpayer education and compliance also hinder effective tax administration in Nigeria. Many taxpayers lack sufficient knowledge of tax obligations, payment procedures, and available incentives. The complex nature of tax laws further complicates compliance, leading to errors in tax filings and non-remittance of taxes. The informal sector, which employs a large portion of the Nigerian workforce, remains largely unaware of taxation benefits and

obligations. Government agencies need to intensify taxpayer education campaigns, simplify tax filing procedures, and leverage digital platforms to improve accessibility to tax information. Encouraging voluntary compliance through incentives such as tax amnesties and reduced penalties for first-time offenders can also enhance compliance rates.

Corruption and mismanagement

Corruption and mismanagement within tax administration agencies present another significant challenge. Cases of bribery, extortion, and diversion of tax revenues by officials undermine the credibility of the tax system and discourage compliance. Some businesses and individuals evade taxes by bribing tax officials to falsify records or reduce their tax liabilities. Additionally, tax revenues collected are sometimes mismanaged, with funds failing to reach designated government accounts. Strengthening internal controls, increasing transparency in tax collection processes, and implementing strict disciplinary measures against corrupt officials are necessary to curb this problem. The adoption of digital tax payment systems and automation of revenue collection can reduce human interference and minimise opportunities for corruption.

Weak institutional capacity

Another challenge is weak institutional capacity, as many tax agencies in Nigeria suffer from inadequate manpower, outdated technology, and inefficient administrative processes. The FIRS, SBIRs, and local tax agencies often lack skilled personnel, making tax assessment and enforcement difficult. Additionally, outdated databases and poor record-keeping limit the ability to track taxable entities effectively. Investing in training for tax officials, modernising tax infrastructure, and integrating tax databases across agencies can significantly improve tax administration efficiency. Countries with more advanced tax systems have leveraged technology to simplify tax collection and compliance processes, and Nigeria can benefit from adopting similar strategies.

Intergovernmental tax disputes

Intergovernmental tax disputes between federal and state governments also pose a major challenge. One of the most contentious issues in recent years has been the Value Added Tax (VAT) collection dispute between the federal and state governments. The FIRS has historically administered VAT collection at the national level, redistributing revenue to states. However, some states argue that VAT should be collected at the state level, citing constitutional provisions on revenue generation. This dispute has led to legal battles and uncertainty over the future of VAT administration in Nigeria. Beyond VAT, conflicts over revenue allocation and tax jurisdiction frequently arise between different levels of government, leading to inefficiencies and loss of revenue. To address these disputes, there is a need for clearer constitutional provisions on tax administration, improved coordination between federal and state tax authorities, and legal reforms to clarify tax jurisdiction.

The challenges facing tax administration in Nigeria are multifaceted, ranging from tax evasion, multiple taxation, weak enforcement, poor taxpayer education, corruption, institutional inefficiencies, and intergovernmental tax disputes. These issues hinder revenue generation and reduce public confidence in the tax system. Addressing these challenges requires a multi-pronged approach that includes strengthening enforcement mechanisms, leveraging technology for efficient tax collection, improving taxpayer education, reducing corruption, and resolving tax jurisdiction conflicts. By implementing comprehensive tax reforms and enhancing administrative efficiency, Nigeria can build a more effective and transparent tax system capable of supporting sustainable economic development.

The legal and institutional framework for taxation in Nigeria is well-structured, with constitutional provisions, statutory laws, and administrative agencies overseeing tax administration. However, enforcement challenges, corruption, and multiple taxation hinder its effectiveness. To enhance tax compliance and revenue generation, legal reforms, institutional

strengthening, and digital tax administration must be prioritised. Additionally, harmonising tax policies across federal, state, and local levels will promote efficiency and reduce disputes. A transparent and equitable tax system is crucial for economic stability and national development. Strengthening enforcement mechanisms and improving taxpayer education will further enhance Nigeria's tax administration and overall fiscal sustainability.

CHAPTER FOUR

TAXATION, THE RULE OF LAW, AND CONTEMPORARY CHALLENGES

4.1 INTRODUCTION

Taxation plays a fundamental role in governance by providing the necessary revenue for economic development, public infrastructure, and social services. However, the effectiveness of a tax system depends significantly on the strength of its legal framework, enforcement mechanisms, and institutional integrity.²¹¹ In Nigeria, taxation operates within a complex legal and regulatory environment, influenced by constitutional provisions, statutory tax laws, and administrative agencies. Despite these legal structures, numerous challenges persist, affecting tax compliance, revenue generation, and overall economic stability.²¹²

One of the most pressing issues in Nigeria's tax system is the weakness of legal frameworks, which results in loopholes, inconsistencies, and enforcement difficulties. Many taxpayers, both individuals and corporations, exploit these legal gaps to evade taxes, leading to significant revenue losses. Corruption further exacerbates the situation, as some tax officials engage in illicit practices that undermine compliance and trust in the system. Additionally, frequent policy changes and a lack of coherence between federal and state tax regulations create confusion for taxpayers and discourage voluntary compliance.²¹³

This chapter examines the intersection of taxation and the rule of law, highlighting the challenges that hinder effective tax administration in Nigeria. It explores the impact of weak legal frameworks, corruption, enforcement difficulties, and policy inconsistencies, concluding with policy recommendations aimed at strengthening the tax system and ensuring equitable tax administration.

4.2. TAXATION AND THE RULE OF LAW

²¹¹ Adamu Jabbo Saleh, 'Taxation challenges in Nigeria in 21st century: a review of related literature' ANAN Journal of Contemporary Issues: [2022] Vol.3 No3, P. 143-155.

²¹² Leyira Christian Micah, 'Tax System in Nigeria – Challenges and the Way Forward' Research Journal of Finance and Accounting [2012] Vol 3, No 5.

²¹³ Ola C.S., *Nigerian Income Tax Law and Practice* (Macmillan Publication, 1985).

The term “Tax”, like many legal concepts, is incapable of an all-encompassing definition as numerous scholars have given different definitions of this concept with each definition bearing its unique characteristics. For instance, tax can be defined as a monetary charge imposed by the government on persons, entities, transactions, or property to yield public revenue.²¹⁴ it is the demand made by the government of a country for a compulsory payment of money by the citizens of that country.²¹⁵ It is a compulsory levy imposed on a subject or upon his property by the Government having authority over him or the property.²¹⁶ It is a compulsory and definite amount fixed by Law and levied annually on adult citizens of a particular country.²¹⁷ As opposed to fines, charges, fees, and penalties, tax is a statutory collection that is not directed at providing a specific benefit, and its collection is backed by Law.²¹⁸ Taxation is one of the ways and means by which institutions of government, at either the Federal or State level, generate revenue to execute projects for the benefit of the people.²¹⁹ It is used as a means of checking socio-economic vices. The ability of the government to collect tax from its people is known as the taxing power.

