



## An Overview of the Imperatives and Challenges of the Nigerian Tax System

Ololade Tope Olawuyi\*  
Bamisile Aderonke Oluwabukola\*\*  
Umejuru Ozioma Rachael\*\*\*

### Abstract

*Taxation globally is designed as one of the tools by governments to generate revenue as such, its economic importance to Nigeria and most countries of the world cannot be overemphasized. Under some specific laws, the three tiers of government being, the federal, state and local governments have the responsibility of tax administration in Nigeria. However, the role of tax administration has changed dramatically in the past decade, and the pace of change has accelerated sharply in recent years due to the development and implementation of new technologies as well as the application of same to the functions and processes of tax administration. Finding reveals that, the Nigerian tax system is confronted with many challenges such as multiplicity of taxes, corruption, bad administration, non-availability of data/database, tax touting, complex nature of the tax laws, minimum tax, and non-payment of tax refunds among several others. Additionally, the research essentially recommended that the various tiers of government should cooperate and support the relevant tax authorities to achieve desired results in tax administration. Furthermore, it is recommended that efforts should be made to streamline tax collection mechanism, as this in turn would ensure good, effective and efficient tax administration. There is also the need for effective alignment with recent developments in tax technology, in order to enhance the Nigerian tax system.*

**Keywords:** Imperative, tax challenges, tax structure, tax technology

### 1. Introduction

The Nigerian tax administration system lies on the Federal, State and Local governments. Additionally, each of the three tiers of the government has its own collection powers imposed by tax laws. The Nigerian tax system, like other systems of taxation, is designed to generate income and it is based on the 1948 tax laws of the British during the pre-independence government legacy.<sup>1</sup> Since then, the Nigerian tax system has not been left without reforms. The tax system in Nigeria has undergone several significant reforms aimed at simplifying the laws and repealing out-dated provisions under the tax laws.<sup>2</sup> However, despite several efforts being made to reposition the Nigerian tax system, there are still numerous challenges facing it. The Nigerian tax system is essentially statutory, involving both direct and indirect taxes. There are plethora of taxes and levies dealing with customs and excise duties, mining, rents, royalties and premium on petroleum etc., provided for under different laws including a myriad of levies collected by local government authorities under the ambit of the law.<sup>3</sup> In both democratic and dictatorial regimes, it is the primary duty of governments all over the world to provide basic social amenities for its citizens as well as secure lives and property. Governments in most cases fail to carry out this responsibility not because they do not want to discharge their duties, but because they don't have the financial muscle to do so even though governments usually impose and collect all manner of taxes from the citizens so as to raise revenue to provide the much-needed basic amenities.

\* **Ololade Tope Olawuyi**, Principal Studies Fellow, National Judicial Institute, Mohammed Bello Centre, Jabi-Abuja, LL.B, MLCJ. EMAIL: loladeade@yahoo.com. Telephone: (234) 802393467.

\*\* **Bamisile Aderonke Oluwabukola**, Studies Fellow, National Judicial Institute, Mohammed Bello Centre, Jabi-Abuja. LL.B, B.L. Email: ronkkybammy@yahoo.com. Telephone: 2347081915752.

\*\*\* **Umejuru Ozioma Rachael**, Studies Fellow, National Judicial Institute, Mohammed Bello Centre, Jabi-Abuja. LL.B.B.L. TELEPHONE: 2348033128017.

<sup>1</sup> Ekeocha et al, Revenue Implications of Nigeria's Tax System', (2012) 3 (8) *Journal of Economics and Sustainable Development*.

<sup>2</sup> D S Etori, 'Issues and Challenges Inherent in the Nigerian Tax System', *American Journal of Management Science and Engineering*, <[https://www.researchgate.net/publication/321650051\\_Issues\\_and\\_Challenges\\_Inherent\\_in\\_the\\_Nigerian\\_Tax\\_System](https://www.researchgate.net/publication/321650051_Issues_and_Challenges_Inherent_in_the_Nigerian_Tax_System)> accessed 21 February 2025 by 10:18am

<sup>3</sup> Taxes and Levies Approved List for collection 1998 as Amended in 2015

This paper examines the Nigerian tax system, the benefits and challenges, impacts, and the risks of a digital transformation journey. It looks specifically at digital transformation of tax administration and sets out the need for technological solutions. It also underscores that digital transformation of tax administration is a crucial step in meeting the objectives and enabling the evolved functions of tax administration now and in the future.

