

## **NATIONAL TAX POLICY AND NIGERIA TAX SYSTEM**

**Adedokun Yemisi, Adetola Raman & Akintoye Ishola Rufus**

Department of Accounting  
School of Management Sciences  
Babcock University, Ilishan-Remo, Nigeria  
adedokunyemisi@gmail.com

### **Abstract**

*The Nigeria tax system has deteriorated due to use of outdated tax policies, laws and mode of administration. This prompted the emergence of a new document referred to as the National Tax Policy for use by tax administrators and tax payers in Nigeria. The study examined whether the National Tax Policy has significantly influence the Nigeria tax system and investigated whether the National Tax Policy has minimized the weaknesses affecting the Nigeria tax system. A qualitative research approach was adopted and the research design was exploratory. The National Tax Policy has chartered the road map of the country's drive to a competitive tax system globally which has enhanced the economic development of Nigeria. The study recommended that all stakeholders should comply with tax reforms initiatives, the National Tax Policy should be subjected to review from time to time, a tax regime with standard policy hub should be established to achieve desired objectives and the Nigeria government should endeavor to integrate taxation as a course into the school curriculum at all levels of education to create awareness.*

**Keywords:** Tax system, National tax policy, tax laws, tax administration, federal system

### **Introduction**

The Nigeria Tax System has suffered due to the traditional tax policies, tax laws and tax administration methods in use, which are no more relevant in today's world. A lot of efforts have been put into developing a National Tax Policy which will serve as a guiding document for tax administrators and tax payers. Nigeria is a developing country with leading emerging economies in the world, governed by a federal system and this has impacted how the tax system is being managed. The fiscal power of the government relied on the three tiered tax structure, that is, the federal, the state and the local governments. The federal government are responsible for the collection of the Personal Income Tax, Company Income Tax, Petroleum Profit Tax, Capital Gain Tax and the Value Added Tax which are veritable the state and local governments collect other forms of taxes which are less buoyant. This tax structure is lopsided (Oduola, 2006). The Nigeria government had over relied on revenue from oil and gas and neglected other sources of revenue most especially the non-oil revenue. Revenue from taxes form a very little proportion of the revenue pool.

Over the past two decades, the oil revenue has been dwindling and this has prompted the Nigeria government to shift focus from oil revenue to enhancing the non-oil revenue. The Nigeria tax system is characterized by myriads of weaknesses which affects the

implementation of tax policies and tax laws, and administration of taxes. Some of the weaknesses as identified by Nwokoye and Rolle (2016) are: paucity in availability of data, inadequate skilled manpower, administration problem, high rate of corruption amidst tax officials, complex tax laws, syndrome of tax avoidance and tax evasion, tax conflicts among the different tax jurisdictions, minimum tax practice, multiple taxation and lack of tax awareness.

These weaknesses in the Nigeria Tax System have created serious challenges to the economy. These challenges awakened the Federal Executive Council to approve the bill on the provision of National Tax Policy.

### **Statement of the Problem**

Nigeria is a country with a federal political structure and is characterized with a fiscal regime that complies with same principle, which seriously affects how the Nigeria tax system is managed. The Tax System has not been able to provide pivotal strategies to the government for generating enough funds through taxes needed for government expenditure in a sustainable manner. The tax policies, tax laws and the administration of taxes in Nigeria have not been able to drive the country economic growth. Individuals and corporate organizations are not willing to pay taxes because of non-provision of adequate services and poor accountability.

### **Objectives of the Study**

The general objective of this study is to examine whether the National Tax Policy has significantly influence the Nigeria Tax System.

The specific objective is to investigate if the National Tax Policy has minimize the weaknesses affecting the Nigeria tax system.

### **Justification for the Study**

The study is very necessary at this time to measure the impact of the new National Tax Policy document on the tax system in Nigeria. It is very important at present when oil revenue is diminishing and the governments at all levels are seeking for means of enhancing the other sources of revenue, that is, the non-oil revenue and specifically the tax revenue.

## **Literature Review**

### **Introduction**

According to Federal Ministry of Finance (2017) in the National Tax Policy “tax is any compulsory payment to the government imposed by law without direct benefit or return of value or a service whether it is called a tax or not”. A tax system is “a legal system for assessing and collecting taxes” (Farlex, 2008). Tax Systems are essential instruments used by the governments of all countries in actualizing their various objectives (Musgrave and Musgrave, 2004). The government in various countries need a fair, accurate, effective, efficient and transparent tax system to administer, assess, charge, collect and manage tax. Some of the objectives to be achieved by these governments are “maximization of governmental revenue yields, attainment of vertical and horizontal

equity, and the promotion of economic development” (Akanle, 1991). To achieve these stated objectives, there is need for review of the tax system often and often.

