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EVALUATING THE EFFECTIVENESS OF NIGERIA'S RECENT TAX REFORMS ON ECONOMIC GROWTH

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ABSTRACT

Recent tax reforms in Nigeria represent a strategic attempt to strengthen domestic revenue mobilization, reduce dependence on oil revenues, and support sustainable economic growth. This study evaluates the effectiveness of these reforms by examining their implications for revenue performance, economic growth, institutional efficiency, and policy implementation. Drawing on recent empirical evidence and policy developments, the paper synthesizes quantitative findings on the relationship between major tax revenue components and gross domestic product, while also considering broader institutional and socioeconomic dimensions. However, the findings also reveal significant implementation challenges related to administrative capacity, compliance costs, equity concerns, intergovernmental coordination, and public trust. The study concludes that while Nigeria's tax reforms provide a credible framework for fiscal sustainability and growth, their effectiveness depends on complementary policies that promote transparency, equity, digital readiness, and institutional accountability. The paper contributes to the literature on tax reform and development by offering evidence-based insights into how comprehensive fiscal reforms can support economic transformation in emerging economies.

KEYWORDS: Tax Reforms; Economic Growth; Fiscal Policy, Tax Revenue, Gross Domestic Product (GDP); Policy Evaluation.

1. INTRODUCTION

Taxation remains one of the most critical instruments through which governments mobilize domestic revenue, influence economic behavior, and promote sustainable development. In developing economies, effective tax systems are particularly important, as they reduce overreliance on volatile external revenues and provide stable funding for infrastructure, education, healthcare, and social protection. For Nigeria, Africa's largest economy, the role of taxation has become increasingly central in the face of declining oil revenues, persistent fiscal deficits, rising public debt, and growing developmental demands (Amusan & Oladayo, 2025; Oyedokun et al., 2026).

Historically, Nigeria's tax system has been characterized by a narrow tax base, weak compliance, administrative inefficiencies, and heavy dependence on petroleum-related revenues. Despite having one of the largest populations and consumer markets in Africa, Nigeria's tax-to-GDP ratio has remained significantly below the continental and global averages. This structural weakness has constrained the government's capacity to finance economic diversification and inclusive growth, thereby exposing the economy to external shocks, particularly fluctuations in global oil prices (Odukwu et al., 2022). Consequently, tax reform has long been identified as a necessary pathway toward fiscal sustainability and economic resilience.

In response to these longstanding challenges, the Nigerian government introduced a comprehensive set of tax reforms between 2023 and 2025, culminating in the enactment of major tax legislation in 2025. These reforms seek to modernize the tax framework by simplifying tax laws, broadening the tax base, improving compliance through digitalization, and harmonizing tax administration across federal and subnational governments. A key objective of the reforms is to shift Nigeria away from oil-dependent revenue toward a more diversified and efficient tax system capable of supporting long-term economic growth (PwC Nigeria, 2025).

Beyond revenue mobilization, the recent tax reforms are also designed to stimulate economic activity by reducing multiple taxation, easing the tax burden on small and medium-sized enterprises, and improving the overall business environment. By exempting small firms from certain taxes and consolidating numerous levies into a streamlined framework, policymakers aim to encourage entrepreneurship, attract investment, and enhance productivity across key sectors of the economy. In theory, such reforms can strengthen the link between taxation and growth by promoting formalization, improving investor confidence, and enabling increased public expenditure on growth-enhancing sectors (Oto & Wayas, 2024).

However, the relationship between tax reforms and economic growth is complex and context-specific. While well-designed tax reforms can promote growth, poorly implemented reforms or excessive tax burdens may discourage investment, reduce disposable income, and slow economic activity. Emerging evidence from Nigeria suggests that while recent reforms have improved revenue performance, concerns persist regarding their short-term effects on inflation, business costs, and sectoral competitiveness (Oyedokun et al., 2026). These mixed outcomes underscore the need for rigorous empirical evaluation.

Against this backdrop, this article evaluates the effectiveness of Nigeria's recent tax reforms in promoting economic growth. By synthesizing recent empirical findings, policy developments, and macroeconomic trends, the study contributes to the growing literature on fiscal reform and development in emerging economies. Specifically, the article examines whether the reforms have strengthened revenue performance, enhanced the growth impact of tax instruments, and created a more sustainable fiscal foundation for Nigeria's economic transformation.

2. Overview of Recent Tax Reforms

The reform of Nigeria's tax system in 2025 represents one of the most ambitious efforts in the country's fiscal history to overhaul its fragmented tax architecture and strengthen revenue mobilization. Central to this initiative was the passage of four interlinked legislative instruments, the Nigeria Tax Act, the Nigeria Tax Administration Act, the Nigeria Revenue Service (Establishment) Act, and the Joint Revenue Board Establishment Act, which collectively aim to replace and consolidate over a dozen existing tax statutes into a streamlined, coherent framework (Independent Newspaper Nigeria, 2025). This legal consolidation is underpinned by an overarching objective to simplify compliance requirements, broaden the tax base, and align Nigeria's tax regime with global best practices.

