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# EFFECT OF TAX REFORMS ON REVENUE GENERATION IN NIGERIA: A CONCEPTUAL AND THEORETICAL REVIEW

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**ABSTRACT:** *This article examines the conceptual and theoretical foundations for tax reform in Nigeria, as well as their impact on revenue production. The study examines Nigeria's multiple tax reform measures, including the 2012 and 2017 National Tax Measures and the 2017 Voluntary Asset and Income Declaration Scheme (VAIDS). The paper also examines the theoretical underpinnings of tax policies, including the Laffer Curve Theory and the Behavioural Economics Theory. The study finds that tax reforms have had a positive impact on income generation in Nigeria, however challenges such as infrastructure and digital literacy persist. The review indicates that a holistic strategy to tax reform, integrating policy, technology, and behavioural insights, is required to maximise revenue production in Nigeria.*

**KEYWORDS:** Tax Reforms, Revenue Generation, Laffer Curve Theory, Behavioural Economic Theory.

## INTRODUCTION

Taxation remains the major source of revenue generation for Nigeria which enables the government to fund its statutory functions and facilitate economic growth and development. The country employs a diverse range of taxes including personal income tax, corporate income tax, value added tax (VAT), customs duties and other levies or taxes. Taxation is mainly collected at the federal level by the Federal Inland Revenue Service (FIRS) while regional tax collection and administration is supervised by state revenue services. This Nigerian tax system is meant to Tax a revenue from the Economic activity touching on the whole economy so as to provide for a reasonable and constant provision for the Funding of Public Services and Infrastructure.

One major aspect of revenue generation that seeks further investigation is the Value Added Tax (VAT). This is a type of consumption tax that is charged on goods and services at each level of the production and distribution processes. VAT is an important source of revenue for the government and its revenue is distributed between federal, state and local governments. Corporate income earned by companies working in Nigeria is also the other important tax area on which direct tax is required. Also, personal earnings have a tax, the personal income tax, which is also a collection from the tax revenue pool. These taxes collectively contribute to funding critical sectors such as education, healthcare, and infrastructure development, fostering economic growth and social well-being.

However, issues such as tax evasion, informal economic activity, and administrative inefficiencies impede effective revenue collection. The Nigerian government is still implementing measures to improve tax compliance, broaden the tax base, and streamline revenue administration. Striking a balance between developing a fair and equitable tax system and supporting economic growth remains a significant problem in Nigeria's continued efforts to improve revenue generation through taxation.

Nigeria's income collection via taxation has various challenges. One major hurdle is the prevalence of tax evasion and avoidance, which is typically the result of sloppy enforcement methods and insufficient oversight. Informal economic activities account for a major component of the economy, making it difficult to capture taxable revenue effectively. Administrative inefficiencies and corruption within tax authorities limit effective revenue collection. The complicated and overlapping tax laws at the federal, state, and municipal levels add to confusion and impede compliance. Furthermore, the country's large informal sector and high poverty rates make it difficult to broaden the tax base because many individuals and businesses operate outside of the traditional tax system. To develop a stronger and fair Nigerian revenue system, continued policy improvements, enhanced enforcement, and increased transparency would be required.

As a result, tax reforms are regarded to play a major role in affecting revenue generation through taxation in Nigeria, including increasing the tax base and enhancing compliance, among other things. Streamlining and simplifying the tax legislation can increase transparency and accessibility while limiting potential for evasion. Targeted reforms, such as amending tax rules to reflect the changing economic landscape and adopting digital taxing, can assist capture revenue from developing sectors. Furthermore, initiatives to strengthen tax administration, upgrade technology infrastructure, and invest in tax officers' training can all help to improve enforcement effectiveness. Tax changes have the potential to instil trust in taxpayers, increase


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compliance, and eventually create long-term income collection to fund government efforts and socioeconomic development in Nigeria.

The Nigerian government's reliance on oil earnings has resulted in a precarious economic scenario, as seen by a major drop in oil prices and a subsequent decrease in government revenues (Oriakhi, 2020). In response, the government has implemented a series of tax policies to diversify revenue streams and increase tax collection (FIRS, 2019). However, the success of these initiatives in terms of revenue generation is questionable, with some suggesting that they had little effect on expanding the tax base or increasing income (Adedeji, 2017).

