

Conceptual Review of Tax Policy Reforms and Their Implications for Economic Development in Nigeria

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Abstract- This paper presents a thorough conceptual review regarding the impact of tax policy changes on economic development in Nigeria and the effect of recent tax reforms (2015 – 2024). This review examines the impact of the urgent need to enhance domestic revenue mobilization due to the decline in oil revenue, increases in public debt, inflation, and continued macroeconomic volatility. This review examines the literature to outline the theoretical, empirical, and policy impacts of tax policy changes. This conceptual inquiry incorporates the study of secondary data and literature to uncover relationships between tax and economic development. The recent reforms, such as the National Tax Policy, New Finance Acts, and digital tax administration, have improved Nigeria's revenue collection, compliance with tax obligations, and fiscal transparency. These reforms have a positive impact on the diversification of the economy and industrial development, and also contribute to the stabilization of the economy. The review also points out challenges like systemic tax evasion, administrative weakness, inconsistent policy, and a large informal sector, which are impactful on the effectiveness of tax reforms. The author articulates the belief that policy reforms go hand in hand with the institutional capability of the state, the need for accountability, the expansion of the tax base, the inclusion of the policy in the long-term framework, and sustainable development. The main points focus on the need to improve tax administration, the distribution of tax incentives, the control of tax evasion, and the inclusion of the informal sector. The review shows the significance of taxation in the advancement of Nigeria and presents the scope of future empirical work.

Index Terms- Tax Policy, Taxation, Economic, Tax Incentives and Revenue

I. INTRODUCTION

Tax policy reform is one of the most important for radical sustainable economic development in Nigeria, given the decreasing oil revenues, growing fiscal instability, and increased development challenges. Nigeria's public finance over the last 20 years has experienced a multitude of tax restructuring attempts aimed at improving revenue mobilization, improving

the efficiency of public finance administration, promoting investment, and decreasing the economy's exposure to external shocks. Nigeria's fiscal systems, to a large extent, depend on revenues from crude oil. This reliance is over 70% of total revenue and is detrimental to Nigeria's economy given the volatility in the global oil markets. This overdependence has meant that there has been limited use of taxation as a public revenue tool which has further limited the role of public spending in the economy (Onyekachi 2022)

The recognition of taxation as a tool for driving inclusive development has resulted in a growing emphasis on designing tax policy and comprehensive tax reform, as legislation stands. Good tax legislation does not only generate revenue, but funds development, and results in radical socio-economic change (Adebayo 2021). Tax policy reforms in Nigeria have aimed to increase the tax base, decrease evasion, build institutional capacity, digitize tax administration, and increase public confidence in the system. Some of the major reforms that have taken place that show the urgency to reposition taxation to the forefront of Nigeria's development agenda include the National Tax Policy (2012, revised in 2017), the ongoing amendments to the Finance Acts (2019–2023), and the digital tax systems that have been implemented by the Federal Inland Revenue Service (FIRS).

Despite the above-mentioned reforms, the tax-to-GDP ratio of the country remains very low at less than 10% relative to African and OECD averages of 17% and 30% respectively (World Bank 2022) which results from a number of factors such as corruption, inefficiencies, noncompliance, and a large informal economy. Nwaogwugwu and Dike (2021) suggest that tax reforms can only be sustained when a positive public perception of the taxation system is in place in the country, which is often the result of some transparency from the institutions and when the

taxation systems are aligned to support the development needs of the country as a whole.

For 2024, new tax reforms are being discussed, considering the current situation in Nigeria. Nigeria has high public debt, high inflation, rising debt, high social debt, etc. As some scholars like Musa (2021) put it, “taxation should be reoriented not only as a fiscal instrument but also as a vehicle for economic diversification, and innovation and structural transformation.” This is why the present review aims to contribute to the analysis and the understanding of the predominant tax policies instituted in Nigeria, as well as the effect of such policies on the Nigerian economy. To achieve this, the paper reviews and synthesizes the current available literature and information (up to 2024) to articulate some of the concepts associated with tax policies, the aims of the policies, the challenges, and the reforms, as well as the degree to which these policies and reforms assist in attaining the goals of the nation.