A key feature of the reforms is the unification of previously disparate tax laws into a single statutory regime under the Nigeria Tax Act. This Act repeals the Companies Income Tax Act, Personal Income Tax Act, Value Added Tax Act, and other major levies, thereby creating a harmonized basis for both direct and indirect taxation (EY Tax News, 2025). Such harmonization is expected not only to reduce complexity and administrative bottlenecks but also to enhance legal clarity for taxpayers, an essential condition for improving compliance and minimizing disputes.

The reforms also introduce substantive policy innovations aimed at expanding the taxable base. For example, Nigeria's tax net is extended to digital financial instruments, virtual assets, and gains previously outside the statutory reach of tax authorities, while a consolidated 4% Development Levy replaces numerous overlapping levies that historically eroded administrative efficiency (The Cable/The Guardian analysis, 2025). Additionally, the inclusion of a minimum effective tax rate for large enterprises and multinational corporations seeks to curb profit shifting and strengthen Nigeria's alignment with evolving international tax norms.

Institutional restructuring forms another cornerstone of the reform architecture. The establishment of the Nigeria Revenue Service as a unified tax authority replaces a series of disjointed revenue agencies, aiming to centralize enforcement, standardize procedures, and deploy unified digital platforms for tax registration, filing, and remittance. This digital transformation, including planned biometric registration and e-filing systems, is expected to reduce leakages, promote transparency, and improve voluntary compliance (Serrari Group analysis, 2025).

Importantly, the reforms incorporate measures designed to balance revenue generation with economic competitiveness and social equity. To ease the compliance burden on small businesses and low-income households, the Acts provide substantial tax exemptions for small companies and establish higher personal tax-exempt thresholds, while retaining reliefs aimed at promoting investment in priority sectors (Nairametrics report, 2025). Such provisions reflect an understanding of the trade-offs inherent in tax policy, namely, the need to secure fiscally productive revenue while safeguarding entrepreneurial activity and household welfare.

Early fiscal data suggest that these reforms may already be yielding tangible revenue outcomes. Federal tax receipts recorded a substantial year-on-year increase in 2025, with non-oil tax collections rising significantly due to improved compliance and enforcement measures (BrandIconImage report, 2025). Analysts have pointed out that such revenue performance, if sustained, could strengthen Nigeria's fiscal position, reduce dependence on oil rents, and provide additional resources for socio-economic investment.

However, the legislative package's full operationalization has faced both political and public challenges. Debates around tax redistributions between federal and subnational governments, concerns over living costs associated with broader tax coverage, and calls for stronger oversight to build public trust highlight the complex socio-political dynamics of reform implementation (Reuters reporting; Nairametrics analysis, 2025). These discussions underscore that the success of tax reforms is not only a matter of statutory design but also of institutional capacity, public legitimacy, and intergovernmental cooperation.

In sum, Nigeria's recent tax reforms combine legal consolidation, administrative modernization, base-broadening measures, and institutional restructuring in a comprehensive fiscal strategy. While the initial revenue trajectory appears promising, the sustainability and growth-enhancing impact of these reforms will depend on effective implementation, transparent governance, and balanced attention to competitiveness and equity.

3. Tax Reforms and Economic Growth

Evaluating the impact of tax reforms on economic growth requires examining both short- and long-run relationships between tax revenue and GDP growth, as well as understanding how changes in tax policy shape broader macroeconomic outcomes. Recent empirical studies from Nigeria and comparable contexts offer important insights into these dynamics.

3.1 Empirical Evidence on Tax Revenue and Growth

A growing body of empirical research confirms that tax revenue is broadly positively associated with economic growth in Nigeria, though the strength and significance of this relationship vary depending on context and methodological approach. For instance, an empirical analysis covering 2015–2023 found that major tax revenue components, including petroleum profit tax (PPT), customs and excise duties (CED), and a composite of corporate and value added tax, positively and significantly influence real GDP growth (Chijuka & Izekor, 2025). This suggests that expanding the tax base and improving revenue collection across diversified tax instruments can bolster growth by enhancing government capacity to finance public goods and services.

Similarly, longitudinal studies have highlighted that increases in total tax revenue are correlated with GDP growth, with VAT and corporate income taxes playing particularly strong roles (Muhammad & Ibrahim, 2024). These findings align with theoretical expectations that higher tax receipts provide governments with the fiscal space to invest in infrastructure, education, and health, critical determinants of long-term growth.