Taxing Power can be defined as “the power granted to a governmental body to levy a tax.” It can be defined as the legitimate power of a tier of government to legislate on, impose, and collect taxes in accordance with the Law.²²⁰ It also refers to the power of a tier of government to impose tax by Law and prescribe conditions for the collection and administration of tax either by its agent or by another tier of government.²²¹ A government’s ability to exercise its

²¹⁴ Akanle O, *The Government, The Constitution and the People* in Akanle O. (ed.) *Tax Law and Tax Administration in Nigeria* (Lagos, Nigerian Institute of Advanced Legal Studies, 1991).

²¹⁵ Olokooba S.M., *Nigerian Taxation Law, Practice and Procedure Simplified* (Singapore, Springer Nature Singapore Pte Ltd. 2019).

²¹⁶ Ibid.

²¹⁷ Ibid.

²¹⁸ unlike charges, fees, and tolls which may be mandatory for people to pay but is not backed by any legislation

²¹⁹ Section 59, 1999 CFRN.

²²⁰ Aladekomo A.S, *Division of Taxing Powers in the Federation of Nigeria*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3639090 accessed 31 March 2025.

²²¹ Sanni A.O., *Division of Taxing Powers under the 1999 Constitution*, <https://ir.unilag.edu.ng/bitstream/handle/123456789/8347/DIVISION%20OF%20TAXING%20POWERS%20UNDER%20THE%201999%20CONSTITUTION.pdf?sequence=1&isAllowed=y> accessed 13 april 2025.

taxing powers is mostly determined by the system of government it operates. Nigeria operates a Federal system of government²²² where power is shared among the Federal, State, and Local governments. Other factors may also play a role in determining how a government exercises her taxing powers however one of the most important factor that determines how a government exercises its taxing powers is the system of government in operation. Thus, the taxing powers of the Federal Republic of Nigeria are shared or divided among the three tiers of government; the Federal government, the State governments, and the Local governments, which implies that the three tiers of government have power to impose and collect tax in their areas of jurisdiction.²²³ Federal taxes are administered by the Federal Government while State Taxes are administered by the State Government. The power to impose and administer these taxes is determined by Law. Under the Exclusive Legislative list, the Federal government, through the National Assembly, exercises its taxing powers by enacting tax legislations that provide for the imposition of tax on taxable items under the said list as not all items under the Exclusive list can generate tax. Some of the taxable items include customs²²⁴ and excise,²²⁵ export duties,²²⁶ income of companies,²²⁷ income of Federal workers, private sector income earners in the Federal capital territory, members of the Police and Armed forces, officers of the Nigerian Foreign Service, and persons resident outside Nigeria but derive income or profit from Nigeria,²²⁸ profits from mineral resources,²²⁹ stamp duties for documents and transactions with Federal character,²³⁰ capital gains on assets disposed of by companies,²³¹

²²² Section 2 (2) 1999 CFRN provides that “Nigeria shall be a Federation consisting of States and a Federal Capital Territory.”

²²³ Section 318 1999 CFRN defines ‘government’ to include “the Government of the Federation of Nigeria, or of any State, or of any Local government council...”

²²⁴ Items 16 and 62 (a), Part I, Second Schedule, CFRN 1999; Customs & Excise Management Act Cap C45 LFN 2004.

²²⁵ Item 16, Part I, Second Schedule, CFRN 1999; Customs & Excise Management Act.

²²⁶ Items 25 and 62 (b) & (c), Part I, Second Schedule, CFRN 1999; Customs & Excise Management Act.

²²⁷ Items 32 and 59, Part I, Second Schedule, CFRN 1999; Companies’ Income Tax Act Cap C21 LFN 2004.

²²⁸ Item 59, Part I, Second Schedule, CFRN 1999; Personal Income Tax Act Cap P8 LFN 2004 (amended in 2011).

²²⁹ Item 39, Part I, Second Schedule, CFRN 1999; Hydro Carbon Tax.

²³⁰ Item 58, Part I, Second Schedule, CFRN 1999; Stamp Duties Act Cap S8 LFN 2004.

international and inter-State trade and commerce,²³² entertainment within the Federal Capital Territory only,²³³ tertiary education,²³⁴ information technology development,²³⁵ and real properties in the Federal Capital Territory.²³⁶ The taxes imposed on the above items can be categorised as Federal taxes. They are imposed by the Federal government via legislation and are administered through the Federal Inland Revenue Service.

Under the Concurrent Legislative list, State governments, through their Houses of Assembly, exercise their taxing powers by enacting tax legislations that provide for the imposition of tax on taxable items on the said list. In this list, both the Federal government and State governments share legislative competence as the latter exercises its taxing powers subject to the doctrine of covering the field and the inconsistency rule enshrined in section 4 (5) of the 1999 Constitution.²³⁷ Nevertheless, State governments can exercise their taxing powers on matters such as the income of State workers and private sector workers earning remuneration or operating business within the State,²³⁸ documents and transactions involving individuals,²³⁹ assets disposed off by individuals,²⁴⁰ and real property within the State.²⁴¹ In addition, State governments, in exercising their taxing powers, can impose tax on matters that are not covered in the Exclusive and Concurrent Legislative lists.²⁴² For instance, State governments

²³¹ Item 59, Part I, Second Schedule; Item D, para. 7 & 8, Part II, Second Schedule, CFRN 1999; Capital Gains Tax Act Cap C1 LFN 2004.

²³² Item 62, Part I, Second Schedule, CFRN 1999; Value Added Tax Act Cap 6 LFN 2004.

²³³ Items 60 (b), (c), and (d) & 68, Part I, Second Schedule, CFRN 1999; Nigerian Tourism Development Corporation Act Cap N16 LFN 2004.

²³⁴ Items 60 (e) and 68, Part I, Second Schedule; Item L, para. 27, Part II, Second Schedule, CFRN 1999; Section 18 (1), CFRN 1999; Tertiary Education Trust Fund (Establishment, etc.) Act No. 16 of 2011.

²³⁵ Item 68, Part I, Second Schedule; Item L, para. 27, Part II, Second Schedule, CFRN 1999; section 18 (2), CFRN. 1999; National Information Technology Development Agency Act Cap N156 LFN 2004.

²³⁶ Item 68, Part I, Second Schedule, CFRN 1999; section 44 (3), CFRN 1999; para. 2 (c) Part III Second Schedule, CFRN 1999; Land Use Act No. 13 of 2007.

²³⁷ In such cases, where the Federal legislature has covered the field on a certain tax matter, it can make the State governments beneficiaries of such tax.

²³⁸ Item D, paragraphs 7 (a), 8, and 9, Part II, Second Schedule, CFRN 1999.

²³⁹ Item D, paragraphs 7 (b), 8, and 9, Part II, Second Schedule, CFRN 1999; Stamp Duties Law of Lagos State, Cap S10, Laws of Lagos State 2003.