## **2. Conceptual Clarifications**

**Tax:** Tax is defined as a compulsory monetary charge imposed by the government on persons, entities, transactions or properties to yield public revenue.<sup>4</sup> In the same vein, the Australian court in *Matthews v Chicory Marketing Board*<sup>5</sup> define tax as:

*a compulsory exaction of money by a public authority for public purposes or the raising of money for the purpose of government by means of contributions from individual persons*<sup>6</sup>

The challenge of formulating a singular, universally accepted definition of "tax" is evident in the diverse approaches taken by various sources. As noted, there is a lack of definitional consensus. The *New Oxford Dictionary of English* defines tax as a compulsory contribution to support government.<sup>7</sup> This definition emphasizes the mandatory nature of tax payments and their purpose in funding governmental operations. Economists, however, define taxation in terms of its economic impact. They define it as a diversion from private to public uses. This perspective highlights the transfer of resources from individuals and businesses to the government. However, this transfer can be perceived as immoral and wicked if it lacks justification or fails to provide tangible benefits to the contributors.<sup>8</sup> Perhaps, some text writers define tax as money raised to encourage social justice. This definition links taxation to the pursuit of societal equity. However, the concept of justice is inherently subjective and varies across different communities and individuals, leading to a lack of uniform understanding.

Notably, Adam Smith, a classical economist, avoided a direct definition of tax altogether. Instead, he focused on describing the characteristics of a good tax system, outlining principles such as equity, certainty, convenience, and economy.<sup>9</sup> This approach underscores the difficulty of encapsulating the multifaceted nature of taxation within a single, concise definition.

## **3. Structure of the Nigerian Tax System**

The tax system in Nigeria is a tripartite foundation vested in the three tiers of government. It comprises of the tax policy, tax legislation and tax administration. Tax administration involves carrying out the tax laws through the activities of the authorities assigned with the obligation of assessing, collecting and accounting for tax revenue. It has to do with implementing tax policy which includes complying with tax rules by tax payers.<sup>10</sup> The structure and tax administration in Nigeria is multi-tiered.<sup>11</sup> The tax authorities of the three tiers of government are the Federal Inland Revenue Services (FIRS), the State Boards of Internal Revenue (SBIR) and the Local Government Revenue Committee.

### **3.1 The Federal Government Taxing Powers**

The taxing powers of the Federal Government of Nigeria are derived from the provision of section 4(2) of the 1999 Constitution of Federal Republic of Nigeria (as amended). The section provides that:

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<sup>4</sup> B A Garner, *Black's Law Dictionary* (9<sup>th</sup> Edn, St Paul MN, 2009) P 1594

<sup>5</sup> (1938) 60 C.L.R 263 at 276

<sup>6</sup> Ibid

<sup>7</sup> J Pearsall, (ed.), *The New Oxford Dictionary of English*. (Oxford University Press, 1998).

<sup>8</sup> R A Musgrave, & P B Musgrave, *Public finance in theory and practice* (McGraw-Hill, (1989).

<sup>9</sup> A Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, (New York: Macmillan & Co., 1776) P 261.

<sup>10</sup> I O Okauru, *Federal Inland Revenue Service and Taxation Reforms in Democratic Nigeria*. (Oxford: African Books Collective, 2012).

<sup>11</sup> KPL. 'Nigerian Tax System: Structure and Administration' <<https://pml.com.ng?nigerian-tax-system-structure-and-administration>> accessed 20 February 2025 by 10:19am

*The National Assembly shall have power to make laws for the peace, order and good government of the Federation or any part thereof with respect to any matter included in the Exclusive Legislative list set out in part I of the second schedule to this constitution.*

The Exclusive Legislative List mentioned in section 4(2) is set out in Part I of the Second Schedule to the Constitution and it contains, inter alia, Customs and Excise Duties, Stamp Duties, as well as incomes, profits and Capital Gains<sup>12</sup>. It is however important to state here that the Federal Government does not only have powers over taxation as stated in the Exclusive List but also in the concurrent legislative List. Over the years, the pattern of allocation of tax jurisdiction in the tax system show that in most cases, the state as well as the local governments taxed individuals while the Federal government has always taxed corporate bodies. In the event that scenarios present themselves such that the Federal and State governments share jurisdiction, the power of the legislature is retained by the Federal government but the administration is done in collaboration with the state. For newly introduced taxes such as information technology levy, tertiary education tax and value added tax (VAT), the Federal government has always exercised jurisdiction.