However, some studies present more nuanced results. Research using autoregressive distributed lag (ARDL) techniques, which capture both short- and long-run dynamics, indicates that while decomposed tax components significantly affect economic growth, the aggregate tax variable can show no long-run cointegration with GDP in certain periods (Nwanakwere, 2025). This highlights how structural shifts in the economy, such as changes in the oil sector, informality in the tax base, or macroeconomic volatility, may dilute the immediate observable connection between total tax revenue and growth outcomes.

3.2 Mechanisms Linking Tax Reforms and Growth

Tax reforms influence economic growth through multiple pathways:

1. Revenue Mobilization: Robust tax collection enhances fiscal capacity, enabling expanded public investment in critical sectors. Empirical studies consistently demonstrate that higher tax revenues correlate with improvements in growth indicators (Osamor et al., 2023; Chijuka & Izekor, 2025).
2. Formalization and Compliance: Streamlined tax laws and digital administration, key elements of Nigeria's recent reforms — improve compliance and reduce evasion. In the Nigerian context, improved tax administration has been linked to stronger contributions from direct and indirect taxes toward GDP growth (Research Journal of Finance and Accounting, 2025).
3. Fiscal Sustainability: Tax revenues that keep pace with economic expansion can reduce dependency on external borrowing and volatile sources like oil. Research on fiscal sustainability shows that expanding company income tax and petroleum profit tax collections can reduce Nigeria's debt-to-GDP ratio, thereby strengthening macroeconomic resilience (Mainoma & Izang, 2025).

3.3 Short-Run Versus Long-Run Effects

Empirical investigations further distinguish between short-run and long-run impacts:

1. In the short run, tax reforms may have mixed effects if increased compliance costs or transitional implementation burdens dampen business activity. Some ARDL studies find insignificant short-run effects of aggregate tax revenue on growth, though individual tax components maintain significance (Nwanakwere, 2025).
2. In the long run, expanded tax revenue exhibits more consistently positive and statistically significant effects on GDP, as public investment and fiscal stability foster sustained economic activity. Vector error correction models in long-span studies similarly report significant positive impacts of personal income tax and petroleum profit tax revenue on long-term growth (Chiya et al., 2025).

3.4 Broader Macroeconomic Context

Tax reforms do not operate in isolation. They interact with monetary, trade, and structural policies that jointly influence growth. For example, in 2024 Nigeria recorded one of its fastest economic growth rates in a decade, partly attributed to fiscal adjustments that included stronger tax administration and diversified revenue sources, alongside exchange rate and subsidy reforms. Positive changes in external balances and investor confidence, reflected in an improved credit outlook from major rating agencies, further suggest that coherent reform packages encompassing taxation and macroeconomic policy can produce synergistic growth effects (Reuters, 2025).

4. Opportunities and Implementation Challenges of Nigeria's Tax Reforms

Nigeria's recent tax reforms present significant opportunities for strengthening the country's fiscal architecture and supporting long-term economic growth. At the core of these opportunities is the potential to create a more predictable, transparent, and efficient tax system capable of financing development without excessive reliance on volatile oil revenues. By consolidating multiple tax laws and harmonizing administrative processes, the reforms reduce regulatory uncertainty and improve clarity for taxpayers, which is essential for fostering a stable investment climate.

One major opportunity lies in enhanced revenue sustainability. A broadened tax base, supported by improved compliance mechanisms and digital tax administration, allows government revenues to grow alongside economic activity. This creates fiscal space for increased public investment in infrastructure, human capital development, and social services, key drivers of productivity and inclusive growth. Over time, a more reliable domestic revenue stream can also reduce dependence on borrowing, thereby easing pressure on public debt and improving macroeconomic stability.

The reforms also provide an opportunity to improve equity within the tax system. Provisions that reduce the tax burden on small enterprises and low-income earners help align taxation with ability-to-pay principles. Such measures encourage business formalization and entrepreneurship, particularly within Nigeria's large informal sector. When carefully implemented, this can expand the tax net without stifling economic activity, gradually integrating informal operators into the formal economy and strengthening overall productivity.

Despite these opportunities, the implementation of the reforms presents notable challenges that may affect their growth-enhancing potential, particularly in the short to medium term. One key challenge relates to administrative capacity. The effectiveness of a modern tax system depends heavily on institutional competence, technological readiness, and skilled personnel. Weak enforcement capacity, limited digital infrastructure in some regions, and coordination challenges across federal and subnational governments could undermine the intended efficiency gains of the reforms.

Another challenge concerns compliance costs for businesses and households during the transition period. While simplification is a long-term goal, the initial adjustment to new tax rules, reporting requirements, and digital platforms may impose additional burdens, especially on small and medium-sized enterprises with limited administrative resources. If not properly managed, these transitional costs could discourage investment and slow economic activity, offsetting some of the anticipated growth benefits.