²⁴⁰ Item D, paragraphs 7 (a), 8, and 9, Part II, Second Schedule, CFRN 1999.

²⁴¹ Item K, paragraph 26, Part II, Second Schedule, CFRN 1999; Land Use Charge Law of Lagos State, Cap L79, Laws of Lagos State 2015.

²⁴² Section 4 (7) (c) CFRN 1999; In AG Lagos State v AG Federation & Ors [2003] 6 SC (pt. 1) 24 at 61, the Supreme Court Stated that “The National Assembly cannot...in the exercise of its powers to enact some specific

can impose entertainment tax within their relevant territories.²⁴³ These taxes can be categorised as State taxes.

The exercise of taxing powers by the Federal and State governments is regulated by Constitutional doctrines like the ‘doctrine of covering the field’ and the inconsistency rule.²⁴⁴ The doctrine of covering the field is a Constitutional principle that exists in a Federal system of government where there is a conflict as to which legislative house possesses the Constitutional and legislative competence to enact legislation in a State.²⁴⁵ Nigeria being a federation, shares its legislative powers between the Federal and State governments through the establishment of the National Assembly and State Houses of Assembly. This doctrine is applied where a State House of Assembly, in exercising its legislative power, enacts a Law on a matter that the National Assembly has enacted an Act on, thus, the Act enacted by the National Assembly supersedes the State Law, thus covering the field, thereby rendering the State Law void to the extent of its inconsistency.²⁴⁶ The application of this principle is, however, limited to the Concurrent legislative list, where both the Federal and State governments share legislative competence.

4.2.1 The Conflict of Taxing Powers Between the Federal and State Governments of Nigeria.

The purpose of establishing the Exclusive and Concurrent legislative lists is to properly delineate the areas upon which each tier of government can exercise jurisdiction, thus dividing the powers of each tier of government, taxing powers included. Despite the attempts

Laws, take the liberty to confer authority on the Federal government or any of its agencies to engage in, or be concerned with, town planning matters, or to grant permits, licenses or approvals which ordinarily ought to be the responsibility of a State government or its agencies.”

²⁴³ In 2009, the Lagos State House of Assembly enacted the Hotel Occupancy and Restaurant Consumption Tax Law Cap H8, Laws of Lagos State 2015.

²⁴⁴ section 4 (5), 1999 CFRN.

²⁴⁵ Zainab Inusa, ‘Covering the Field under Constitutional Law’, (March 2022), Law Students’ Hub, <https://loyalnigerianLawyer.com/covering-the-field-under-Constitutional-Law/#:~:text=The%20principle%20of%20doctrine%20of,on%20Laws%20in%20that%20State> accessed 19 April 2025.

²⁴⁶ Ibid

made to delineate the taxing powers of each tier of government, conflicts still arise, especially with respect to the extent of the exercise of such taxing powers.²⁴⁷ This conflict occurs predominantly between the Federal and State governments as each tier seeks to jealously guard their sources of revenue, especially in the administration of taxes imposed on consumption or sales. This conflict between the Federal and State governments can be traced back to the provisions of the 1960 and 1963 Constitutions where both Constitutions specifically provided for a sharing of power to legislate on sales tax between the Federal governments and the then regions (now States). Under the 1979 Constitution, sales and consumption were omitted from both the Exclusive and Concurrent legislative list. This same omission was still repeated in the 1999 Constitution, thus creating the assumption that sale and consumption is a residual matter reserved for only States to administer, and this led to the States enacting Sales Tax Laws in their respective territories.

4.2.2. Instances of Judicial Intervention in the conflicts of Taxing Power in Nigeria

When these conflicts occur, the Courts intervene to interpret the Law with regard to who has the right to impose tax between the Federal and State governments. In doing its job, the Courts analyse the provisions of the Law with regards to the conflict. For instance, in the case of consumption tax and Value-added tax, the Courts have declared the former to be unconstitutional, inconsistent with the latter, null and void since it proposes to collect the same tax for which the latter had provided. However, States have argued that the Consumption tax cannot be declared inconsistent with the former since it falls within its legislative competence, to the exclusion of any other.

²⁴⁷ Afolabi Elebiju & Ayo Fadeyi, 'Tussles: A review of Attorney General of Lagos State v. Eko Hotels & Anor (2018) 36 TLRN 1, (May 2019) *LeLaw Thought Leadership Insights*, <https://leLawlegal.com/index.php/page/blogs/26> accessed 21 April 2025.

The first notable instance of the conflict of taxing powers between the Federal and State governments was in *AG Ogun State v Aberuagba*²⁴⁸ where the Supreme Court held that the Sales Tax Law of Ogun State was invalid as it encroached on the Exclusive legislative powers of the Federal Government. The Court declared the provisions of the Sales Tax Law of Ogun State as unconstitutional and invalid because it imposed tax on taxable products brought into the State which is a matter of inter-state trade and commerce, an item that falls within the exclusive legislative competence of the Federal Government. However, in *Nigerian Soft Drinks v Attorney General Of Lagos*,²⁴⁹ the Court of Appeal upheld the Sales Tax Law of Lagos State as it did not seek to tax items covered in the Exclusive Legislative list. The Court further made a distinction between the Sales Tax Law of Ogun State and that of Lagos State highlighting that the Sales Tax Law of Ogun State purported to regulate products brought into the State, an incidence of inter-State trade that falls within the provisions of Item 61(a) of the Exclusive list, while that of Lagos State is levied upon the consumers and purchasers within a State. Thus, Section 2 of the Lagos State Sales Tax Law was declared valid and Constitutional. In *AG Lagos State v Eko Hotels & Anor*,²⁵⁰ the Lagos State Government introduced Sales tax via the enactment of the Sales Tax Law and Sales Tax (Amendment) Order 2000 with the intent to increase its internally generated revenue. However, the provisions of the Sales Tax Law were similar to that of the Value Added Tax Act as both legislations required vendors like the Defendant, Eko Hotels, to collect and remit 5% of its sales as Sales Tax and VAT respectively. The Court held that Sections 2 of the Value Added Tax Act and the Sales Tax Law contained similar provisions and since the goods and services covered by both legislations are the same, the Value Added Tax Act has effectively covered the field, as such, its provisions shall prevail over that of the Sales Tax Law. The Court also noted that allowing the Value Added Tax Act and the Sales Tax Law to

²⁴⁸ [1985] 1 NWLR (pt.3) pg. 395.

²⁴⁹ [1987] 2 NWLR (pt. 57) pg. 444.

