

Evaluation of Tax Reforms in Nigeria: Pre-Colonial Era to Tax Act 2025

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Abstract

The study evaluates tax reforms in Nigeria: their features, implementations, and limitations. Tax reform issues in Nigeria have been on the front burner from one successive government to another. The whole idea is to diversify the revenue from a non-oil-dependent, revenue-based economy to an oil revenue-based economy and also foster an efficient administrative tax system in Nigeria. The study employed the library research method in examining the trajectory of Nigeria's tax system, commencing before the pre-colonial era through the landmark tax reform of 1978 to the recent tax reforms of 2025. The study highlights features, achievements, and comparisons of successive tax reforms in Nigeria to the 2025 tax reform. The study reveals that while successive tax reforms progressively made some impact in the Nigerian tax landscape by increasing tax revenue (Nigeria's tax-to-GDP ratio from 10 percent to 13.5 percent in two years after the implementation of the 2020 tax reform). FIRS were able to achieve this milestone through the introduction of some form of taxes (VAT, education tax) and the use of self-assessment and digital tax filing. However, systemic challenges such as weak implementation, exclusion of the informal sector, and fragmented administration still persist. The 2025 tax reform may mark a huge turn in the Nigeria tax system by integrating technology-driven solutions, compulsory digital services, crypto-currency taxation, a unified tax collection system, and an interface with performance monitoring tools such as revenue efficiency and performance index, with a target of a tax-to-GDP ratio of 18 percent in 2027. The study concludes by predicting that the 2025 tax reforms will enhance digital capacity, while citizen engagement is crucial for Nigeria to achieve long-term revenue sustainability.

Keywords: Tax reforms, Finance Act, Pre-Colonial Era, 2025 Tax Act, Tax Administration.

1. Introduction

One of the primary sources of income in Nigeria is income generated from taxes. In Nigeria, all tiers of government have been making frantic efforts to ensure compliance by taxpayers with the aim of increasing and improving revenue generation, which is vital to the government. Taxation is the process or means

through which the sovereign, through its law-making body, raises revenue to meet

the expenditure of government (Chartered Institute of Taxation of Nigeria [CITN], 2021). From the definition above, we can deduce that taxation is a well-structured and legal instrument used by governments to raise or collect money from individuals and corporate bodies in a country for the purpose of rendering services and infrastructure development. Low tax morale, weak administrative capacity, and public mistrust hinder tax collection in nations like Nigeria (Edori, 2017). Evaluating taxation solely as a revenue tool overlooks the governance and accountability dimensions necessary for effective tax policy implementation. The use of taxation as a fiscal instrument is important to every nation striving for economic stability. Song (2002) opined that tax is a compulsory levy imposed by the government authority through its agent on income, consumption, and production of goods and services to achieve some developmental goals. This clearly suggests that tax is a legal means employed by the government in the generation of revenue in any country; therefore, fundamental principles of taxation should be considered alongside the legal, constitutional, and regulatory framework for an all-inclusive tax system.

The three tiers of government that are responsible for the collection of taxes include the federal, state, and local governments. The Federal Government is responsible for collecting federal taxes, which include company income tax, petroleum profits tax, value-added tax, and capital gains tax. The Federal Inland Revenue Service (FIRS) serves as the arm of the Federal Board of Inland Revenue (FBIR), which is the organ of the federal government (The Federal Inland Revenue Service Act, 2007). State governments are responsible for collecting state taxes, including personal income tax, withholding tax, and capital gains tax. Each state has its own Board of Internal Revenue, serving as the arm of the state, which is SIRS. SIRS are responsible for tax collection within that state [The Taxes and Levies (Approved List for Collection) Act, 2015]. Local governments are responsible for collecting levies and rates within their jurisdictions, including shop and kiosk rates, tenement rates, and license fees [The Taxes and Levies (Approved List for Collection) Act, 2015].