### **Trend of Tax Reforms in Nigeria**

The Federal Government of Nigeria had taken different steps which were aimed at reforming the tax system from time to time. These reforms are:

**The 1992 Study Group** on Nigeria Tax System and Administration led by Professor Emmanuel Edozien. The Study Group made the following recommendations:

- The establishment of Federal Inland Revenue Service (FIRS) as the operational arm of Federal Board of Inland Revenue (FBIR).
- The setting up of Revenue Services at the States and Local Governments (Teniola, 2018).

**The 1992 Study Group** on Indirect Taxation led by Dr. Sylvester Ugoh. The Study Group recommended a policy shift from direct taxation to indirect taxation/consumption which led to the evolution of Value Added Tax (VAT) (Teniola, 2018).

**The 2002 Study Group** on the Review of the Nigeria Tax System led by Professor Dotun Phillips. The terms of reference of the Study Group was broader in scope compared with other groups set up before 2002. The group worked on 11-points terms of reference. They gave their reports in 20 chapters of 17 volumes. The report was submitted in 2003. Their recommendations are:

- That Nigeria should have a 24 clause national tax policy;
- There should be a register that will contain individuals and corporate taxpayers' data and also smart tax identity cards should be issued to all taxpayers;
- The threshold of the personal income tax need to be raised up to N200,000 and the personal income tax free allowance should be consolidated to a single bulk of 40% of assessable income and the maximum income rates should be 20%;
- There should be limitations on special tax incentives, for instance, tax holidays and import duties reliefs should be given only to industries sited in rural areas, industries engaged in full exports, companies producing solid minerals and oil and gas operations companies;
- Companies should be exposed to companies income tax in any assessment year after making profit;
- There should be reduction of companies income tax from 30% to 20% rate;
- Companies having less than N50,000,000 should henceforth pay its companies income tax to the State government where it operates;
- Amendments to the constitution to confirm the legality of VAT which should be shared between the states after deducting 3% as part of the cost of administration nationwide; and
- Tenement rate, capitation rates and defined users charges for directly beneficial services to the citizens only to be charged by local governments (Okaru, 2012).

**The 2004 Working Group** which is a private sector driven-group was constituted to critically evaluate the recommendations submitted by the 2002 study group and then make proposals by prioritizing sets of strategies whose implementations will impact the Nigeria Tax System, which were grouped into short term which will be within six months. Medium term which is within two years and long term which is within 5 years of submission of working group report.

The study group and the working group both addressed the micro and macro tax policies and administration issues. Some of the macro issues discussed includes the drafting of a national tax policy, tax incentives, taxation and federation, and general tax administration. The recommendations of these groups and subsequent evaluations paved way for more inputs from stakeholders in Nigeria Tax System. This led to the conveyance of the first national tax retreat in Nigeria in 2005. The stakeholders agreed that the following reasons among others are necessary and expedient for Nigeria Tax System. They are: a development of national tax policy, efficient and effective tax administration, computerization and centralization of revenue agencies, redistribution of wealth and introduction of a more equitable tax system, stimulation of the non-oil sector of the economy, simplification of tax regime, reduction of tax rates, organization of capacity building for tax administrators and taxpayers, and resolving contentious issues in tax administration.

The Federal Government approved the recommendation of producing a national tax policy among others and a document was first prepared in 2012. The National Tax Policy document was produced but not implemented until The Honourable Minister of Finance Mrs. Kemi Adeosun inaugurated another committee on the 10th of August 2016 to review the National Tax Policy produced in 2012 and the committee was led by Professor Abiola Sanni (Federal Ministry of Finance, 2017).

The Professor Abiola Sanni-led committee on Review of National Tax Policy was able to achieve the following among others: the production of a plain, simple and concise revised document having clear implementation and monitoring strategies; the reviewed policy identifies the basic objectives of the 1999 constitution and reinforces the necessity of tax laws and administrative practices to enhance the economic development, highlights the problems facing the Nigeria Tax System and key policy principles to solve them (Somorin, 2018). In February 2017, the Federal Executive Council approved the National Tax Policy and a committee was set up to drive the implementation.

### **Theoretical Review**

Three theories of taxation are discussed in this paper the socio-political theory, the expediency theory and the Faculty (Ability-to-pay) theory. The socio-political and expediency theory are based on the assumption that there should not be any connection between the tax paid and the benefits to be derived from state activities while the Ability-to-pay theory is based on the principle of justice and equity (Bhartia, 2009).