²⁵⁰ [2018] 36 TLRN 1.

co-exist would amount to double taxation since both legislations covered the same goods and services and targeted the same consumers.²⁵¹ Although, the Court was not tasked with determining the validity of the Value Added Tax Act or the Sales Tax Law as the main issue for determination before it was whether the former had covered the field such that the latter remains insignificant to which it responded in the affirmative.²⁵²

In the same case, the validity of State Laws on matters of consumption tax on individuals, and goods and services consumed in hotels, restaurants, and other event centres was challenged.²⁵³ Although consumption tax on individuals on goods and services consumed in hotels, restaurants, and event centres was absent in both the Exclusive and Concurrent legislative lists, the Court rejected that view and held that the Value Added Tax Act had covered the field on matters of consumption tax.²⁵⁴ The Supreme Court Stated: "...an Act of the National Assembly, for the purposes of covering the field, can only be said to be a predominant paramount legislation if it was validly enacted or could be deemed to have been validly enacted with respect to any matter the National Assembly is empowered by the Constitution to make Laws. An act of the National Assembly enacted in respect of any residual matter not being a matter either in the exclusive or concurrent legislative list, cannot be arrogated to a predominant paramount legislation so as to override any Law validly enacted by the House of Assembly of a State in respect of any residual matter. The determinant factor in covering the field is the validity of the predominant paramount legislation viz-a-viz the subordinate legislation."

²⁵¹ Afolabi Elebiju & Ayo Fadeyi, 'Tussles: A review of Attorney General of Lagos State v. Eko Hotels & Anor (2018) 36 TLRN 1, (May 2019) *LeLaw Thought Leadership Insights*, <https://leLawlegal.com/index.php/page/blogs/26> accessed 23 April 2025.

²⁵² Ibid.

²⁵³ Ibid.

²⁵⁴ AG Lagos State v Eko Hotels & Anor, *supra* at 51 – 53, per Okoro JSC.

4.3. The Impact of Weak Legal Frameworks on Taxation and Tax Compliance in Nigeria

A well-structured legal framework is essential for ensuring tax compliance, promoting economic stability, and enhancing government revenue. In Nigeria, the tax system is governed by various laws, including the Companies Income Tax Act (CITA), the Value Added Tax Act (VATA), the Federal Inland Revenue Service (Establishment) Act, and the Personal Income Tax Act (PITA). However, weaknesses in these legal frameworks create opportunities for tax evasion, avoidance, and inefficiencies in administration. These weaknesses manifest in several ways, including ambiguous tax laws, overlapping jurisdictions, inadequate enforcement mechanisms, and a lack of transparency in tax administration.²⁵⁵

One major challenge posed by Nigeria's weak legal framework is the ambiguity of tax laws, which creates uncertainty for taxpayers and tax administrators alike.²⁵⁶ Many tax provisions lack clear definitions and guidelines, leading to varying interpretations that often result in legal disputes. For instance, the ongoing controversy surrounding the collection of Value Added Tax (VAT) between the federal and state governments exemplifies the lack of clarity in tax legislation.²⁵⁷ Some states argue that VAT collection falls within their jurisdiction, while the federal government insists it is a centrally administered tax. This legal ambiguity has led to multiple litigations, creating uncertainty for businesses and investors regarding their tax obligations.

²⁵⁵ Nurudeen, ABDULFATAI OLANREWAJU and Siyanbola, T.T. and Onifade, Hakeem, *Tax administration and national economic sustainability* (September 20, 2024). *Manajemen dan Bisnis*, (2025) Volume 24, No 1, Available at SSRN:<http://dx.doi.org/10.2139/ssrn.5139178>

²⁵⁶ Leyira Christian Micah, '*Tax System in Nigeria – Challenges and the Way Forward*' *Research Journal of Finance and Accounting* [2012] Vol 3, No 5.

²⁵⁷ *Ibid.*

Another issue stemming from weak legal frameworks is the problem of overlapping tax jurisdictions, which burdens taxpayers with multiple tax obligations.²⁵⁸ Nigeria operates a federal system of government, where tax administration is shared among federal, state, and local authorities. However, there is often a lack of coordination between these levels of government, leading to multiple taxation. Businesses and individuals frequently face demands for the same type of tax from different tax authorities, creating compliance burdens and discouraging investment. For instance, a company may be required to pay corporate income tax at the federal level while also facing various levies and charges from state and local governments. Such an uncoordinated tax regime stifles business growth and leads to lower tax compliance. Enforcement deficiencies further compound the problem of weak legal frameworks in Nigeria's tax system. While tax laws prescribe penalties for non-compliance, enforcement is often inconsistent and ineffective.²⁵⁹ Many tax offenders, particularly influential businesses and individuals, exploit legal loopholes and weak enforcement mechanisms to evade taxes with little consequence. The absence of strict punitive measures emboldens tax evasion, as offenders are aware that they may not face significant repercussions.²⁶⁰ Additionally, tax authorities often lack the resources and technical capacity to effectively monitor and track non-compliant taxpayers, further weakening enforcement.²⁶¹ The lack of transparency in tax administration also discourages compliance and weakens the legal framework's effectiveness. Many taxpayers are sceptical about how their tax contributions are utilised, leading to a culture of resistance towards tax payment. In many cases, government agencies fail to provide adequate information on tax revenue allocation,

²⁵⁸ Oboh, Collins Sankay; 'Multiple Tax Practices and Taxpayers' Non-Compliance Attitude in Nigeria' International Research Journal of Finance and Economics [2013] ISSN 1450-2887 Issue 103.

²⁵⁹ Mahmudc, U.E. *Financing public deficits in Nigeria: groping in the dark for taxation*. CBN Bullion [2021] vol.45 issue 2, p.46 - 57.

²⁶⁰ Ibid.

²⁶¹ Ibid.

which fuels perceptions of corruption and mismanagement.²⁶² This lack of trust in the tax system reduces voluntary compliance, as taxpayers believe that their contributions will not translate into meaningful public services or infrastructure development.

The weaknesses in Nigeria's legal framework for taxation have significant economic consequences. Tax evasion and avoidance result in substantial revenue losses for the government, limiting its ability to fund critical projects in health, education, infrastructure, and security.²⁶³ Additionally, a weak tax system undermines economic stability by creating an unpredictable business environment that discourages investment. When businesses face legal uncertainties and excessive taxation, they may opt to operate informally to evade compliance, further exacerbating revenue losses for the government.

To address these challenges, legal reforms are necessary to strengthen the tax framework and promote compliance. Clearer legislative provisions should be introduced to eliminate ambiguities in tax laws, ensuring that taxpayers and administrators understand their obligations without confusion.²⁶⁴

Weak legal frameworks pose significant challenges to tax compliance in Nigeria, creating loopholes that facilitate tax evasion, multiple taxation, and enforcement inefficiencies. Addressing these issues requires legislative clarity, stronger enforcement mechanisms, better coordination among tax authorities, and enhanced transparency in tax administration. Strengthening the legal foundation of Nigeria's tax system is crucial for improving revenue generation, fostering economic stability, and promoting sustainable development.

²⁶² Adekola, Adeola Adebayo, 'The Effect of Accountability and Transparency on Tax Returns in Nigeria' *IJIRD* [2017] Vol 6, Issue 6. p 148-151.