The FIRS is the primary agency responsible for collecting federal taxes. It operates under the Federal Board of Inland Revenue (FBIR) [The Federal Inland Revenue Service Act, 2007] and the State Internal Revenue Service [SIRS] at the state government level. FIRS and SIRS are responsible for collecting federal and state taxes, respectively. FIRS and SIRS are arms of the Nigerian government responsible for tax implementation, but they operate at different levels. This is

outlined in the Taxes and Levies (Approved List for Collection) Act, 2015. The FBIR and SIRD are regarded as the organs of the federal and state governments; the organs are the governing bodies responsible for policy-making, oversight, and strategic tax administration. The FIRS and SIRS are the operational entities responsible for implementing tax policies, collecting taxes, and enforcing tax laws (The Joint Tax Board [JTB] Guidelines). Local governments have revenue committees that are responsible for collecting levies and rates within their jurisdictions [The Taxes and Levies (Approved List for Collection) Act, 2015].

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Over the decade Nigeria's tax system has undergone a lot of reforms; these tax reforms have evolved due to many challenges such as dynamic economic conditions and inefficiencies in the Nigeria tax administration. Successive governments in Nigeria had, over the years, in one way or another engaged in reforming the tax system through inclusive and visible reforms ranging from the colonial era to the current administration. Tax reform measures are undertaken to strengthen modern taxes and drastically reduce the complexity and lack of transparency of the system (Oriakhi & Rolle, 2014). Tax reform is therefore a process of changing the ways taxes are collected or managed by the government (Helms, 1985). The journey from the pre-colonial tax system to today's more digitalized and harmonized framework reflects efforts to enhance compliance, broaden the tax base, and promote fiscal sustainability. However, despite multiple reforms, Nigeria still grapples with low tax-to-GDP ratios, complex tax laws, and administrative inefficiencies. Based on the problem experienced with the tax reforms in Nigeria, this paper seeks to evaluate the various tax reforms carried out in Nigeria to date.

2. Literature Review

Historical Overview of Tax Reforms

This section reviews literature on tax reforms in Nigeria before the advent of the colonial master, during the colonial master, and after independence. This section will have a historical overview of tax reforms in Nigeria.

Pre-colonial Era

The impression that taxation began with colonial masters is a serious misconception. Tax has been part of the various regions that make up Nigeria since before the advent of the colonial masters; taxation was deeply embedded in the various regional governance systems (Afigbo, 1972). Adebayo (2019) noted that the word "tax" was not actually used; rather, it existed in the form of tributes, community labor, and even produce sharing. Tax collection was largely informal and was culturally embedded; their form of taxes during this period was mainly based on kingship, like in the west; religion, like in the north; and community, as in the east (Nwoko, 2010). This was observed from the mode of the tribute collected; in the west, the tribute was paid to the kings; in the north, the tribute was part of the demand of the Islamic religion, while in the east, it was fermented in the communities. The regions that make up the nation of Nigeria had developed their own systems of governance, modes of trade, and ways of taxation. The tax system employed by the various regions served as a source of revenue generation for the rulers, religion, and community, which was used for the development of the community (Smock & Bentsi-Enchill, 1976); it was also used as a social responsibility tool and political control system. Each ethnic group and kingdom operated independently of each other; for example, in the pre-colonial era, we have the Hausa-Fulani, Igbo, Yoruba, Benin Kingdom, and others. Each of these kingdom/ethnic groups had its own socio-economic and political system with a tax-paying system, which played a vital role in administering their various economic systems in their various kingdoms (Ikime, 1980). The different systems reveal that tax legitimacy depended on proximity to authority, transparency, and visible benefits; the tax system was decentralized with accountability; payment was flexible and conclusive, whether with kind or labor; and there was also trust in the tax system that operated during this period (Ola, 1974; Jega, 2000).

In the current Northern Nigeria, which was regarded as the Hausa-Fulani Emirates or the Hausa-Fulani state, there was a very formidable Islamic system of administration and taxation. To be precise, after the 1804 Sokoto Jihad led by

Usman DanFodio, religious taxes were introduced, like the Zakat, which was collected from Muslims, usually on income, livestock, and agriculture. Giya and Haraji were local taxes collected from the subjects by the district heads and Emirs. There were appointed officials charged with the responsibility of collecting these taxes. It is of note that these were used to sustain the Emirate administration, provide social amenities, and support religious institutions (Falola, 1999). In the southern region of Nigeria, they have the Yoruba, Igbo, Benin, and others. The Yoruba kingdom operated a tax and tribute system under the Obas and local chiefs. Their forms of tax system and collection method were not as standard as the tax system in the northern part of Nigeria (Animashaun, 2024). Unlike northern Nigeria, which was governed by Islamic laws, there were different traditional systems of taxation and collection methods, and this tended to affect the standardization in the south. There was less uniformity in the mode of implementation in the southern part of Nigeria, leading to variations in tax collection methods and standards (Animashaun, 2024).

