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THE RISK AND REWARD OF MODERN TAX ADMINISTRATION IN NIGERIA

Introduction

Nigeria stands at a critical point in its fiscal history. For decades, the country's tax administration was characterized by fragmentation, chronic underperformance, and a structural dependence on oil revenues that left public finances dangerously exposed to commodity price volatility. The tax reforms that led to the enactment of the Nigeria Tax Act, the Nigeria Tax Administration Act (NTAA), the Nigeria Revenue Service (Establishment) Act, and the Joint Revenue Board (Establishment) Act is indeed the most sweeping overhaul of the country's fiscal architecture in living memory. The reforms carry extraordinary promise. They also carry extraordinary risk. Therefore, understanding both dimensions is essential for any honest assessment of where Nigeria's revenue administration now stands.

The Fiscal Baseline

The scale of Nigeria's fiscal challenge cannot be overstated. According to the OECD, Nigeria's tax-to-GDP ratio stood at just 7.9 per cent in 2022, the lowest on the African continent against a continental average of 16 per cent.¹ The government of President Bola Tinubu, elected in 2023, set an ambitious target to raise this ratio to 18 per cent within three years, effectively nearly tripling the country's tax collection efficiency within a short window.²

Taiwo Oyedele, the Chairman of the Presidential Fiscal Policy and Tax Reforms Committee, identified the central problem as low tax morale, driven by deep public mistrust of government and a pervasive

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culture of evasion and avoidance across both formal and informal sectors.³ Prior to the 2025 reforms, more than sixty separate tax instruments and an array of competing revenue agencies created overlapping jurisdictions, regulatory confusion, and significant leakages.⁴

The Rewards of Reform

The 2025 reforms represent a considered and technically sophisticated response to this inheritance. The Nigeria Revenue Service (Establishment) Act 2025 dissolved the Federal Inland Revenue Service and created in its place the Nigeria Revenue Service (NRS), a body endowed with broader statutory autonomy, comprehensive digital infrastructure, and a mandate extending explicitly to all tiers of government rather than to the federal government alone.⁵ This institutional rebranding signals a fundamental philosophical shift: the NRS is designed as a collection agency and as a national revenue authority responsible for policy coherence, taxpayer education, and system integrity across the federation.

Section 23 of the NTAA 2025 establishes the Electronic Fiscal System (EFS) as the statutory vehicle for real-time digital reporting. It is important to note, however, that the EFS framework is enabling rather than immediately operative: section 23(1) applies only where the Service deploys the system, and section 23(3) requires the Service first to specify the system and publish a transition arrangement before enforcement obligations arise.⁶ EY Global has assessed this framework as having significant potential to curb underreporting and generate more reliable data for fiscal planning.⁷

The institutional architecture introduced by the reforms is equally significant. The Joint Revenue Board, established under the Joint Revenue Board (Establishment) Act 2025, brings together federal, state, and local revenue authorities under a single coordinating framework, directly targeting the destructive duplication and jurisdictional disputes that had long characterized Nigerian tax

governance.⁸ A Tax Ombudsman has been created as an independent complaints' mechanism, offering taxpayers recourse that was previously unavailable.⁹

The restructuring of VAT distribution under section 81 of the NTAA 2025 allocates 10 per cent to the federal government, 55 per cent to the states, and 35 per cent to local governments, with 30 per cent of sub-national allocation determined by place of consumption.¹⁰ Critically, section 81(3) provides that consumption is determined by the place of actual consumption, irrespective of where the tax return is filed and this is an important anti-avoidance provision that prevents states from claiming consumption revenue merely by attracting return filings without commensurate economic activity. This provision directly redresses longstanding equity concerns about a system that extracted value from consumption-intensive states while distributing revenue along formulae bearing little relationship to economic contribution.