This study seeks to examine the impact of tax reforms on revenue collection in Nigeria, with a focus on tax revenue, economic growth, and development (Adeoye, 2016). This study aims to contribute to the ongoing debate in Nigeria about tax policy and revenue generation by looking into the relationship between tax reforms and revenue generation (Ogbonna, 2019). The conclusions of this study would be useful for policymakers, tax authorities, and other stakeholders looking to maximise tax reforms and increase revenue generation in Nigeria (Nigeria Ministry of Finance, 2020).

Therefore, the paper focus to discuss the following;

i. Examine the effect of National Tax Policy of 2012 and 2017 on revenue generation in Nigeria.

ii. Assess the effect of Voluntary Asset and Income Declaration Scheme (VAIDS) of 2017 on revenue generation in Nigeria

iii. Evaluate the effect of the use of disruptive technologies on revenue generation in Nigeria,

## CONCEPTUAL FRAMEWORK

### Revenue Generation in Nigeria

According to Adebayo et al. (2022), revenue generation is defined as the annual or periodic yield of taxes and other sources of income that a nation, state, or public sector collects or receives into its treasury for public purposes. Elamah (2015) defines revenue as the money required by the government to run its activities, and it comes from a range of sources, including taxes, penalties, fees, borrowings, and so on. Fayemi (2001) defines revenue as all tolls, taxes, interest, rates, fees, duties, fines, penalties, fortunes, and other government receipts from whatever source that arise over a one-year or six-month period. According to Enahoro and Jayeola (2012), Revenue generation is the process by which the government raises funds to fulfil its responsibilities. According to Adebayo et al. (2022), government revenues come from a variety of sources, including taxes levied on individuals' and corporations' incomes and wealth accumulation, as well as the goods and services produced, exports and imports, non-taxable sources like the income of government-owned corporations, central bank revenue, and capital receipts in the form of external loans and debts from international financial institutions.

In Nigeria, government revenue is classified into two types: oil revenue and non-oil revenue. Oil income includes all revenue generated in the country from oil and gas activities, whereas


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non-oil revenue includes all revenue derived from sources other than oil and gas operations. Other African and non-African countries split their revenue into tax and non-tax sources. Nigeria prefers oil above non-oil because it is the country's principal source of revenue. Despite the diverse revenue sources accessible to Nigeria's multiple tiers of government as stipulated in the 1999 constitution, petroleum accounts for more than 80% of total annual revenue (Olajide, 2015). However, the recent significant drop in oil prices has had a negative impact on Nigeria's revenue base (Adebayo et al., 2022) as a result of the global health crisis. Federal, state, and municipal governments are now paying special attention to tax collection in order to fund an ever-increasing budget while also guiding economic growth.

**Tax Reforms**

Azubuike (2009) defines tax reform as a method of modifying how the government collects and manages taxes. It is an attempt to reinforce the current tax system by establishing a new tax rate, a new legal provision, and a new assessment mechanism to improve efficiency. Tax reform initiatives are being implemented to improve modern taxes while substantially reducing the system's complexity and lack of transparency (Oriakhi and Rolle, 2014; Odusola, 2006; Anyanwu, 1997). Furthermore, tax reforms aim to minimise the burden of government taxation on all citizens, make the tax system more progressive and less regressive, and simplify the tax system by making it more responsible and understandable.

The fall in Nigerian oil revenue has been a major driver of tax reform in the country. The goal of reform has been to abolish higher tax rates, widen the tax base, and simplify the tax structure in line with global standards (Deb, 2017). According to Nwala and Gimba (2019), tax reforms aim to lower the burden of government taxation on all individuals, make the tax system more progressive and less regressive, and simplify the tax system by making it more responsible and intelligible. Nigeria's government has adopted several tax reforms, including the National Tax Policy in 2012 and 2017, the Voluntary Asset and Income Declaration Scheme (VAIDS) in 2017, and the use of disruptive technologies.