There are various types of taxes paid, like Isakole, which was for tribute paid to overlords or landowners by those occupying their lands; this type of tax was more common among those in Ife and Ibadan (Ayandele, 1966). Other forms of taxes in this region are the Community Labour (Aaro) and the Local Market Taxes imposed on traders in local markets. The Igbo societies on their own do not really have a centralized system of government; however, there were still some forms of government taxation systems in place, though they were non-centralized systems. The Igbo have taxes on palm produce, labor contributions, marriages, and festival taxes, among others (Hopkins, 1973).

Colonial Era

During the colonial era, there was tax legislation; one of them was tax legislation in northern Nigeria, which was known as the Nigeria Northern Land Revenue Proclamation (1904), which was an example of using traditional existing structures for administrative efficiency, and the Native Revenue Proclamation (1906). These proclamations were aimed at standardizing tax obligations; the tax was able to define who, what, when, and how of tax. In 1917, there was the Native Revenue Ordinance (1917), which refined taxation and the scope to cover both the north and the south. In Nigeria, there was the extension of the ordinance to the southern region, which was implemented in the Western Region in 1917 and reached the Eastern Region between 1927 and 1928. These various tax

ordinances faced serious resistance, particularly in the Western and Eastern Regions of Nigeria.

The income tax ordinance no. 23 (1927) was the first formal direct income tax on adult males, which brought about the Aba women's riot of 1929; it was also known as the women's war of 1929. Falola and Heaton (2008) opined that the riot was sparked by some factors, firstly, taxation. The colonial master introduced direct taxation on the males in southeastern Nigeria, which was not part of their native tax system; based on that, the women presumed that women would soon be taxed after the tax was imposed on the men. Secondly, the economic hardship resulted in a decline in palm oil price, which affected the local economy; and thirdly, the lack of representation of women in the colonial authority tended to make the women feel marginalized and ignored by the colonial authority. In November 1929, women in their numbers from various Igbo communities gathered in Aba, protesting against taxation, warrant chiefs, and colonial administration. The protest turned violent, and several women were killed. However, Falola and Heaton (2008) noted that the riot yielded a positive result, with the colonial administration reassessing its policies, leading to a change in taxation administration. The riot also resulted in women's empowerment.

The tax reforms, like the Native Revenue Ordinance (1917), led to the Direct Taxation Ordinance (1940), which laid the ground for the current tax governance in Nigeria. The post-war tax developments in the 1950s led to the flat-rate and income-based tax systems, though low-income peasants bore heavy burdens. The Raisman Commission (1958) suggested a tax system that is unified and also recommended revenue sharing across the various regions in Nigeria; these helped in putting in place post-independence tax laws like the Income Tax Management Act (1961) and the Companies Income Tax Act (1961).

Post-Colonial Era

In the early post-independence era, the taxation system primarily focused on trade and the community tax system. This tax system lacks a well-structured means of collection, and as such, it became unpopular due to forced levies and poor engagement with the citizens, which equally negate the canon of taxation. Some of its features include direct taxes such as poll tax, community tax, and native administration tax. Some of the inefficiencies in this tax system are poor documentation processes and resistance on the part of citizens to pay taxes due to transparency.

The 1978 Tax Reform

In 1978, the Nigerian government initiated a comprehensive tax reform as a result of the oil boom in that period, and also increased government spending. This initiative was another milestone in the nation's tax system and fiscal policy. This reform gave birth to the establishment of a Tax Reform Commission and of the Personal Income Tax Act (PITA). Other amendments and implementations of the 1978 tax reform include the creation of unified tax schedules and categories for unified income. Although there were some improvements in the tax system, there were some inefficiency, such as the inability to account for the informal sector of the economy and the failure to provide robust enforcement mechanisms in the tax system. This, according to Ariyo (1997), shows clearly that with tax reform in the 1970s, he noted that the oil boom encouraged some laxity in the management of non-oil revenue sources, e.g., customs, excise, company, and individual income taxes. Based on this, Ariyo noted that though the tax reform was largely reactive, it lacked strategic planning by allowing the oil boom to negate the revenue generated from the non-oil sector.