The 2025 reforms also create powerful incentives for formalization. The Nigeria Tax Act 2025 provides a zero per cent corporate tax rate for companies with turnover not exceeding ₦50 million.²⁰ Under the NTAA 2025, small businesses, that are defined as enterprises with gross turnover of ₦100 million or less and fixed assets not exceeding ₦250 million are exempt from monthly VAT returns under section 22(4), with a voluntary opt-in available.¹⁹ Together, these measures create a genuine structural incentive for micro-enterprises to enter the formal economy, a departure from previous frameworks that imposed compliance burdens without commensurate relief.

The digital dividend anticipated from the reforms is real and quantifiable. Under Dr Zacch Adedeji's leadership, the FIRS had already demonstrated what focused administration could achieve: by the end of 2024, the service had exceeded its revenue target of ₦19.4 trillion, a dramatic improvement from the ₦12.3 trillion collected in 2023. The 2025 legislative framework institutionalizes these

improvements, embedding e-filing, electronic invoicing, and automated audit trails into the legal fabric of tax administration rather than leaving them dependent on executive discretion.

Two further taxpayer-facing innovations merit attention. The advance ruling mechanism established by sections 73 to 76 of the NTAA 2025 obliges the Service to respond to ruling applications within 21 days or provide written reasons for non-issuance.¹⁷ An advance ruling binds the tax authority as to the specific transaction, subject to subsequent legislative change. This offers a degree of fiscal certainty that was previously absent, and which is of particular significance for large-scale investment decisions in extractive industries. Separately, section 141 of the NTAA 2025 for the first time codifies an amicable resolution pathway, available at any stage of a tax dispute, representing a philosophical departure from the adversarial posture that previously characterized FIRS-taxpayer relations.¹⁸

The Risks of Reform

There are some risks that are associated with these reforms and the most fundamental is the structural risk. Nigeria's informal economy does not merely sit outside the tax net by accident; it exists there partly as a rational economic response to the costs and friction of formal compliance. According to data compiled by BusinessDay, Nigeria has an estimated 39.6 million micro, small, and medium enterprises, with more than 17 million small businesses operating without Corporate Affairs Commission registration.¹¹ Economists have warned that if compliance costs rise too rapidly as mandatory digital reporting requirements take effect, many firms may choose to remain informal rather than enter a system whose administrative demands they cannot absorb. The paradox of aggressive formalization is that it risks deepening the shadow economy it is designed to illuminate.²⁶

Constitutional and legal risks also compound the structural challenge. The authority for the Accountant-General to deduct unremitted revenues directly from the budgetary allocations of

defaulting ministries, departments, and agencies is grounded in section 80 of the NTAA 2025 and the Fourth Schedule thereto.¹² Without independent oversight, such deductions may be perceived as punitive or politically motivated, raising questions about separation of powers and due process that remain unresolved by judicial authority.

The taxation of virtual assets, addressed comprehensively in the Fifth Schedule to the NTAA 2025 (introduced by section 79), also presents parallel difficulties.¹³ The Fifth Schedule governs VASP registration, taxable transactions, valuation methodology, and KYC/AML obligations including a 48-hour suspicious transaction reporting window and a seven-year record-keeping obligation. These provisions whose enforcement and valuation implications in a jurisdiction with nascent regulatory capacity for fintech create legal uncertainty that neither the statute nor existing case law adequately resolves.

The enforcement architecture of the NTAA 2025 is considerably more muscular than its predecessor framework, and the risks this creates for taxpayers deserve careful attention. Failure to remit withheld tax attracts a 10 per cent per annum administrative penalty plus CBN monetary policy rate interest under section 107.²¹ Non-compliant VASPs face penalties of ₦10 million in the first month of default, rising by ₦1 million monthly thereafter, with potential SEC licence revocation under section 109.²² While the powers of distraint under section 61 require a High Court order before the sale of distrained assets, the seven-year limitation on penalty demands (section 65 read with section 67(6)) and the six-year additional assessment window under section 36 together create a substantial long-tail exposure for taxpayers that responsible compliance planning cannot ignore.²³

The Tax Clearance Certificate regime under section 72 of the NTAA 2025 deserves separate attention. The TCC has been expanded to cover an enlarged range of transactions including contract awards,

import/export licences, and building plan approvals which creates powerful behavioural incentives for compliance.²⁴ However, the mechanism carries a corresponding risk: where the statutory two-week issuance period is not reliably met by the Service, the TCC becomes an instrument of administrative obstruction rather than incentive. The practical value of this regime will ultimately depend on the Service's operational capacity to meet its statutory obligations consistently.