While the taxes payable to the Federal Government are administered by the Federal Inland Revenue Service (FIRS),<sup>13</sup> the State Boards of Internal Revenue (SBIRs) of the thirty six States of the Federation as well as the Federal Capital Territory Internal Revenue Service (FCTIRS) administer the taxes payable to the State Governments and the FCT. Local Governments also administer rates and levies collectible by them through their various councils.<sup>14</sup>

### **3.2 State Taxing Powers**

In this discourse it is important to note that under the 1999 Constitution of Nigeria (as amended), no tax is specifically reserved for the State Government. The only thing that can be seen from the constitution in relation to the powers of State Government collect tax is contained in item 9 of the Concurrent Legislative List. Item 9 of the Concurrent Legislative List states that:

*A House of Assembly may, subject to such condition as it may prescribe, make provisions for the collection of any tax, fee or rate or for the administration of the law providing for such collection by a Local Government Council.*

The above provision therefore infers that a State Legislature may by law, prescribe conditions under which its own tax authorities may charge and collect any tax, fee or rate (other than those that had been expressly reserved for the Federal Government under the Exclusive Legislative List and delegate to Local Government Councils the collection of any such tax, fee or rate upon conditions prescribed by the State Legislature.

It is important to note that according to Bello JSC (as he then was) in the case of *Aberuagba v Attorney-General Ogun State*,<sup>15</sup> 'any tax' as used in the provision empowers the States to impose tax on all matters in the concurrent list and residual matters. Residual matters in this regard are matters that are neither on the Exclusive Legislative List nor in the Concurrent Legislative List. It is worthy of note that the above view is not expressly stated in the constitution. By virtue of section 4(7) of the Constitution, the State House of Assembly shall have power to make laws for the peace, order and good government with respect to the following matters:

<sup>12</sup> By virtue of the provision of the Exclusive Legislative List, the major tax Acts such as the Stamp Duties Act, Capital Gains Tax Act, Personal Income Tax Act, Petroleum Profit Tax Act (now Petroleum Industry Acts) Companies Income Tax Act, Customs and Excise Management Act as well as Education Tax Act, are all Federal Statutes of which the Federal Government has taxing powers over.

<sup>13</sup> The FIRS is empowered to collect income taxes in respect of members of the Armed Forces of the Federation; members of the Nigeria Police Force; residents of the Federal Capital Territory, Abuja and Staff of the Ministry of Foreign Affairs and non- resident individuals. With the Creation of the FCTIRS, the FCT can now collect taxes from its residents on behalf of the Federal Government like States of the Federation. See Schedule to the Taxes and levies (Approved list for collection) Act cap T2 LFN 2004, Para 8, Pt 1,

<sup>14</sup> <<https://www.mondaq.com/Nigeria/Tax/755646/Administration-Of-Taxes-In-Nigeria>>accessed 21 February 2025.

<sup>15</sup> (1985) 1 NWLR (part 3) 395 at 405

- a. Any matter not included in the Exclusive Legislative List in the Second Schedule to this Constitution;
- b. Any matter included in the Concurrent Legislative List set out in the first column of part II of the Second Schedule to this constitution to the extent prescribed in the Second Column opposite thereto; and
- c. Any other matter with respect to which it is empowered to make laws in accordance with the provisions of this constitution.

From the above provisions, the State Governments have powers to make laws on matters in the Concurrent Legislative List and also have powers to make Laws on any subject matter that is not on either the Exclusive or the Concurrent Legislative List.