The 1991 Tax Reform

The 1991 tax reform was introduced to curtail and streamline the gaps in the 1978 tax system, which is believed to have existed for a long period of time (1978-1991). Some of the achievements of the 1991 tax reform include the establishment of the Federal Inland Revenue Service (FIRS) as an autonomous body, the enactment of the Value Added Tax Act (VAT) in 1993 (the VAT was consequently used to replace sales tax through amendment in 1994), and the establishment of the Joint Tax Board (JBT) in order to harmonize intergovernmental issues. This tax reform era also had its inadequacies, ranging from weak tax administration, which resulted in leakages in the economy. Some of the weaknesses were low human resource capacity because, after the reform, many tax agencies had inadequate personnel; there was the problem of poor taxpayer registration and record keeping; and there were poor enforcement, audit, and compliance mechanisms. However, Ola (1974) stated that the introduction of Value Added Tax (VAT) actually widened or broadened the operation of the tax revenue, but implementation lagged due to poor system and education.

The 2004-2007 Tax Reforms (President Obasanjo Era)

This era introduced some strategic reforms that tend to overhaul the tax system through institutional capacity building and introducing a modern approach to tax management in Nigeria. Some of the key features include the reorganization of

the Federal Inland Revenue Service (FIRS) Act under the FIRS (Establishment) Act 2007, and another feature is the adoption of the self-assessment tax regime. This reform gave room for taxpayers to have self-assessment leverage and submit to the tax authority, who later computes to see whether the computation done is right or not. This actually encouraged taxpayer compliance and transparency. FIRS and SIRS were empowered to enforce tax laws, recruit staff independently, and modernize systems. Despite the well-structured tax reform, there were inefficiencies as a result of a lack of tax education and poor sensitization. The Federal Ministry of Finance (2008) report on tax reform evaluation highlighted poor coordination among states, resulting in low tax compliance and inefficient tax administration (Adebayo, 2019)

National Tax Policy (2012) and FIRS Reforms (2011–2015), which introduced the National Tax Policy (NTP) in 2012, have provided a policy framework. The NTP also brought about the introduction of the Tax Identification Number (TIN). Some of the achievements of this reform are the promotion of ease of doing business and the introduction of an e-filing tax system in the country. On the other hand, the reform did not do well in some areas, such as not compelling states to align with the national policy (Onwuchekwa & Aruwa, 2014). Adereti et al. (2011) stated clearly that the introduction of electronic platforms and techniques is quite commendable, but it was undermined by uneven internet access and the undermining of e-filing platforms. This challenge persists and is critically important for the proposed digital reform of 2025. Despite advancements in technology, significant disparities in internet penetration—especially across rural and underserved regions—continue to threaten the inclusivity and efficiency of the digital tax system.

Finance Act 2019.

This was a landmark reform that updated various existing tax laws. The Finance Act was basically introduced by the Federal Government of Nigeria as an annual instrument to update tax laws and align fiscal policies with national economic goals. Each amended multiple tax laws to improve revenue generation, transparency, and tax equity. Some key features of the Finance Act 2019 include one, review of the company income tax (CIT) thresholds and introduction of digital services tax for non-resident companies (e.g., Facebook); and two, exemption of small businesses from VAT, that is, CITA amendment. Three amendments include the removal of minimum tax for small companies with turnover below twenty-five million naira; four, the VAT rate from 5% to 7.5%;

and five, the amended Stamp Duties Act. This amendment widens the tax base for transactions liable to stamp duties. The weaknesses in the finance of 2019 include the untaxed informal sector and poor digital implementation of the tax reform. PWC Nigeria (2020) stated that the Finance Act laid the groundwork for more inclusive taxation but needed broader implementation.