II. LITERATURE REVIEW

Tax Policy

Tax policy is the body of laws, norms, and administrative rules and regulations, which govern the assessment and collection of taxes. As Aliyu (2019) asserts, tax policy trims the outline of tax structure, which also includes the formulation of tax types, the selection of tax rates, the definition of tax thresholds, the identification of tax exemptions, and the establishment of tax enforcement. An effective tax policy should achieve tax equity, tax efficiency, tax simplicity, tax adequacy, and tax compliance, as well as contribute to the broad goals of the country.

Tax Policy Reform

Tax policy reform efforts entail intentional design changes of tax systems within a given jurisdiction in fiscal policy. Mailed and Adeola (2020) claim that tax reforms even out the issues with the systems and circumvent desk and bureaucratic lockups.

Economic Development

Economic development is the ability of a system instead a collection of individual systems to achieve a systemic and long-term paradigm shift and increase the standard of living of the members of that system

and improve the productivity and welfare of the members of the system. Awe and Ajayi (2019) claim that a sustained development is dependent on the ability of the state to mobilize the domestic and public resources to spend on and distribute the revenues collected to on infrastructures and education and public health, and create capital.

Overview of Major Tax Policy Reforms in Nigeria

The National Tax Policy outlines the overall vision of having a fair, efficient, and growth-oriented system of taxation in the country. The revision that was done in 2017 focused on the adoption of technology, minimizing the incidences of double taxation, improving collaboration among government agencies, and improving voluntary compliance with the tax obligations by the public (Nwakoby, 2020). It paved the way for other reforms.

The Finance Acts have begun the process of annual revisions intended to bring Nigeria's tax system up to date. Some of the changes are:

- Finance Act of 2019. Increased VAT rate of 5% to 7.5% and changed the revenue threshold to exclude small businesses.
- Finance Act of 2020. Provided tax relief to small and medium enterprises and digitized the stamp duty.
- Finance Act of 2021. Established a formalized system of digital taxation.
- Finance Acts of 2022-2023. Built on the anti-avoidance provisions of law and synchronized different laws on taxation.

According to Aregbeshola and Hassan (2020), these Acts symbolize the initiation of Nigeria's revenue modernization drive.

Digital Tax Administration Reform 2021-2024

The FIRS has instituted:

- TaxPro Max
- Systems for online filing and payment of taxes
- Automation of VAT collection
- Digital Taxpayer Identification

The FIRS report for 2023 indicates a marked improvement to compliance and transparency as a result of the implemented measures.

Impacts of Tax Policy Reform on Economic Development

Revenue Mobilization and Fiscal Stability

Improved tax administration allows for the collection of more revenue to fund social services and infrastructure (Adegboye & Ojo, 2020). A strong revenue system improves fiscal autonomy and reduces the volatility associated with oil revenue and foreign borrowing (Adamu & Bello, 2022).

Industrial Growth and Investment Stimulation

Tax benefits like pioneer status and certain capital allowances are stimulating investments into the manufacturing, agri-culture, and technology sectors within the economy. Ojong et al. (2021) confirms that stimulator design of incentives expedite the rate of industrialization, however there are cases when the design of incentives is bad and the outcome is revenue losing.

Transparency, Accountability, and Public Trust

Tax system digitalization enhances accountability by eliminating human interaction, and hence, reduces the room for corruption, while simultaneously enhancing transparency (FIRS, 2023). Trust also enhances voluntary compliance (Adebayo, 2021).

Economic Diversification

Tax reforms that target revenues beyond the oil sector foster (support) structural transformation. Diversification is found to strong fiscal resilience (Oladipo and Yusuf (2020)).

Constraints

Some of the challenges are:

- informal sector actors' resistance (Nwaogwugwu & Dike, 2021),
- administrative inefficiency,
- rampant evasion (Ojong et al., 2021),
- poor continuity of policies.
- These are general reforms that reduce effectiveness.

III. METHODOLOGY

A conceptual review methodology has been adopted for this study, focusing on synthesizing theoretical and empirical literature from academic journal articles, policy documents, institutional reports, and scholarly publications from 2015 to 2024. The literature of interest was retrieved from Google Scholar, and the institutional databases and official tax databases. The review focuses on identifying patterns, conceptual arguments, and scholarly insights concerning tax reforms and their developmental implications. No primary data were collected.