### **3.3 Local Government Council's Taxing Powers**

Through the Local Government Reforms of 1974, the Local Governments in Nigeria transformed from being mere administrative units status to constitutional establishments. Local Government Councils on their own cannot generally make laws except by way of subsidiary legislation. Such subsidiary legislation must be strictly as permitted by the relevant State laws. The 1999 Constitution (as amended), provides for the establishment of Local Governments in Nigeria by virtue of section 7(1). The Constitution stipulates that every State shall ensure the existence of Local Government Councils under a law that provides for the establishment, structure, finance and functions of such Councils. Therein, every State Government is mandated to ensure the existence of Local Government Councils under applicable law that regulates their establishment, structure, composition, finance and functions.<sup>16</sup> In relation to taxation, the status of Local Government Councils has not been enhanced and this has raised a question as to whether or not they have independent power to raise their own taxes. This would reduce the eminent need to go cap in hand to their respective state Governors for Allocation monthly.<sup>17</sup>

The functions that have been conferred on Local Government Councils include collection of rates, radio and television licenses, and the assessment of private owned houses or tenements for the purpose of levying such rates as may be prescribed by the House of Assembly of a State. Local Government Councils are not given any direct legislative powers under the Constitution but are made to look up to the Federal and State Government for their sustenance, via statutory allocations as stated in section 7(6) (a) & (b) and section 162 (5) & (8) to the 1999 Constitution.

However, notwithstanding the lack of clear taxing power for the Local Government in the Nigerian Constitution, since section 7(1) of the Nigerian Constitution guarantees the system of Local Government, for their sustainability and running of the Local Governments, the Local Government Council is allowed to generate revenue through the levying of certain categories of rates already mentioned.<sup>18</sup>

### **3.4 Delegation of Collection Power to the State by Federal Government**

It is important to note that the Federal Government is further empowered by the Constitution to make laws through the National Assembly with respect to any matter in the Concurrent List, only to the extent prescribed in the Second Column of the same list. Item 7 of the Concurrent List has to do with the collection of taxes and it provides that:

In the exercise of its powers to impose any tax or duty on -

- (a) Capital gains, incomes or profits of persons other than companies; and
- (b) Documents and transactions by ways of stamp duties, The National Assembly may, subject to such conditions as it may prescribe, provide that the collection of any such tax or duty or the administration of the law imposing it shall be carried out by the Government of a State or other authority of State.

<sup>16</sup> In Nigeria, there are 768+ 6 in the FCT making 774 Local Government Council by virtue of S.3(6) as shown in the second column of Part 1 of the First Schedule to the Constitution.

<sup>17</sup> Section 7(6) of the Constitution

<sup>18</sup> to wit, the collection of radio and television licences, and carts, establishment, maintenance and regulation of births and deaths etc. All these functions are specified in the fourth schedule of the Nigerian Constitution.

Thus, by this provision, the Federal Government can delegate to the State Governments the power to collect and administer stated taxes. It is by virtue of this provision also that the State Governments are allowed to collect Personal Income Tax, Capital Gains Tax and Stamp Duties from individuals and unincorporated organizations resident within their respective territories. Residents of the Federal Capital Territory, Abuja, who were previously under Federal Jurisdiction and, therefore, paid to Federal tax authorities are now governed by the FCT Internal Revenue Service (FCT IRS). The Federal legislation imposes Stamp Duty and taxes on personal income and capital gains and delegates power to States to collect from individuals in her territories. It is worthy of note that the power to impose a tax in Nigeria does not necessarily translate to power to collect the same tax. The apparent reason for the separation of imposition or charging power and collecting power is to ensure uniformity of the charging provisions throughout the federation and thereby prevent double taxation and inconsistency of rates

#### **4. Administrative Framework for Personal Income Tax in Nigeria**

With a view to ensure proper administration of personal income tax in Nigeria, Personal Income Tax Act (PITA) established the Joint Tax Board, <sup>19</sup>State Board of Internal Revenue<sup>20</sup> and its Technical Committee as well as the Local Government Revenue Committee. <sup>21</sup>