Finance Act 2020-2023

Tax Acts are amended annually to reflect changes in the economy and deepen the tax system for more inclusive reform. The frequent changes in the tax act have caused uncertainty on the part of taxpayers as to what they owe, when to pay, how to pay, and other things required by the act. This amendment had cut across the following areas: Personal Income Tax Act (PITA), Company Income Tax Act (CITA), Value Added Tax (VAT), Capital Gains Tax (CGT), and Tertiary Education Trust Fund (TETFUND). Key features across these acts include, among others, expansion of VAT exemptions on basic food and services, introduction of the Electronic Money Transfer Levy, and alignment of the tax laws and system with global best practices, such as OECD BEPS (Base Erosion and Profit Shifting) measures. Achievements were made in the areas of digital payment platform and federal Account Allocation Committee integration, allowing deductibility of donations to Covid-19-related relief efforts, redefining the basis period for taxation to address issues with start-ups and changing business cycles, mandatory TIN verification for VAT deduction at source, and increasing the Tertiary Education Tax (TET) rate from 2% to 3%. Identifiable gaps include the problem of understanding the multiple yearly amendments' regressive effect of levies on low-income earners. Secondly, uncertainty on the part of the taxpayer as a result of frequent changes in the Act. The Electronic Money Transfer (EMT) is seen as regressive, affecting low-income earners.

The 2025 Tax Reforms Overview

The 2025 tax reform act was built on the past premises laid over the years, since the economy and the world at large are evolving. Basically, there is a need to align the nation's tax system with global practices to deepen and make the tax system more inclusive in order to strengthen the economy through robust legislation, thereby providing the necessary framework for inter-agency coordination and taxpayer compliance. The Nigeria tax reform laws (2025) represent a sweeping overhaul of Nigeria's taxation framework. They are designed to modernize revenue collection, improve compliance, align tax law

with international norms, simplify administrative burdens, and increase fairness in tax burden.

The 2025 Reform Acts are basically restructured or redesigned into four acts, which are: Nigeria Tax Acts (2025) [NTA]: This comprises the Personal Income Tax Acts, VAT, Capital Gains Tax, and Stamp Duty. These multiple taxes were consolidated into a single and unified legal framework under the new tax reform are; one, Nigeria Tax Administration Act (2025) [NTAA] with following expectation; establishment of unified tax administration across federal, state, and local government levels and introduction of mandatory Taxpayer Identification Number (TIN) registration, implementation of monthly tax returns (including VAT) and ensuring full digitalization via the electronic fiscal system (EFS). Two, Nigeria Revenue Service Establishment Act, 2025 (NRSA) with the following expectations; it replaces FIRS with the newly formed Nigeria Revenue Service (NRS), Grant the NRS the exclusive authority over federal tax and non-tax revenue collection, Federal agencies (e.g., Customs, MDAs, etc.) will transfer revenue collection powers to NRS. Three, Joint Revenue Board (Establishment) Act, 2025 (JRBA) with the expectation s; Create the joint Revenue Board to coordinate revenue sharing and dispute resolution and Establishment of a Tax Appeal Tribunal and Tax Ombudsman for taxpayer grievances.

This is a full redesign of the Nigerian tax system to reflect the present realities in our nation; some of the new features of the 2025 tax reform include: firstly, the implementation of the full digital system, where all federal and state taxes can be filed online, to avoid the rigors of long queues and the use of paper in the process of filing. With this online digital platform, taxpayers now get access to real-time receipts, digital tax clearance certificates, and access to personal tax dashboards. Two, Unified Tax Collection Platform with the introduction of this platform, it becomes very easy for businesses to navigate through the process of multiple remittances to different levels of government; rather, one portal and one payment are made. Three, another huge benefit of the 2025 tax reform is the introduction of mandatory crypto and digital taxation on crypto traders and tech platforms such as Facebook, Netflix, and YouTube. The implication of this is that those involved in the line of business listed above are now required by law to file tax returns as and when due. Fourth, the 2025 tax reform has also created a friendlier environment for the informal sector to pay their tax. This is done by developing an app known as MY Tax Nigeria, where those working in the informal sector, like traders, drivers, barbers, and other artisans, can pay their tax seamlessly. The

process starts with registration, calculating and paying a flat tax through a mobile phone at the comfort of their home, and five, the use of the revenue efficiency and performance index (REPI) in tracking how well the various states and MDAs collect taxes and comparing it to federal funding received.