The National Tax Policy defines the standards, rules, and operational procedures that will regulate Nigeria's tax system and lay the groundwork for tax legislation and administration in the country. It sets the essential principles that will govern the orderly development of Nigeria's tax system and highlights the role of tax legislation and administrative procedures in fostering economic development. The National Tax Policy was developed through a broad stakeholder consultation process that began in 2002 with the report of a study group formed to examine the tax system and make appropriate recommendations for establishing a better tax policy and improving tax administration in the country (Olaoye & Awe, 2018). When fully implemented, the National Tax Policy is expected to address key challenges confronting Nigeria's tax system, such as: low tax-to-GDP ratio; fragmented taxpayer database and weak structure for information exchange; multiplicity of taxes and revenue agencies; poor accountability for tax revenue; use of aggressive and unconventional tax collection methods; failure by tax authorities to honour refund obligations to taxpayers; and nonregular review of tax returns (Richards, 2019).


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**National Tax Policy of 2012 and 2017 on revenue generation in Nigeria.**

The National Tax Policy (NTP) was originally released in 2012 as part of attempts to establish a strong and efficient tax system in Nigeria. The policy aims to increase the well-being of all Nigerians through improved policy formation and effective use of tax money[1]. The program was anticipated to function in conjunction with tax laws and tax administration to meet the nation's economic goals.

The 2012 National Tax Policy has a substantial impact on Nigeria's revenue generation. According to Asaolu et al. (2015), the approach resulted in an increase in tax income in Lagos State. The study indicated that the policy increased the number of taxpayers and improved tax compliance. Similarly, Animasaun (2016) discovered that the strategy resulted in increased revenue generation in Ogun State.

Despite the good impact of the 2012 National Tax Policy, Nigeria's tax income remains low. According to the Presidential Committee on National Tax Policy (2008), Nigeria's tax income to GDP ratio is among the lowest in the world. The committee ascribed the low ratio to the absence of a strong and efficient taxation system. As a result, it was necessary to examine and update the National Tax Policy for 2012.

In 2017, the National Tax Policy underwent review and updating. The amended policy was created to address the issues that Nigeria's tax system is currently facing. According to Oyedokun et al. (2022), the modified policy was predicted to increase tax revenue generation while decreasing tax evasion and avoidance. The strategy included new measures such as the use of technology to improve tax administration and the imposition of new levies, such as the Value Added Tax (VAT). The 2017 National Tax Policy has had a favourable impact on Nigeria's income generating.

According to Solanke et al. (2021), the program resulted in an increase in tax income in Nigeria. According to the report, the approach improved tax compliance while also increasing the number of taxpayers. Similarly, Mustapha et al. (2021) concluded that the approach improved tax administration and increased tax revenue generation.

**Voluntary Asset and Income Declaration Scheme (VAIDS) of 2017 on Revenue Generation in Nigeria**

The Voluntary Asset and Income Declaration Scheme (VAIDS) was implemented in 2017 to promote voluntary tax compliance and enhance tax revenue production in Nigeria (Osinbajo, 2017). The system gave taxpayers a nine-month opportunity to register their assets and income in exchange for perks like protection from prosecution for tax crimes, interest and penalty waivers, and the ability to spread payments over three years (Osinbajo, 2017).

The implementation of VAIDS had a substantial impact on revenue generating in Nigeria. According to the Federal Ministry of Finance, the initiative resulted in a rise in tax revenue generation, with taxpayers contributing over N30 billion (Federal Ministry of Finance, 2018). Furthermore, the plan increased the number of taxpayers, with over 200,000 people taking use of it to regularise their tax status (Federal Ministry of Finance, 2018).

VAIDS' success in producing income was ascribed to the perks provided to taxpayers, which encouraged them to voluntarily comply with tax rules. Despite VAIDS' effectiveness, there


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were hurdles to its implementation. One of the issues was a lack of clarity about the goal of asset disclosure, which caused uncertainty among taxpayers (Adedayo, 2017). Another problem was the scheme's short time frame, which made compliance difficult for some taxpayers (Adedayo, 2017). Another problem was the scheme's short time frame, which made compliance difficult for some taxpayers (Adedayo, 2017). Furthermore, worries about the confidentiality of taxpayer information influenced certain taxpayers' desire to engage in the system (Adedayo, 2017).