The Joint Tax Board (JTB) is expected inter alia, to perform duties expressly conferred on it by the Act or by any enactment of the Federal Government imposing tax on the income and profits of companies, or which may be agreed by the Minister to be exercised or performed by it under the enactment in place of the Federal Internal Revenue Service.<sup>22</sup> It is the duty of the JTB to advise the Federal Government, on request, about double taxation arrangements concluded or under consideration with any other country, and in respect of rates of capital allowances and other taxation matters having effect throughout Nigeria.<sup>23</sup> The Board is to use its best endeavors to promote uniformity<sup>24</sup> both in the application of the Act and in the incidence of tax on individuals throughout Nigeria. The JTB is also empowered to impose its decisions on matters of procedure and interpretation of the Act and the incidence of tax on individuals throughout Nigeria.<sup>25</sup>

Furthermore, section 87 (1) PITA establishes for each State, the State Board of Internal Revenue whose operational arm is known as the State Internal Revenue Service. The functions of the State Board of Internal Revenue are clearly spelt out in the Act. The Board is responsible for —

- (a) Ensuring the effectiveness and optimum collection of all taxes and penalties due to the Government under the relevant laws;
- (b) Doing all such things as may be deemed necessary and expedient for the assessment and collection of the tax and shall account for all amounts so collected in a manner to be prescribed by the Commissioner; provided that an amount of not less than 5% of revenue collected as may be approved by a State House of Assembly shall be retained by the State Board of Internal Revenue to defray cost of collection and administration;
- (c) Making recommendations, where appropriate to the JTB on tax policy, tax reform, tax legislation, tax treaties and exemptions as may be required from time to time.
- (d) Generally controlling the management of the State Service on matters of policies subject to the provisions of the law setting up the State service and
- (e) Appointing, promoting, transferring and imposing discipline on employees of the State service.

The Taxes and levies (Approved list for collection) Act<sup>26</sup> places on the States Board of Internal Revenue the responsibility of collecting Personal Income tax from persons within their territory (other than those

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<sup>19</sup> S 86 PITA

<sup>20</sup> S 87, *ibid.*

<sup>21</sup> S 90, *ibid.*

<sup>22</sup> S 86(9) PITA

<sup>23</sup> S. 86(9), *ibid.*

<sup>24</sup> *Ibid*

<sup>25</sup> *Ibid*

<sup>26</sup> Schedule to the Taxes and levies (Approved list for collection) Act cap T2 LFN 2004 As amended in 2015

mentioned in Part I of the Schedule) either through Pay-as-you-earn (PAYE) or the Direct taxation (Self-assessment).<sup>27</sup> Also, section 89 PITA establishes a Technical Committee for the State Board of Internal Revenue. The Committee is vested with the responsibility of considering all matters requiring professional and technical expertise and make recommendation to the State Board of Internal Revenue. The Committee plays an advisory role as well and is expected to advise the State Board on all its powers and duties specifically mentioned in Section 88 of the Act. The Board may from time to time refer matters to the Technical Committee for its input.

Moreover, the Act provides for the establishment of Local Government Revenue Committee for each Local Government in the State. The said committee is responsible for administration of income tax. The Local Government Revenue Committee among other things, is responsible for the assessment and collection of all taxes, fines and rates under its jurisdiction. The Committee must account for all the amounts so collected in a manner to be prescribed by the Chairman of the Local Government. It is important to note that the Revenue Committee is autonomous of the Local Government Treasury and shall be responsible for the day-to-day administration of the department which forms its operational arm.<sup>28</sup> With regard to taxes collectable by local governments, the Schedule to the Taxes and Levies (Approved List for Collection) Act<sup>29</sup> outlines a comprehensive range of taxable items. These include various fees and levies related to commercial activities, property rates, licenses, registrations, and specific charges on land use, market operations, transportation, and livestock. The Act also distinguishes certain taxes that are exclusive to local governments while excluding those under the jurisdiction of federal and state authorities.

The Act also establishes a Joint State Revenue Committee<sup>30</sup>, which is empowered to implement decisions of the Joint Tax Board (JTB), advise the JTB as well as state and local governments on revenue matters, and harmonize tax administration within the state. Additionally, the committee is responsible for educating the public on state and local government revenue issues and carrying out any other functions assigned to it by the JTB.