### **Socio-Political Theory**

The proponent of socio-political theory is Adolph Wagner a German Economist (1835-1917); he holds that social and political objectives should be the most essential factors to be considered in determining taxes to be paid by citizens. The theory hinges on the fact that tax should be an instrument for curing various ills of the society at large, and not to serve individuals. Although the society comprises of individuals but could be seen as a sovereign entity and greater than overall individual members. Thus, the state must preserve the existence of the entity and proffer solutions to its challenges. The state power of tax imposition does not rely on the conferment of benefits, but basically the exercise of sovereign power. Therefore, tax system should be seen as fiscal policy measures used for minimizing income inequalities and rate of unemployment in a country and not solely for the purpose of generating funds for government.

### **Expediency Theory**

The expediency theory holds that in all tax proposals, the practicability of imposition and the efficiency of the collection (administration) of taxes should be the main consideration. Bhartia (2009) believes that the economic and social objectives of a country and the effects of a tax system should be seen as very essential when designing a tax system. Often, pressures arise from social, economic and political groups. These groups fight for their own personal interests and the tax authorities in order to accommodate these pressures are forced to reshape the tax structure. The Nigeria tax administrative structure rarely collects taxes imposed at a reasonable cost and therefore renders the whole tax system uneconomical.

### **Faculty (Ability-to-Pay) Theory**

The principle of the Faculty (Ability-to-Pay) Theory originated from the sixteenth century and was systematically stretched by Jean Jacques Rousseau (1712 – 1778) a Swiss Philosopher in the seventeenth century and lastly by John Stuart Mill (1806 – 1873) an English Economist. The principle is the base of progressive tax and holds that citizens should be taxed based on their ability to pay. The theory believed that tax is a compulsory levy on individuals and organizations residing and deriving income in a country. It is a mandatory obligation and the citizen should not expect equivalent benefits from the taxes paid, and the government owes no explanation to the citizens. Bhartia (2009) argued that the tax payer is to pay taxes because he can, and his relative share in the entire tax burden is based on his relative paying capacity. The theory advocates that tax burden should be shared by citizens on the principle of equity and justice. It means that tax burden should be borne by tax payers based on their relative ability to pay.

### **Empirical Review**

Anderson Tax (2018) reviewed National Tax Policy Implementation in Nigeria. The paper revealed that the first National Tax Policy was prepared in 2012 but reviewed, replaced and implemented in 2017 with a more concise policy. It also gives insights on tax reforms in conjunction with synopsis of the proposed amendments to tax laws in Nigeria in line with the National Tax Policy. The paper concluded that the Federal

Government of Nigeria aim of providing a National Tax Policy is to meet revenue target by increasing revenue from non-oil sources especially now that oil revenue is dwindling. Tawoju (2018) examined designing a robust tax system for Nigeria: lessons from an international perspective. The study identified the basis for a good tax policy and explores the Organization for Economic Co-operation and Development (OECD) and United Nations initiatives in relation to harmful tax practices and tax incentives. The study concluded that tax incentives are not effective and does not attract foreign direct investment and this may lead to taxpayers' abuse and erode revenue base of Nigeria. It recommends reform of the tax laws and provision of new legislations and also minimize the problem of corruption amidst tax officials in the Nigeria tax administration.

Gurama, Mansor and Pantamee (2015) examined tax evasion and Nigeria tax system, they reviewed the concept of tax evasion and the Nigeria tax system. The study concluded that taxes are essential instrument used by different countries from the ancient life to develop the community and for redistribution of wealth. However, the usefulness of taxes has been disrupted by evasion by un-patriotic citizens. Thus, the tax compliance enforcement agencies should cooperate and should share information among themselves to minimize tax evasion and non-compliance with tax laws, thereby increasing revenue generation.

### **Gaps in the Study**

There are scanty literatures on National Tax Policy in Nigeria. The concept is new and the effective date for the implementation of the document was November, 2016. Some of the literatures reviewed revealed some gap. From Anderson (2018) work, timing gap was identified. Tawoju (2018) was scope gap, the author reviewed how Nigeria could design a robust tax system learning from international perspective but did not look deeply into the National Tax Policy. Gurama et. al. (2015) work also revealed scope gap, they reviewed tax evasion and Nigeria tax system. The National Tax Policy was not reviewed. This study has tried to bridge the gap by investigating the new National Tax Policy and the Nigeria Tax System.