²⁶³ Onyeka, Virginia Nnenna, 'The Effect of Tax Evasion and Avoidance on Nigeria's Economic Growth' *European Journal of Business and Management* [2016] Vol.8, No.24, p 158-166.

²⁶⁴ Anene Emeka Basil, 'Evaluating Tax Compliance Risk: An Auditor's Perspective on Nigeria's Tax Reform Bills' *Journal of Accounting and Financial Management* [2024] E-ISSN 2504-8856 P-ISSN 2695-2211 Vol 10. No. 12, 322-340.

4.4. CORRUPTION, TAX EVASION, AND POLICY INCONSISTENCIES

Corruption, tax evasion, and policy inconsistencies are significant obstacles to effective tax administration in Nigeria. These issues undermine government revenue generation, erode public trust in the tax system, and contribute to economic instability.²⁶⁵ Despite the existence of various tax laws and regulatory agencies, widespread corruption, weak enforcement mechanisms, and frequent policy changes create an environment where tax compliance remains low.²⁶⁶ Addressing these challenges is critical for strengthening Nigeria's fiscal system and ensuring sustainable economic growth.

One of the most pressing issues in Nigeria's tax system is corruption, which permeates various aspects of tax administration. Corruption exists both within tax authorities and among taxpayers who seek to evade their tax obligations through bribery, falsified records, and illicit financial dealings. Some officials within the Federal Inland Revenue Service (FIRS) and State Boards of Internal Revenue (SBIRs) engage in corrupt practices by colluding with businesses to reduce tax liabilities in exchange for personal gains. This practice weakens tax enforcement and results in substantial revenue losses for the government. Additionally, some tax officials manipulate assessments, inflate tax liabilities, or grant illegal tax exemptions to favour certain entities, further exacerbating corruption in tax administration.²⁶⁷ The prevalence of corruption discourages voluntary tax compliance, as many taxpayers believe that their contributions will not be used for public good. Lack of transparency in how tax revenues are allocated fuels suspicion that funds are mismanaged or embezzled by government officials.²⁶⁸ When taxpayers perceive that corruption is widespread and that their taxes are not contributing to infrastructure development, education, or healthcare, they

²⁶⁵ Onyeka [n.54].

²⁶⁶ Enrico Rubolino, 'Does weak enforcement deter tax progressivity?', *Journal of Public Economics*, [2023] Volume 219, ISSN 0047-2727, available at <https://doi.org/10.1016/j.jpubeco.2023.104833>.

²⁶⁷ Matthew Jenkins, 'Corruption risks in tax administration, external audits and national statistics' <https://www.u4.no/publications/corruption-risks-in-tax-administration-external-audits-and-national-statistics.pdf> accessed 28 April 2025.

²⁶⁸ *Ibid.*

become less willing to fulfil their tax obligations. This, in turn, leads to higher levels of tax evasion and reduces the effectiveness of tax collection efforts.

Tax evasion remains another major challenge that hampers revenue mobilisation in Nigeria. Individuals and businesses employ various strategies to evade taxes, including underreporting income, falsifying financial records, hiding assets, and operating informally to avoid detection.²⁶⁹ Many businesses, particularly in the informal sector, do not register with tax authorities and therefore operate outside the tax net. This results in a situation where a significant portion of economic activity remains untaxed, depriving the government of much-needed revenue. Additionally, some multinational corporations engage in profit shifting and transfer pricing manipulation, where they artificially shift profits to low-tax jurisdictions to reduce their tax liabilities in Nigeria.²⁷⁰

The lack of robust enforcement mechanisms further enables tax evasion to thrive. Nigeria's tax authorities often lack the capacity, technology, and resources to effectively track and prosecute tax offenders.²⁷¹ The absence of efficient tax databases, digital tracking systems, and interagency collaboration allows tax evaders to exploit loopholes without consequence. Even when tax evasion cases are identified, weak legal and judicial processes often result in minimal penalties, which do little to deter non-compliance. Strengthening enforcement mechanisms and deploying advanced technology in tax administration is therefore essential for combating tax evasion effectively.

Policy inconsistencies also contribute to inefficiencies in Nigeria's tax system, creating confusion and discouraging compliance. Frequent changes in tax laws, rates, and administrative procedures make it difficult for businesses and individuals to plan their

²⁶⁹ Bhaswat Prakash, 'Fostering Taxpayer Honesty: Exploring Effective Strategies to Curb Income Tax Evasion' https://www.researchgate.net/publication/378776382_Fostering_Taxpayer_Honesty_Exploring_Effective_Strategies_to_Curb_Income_Tax_Evasion accessed 28 April 2025.

²⁷⁰ Akash Kalra, Munshi Naser Ibne Afzal, 'Transfer pricing practices in multinational corporations and their effects on developing countries' tax revenue: a systematic literature review' <https://www.emerald.com/insight/content/doi/10.1108/itpd-04-2023-0011/full/html> accessed 28 April 2025.

²⁷¹ Kwaghkehe Ierkwagh, Rachel Nwasolu Imwaseh; 'The legal regime for tax enforcement in Nigeria: An appraisal' *International Journal of Law*, [2020] Volume 6; Issue 5, P. 346-353.

financial obligations effectively. For instance, the sudden increase in the Value Added Tax (VAT) rate from 5% to 7.5% in 2020, though intended to boost government revenue, created uncertainty among businesses that had to adjust their pricing structures accordingly.²⁷² Similarly, inconsistent policies on tax incentives, exemptions, and waivers lead to uncertainty in the investment climate. Some sectors receive generous tax incentives, while others face high tax burdens, creating an uneven playing field and discouraging compliance.

Another key policy inconsistency is the ongoing dispute over VAT collection between the federal and state governments.²⁷³ The controversy stems from conflicting interpretations of the Constitution regarding whether VAT should be centrally administered by the federal government or collected at the state level. Some states, such as Rivers and Lagos, have enacted their own VAT laws, challenging the federal government's authority to administer VAT.²⁷⁴ This dispute creates uncertainty for businesses that operate across multiple states, as they are unsure whether to remit VAT to the Federal Inland Revenue Service (FIRS) or the respective state tax agencies. Such legal and policy uncertainties discourage tax compliance and hinder investment. This has been seen in the cases of *AG Ogun State v Aberuagba*,²⁷⁵ *Nigerian Soft Drinks v Attorney General Of Lagos*,²⁷⁶ *Attorney-General Rivers State v FIRS & Anor*,²⁷⁷ *Emmanuel Chukwuka Ukala v FIRS*,²⁷⁸ *Reg. Trustees of Hotel Owners and Managers Association of Lagos v AG Lagos*,²⁷⁹ *AG Lagos State v Eko Hotels & Anor*,²⁸⁰ *AG*

²⁷² Kelechi Okparaocha, 'Nigeria: Navigating the Future - Key Tax Reforms in Nigeria for 2024 and Beyond' <https://wts.com/global/publishing-article/20250102-nigeria-navigating-the-future-key-tax-reforms-in-nigeria-for-2024-and-beyond~publishing-article> Accessed 29 April 2025.