## **5. Challenges Facing Nigerian Tax System**

The Nigerian tax system, despite its potential, grapples with numerous obstacles that impede its ability to generate adequate revenue and ensure equitable distribution. Some of these challenges are:

### **A. Abuse of Power by Tax Administrators**

Abuse of power by tax administrators is common both in direct and indirect taxes. All statutory authorities have been vested with discretion in order to carry out the functions assigned to them under the Act. This discretion has to be exercised reasonably and for the purpose for which they have been conferred. Discretion is not to be exercised arbitrarily and capriciously and must be backed by reasons based on objective materials. Many times, the taxpayers feel they have no remedy and they have to suffer harassment. It is important to make taxpayers aware of the remedies which they have against such taxmen who abuse their powers. They are advised to pay their taxes diligently since evasion leading to black money could be unproductive and loss may be higher than the tax evaded. If no tax is evaded, there will be greater peace of mind and one would be contributing to the cause of nation building. The taxpayer will have courage to fight with tax department against abuses by officers of their powers etc. The abuses of power by tax administrators can be illustratively listed as follows.<sup>31</sup>

- i. Prolonging search to extract money and to extract disclosure in the name of voluntary disclosure.
- ii. Denial of proper opportunity of hearing to the assessee or failure to confront the assessee with the materials gathered behind his back thereby violating the principles of natural justice.<sup>32</sup>

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<sup>27</sup> Ibid Para 1, Part 2 of the Schedule.

<sup>28</sup> S. 91 (2) PITA

<sup>29</sup> Cap T2 LFN 2004 As amended by Taxes and Levies Approved List for collection Amendment Act 2015.

<sup>30</sup> S 92 PITA.

<sup>31</sup> <<https://taxguru.in/income-tax/abuse-power-taxmen-remedies.html>> accessed 21 February 2025 by 8:07am

<sup>32</sup> <[https://www.consultease.com/wp-content/uploads/2020/12/REMEDIES\\_AGAINST\\_ABUSE\\_OF\\_POWER\\_BY\\_INCOME\\_TAX-converted.pdf](https://www.consultease.com/wp-content/uploads/2020/12/REMEDIES_AGAINST_ABUSE_OF_POWER_BY_INCOME_TAX-converted.pdf)> accessed 21 February 2025 by 10:10am

- iii. Threatening of huge penalty, prosecution, covering other premises or sister concerns, relatives cases etc.
- iv. Misbehaving in search and in course of assessment proceedings.
- v. Not following rules or regulations for search and continuing search till midnight to destabilize the tax payer.
- vi. Obtaining incriminating statement forcefully.
- vii. Insisting on getting tax deposited there and then.
- viii. Conspiring to create false incriminating evidence to sustain disclosure.
- ix. Taking post-dated cheque towards tax payment without justification.

### **B. Unstable Electricity Supply**

It is a widely acknowledged fact that erratic power supply in Nigeria is the bane of economic and industrial development in the country. With the abundant human and natural resources the country is blessed with, it becomes paradoxical that after one hundred years of existence and sixty-two years of independence, Nigeria is still not getting it right in terms of energy sufficiency.<sup>33</sup> Apart from power insufficiency, a related major problem is that the power supply is erratic and therefore residents and companies requiring electricity cannot predict when this electric power from the national grid will be available for their consumption. In most situations erratic power supply can be equated to lack of power supply since sometimes the work the power is needed for, might have been done manually before the supply is made available. Fluctuations could lead to destruction of their computers and loss of records. The factors that affect the efficiency and stability of power supply are government policy, economic factor, natural factor, society/community factor, effective energy management, skilled personnel, efficient technology and security factor.

### **C. Simplifying the Tax Laws and Abolishing Some**

One of the essential principles of any tax system adjudged good is that it must be simple, certain and clear. The tax laws should be phrased to ensure that taxpayers and tax officials understand it clearly. Under the rule of construction, a well drafted tax legislation would be given its literal interpretation being the ordinary dictionary meaning. Where there is any ambiguity, the rule be construed contra proferentem against the maker being the legislating government. Mischief and ejusdem generis rules also apply as appropriate. The obligation to pay tax is strictly tied to legislative provisions. There is need to harmonise tax laws into a simple compendium. Cases of genuine losses declared by any company should also be addressed by means of tax audit and transfer pricing instead of ignoring them. Concerning the commencement and cessation rules, companies should pay tax on the actual profit instead of using the preceding year basis from the beginning to the end where the business ceases to operate.<sup>34</sup> Proliferation of taxes can bring confusion. For example, to get proper PITA computations one may need to check the PITA 2004, PITA Amendment 2011, Taxes and Levies Approved List of Collections, FIRS Act 2007 and the Finance Act 2020. This could be highly cumbersome for a taxpayer that simply wants to understand his tax liability and pay accordingly.