### **Methodology**

This study adopted a qualitative research approach and the exploratory research design was applied which mainly reviewed relevant literatures on National Tax Policy and the Nigeria Tax System. Also, logical analysis was the basis for the study.

### **Conclusion and Recommendations:**

#### **Conclusion**

The National Tax Policy is a document designed to address the challenges confronting the Nigeria Tax System, it highlights the fundamental objectives of the 1999 constitution and establishes the need for tax laws and reasons for administrative practices to enhance the economic development of the country. For any country's economy to develop and be competitive in the global economy it must consider some factors and having robust macro-economic policies is one of them. The document has served as a basis from which other measures were derived. It has chartered the road map of the country's drive to a

competitive tax system globally which has enhanced the economic development.

The Ministry of Finance has helped in implementing the tax reform through the Tax Policy Implementation Committee (TPIC) and Office of Tax Simplification (OTS); and has jointly worked with the National Assembly. The Ministry provides periodic report on tax policy to the National Economic Council (NEC) and has established a tax court which has significantly influence the Nigeria Tax System.

The non-oil taxes have systematically increase since the implementation of the National Tax Policy and has improved the economic growth of Nigeria. The National Tax Policy as served as an instrument that has helped to address the weaknesses in the Nigeria Tax System. It has helped to eradicate the ambiguity of tax laws, removes obsolete provision, simplifies tax payments, increase and diversifies government revenue.

### **Recommendations**

All stakeholders especially the corporate tax payers should be compelled to comply with every tax reforms initiative.

The National Tax Policy should be subjected to review from time to time to reflect current situations of the country and the global economy.

A tax regime with standard policy hub should be established to achieve desired objectives.

The government should endeavour to integrate taxation as a course or subject into the school curriculum at all levels of education to create awareness.

### **Contribution to Knowledge**

Scholars and Researchers will derive great benefit from this study as it will give them a fore knowledge of what National Tax Policy entails and how it has impacted the Nigeria Tax System.

This study will also be useful for stakeholders to educate them on their roles and responsibilities in providing a robust tax system in Nigeria.

### **References**

- Anderson Tax (2018). National Tax Policy Implementation in Nigeria. Retrieved from: <https://www.bing.com/search?q=national+tax+policy+implementation+anderson+tax&form=EDGEAR&qs=PF&cvid=33be69f93ca84061b4a55078b6b2aa26&cc=US&setlang=en-US&PC=HCTS>
- Bhartia, H. L. (2009). *Public Finance (14th edition)*. Vikas Publishing House PVT Ltd., New Delhi.
- Farlex Clipart Collections (2008). Tax System. Retrieved from: <https://www.thefreedictionary.com/tax+system>
- Federal Ministry of Finance (2017). National Tax Policy. Retrieved from: <https://www.proshareng.com/admin/upload/reports/NationalTaxPolicy2017.pdf>

- Gurama, Mansor and Pantamee (2015). Tax Evasion and Nigeria Tax System: An Overview. *Research Journal of Finance and Accounting*, 6(8), 200 – 211.
- Musgrave, R. A. & Musgrave, P. B. (2004). *Public Finance in Theory and Practice*. Tata McGraw Hill, New Delhi, India.
- Nwokoye, G. A. & Rolle, R. A. (2015). Tax Reforms and Investment in Nigeria: An Empirical Examination. *International Journal of Development and Management Review (INJODEMAR)*, 10, 39 – 51.
- Odusola, A. (2006). Tax Policy Reforms in Nigeria. Research Paper No. 2006/3, United Nations University – World Institute for Development Economies Research.
- Okaru, I. O. (2012). Federal Inland Revenue Service and Taxation Reforms in Democratic Nigeria. Oxford: African Books Collective. Retrieved from: <https://muse.jhu.edu>
- Oyedele, T. (2016). Nigeria's New National Tax Policy: A New Dawn or Another False Start. Retrieved from: <https://guardian.ng/features/nigerias-new-national-tax-policy-a-new-dawn-or-another-false-start/>
- Somorin, T. (2018). Role of the National Tax Policy in Evolving a Robust Tax System. Retrieved from: <https://www.proshareng.com/news/TAXES%20&%20TARIFFS/Role-of-the-National-Tax-Policy-in-Evolving-a-Robust-Tax-System/39375>
- Tawoju, O. (2018). Designing a Robust Tax System for Nigeria: Lessons from an International Perspective. M.Sc. Thesis, Dalhousie University, Halifax, Nova Scotia.
- Teniola, E. (2018). Collecting Taxes in an Era of Poverty. Retrieved from: <https://www.sunnewsonline.com/collecting-taxes-in-an-era-of-poverty-1/>