The merging of Nigeria’s Federal Inland Revenue Service (FIRS) and Nigeria Customs Service (NCS) fused into one as Nigeria Revenue Service (NRS) forms a serious part of the 2025 tax reform, intended to increase transparency, improve tax collection and revenue generation (ThisDayLive, 2025). Notwithstanding, the potential reform is susceptible to major challenges- such as limited user engagement with app, risks to data privacy and opposition from underperforming state which must be wisely managed to avert failure,

Table 1: Major Features between the Finance Acts and the 2025 Tax Reforms

Features	Finance Acts [2019-2024]	Tax reform 2025
Digital filling	Basic e-filling was introduced	Full AI-powered e-tax 360 was introduced
Informal sector inclusion	Limited outreach	Introduction of mobile APP with incentive for worker in formal sector
Federal – state coordination	Fragmented tax collection	Unified portal for all tax types (UCI)
Monitor & Compliance	Tradition method of Audit	AI- based Compliance - (REPI)performance
Crypto Taxation	Classified under capital Gain Tax	Dedicated crypto reporting & taxation framework
Modernization	Papers are still in used	End-to- end digital with chat box guidance.
Hurdles	Compliance	Significant technological and infrastructural hurdles.

Implications of the 2025 Tax Reforms

It is worthy to note that the new tax reforms may have some unique features, which may make them more inclusive and encompassing, based on the fact that a good tax system creates an environment conducive to economic growth (Azubike, 2009). The question then is how these reforms translate to benefit the lives of the

average Nigerians, considering the present economic realities and high cost of living in the country.

The 2025 tax reforms may affect various sectors, institutions, governments, and even individual taxpayers. With the implementation of the 2025 Act, firstly, the government shall develop a more updated and classified set of data, which shall be readily available as a result of the digital filing mechanism, mandatory TIN, and the independent Nigerian Revenue Service (NRS). It is assumed that there shall be a high rate of tax compliance, which in turn shall expand the revenue generation base. Secondly, business owners shall be relieved of the filing and payment process as the process becomes easier, seamless, and faster without bureaucracy. In addition, lower corporate tax rates attract and encourage investment in the economy. Thirdly, those operating within the informal sector shall have access to small loans since there shall be a platform to pay tax legally with their full details and bio-data. Fourthly, the reforms shall also encourage digital entrepreneurs to keep proper records of their work, as they will be subjected to mandatory tax payment. Fifthly, these reforms shall also exempt low-income earners from tax payment to encourage more cash inflow and safeguard vulnerable households. Sixthly, VAT sharing reforms are aimed at fairer revenue distribution, as a region or state can receive in proportion to what it contributes. This is referred to as contribution-based allocations. The new VAT revenue sharing formula clearly states that states generating revenue keep 30% of the revenue first, and 50% of the revenue shall be shared equally among all states, while the remaining 20% shall be shared based on population (FIRS 2025; Tax Reform Report). The implication of this share formula indicates that states with high economic activity generate more consumption, trade, firms, etc., so they will benefit more if derivation [i.e., how much the state contributes to VAT pool] is given higher weight. Reducing divisiveness may make the reform more acceptable if the following measures are considered: Firstly, gradual transition and phasing; secondly, safeguards/minimum floor guarantee; thirdly, inclusion of productivity/performance measures, etc.

Challenges of 2025 Tax Reforms

It is good to note that the 2025 tax reforms in Nigeria are a step in the right direction. However, there are still bottlenecks that may hinder the implementation of the 2025 Act, such as the issues of digital literacy gaps among users in the rural areas, poor internet facilities and network breakdown in some regions of the countries, lack of trust in government expenditure by the public, and overlapping

mandates among government agencies (e.g., SEC, CBN, and FIRS), especially in crypto regulation and data privacy concerns with biometric-linked taxation.