### **D. Taxpayers' Education and Periodic Enlightenment**

Tax payer education program is one of the strategies for improving service delivery to the taxpayers. It is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments, for providing education, counseling and support to the taxpayers, through different media like newspapers, television, radio programs, websites, seminars, magazines etc. to disseminate key information to the taxpayers.

Improving service delivery is vital to enhance voluntary tax compliance. Lack of voluntary tax compliance prompts revenue authorities to use costly and coercive methods for tax enforcement. Tax compliance is the process of fulfilling the tax payer's civil obligation for tax payment and filing of tax returns including the provision of necessary documents and explanations required by the tax authority in a timely manner. Such compliance may be voluntary or involuntary. However, one of the greatest

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<sup>33</sup> Ibid

<sup>34</sup> Ibid

problems facing the Nigerian tax system is the problem of 'non-compliance. Taxpayers may be non-compliant as a result of low tax morale; low education; rules that are too complicated to follow; taxable activities that are manipulated to avoid tax; a perception that the risk of being caught is low; aversion towards the public sector; and a culture of corruption. Tax knowledge or education plays an important role in enhancing compliance.

#### **E. Sustained Public Education and Communication:**

The inculcation of a culture of tax compliance depends on changing attitudes and perceptions. Nigerian Government should intensify their effort in organizing public education programmes in the media, posters, billboards and other channels. More concerted and sustained approach should be put in place for the sensitization of the public. Tax education is one of the effective tools to induce taxpayers to comply more. Tax payers will voluntarily pay their taxes if they understand the basic concept of taxation very well. Activities focused on enlightening taxpayers on socio-economic implications of tax evasion and the transparent and accountable use of tax proceeds have significant influence on taxpayers' voluntary compliance. For tax revenue growth to be considered a necessary imperative for attainment of sustainable economic growth, there is need for an environment where both taxpayers and tax officials have appropriate knowledge of their roles and responsibilities.

In the quest for public enlightenment, the media should be effectively used to communicate the existing and new tax laws, the need for compliance and the penalty for defaulters. This is because most tax payers are not informed or are ill-informed.

#### **F. Insufficient Tax Concessions**

Apart from the provision of certain tax incentives, tax reliefs, tax holiday, and investment tax credits, bonuses and tax concessions such as national awards for tax compliance are to be given to those in the informal sectors. The Nigerian governments have a culture of punishing tax defaulters in the informal sector without rewarding those who have fulfilled their obligations. The institution of awards will go a long way to stimulate individuals and groups in the informal sector in Nigeria to be alert with their tax obligations.

#### **G. Atmosphere of Harmony:**

A lot of tax payers exhibit tax apathy because they do not link their payment to any form of national development. They see the government as extorting agents seeking to divert money from private to public purse. To improve tax compliance, it is necessary to cultivate a culture of harmony among tax payers and tax authorities. This could be done by establishing tax payers' friendly environment and policies and by appreciating their contribution to national development and progress.

Tax payers should be involved in participation in decision making. The extent to which taxpayers can participate in the political decision making process has a positive impact on tax compliance. If tax payers are allowed to participate in decisions affecting them and the decision process is perceived as transparent and fair, taxpayers will be ready to contribute to public goods and services. Where taxpayers sense injustice and the absence of fairness in the taxes imposed by any tax legislation, there is a natural tendency to revolt. Such revolt may likely be by way of tax evasion. This is because, the tax payer takes hold of the immoral though not legal ground, as his reason for refusal to pay tax. Where however, taxes imposed appeal to the dictates of fairness, equity and justice, tax payers are more likely to pay.

#### **H. Corruption**

Corruption stands as a significant impediment to the effective functioning of the Nigerian tax system. It fosters a climate of distrust, eroding taxpayer confidence and fueling non-compliance. A primary challenge is that citizens often cite corruption as a reason for tax avoidance, particularly when tax authorities themselves are perceived as corrupt. This perception significantly diminishes voluntary compliance.