Implementation risk is perhaps the most immediate and practical concern. The reforms consolidate over sixty tax instruments into fewer than ten statutory frameworks, a remarkable feat of legislative drafting that nonetheless places enormous pressure on revenue officers, tax practitioners, and the business community to absorb an entirely new legal paradigm simultaneously. Baker Tilly Nigeria has urged companies to build tax risk registers, overhaul ERP and accounting systems for electronic invoicing, and retrain finance, HR, and procurement teams.¹⁴ For the vast majority of Nigerian businesses operating on thin margins in sectors with limited access to professional advisory services, the compliance challenge is proportionally larger.

Upstream Petroleum — A Conspicuous Gap in the Reform Discourse

Despite positioning itself as a framework for broad tax administration reform, most commentary on the 2025 Acts has remained conspicuously silent on their upstream petroleum provisions. Sections 16 to 19 and section 50 of the NTAA 2025 contain detailed rules governing estimated and actual returns in upstream petroleum operations, monthly instalment payment schedules, and the assessment of Hydrocarbon Tax, Petroleum Profits Tax, and Income Tax.²⁵ Section 63 empowers the Service to notify the relevant Commission or ministry for licence revocation where petroleum royalties remain unpaid.

In a jurisdiction where the oil and gas sector remain the dominant foreign direct investment magnet and the primary generator of government revenue, these provisions carry risk implications of the first

order. The interaction between the NTAA's instalment payment framework, the licence revocation trigger, and the advance ruling mechanism which could provide certainty to upstream investors on the application of the new assessment rules creates a complex compliance environment whose management requires specialist advice. This dimension of the 2025 reforms warrants considerably more attention from practitioners and scholars than it has thus far received.

Infrastructure, Informality, and the Technology Gap

The technological infrastructure underpinning the entire digital reform agenda is itself a source of systemic risk. The mandate for real-time transaction reporting and electronic fiscal devices assumes a level of broadband penetration, power reliability, and digital literacy that remains uneven across Nigeria's thirty-six states and the Federal Capital Territory. Afriwise has cautioned that successful implementation will depend critically on robust infrastructure development at both federal and state levels¹⁵. This is a caveat that carries considerable weight in a country where power supply remains unreliable and digital connectivity remains concentrated in urban centres.

The World Bank has estimated that informal taxation levies extracted outside the formal system by entities such as transport unions accounts for approximately 40 per cent of total tax revenue in Nigeria.¹⁶ Any reform strategy that succeeds only in formalizing a fraction of this activity while leaving informal extraction intact will fall materially short of its stated objectives.

The Social Contract and the Trust Deficit

Beneath the technical and institutional challenges lies a deeper issue of social contract. Tax compliance is ultimately a function of trust. Nigerian citizens have historically demonstrated low tax morale not because they misunderstand their civic obligations but because they have experienced decades of

public revenue extracted without commensurate public service delivery. The 2025 reforms acknowledge this reality implicitly through the creation of the Tax Ombudsman, the enhanced derivation-based VAT distribution formula, the advance ruling mechanism, and the codification of amicable dispute resolution, all of which signal a commitment to accountability and equity that previous frameworks lacked.