²⁷³ GVC, 'Nigeria: The tax dispute between the federal and state governments is causing confusion to the taxpayers.' <https://www.globalvatcompliance.com/globalvatnews/nigeria-the-rivers-state-government-implementsthe-state-vat-law/> accessed 29 April 2025.

²⁷⁴ Dentons, 'The VAT Quagmire: An analysis of the decision of the Port-Harcourt Division of the Federal High Court of Nigeria, (April 2022), <https://www.dentons.com/en/insights/articles/2022/april/1/the-vat-quagmire> accessed 29 April 2025.

²⁷⁵ [1985] 1 NWLR (pt.3) pg. 395.

²⁷⁶ Vol.3 All NTC 133 at 148; [1987] 2 NWLR (pt. 57) pg. 444.

²⁷⁷ Suit No. FHC.CS.149/2020.

²⁷⁸ [2021] 56 TLRN 1.

²⁷⁹ [2019] 47 TLRN 1.

²⁸⁰ [2018] 36 TLRN 1.

Federation v AG Lagos State,²⁸¹ *Mama Cass Restaurant Ltd. & Ors. v Federal Board Inland Revenue*,²⁸² where the court has been called upon to interpret tax laws and that which is provided in the constitution.²⁸³

The impact of corruption, tax evasion, and policy inconsistencies extends beyond revenue losses. These issues undermine economic development by reducing government capacity to fund infrastructure, social services, and public welfare programmes.²⁸⁴ They also create an unfair tax burden on compliant taxpayers, who end up shouldering the fiscal responsibilities that evaders and corrupt entities avoid. Additionally, they damage investor confidence, as businesses require a stable and predictable tax environment to thrive.²⁸⁵ Strengthening anti-corruption measures, improving tax enforcement, and ensuring consistency in tax policies are critical steps towards enhancing Nigeria's tax system and promoting economic development. By addressing these challenges, the government can build a more effective and equitable tax regime that fosters voluntary compliance and sustainable revenue generation.

4.5 Enforcement Challenges in Nigeria's Tax System

Tax enforcement in Nigeria is fraught with numerous challenges that undermine the efficiency of tax administration and revenue collection. Despite the existence of legal frameworks and regulatory agencies such as the Federal Inland Revenue Service (FIRS) and State Boards of Internal Revenue (SBIRs), the enforcement of tax laws remains weak due to inadequate resources, lack of technological infrastructure, administrative inefficiencies, and widespread tax evasion. These challenges hinder the government's ability to mobilise revenue effectively, thereby limiting its capacity to provide essential public services and infrastructure.

²⁸¹ [2013] 16 NWLR (pt. 1380) 249 SC.

²⁸² [2010] 2 TLRN 99, at 125.

²⁸³ Part II, Second Schedule, 1999 CFRN.

²⁸⁴ Olasunkanmi, Y. T., Ogieriakhi, A. P., Oladapo, O. G., Chigozie, P. I., Adewumi, J. O., Esegine, J. K., ... Ohaeri, U. E., *Evaluating The Economic Impact Of Tax Avoidance And Evasion On Personal Income Tax Administration*. Path of Science, (2025) vol.11 issue 1, 2010-2017. <https://doi.org/10.22178/pos.113-11>

²⁸⁵ Ibid.

Inefficiency of tax collection mechanisms.

One of the primary enforcement challenges in Nigeria's tax system is the inefficiency of tax collection mechanisms. Many taxpayers, particularly in the informal sector, remain outside the tax net due to weak enforcement strategies. The informal economy, which accounts for a significant portion of Nigeria's economic activities, operates largely outside formal regulatory oversight, making it difficult for tax authorities to track taxable income and enforce compliance. Many small and medium-sized enterprises (SMEs) either evade taxes entirely or underreport their earnings to reduce their tax liabilities. The absence of a well-structured mechanism for monitoring and taxing the informal sector leads to substantial revenue losses for the government.

Lack of adequate technological infrastructure

Another major issue is the lack of adequate technological infrastructure to support tax enforcement. Many aspects of Nigeria's tax administration still rely on manual processes, which are inefficient, prone to corruption, and difficult to track. Digital tax systems, such as electronic filing, automated audits, and data-driven compliance tracking, are either underutilised or poorly implemented. The absence of a centralised digital tax database makes it challenging for authorities to identify tax defaulters, enforce penalties, and monitor tax compliance across various sectors. The use of outdated technology further hampers tax enforcement efforts, as tax authorities struggle to manage large volumes of tax records effectively.

Poor inter-agency coordination and Overlapping tax jurisdictions

The issue of poor inter-agency coordination and overlapping tax jurisdictions also contributes to enforcement difficulties. Nigeria operates a three-tier tax structure, with tax collection responsibilities shared among the federal, state, and local governments. However, the lack of clear jurisdictional boundaries often leads to conflicts between different tax authorities. For instance, the ongoing dispute between the federal and state governments over Value Added Tax (VAT) collection has created uncertainty for businesses and taxpayers, leading to tax avoidance and enforcement challenges. Additionally, the absence of proper collaboration between government agencies, such as the FIRS, SBIRs, and the Corporate Affairs Commission (CAC), results in inefficiencies in tracking taxpayers and enforcing tax laws.

Weak enforcement

Weak enforcement is further exacerbated by inadequate legal frameworks and lenient penalties for tax defaulters. Many tax offenders, particularly high-net-worth individuals and large corporations, exploit legal loopholes to evade taxes without facing significant consequences. The judicial process for prosecuting tax defaulters is often slow, allowing offenders to delay or completely avoid penalties. In some cases, even when tax evaders are identified, they negotiate reduced penalties or settlements through informal arrangements with corrupt officials, further undermining enforcement efforts. The lack of stringent legal consequences for non-compliance discourages voluntary tax compliance, as many individuals and businesses perceive tax evasion as a low-risk offence.

Corruption

Corruption within tax enforcement agencies is another critical challenge affecting Nigeria's tax system. Some tax officials engage in unethical practices, such as demanding bribes from taxpayers in exchange for reduced tax assessments or granting illegal exemptions. Corrupt

practices within tax agencies not only weaken enforcement but also erode public trust in the tax system. When taxpayers perceive that tax officials are corrupt or that enforcement is selective and unfair, they become less willing to comply with tax obligations. The culture of corruption within enforcement agencies makes it difficult to implement effective tax policies and hinders efforts to improve tax compliance.

Inadequate taxpayer education and awareness

Furthermore, inadequate taxpayer education and awareness contribute to enforcement challenges. Many Nigerian taxpayers lack a clear understanding of their tax obligations, filing procedures, and the benefits of tax compliance. The complexity of tax laws, coupled with limited public sensitisation efforts, leads to widespread ignorance and unintentional non-compliance. Some taxpayers fail to remit taxes not because they intend to evade them, but due to a lack of proper guidance on filing procedures and payment deadlines. Strengthening taxpayer education initiatives and simplifying tax processes would help improve compliance rates.