Ability-to-Pay Theory

One of the principles of taxation is the ability to pay. Adam Smith (1776) laid the foundation for the ability-to-pay theory; Smith is of the view that taxes should be levied based on the ability to pay, either by an individual or organization. In applying this theory to our study evaluation of tax reforms in Nigeria from the pre-colonial era to the Tax Act 2025, this involves analyzing how tax policies have considered the financial capability of the various taxpayers at the different periods of reforms (Falola, 1999). Scrutinizing Nigeria's tax reforms from the pre-colonial era to the 2025 Tax Act through the lens of the Ability-to-Pay theory enables a serious investigation of how equitable and progressive the nation's taxation structure has been across different historical period. The ability-to-pay theory of taxation opines that tax burdens should align with an individual's financial strength, supporting progressive taxation as a means to achieve equity. It prioritizes fairness over direct exchange, divergent with the benefit of the theory, which ties taxation to the consumption of public goods.

In pre-colonial Nigeria, taxation was largely communal and customary. Tributes, levies, or labor services were demanded by kings, chiefs or clan heads. These taxes were often flat or regressive in nature, not based on economic capacity but on social status, gender, or communal obligation. The concept of taxing based on "ability to pay" was absent, as the tax system served more of a political or traditional function than an economic redistributive one. During colonial rule, taxation (e.g., poll taxes, hut taxes) was imposed more formally to generate revenue for the colonial administration. These taxes were generally regressive and uniformly applied—regardless of income or economic capacity. Ability to pay was principally overlooked, and the tax burden was heavily on the lower-income populace, specifically rural inhabitants; the principal objective of taxation was revenue generation and not redistribution or equity.

Post-Independence Reforms (1960s-1990s)

Nigeria slowly introduced corporate tax, income tax laws and other forms of indirect and direct taxes. Although, there was some acknowledgement of economic capability (more with personal income tax being progressive), compliance was low and enforcement was very weak. Tax incidence continued to fall excessively on the formal sector, specifically salaried workers, while

comfortable individuals in extractive sectors or informal sector often escaped the tax net. The ability-to-pay principle was partly entrenched but not well enforced.

Modern Tax Reforms (2000–2020)

Efforts by the Federal Inland Revenue Service (FIRS) and State Internal Revenue Services (SIRS) aimed at improving tax equity and administration began to reflect more of the ability-to-pay. The introduction of progressive Personal Income Tax (PIT) rates, VAT exemptions for basic goods, and tax reliefs for low-income earners began aligning policy with the theory.

However, the tax net remained narrow, with the informal sector largely untaxed and the wealthiest sometimes under-taxed due to evasion or loopholes. The 2025 Tax Act symbolizes a substantial effort to fully operationalize the ability-to-pay theory in the first place; the Act introduced progressive taxation for corporations and individuals with higher tax rates for high-income earners and large businesses. Secondly, the act provides that tax reliefs, exemptions and rebates for small organisations, low-income earners and startups. Thirdly, the high-net-worth digital economy, high-net-worth individuals and confirm that comfortable segments of society donate a fairer share. Fourthly, they presented a Minimum Effective Tax Rate (METR) to control tax avoidance, tax evasion and aggressive tax planning by multinational corporations and ensure all profitable firms contribute.

3. Conclusion

The chronological evolution of Nigeria's tax system (from its pre-colonial period to colonial impositions, post-independence reforms and the current Tax Act of 2025) shows a complex path toward a fairer and more effective and efficient revenue administration. Significant perceptions emerge from this development. Firstly, the colonial heritage left immeasurable structural weaknesses: taxation through early ages was undeveloped and exploitative, with systems lacking fairness and clarity. The legal and administrative structures introduced by colonial masters/authorities have remained largely unbroken, continuing to pose hindrances to reforms. Secondly, the post-independence period saw different administrative and legal growths and tax innovations; however, these were undercut by systemic problems such as weak institutional capacity, extensive corruption, tax evasion, tax aggressiveness and fragmented governance across federal, state, and local entities. Thus, Nigeria's tax-to-GDP ratio remained unacceptably low. The Tax Act of 2025, but, marks a significant reform

landmark. It incorporates previously fragmented laws, expands the tax base which includes modern economic activities, introduces fairness mechanisms like progressive reliefs, and holds digital administration. However, the reform's success pivots on challenging implementation risks: infrastructure gaps, limited awareness, administrative blockages and possible revenue shortfalls due to well-meaning but high exemption.

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