But legislative signals are not self-executing.²⁷ The government's ambition to reach an 18 per cent tax-to-GDP ratio will be tested not in the National Assembly but in the daily experience of Nigerians deciding whether formal compliance is worth its costs. This is a calculation that will be shaped as much by the quality of public goods delivered as by the sophistication of the enforcement apparatus deployed. The advance ruling mechanism, the Tax Clearance Certificate regime, and the amicable settlement framework are all taxpayer-protective innovations. Their ultimate value will be determined by the willingness of the NRS to implement them transparently, promptly, and without administrative obstruction.

Conclusion

The 2025 Tax Reform Acts is a genuine and ambitious attempt to place Nigeria's public finances on a sustainable footing. The consolidation of fragmented tax instruments, the creation of an autonomous national revenue authority, the institutionalization of digital compliance infrastructure, the introduction of equitable inter-governmental revenue sharing, and the codification of advance rulings and amicable dispute settlement collectively constitute a reform package without precedent in Nigeria's post-independence history.

The risks, however, are real and substantial: a structural informal economy whose rational actors will not respond to compliance mandates alone; a technology infrastructure whose gaps may render digital

obligations unenforceable in practice; a judicial landscape yet to resolve the constitutional questions raised by certain deduction powers; and an enforcement architecture whose penalties create long-tail exposures that may chill the very investment the reforms seek to attract.

The 2025 reforms are as much a test of governance as of legislation. Their success will be measured not by the sophistication of the statutory framework which is considerable but by the quality, consistency, and fairness of the administrative decisions taken under it. That test is only beginning.

ENDNOTES

- ¹ OECD, *Revenue Statistics in Africa 2024 — Nigeria* (OECD Publishing 2024). Nigeria's tax-to-GDP ratio of 7.9% is drawn from this publication.
- ² Zacch Adedeji, 'Nigeria on Quest to Almost Double Tax-to-GDP Ratio in Three Years' (*Al Jazeera*, 7 July 2023) <<https://www.aljazeera.com/news/2023/7/7/nigeria-on-quest-to-almost-double-tax-to-gdp-ratio-in-three-year>> accessed 13 June 2026.
- ³ Taiwo Oyedele, 'Nigeria's Tax Challenge' (*ACCA AB Magazine*, February 2022) <<https://abmagazine.accaglobal.com/content/abmagazine/global/articles/2022/feb/public/nigeria-s-tax-challenge.html>> accessed 13 June 2026.
- ⁴ Federal Inland Revenue Service (Establishment) Act 2007 (Nigeria), now repealed by the Nigeria Revenue Service (Establishment) Act 2025.
- ⁵ Nigeria Revenue Service (Establishment) Act 2025 (Nigeria), ss 3–4.
- ⁶ Nigeria Tax Administration Act 2025 (Nigeria) (NTAA 2025), s 23. Note that the EFS mandate is enabling rather than immediately operative: s 23(1) applies only where the Service deploys the system, and s 23(3) requires the Service first to specify the system and publish a transition arrangement before enforcement obligations arise.
- ⁷ EY Global, 'Nigeria Tax Act 2025 Has Been Signed — Highlights' (EY, 2025) <https://www.ey.com/en_gl/technical/tax-alerts/nigeria-tax-act-2025-has-been-signed-highlights> accessed 13 June 2026.
- ⁸ Joint Revenue Board (Establishment) Act 2025 (Nigeria).