VAIDS has had a substantial impact on revenue generating in Nigeria. According to an IMF report, the system increased tax revenue generation, improving Nigeria's tax-to-GDP ratio (IMF, 2019). According to the report, the program contributed to broadening the tax base and increasing tax compliance, both of which are necessary for long-term revenue collection (IMF, 2019). Furthermore, the system assisted in reducing tax evasion and avoidance, which are important difficulties facing tax administration in Nigeria.

In conclusion, the Voluntary Asset and Income Declaration Scheme (VAIDS) had a considerable impact on income production in Nigeria. The approach promoted voluntary tax compliance, raised tax revenue, and expanded the tax base. However, there were obstacles to its execution, including a lack of clarity on the goal of asset declaration, a short time frame, and worries about confidentiality. Despite these issues, the system was successful in increasing tax revenue generation in Nigeria, and its effects are projected to be long-lasting.

The adoption of disruptive technologies has changed the tax landscape in Nigeria, creating prospects for increased revenue production. According to a World Bank report, the use of digital technologies such as e-filing, e-payment, and digital invoicing has enhanced tax compliance and decreased tax evasion in Nigeria. For example, the Federal Inland Revenue Service (FIRS) introduced the TaxPro Max platform, which allows taxpayers to file returns and make payments online, minimising the need for physical interactions and enhancing efficiency (FIRS, 2020).

**Disruptive Technologies on Revenue Generation in Nigeria**

The adoption of disruptive technology has also improved the effectiveness of tax administration in Nigeria. According to a study conducted by the African Development Bank, the use of data analytics and artificial intelligence has increased tax revenue collection by identifying possible tax evaders and lowering tax fraud. Furthermore, blockchain technology has improved transparency and security in tax transactions, lowering the risk of fraud and error (OECD, 2019).

Despite the benefits of disruptive technologies, there are some concerns that must be addressed. According to a report published by the Nigeria Institute of Social and Economic Research, a lack of digital literacy and infrastructure in some sections of the country has hindered the use of digital technology for tax purposes (NISER, 2020). Furthermore, the possibility of cyberattacks and data breaches remains a worry, emphasising the importance of strong security measures to secure taxpayer data (OECD, 2019).

Disruptive technologies have had a substantial impact on revenue generating in Nigeria. According to the FIRS, the implementation of digital technologies has resulted in a 15% increase in tax revenue collection in 2020 over the previous year. Furthermore, the FIRS has


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used data analytics to find and collect taxes from hitherto untapped sources, such as the digital economy (FIRS, 2020).

The adoption of disruptive technologies has changed the tax landscape in Nigeria, creating prospects for increased revenue production. While there are obstacles to overcome, the advantages of digital technologies in improving tax compliance, tax administration, and revenue production are clear. As Nigeria continues to use disruptive technologies for tax administration, it is critical to focus on digital literacy, infrastructure development, and security measures to secure long-term income production.

## THEORETICAL REVIEW

This review examines the Laffer Curve Theory and the Behavioural Economics Theory, which both have significant implications for understanding the effect of tax reforms on revenue generation.

### Laffer-curve Theory

The Laffer Curve Theory was proposed by Arthur Laffer in 1974. The theory's core assumption is that as tax rates rise, revenue generation first rises but then falls as high tax rates discourage economic activity (Laffer, 1974). According to the hypothesis, there is an optimal tax rate that maximises revenue creation, and raising tax rates over this level reduces revenue generation.

The Laffer Curve Theory has had a considerable impact on tax reform since it argues that lowering tax rates can improve revenue generation (Laffer, 1974). This concept has influenced tax policy, particularly in the United States, where it was used to support tax cuts in the 1980s (Bartlett, 2007). However, detractors contend that the theory oversimplifies the relationship between tax rates and revenue collection, and that other factors, such as economic conditions and government spending, are also important (Krugman, 2010).

Despite its flaws, the Laffer Curve Theory remains an essential concept in taxation, influencing tax revisions all around the world. Its underlying concept that high tax rates can discourage economic activity is still widely recognized, and policymakers are still struggling to find the ideal tax rate that balances revenue generation and economic growth (Laffer 1974).