Nigeria's tax system faces numerous challenges, including weak legal frameworks, poor enforcement, corruption, and compliance difficulties. Addressing these issues requires a holistic approach that includes legal reforms, digitalisation, improved inter-governmental coordination, anti-corruption measures, and expanded taxpayer education. Strengthening enforcement mechanisms, integrating digital tax solutions, and incentivising voluntary compliance will significantly improve Nigeria's tax administration.

CHAPTER FIVE:

GENERAL CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

This study examined Nigeria's tax system within the framework of the rule of law, analyzing its legal and institutional structures, enforcement mechanisms, and associated challenges. It highlighted the significance of taxation as a fundamental tool for national development and the role of an effective tax administration in fostering economic growth. The study identified various weaknesses in Nigeria's tax system, including poor legal frameworks, enforcement inefficiencies, widespread tax evasion, and inconsistencies in tax policy.

A key finding was that weak legal frameworks contribute to low tax compliance, as ambiguities in tax laws create loopholes that businesses and individuals exploit. The lack of clarity in tax legislation has resulted in multiple litigations, particularly concerning Value Added Tax (VAT) administration between the federal and state governments. Additionally, multiple taxation at different government levels imposes an excessive burden on businesses and discourages investment.

The study also revealed that corruption within tax administration is a major impediment to tax compliance. Some tax officials engage in fraudulent practices, such as granting illegal exemptions, manipulating tax assessments, and accepting bribes to reduce tax liabilities. These unethical practices erode public trust in the tax system and discourage voluntary compliance. Furthermore, tax evasion remains prevalent, particularly among high-net-worth individuals, multinational corporations, and the informal sector, leading to significant revenue losses.

The study found that poor enforcement mechanisms and inadequate technological infrastructure further hinder tax administration. Many tax authorities lack the capacity to monitor compliance effectively, and manual tax collection processes contribute to

inefficiencies and revenue leakages. Additionally, inconsistent tax policies and frequent legislative amendments create uncertainty, making it difficult for businesses and individuals to understand their tax obligations.

Despite these challenges, the study identified opportunities for reform, particularly in strengthening legal frameworks, digitalising tax administration, improving enforcement mechanisms, and promoting transparency. Implementing these reforms will enhance tax compliance, increase revenue generation, and ensure a fair and efficient tax system that aligns with the principles of the rule of law.

5.2 RECOMMENDATIONS FOR STRENGTHENING NIGERIA'S TAX SYSTEM

To address the challenges identified in this study and improve Nigeria's tax administration, the following recommendations are proposed:

1. Strengthening the Legal and Institutional Framework for Taxation

The government should undertake a comprehensive review of existing tax laws to eliminate ambiguities, harmonise conflicting provisions, and enhance clarity in tax administration. Legislative reforms should focus on simplifying tax laws to ensure they are more accessible and comprehensible to both individuals and corporate entities. A well-structured legal framework will reduce instances of misinterpretation and arbitrary application of tax laws, thereby fostering voluntary compliance.

Furthermore, the government should establish mechanisms to harmonise taxation powers among the federal, state, and local governments. The current system often leads to multiple taxation and jurisdictional conflicts, which discourage investment and economic growth. A streamlined approach to taxation would prevent overlapping tax demands and provide businesses with a predictable tax environment, which is crucial for long-term planning and development.

To achieve this, tax authorities should strengthen intergovernmental cooperation and establish clear guidelines on revenue allocation and tax collection responsibilities. Additionally, digitalising tax administration can improve efficiency, reduce corruption, and enhance transparency. By fortifying the legal and institutional framework, the government can create a fairer, more equitable tax system that encourages compliance, boosts revenue generation, and supports national development.

2. Enhancing Tax Compliance Through Digitalisation

The adoption of modern digital tax systems is crucial for improving efficiency, transparency, and accountability in tax administration. Digitalisation minimises human interference in tax processes, reducing opportunities for corruption and enhancing compliance. The Federal Inland Revenue Service (FIRS) and State Boards of Internal Revenue (SBIRs) should prioritise investment in advanced electronic tax filing platforms, which will enable taxpayers to file returns and make payments seamlessly. A user-friendly e-tax system will encourage voluntary compliance and reduce the bureaucratic bottlenecks associated with manual tax administration.

Additionally, automated compliance tracking systems should be integrated to detect tax discrepancies and identify potential cases of evasion. By leveraging data analytics and artificial intelligence, tax authorities can monitor revenue trends, identify non-compliant taxpayers, and improve enforcement strategies. A centralised tax database is also essential for real-time tracking of taxpayers, allowing for more effective monitoring and cross-referencing of tax records across different levels of government.

Moreover, digitalisation can facilitate tax audits, enhance transparency, and improve inter-agency cooperation by providing a single source of tax information. By embracing modern technology, Nigeria can build a more efficient and transparent tax system, ultimately increasing revenue collection while fostering public trust in the taxation process.

3. Strengthening Anti-Corruption Measures in Tax Administration

The government must implement stringent anti-corruption measures within tax authorities to enhance integrity and public trust in the taxation system. A key step is the enforcement of strict disciplinary actions against corrupt tax officials who engage in fraudulent practices such as bribery, manipulation of tax records, and deliberate tax evasion facilitation. By holding offenders accountable, a culture of transparency and professionalism can be fostered within tax agencies.

To further strengthen accountability, independent oversight bodies should be established to monitor tax administration and investigate cases of misconduct. These bodies should operate autonomously, free from political interference, and be empowered to audit tax agencies regularly. Strengthening whistleblower policies is also crucial in this regard. Providing adequate legal protection and financial incentives to individuals who expose fraudulent tax practices will encourage more people to report corruption without fear of retaliation.

Therefore, the automation of tax assessments and payments can significantly reduce human interaction in tax administration, thereby minimising opportunities for bribery and corruption. Digital platforms should be designed to ensure secure, transparent, and traceable transactions, reducing the discretionary powers of tax officials. By implementing these measures, the government can build a fair, efficient, and corruption-free tax system that enhances compliance and revenue generation.

4. Expanding the Tax Base and Integrating the Informal Sector

A significant portion of Nigeria's economy operates within the informal sector, leading to substantial revenue losses for the government. Many small businesses remain unregistered and outside the tax net due to complex tax procedures, lack of awareness, and concerns over high tax burdens. To address this, the government should introduce policies that incentivise informal sector businesses to register and comply with tax regulations.

One effective approach is the implementation of simplified tax schemes tailored to small and micro-businesses. A streamlined and lower tax rate structure can encourage voluntary compliance while ensuring that informal businesses gradually integrate into the formal economy. Thus, tax amnesty programmes can be introduced to allow unregistered businesses to regularise their tax status without the fear of excessive penalties or retroactive taxation.