Furthermore, corruption manifests in substantial tax leakages, reflecting both a culture of corruption and inefficiencies within tax administration. These leakages, wherein income is diverted through various means (e.g., tax evasion, illicit financial flows), undermine the government's ability to collect due revenue. This phenomenon is not unique to Nigeria; however, its prevalence and impact are particularly concerning. Leakages erode potential revenue, hindering the government's capacity to fund essential public services.



While the Federal Inland Revenue Service (FIRS) has made strides since 2004, investing in staff training, operational restructuring, and process automation, these efforts have proven insufficient to fully address the pervasive issue of tax leakages.

### **I. Non-Availability of Database**

Unavailability of database of all individuals that are taxable could result where the tool used for assessing and collecting taxes are inadequate and there is absence of firm methods in place for an effective tax system. There are no efforts to collate, store or analyse the limited data available, thereby making it impossible to be assessed or retrieved. This suggests that the Nigerian tax system is inefficient and ineffective in the area of technology. Tax officials can still bypass the system by issuing tax clearance certificate under a manually assessed tax and this could create room for corruption.

### **J. Multiplicity of taxes**

Multiplicity of taxes has to do with levying of tax on the same income by two or more jurisdictions. It is a situation that results from taxing an earning more than once. The term "multiplicity of taxes" is not a recognized word in the arena of taxation as such and "thus, the term seems to be peculiar to Nigerian fiscal lexicography"<sup>35</sup> Individual taxpayers as well as corporate bodies may complain about the triple effects related with the repetition. The government should ensure that tax administration is handled by professionals and trained personnel. The personnel of the tax authorities of each of the three tiers of the government should be trained and retrained to bring the best from them and also instills discipline on them. Sometimes, citizens are confused by the myriad of financial demands made on them by the three tiers of government under the Taxes and Levies Approved List of Collection. Some of the levies appear to be duplicated and need to be properly harmonised to prevent double taxation

The three tiers of government should advance a solid base for taxpayers; restructure the means and methods used for collection and end multiplicity of taxes, which has been a reprieve to the industrial sector and the economy as a whole. Also, numerous taxes should be reduced and the approved taxes and levies should be streamlined and strictly followed by the three tiers of the governments to avoid double taxation. Tax authorities of the three tiers of the government should embark on refunding genuine overpayment of taxes. S. 23 FIRS allows refund at source from allocation.

### **6. Conclusion**

This discourse among other things has shed some light on the federal taxing powers which are more explicitly stated in section 4(2) of the Constitution of Nigeria (as amended) and the items outlined therein are called the Exclusive Legislative List. Additionally, the paper discussed the State taxing powers, which on the other hand, are found on the items in the Concurrent Legislative List, and others not clearly stated therein are either in the Exclusive Legislative List or residual lists.

The paper further highlighted the challenges of the Nigerian tax system ranging from poor documentation of information about taxpayers and their economic activities to lack of taxpayers' education. Furthermore, the Non-availability of data base as well as the abuse of power by tax administrators are some of the problems of effective tax assessment. There is a gap in the knowledge of information technology required for effective tax administration in Nigeria. The goal to have the desired result requires that the digitalization of tax systems must enlist a broad coalition of stakeholders to make the necessary legal reforms and provide the funding. The shift should also focus on providing value by simplifying procedures and permanently bringing taxpayers into the e-filing, e-payment, and e-document ecosystem. The value could be provided by reduced compliance costs, increased tax certainty, and higher compliance. The intrinsic motivation to pay taxes is a complex phenomenon and is impacted by a great many factors much of which is not under the direct control of tax administrations. For instance, perceptions of trust in government by the citizens and the distributive fairness of taxes are completely outside the tax administrators' control.

It is therefore important to note that where a synergy is developed among the citizens, the tax administrators and the Government at all levels, there would be equitable utilization of tax payers' money and the taxation system would become more efficient.

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<sup>35</sup> S Abiola, 'Multiplicity of Taxes in Nigeria; Issues, Problems and Solutions,' (2012) 3 (17) *International Journal of Business and Social Science*, 229.