### Behavioural Economics Theory

Daniel Kahneman and Amos Tversky proposed behavioural economics theory in 1979. The theory's central premise is that people do not always make logical economic decisions and are impacted by cognitive biases and emotions (Kahneman & Tversky, 1979). This hypothesis calls into question classical economics' long-held assumptions that individuals act rationally and in their best interests.

The Behavioural Economics Theory has had a considerable impact on tax reform because it shows that people do not always behave rationally to tax incentives (Kahneman & Tversky, 1979). Taxpayers, for example, may overreact to tax cuts or underreact to tax hikes as a result of cognitive biases like loss aversion. This idea has prompted politicians to develop tax policies that account for cognitive biases, such as employing tax credits rather than deductions to incentivize specific behaviours (Madrian & Shea, 2001).


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The Behavioural Economics Theory has also influenced the development of new tax policies, such as the use of nudges to urge taxpayers to follow tax regulations (Thaler & Sunstein, 2008). For example, authorities have used default alternatives to encourage taxpayers to engage in tax payment plans (Thaler & Sunstein, 2008). Overall, Behavioural Economics Theory has transformed the field of taxation by acknowledging that taxpayers are not always rational actors, and that tax policy must account for these cognitive biases in order to be effective.

**Theoretical Linkage**

The Laffer Curve Theory and Behavioural Economic Theory provide important insights into the impact of tax reforms on revenue generation. According to the Laffer Curve Theory, lower tax rates can enhance revenue generation while higher tax rates can discourage economic activity. This theory suggests that policymakers should seek the optimal tax rate that balances revenue generation and economic growth. On the other hand, Behavioural Economic Theory emphasises the significance of taking cognitive biases into account when designing tax policies. Taxpayers may overreact to tax cuts or underreact to tax hikes due to loss aversion, resulting in inefficient tax policy.

By combining these theories, policymakers can create tax policies that maximise revenue while accounting for the psychological aspects that impact taxpayer behaviour. For example, Behavioural Economic Theory suggests that policymakers utilise tax credits rather than tax deductions to encourage specific behaviours. They can also utilise the Laffer Curve Theory to calculate the best tax rate that balances revenue generation and economic growth. By combining these theories, policymakers can develop tax measures that are both successful and efficient in generating money.

## SUMMARY AND CONCLUSION

This conversation focused on the impact of tax reforms on revenue collection in Nigeria, including the National Tax Policy of 2012 and 2017, the Voluntary Asset and Income Declaration Scheme (VAIDS) of 2017, and the usage of disruptive technologies. The discussion highlighted that the National Tax Policy increased tax revenue generation, but VAIDS will have a favourable impact on revenue generation but encounter problems. The introduction of disruptive technology has enhanced revenue production, but infrastructural and digital literacy challenges must be addressed. The Laffer Curve Theory and Behavioural Economic Theory were also examined, offering information on optimal tax rates and cognitive biases.

Finally, tax reforms have the potential to improve income collection in Nigeria. The National Tax Policy and VAIDS have increased revenue production, whereas disruptive technologies have improved tax administration. However, problems remain, which policymakers must address in order to maximise revenue collection. Policymakers in Nigeria can create efficient tax reforms that balance revenue generation with economic growth and promote sustainable development by taking into account theoretical ideas and empirical facts. The discussion emphasises the importance of a holistic tax reform strategy that incorporates policy, technology, and behavioural insights to maximise revenue production.


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## RECOMMENDATION

Based on the discussion, the following recommendations are made:

1. The government should continue to improve and execute tax policies that generate income, building on the success of the 2012 and 2017 policies. This could involve broadening the tax base, lowering exemptions, and boosting tax incentives.

2. The government should address VAIDS concerns, including insufficient awareness, infrastructure issues, and computer literacy gaps. This could involve strengthening public awareness efforts, investing in infrastructure, and offering assistance to taxpayers in complying with the plan.

3. The government should invest in digital infrastructure and literacy initiatives to enable the adoption of disruptive technology in tax administration. This might involve investing in digital payment systems, expanding internet access, and offering training programs to taxpayers and tax officials.

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