- ⁹ Pavestones Legal, 'Tax Administration in Nigeria — A Review of the 2025 Nigerian Tax Reform Laws' (Pavestones Legal, 2025) <<https://pavestoneslegal.com/tax-administration-in-nigeria-a-review-of-the-2025-nigerian-tax-reform-laws/>> accessed 13 June 2026.
- ¹⁰ NTAA 2025, s 81(1)–(2). Section 81(3) expressly provides that consumption is determined by the place of actual consumption irrespective of where the return is filed, an important anti-avoidance provision preventing states from claiming consumption revenue by attracting return filings without commensurate economic activity.
- ¹¹ BusinessDay, 'Nigeria's Tax Reforms May Deepen Informal Economy Shift' (*BusinessDay NG*, May 2026) <<https://businessday.ng/business-economy/article/nigerias-tax-reforms-may-deepen-informal-economy-shift/>> accessed 13 June 2026.
- ¹² NTAA 2025, s 80 and Fourth Schedule. KPMG Nigeria, 'The Nigeria Revenue Service (Establishment) Act 2025' (KPMG, 2025) <<https://kpmg.com/ng/en/home/insights/2025/07/the-nigeria-revenue-service-establishment-act-2025.html>> accessed 13 June 2026.
- ¹³ NTAA 2025, Fifth Schedule (introduced by s 79), governing VASP registration, taxable transactions, valuation methodology, and KYC/AML obligations, including a 48-hour suspicious transaction reporting window (para 5(c)) and a seven-year record-keeping obligation (para 5(f)).
- ¹⁴ Baker Tilly Nigeria, 'Nigeria's 2025 Tax Reform Acts Explained: Key Changes' (Baker Tilly, 23 August 2025) <<https://www.bakertilly.ng/insights/nigerias-2025-tax-reform-acts-explained>> accessed 13 June 2026.
- ¹⁵ Afriwise, cited in Ayo Muniru and others, 'Nigeria Tax Reform Acts: Implications, Challenges and Prospects' (2025) 9(2) *International Journal of Research and Innovation in Social Science* 1.

- ¹⁶. Blakey Ijezie, 'Tax Evasion in Nigeria — The Solution' *Vanguard News* (Lagos, 3 January 2024) <<https://www.vanguardngr.com/2024/01/tax-evasion-in-nigeria-the-solution/>> accessed 13 June 2026.
- ¹⁷. NTAA 2025, ss 73–76. The Service is obligated to respond to ruling applications within 21 days or provide written reasons for non-issuance (s 73(2)(b)). An advance ruling binds the tax authority in respect of the specific transaction, subject to subsequent legislative change (s 75(4)).
- ¹⁸. NTAA 2025, s 141.
- ¹⁹. NTAA 2025, s 147 defines 'Small Business' as a company with gross turnover of ₦100 million or less and fixed assets not exceeding ₦250 million. Small businesses are exempt from monthly VAT returns under s 22(4), with voluntary opt-in available.
- ²⁰. Nigeria Tax Act 2025 (Nigeria). Companies with turnover not exceeding ₦50 million attract a zero per cent corporate tax rate.
- ²¹. NTAA 2025, s 107. Failure to remit withheld tax attracts a 10% per annum administrative penalty plus CBN monetary policy rate interest.
- ²². NTAA 2025, s 109. Non-compliant VASPs face ₦10 million in the first month of default, rising by ₦1 million monthly thereafter, with potential licence revocation by the SEC.
- ²³. NTAA 2025, s 61 (distrainment — requires High Court order before sale); s 65 read with s 67(6) (seven-year limitation on penalty demands); s 36 (six-year additional assessment window).
- ²⁴. NTAA 2025, s 72. The statutory TCC issuance period is two weeks (s 72(1)).
- ²⁵. NTAA 2025, ss 16–19 and 50 (upstream petroleum returns, instalment schedules, and tax assessment); s 63 (licence revocation for unpaid royalties).

- ²⁶. Chioma Nwangwu, 'Nigeria's Tax Reforms May Deepen Informal Economy Shift' (*BusinessDay NG*, May 2026) <<https://businessday.ng/business-economy/article/nigerias-tax-reforms-may-deepen-informal-economy-shift/>> accessed 13 June 2026.
- ²⁷. International Monetary Fund, 'Tax Revenue Generation in Nigeria: A Leap Beyond Corporate Taxes' in *Mondaq* (2 August 2024) <<https://www.mondaq.com/nigeria/tax-authorities/1501352/tax-revenue-generation-in-nigeria-a-leap-beyond-corporate-taxes>> accessed 13 June 2026.