IV. FINDINGS

Tax Policy Reforms Have Significantly Improved Revenue Mobilization

Reports indicate that Nigeria's tax reforms have significantly influenced the government's revenue diversification. The Finance Acts and the introduction of digital platforms on the other hand increased collection of non-oil revenue. FIRS (2023) noted that collection of VAT improved as tax registered increased due to digital platforms that automated receipt issuance and closed collection deficits. These changes have mitigated the dependency on oil revenue and improved fiscal stability. Nevertheless, the overall tax to GDP (less than 10%) is considerably low than the average of Africa, showing that the reforms have a long way to go.

Digital Tax Administration has Improved Transparency and Compliance

One of the results is that the digitalised tax administration has facilitated through TaxProMax and the automated VAT systems, as well as online filing, significantly boosted taxpayer compliance. The physical distance between tax officials and taxpayers improved transparency and reduced opportunities for corruption (Adebayo, 2021). Compliance rates improved especially for medium and large-scale enterprises. Digital literacy gaps and poor internet connectivity, however, especially among small enterprises, continue to impose restrictions on effectiveness.

Tax Incentives Contribute to Investment but Require Better Coordination

The review states that tax concessions are drawing interest of investors, particularly in the manufacturing and agribusiness sectors. Ojong et al. (2021) argue that incentives which are competently designed spur more investment to a sector, create positive business conditions, and encourage capital goods to enter a depressed economy. Other studies, however, identified the negative side of no or poorly designed incentive systems. These include high potential revenue losses and inequitable distribution of the tax burden. There is a case for greater clarity in the guidelines, oversight and termination rules for incentives.

Core institution administrative and structural challenges

Ongoing reforms face the following challenges:

- Tax compliance is non-existent, or tax evasion is rampant due to an ineffective tax enforcement system (Aregbeshola and Hassan, 2020);
- There is a large informal sector that constitutes more than 50 % of the economy and I GDP, which makes the identification of potential taxpayers a difficult exercise;
- There is policy instability and uncertainty in tax laws, and frequent changes in the laws, which have a negative impact on businesses (Nwaogwugwu and Dike, 2021);
- Perceived waste of public resources and poor management of public funds lowers the compliance of taxpayers, which is a significant reason for the lack of trust in the tax system.

These challenges have a negative impact on the ability of tax reforms to contribute to the overall economic development, and potential systems improvements.

Reforms Support Economic Diversification and Development

In these analyses, there is overwhelming evidence that tax policy reforms are necessary for the diversification of the economy. The growth of the construction of social services, the financing of health care services, and the growth of education are all due to the increase in non-oil tax revenue. The

macroeconomic stability created by the positive sentiment is the result of fiscal resilience and is a result of poverty alleviation, and a positive environment for job creation and industrial growth.

V. CONCLUSION AND RECOMMENDATIONS

Conclusion

The review of the concept guiding the research shows that the reforms in tax policy for Nigeria are a necessity for sustainable economic development. The years 2019 to 2024 has postulated Nigeria to the new frontiers of the tax policy reforms emanating from the Finance Acts, digital tax administration that has deepened revenue mobilization, tax compliance, and improved transparency in the economy, and finally economic diversification. However, corruption, tax evasion, the large informal sector, weak policy enforcement, and ongoing policy inconsistency remains barriers to revenue performance. Nigeria has to educationally align tax reforms with systems in balance complementary to development for tax policy systems to thrive.

Recommendations

1. Strengthening Tax Administration Capacity.
To improve tax enforcement and improve compliance, training, updates in process, and investments in digital systems must be stepped up.
2. Expanding the Tax Base.
Leveraging digital identity systems, simplified tax regimes, and compliance incentives, the tax system can be expanded to cover the informal sector.
3. Predictability and Consistency in Policy.
Tax law changes too often. Nigeria needs to long-term tax reforms for the country, as development plans do.
4. Better Management of Incentives.
Tax incentives must be assessed for their economic value, and for the exploitation of systems to be discouraged. Designed incentives should be kept along with proper regulatory framework.
5. Increasing Public Accountability and Transparency.

Public compliance with tax systems volunteering will be enhanced through service of public trust and accountability.

6. Tax Policy to Promote Economic Diversification. Diversification in the long-term should be to the identified sectors of manufacturing, agriculture, ICT, and renewable energy. This can be achieved through revision of revenue and incentive policies.

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