Financial inclusion initiatives also play a crucial role in improving tax compliance. By facilitating access to banking services, digital payment platforms, and microfinance opportunities, the government can create an environment where small businesses find it easier to comply with tax obligations. Public awareness campaigns should also be conducted to educate informal sector operators on the benefits of tax compliance, such as access to government support and improved infrastructure. These measures will enhance revenue generation while fostering economic growth and formalisation.

5. Improving Taxpayer Education and Awareness

A significant number of Nigerians remain unaware of their tax obligations due to limited taxpayer education and the complexity of existing tax laws. This lack of awareness contributes to low compliance rates, as many individuals and businesses either misunderstand their tax responsibilities or find the process too cumbersome. To address this issue, the government should intensify public education campaigns to raise awareness about tax obligations, benefits, and procedures.

Utilising various media platforms, including television, radio, social media, and community outreach programmes, can help disseminate tax-related information to a wider audience. Additionally, stakeholder engagements involving business associations, trade unions, and professional bodies can foster better understanding and cooperation in tax compliance efforts. Educational initiatives should focus on explaining tax laws in simple, accessible language to ensure clarity for both formal and informal sector participants.

Beyond awareness, simplifying tax procedures is essential in encouraging voluntary compliance. Reducing bureaucratic bottlenecks, streamlining tax registration, and offering user-friendly digital platforms will make compliance more convenient. Furthermore, establishing taxpayer advisory services and help desks can provide individuals and businesses with the necessary guidance to navigate the tax system effectively. By implementing these measures, the government can foster a more tax-conscious society, ultimately enhancing revenue generation and economic development.

6. Resolving Policy Inconsistencies and Strengthening Fiscal Federalism

Frequent changes in tax policies create uncertainty for businesses and investors, making it difficult for them to plan long-term financial and operational strategies. Constant modifications in tax rates, exemptions, and administrative procedures can discourage investment, hinder economic growth, and reduce overall compliance. To address this issue, the government should adopt a stable and predictable tax policy framework that provides clarity and consistency in tax administration.

A key aspect of this framework is ensuring that any proposed policy changes undergo thorough stakeholder consultations and impact assessments before implementation. Engaging businesses, tax professionals, and economic experts in policy discussions will help identify potential challenges and refine tax reforms to minimise negative consequences. This inclusive approach will enhance public trust in the taxation system and promote compliance.

Notwithstanding, resolving the ongoing Value Added Tax (VAT) jurisdictional dispute between the federal and state governments is crucial for ensuring certainty in tax administration. The lack of legal clarity on tax collection authority creates confusion, leading to multiple taxation and compliance burdens for businesses. A constitutional amendment or clear judicial interpretation should be pursued to delineate tax powers effectively. By

fostering stability, transparency, and legal certainty, Nigeria can create a more conducive tax environment that supports investment and economic development.

7. Strengthening Tax Enforcement Mechanisms

To effectively combat tax evasion, enforcement agencies must be equipped with stronger legal backing to track, investigate, and prosecute tax defaulters. Many tax evaders exploit loopholes in existing laws, making it essential to introduce stricter legal provisions that grant tax authorities the necessary powers to take swift action against offenders. Strengthening the judicial framework for tax-related offences will ensure that legal processes are more efficient, reducing delays in prosecuting tax defaulters.

The adoption of forensic audits and automated tax compliance tracking systems can significantly enhance enforcement efforts. Forensic audits allow tax authorities to uncover hidden income, fraudulent financial records, and other tax-avoidance schemes. Similarly, automated compliance tracking, combined with cross-agency data sharing between tax authorities, financial institutions, and law enforcement bodies, can improve detection and enforcement by identifying discrepancies in tax declarations.

Furthermore, increasing penalties for tax evasion and ensuring the strict prosecution of offenders will serve as a deterrent to non-compliance. Hefty fines, asset seizures, and imprisonment for serious tax offences can discourage deliberate evasion while reinforcing the principle of accountability. By implementing these measures, Nigeria's tax system can become more efficient, transparent, and equitable, leading to improved revenue generation and sustainable national development.

5.3 CONTRIBUTIONS TO KNOWLEDGE

This study contributes to academic and policy discussions on taxation and governance in Nigeria by providing an in-depth analysis of the relationship between taxation and the rule of law. It highlights the legal and institutional weaknesses that undermine tax administration and offers practical recommendations for reform. The study also enriches existing literature by

examining the role of corruption, enforcement inefficiencies, and fiscal policy inconsistencies in shaping tax compliance.

Additionally, this research contributes to knowledge by emphasising the need for digital transformation in tax administration as a strategy for improving efficiency and reducing corruption. By exploring case studies of tax disputes and policy inconsistencies, the study provides empirical insights that can guide future tax reforms and legislative amendments.

Furthermore, the study bridges the gap in understanding how Nigeria's tax system can align with the principles of the rule of law, ensuring fairness, transparency, and accountability in revenue mobilisation.

5.4 Areas for Further Research

While this study provides a comprehensive analysis of taxation and the rule of law in Nigeria, further research is needed to explore:

1. The impact of digital taxation on tax compliance and revenue generation in Nigeria – As the country continues to implement digital tax initiatives, future studies should assess their effectiveness in improving compliance and reducing fraud.
2. A comparative analysis of Nigeria's tax enforcement mechanisms and global best practices – Examining how other countries successfully enforce tax laws can provide insights into improving Nigeria's tax administration.
3. The role of artificial intelligence (AI) and blockchain technology in tax administration – Emerging technologies have the potential to revolutionise tax collection, enforcement, and fraud detection.
4. The socio-economic effects of multiple taxation on small and medium enterprises (SMEs) in Nigeria – Given the significant impact of excessive taxation on business growth, further research should assess policy options for reducing tax burdens on SMEs.

5. The effectiveness of tax dispute resolution mechanisms in Nigeria – Evaluating the efficiency of the Tax Appeal Tribunal (TAT) and other judicial processes can offer recommendations for improving tax dispute resolution.

These areas of research will help deepen understanding and inform future tax reforms in Nigeria.

5.5 Conclusion

This study examined Nigeria's tax system through the lens of the rule of law, highlighting key challenges such as weak legal frameworks, poor enforcement, corruption, tax evasion, and policy inconsistencies. It identified the need for comprehensive tax reforms to improve compliance, enhance revenue generation, and ensure fairness in tax administration. The study proposed various policy recommendations, including strengthening legal frameworks, digitalising tax administration, tackling corruption, and expanding the tax base.

By adopting these reforms, Nigeria can establish a transparent, efficient, and equitable tax system that aligns with the principles of the rule of law. A strong and well-regulated tax system is essential for economic growth, sustainable development, and public trust in governance. Therefore, policymakers must prioritise tax reforms that enhance compliance, ensure accountability, and foster a conducive environment for investment and economic prosperity.

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