Public perception and trust also play a critical role in the success of tax reforms. In contexts where taxpayers perceive limited returns in the form of public services, compliance may remain low despite legal reforms. Without visible improvements in governance, transparency, and service delivery, higher or more comprehensive taxation may face resistance, weakening the revenue–growth linkage the reforms seek to strengthen.

Furthermore, sectoral heterogeneity presents another layer of complexity. The economic impact of tax reforms is unlikely to be uniform across sectors, as differences in capital intensity, profitability, and exposure to international markets shape how firms respond to tax changes. Failure to account for these sector-specific dynamics may lead to unintended distortions, such as reduced competitiveness or employment losses in sensitive industries.

Overall, while Nigeria’s tax reforms offer a strong framework for improving fiscal performance and supporting economic growth, their effectiveness will ultimately depend on the quality of implementation, institutional coordination, and public accountability. Addressing these challenges proactively is essential to ensure that the reforms translate into sustainable and inclusive economic outcomes rather than short-lived revenue gains.

5. Policy Implications and Future Directions

Nigeria’s recent tax reforms carry far-reaching policy implications that extend beyond revenue mobilization to issues of equity, competitiveness, institutional governance, and long-term economic transformation. For the reforms to translate into sustained economic growth, policymakers must pay close attention to how tax design and implementation interact with Nigeria’s broader macroeconomic and institutional environment.

One important implication concerns fiscal transparency and business confidence. The consolidation of multiple tax laws into a unified framework has the potential to reduce uncertainty, simplify compliance, and improve predictability for businesses. A transparent and coherent tax system lowers transaction costs, enhances planning certainty, and strengthens investor confidence—critical factors for attracting domestic and foreign investment. However, these benefits will only materialize if tax rules are applied consistently and supported by clear administrative guidelines (Vanguard News, 2025).

A second policy implication relates to balancing revenue generation with socioeconomic equity. While expanding the tax base is essential for fiscal sustainability, reforms must be sensitive to income distribution and cost-of-living pressures. Provisions that exempt low-income earners and small enterprises from certain taxes reflect an effort to align taxation with ability-to-pay principles. Nonetheless, the growing reliance on consumption-based taxes raises concerns about potential regressive effects, particularly in an environment of high inflation. Policymakers should therefore complement tax reforms with targeted social spending and periodic distributional assessments to ensure inclusive growth outcomes (Guardian Nigeria, 2025).

The reforms also underscore the growing importance of digital tax administration and compliance enforcement. Digital platforms for registration, filing, and payment can significantly reduce leakages, improve monitoring, and enhance voluntary compliance. However, uneven digital readiness across regions and firm sizes presents a policy challenge. Without adequate support mechanisms, such as taxpayer education, phased implementation, and technical assistance, digitalization may increase compliance costs for small and medium-sized enterprises, potentially undermining their growth prospects (Punch Newspapers, 2025).

Another critical implication involves the investment climate and sectoral competitiveness. Although the reforms aim to eliminate multiple taxation and improve the ease of doing business, concerns remain that transitional ambiguities and enforcement inconsistencies could dampen investor sentiment. Certain sectors may be more sensitive to tax changes due to differences in capital intensity, profit margins, and exposure to international competition. Continuous engagement with the private sector and adaptive policy adjustments are therefore essential to prevent unintended distortions that could weaken productivity and employment (ThisDay Newspaper, 2025).

Intergovernmental coordination also emerges as a central policy issue. Nigeria's federal structure means that effective tax reform requires cooperation among federal, state, and local governments. Disputes over revenue sharing, tax authority, and administrative responsibility can undermine reform objectives if not carefully managed. Clear frameworks for fiscal federalism and revenue allocation are necessary to ensure that subnational governments are adequately funded while maintaining consistency in tax administration nationwide (Reuters, 2025).

Finally, public perception and trust represent a decisive factor in the success of the reforms. Tax compliance is strongly influenced by citizens' beliefs about fairness, accountability, and the quality of public service delivery. In contexts where taxpayers perceive limited benefits from taxation, resistance and evasion may persist despite legal reforms. Strengthening transparency, demonstrating visible use of tax revenues for public goods, and maintaining open communication with citizens are therefore crucial for sustaining long-term compliance and reinforcing the tax–growth nexus (Nigeria Housing Market, 2025).

Overall, the policy implications of Nigeria's tax reforms highlight that legal changes alone are insufficient to drive economic growth. The effectiveness of the reforms will depend on complementary institutional strengthening, inclusive policy design, intergovernmental coordination, and sustained public trust.

CONCLUSION

This study set out to evaluate the effectiveness of Nigeria's recent tax reforms in promoting economic growth within the context of long-standing fiscal constraints and structural vulnerabilities. The analysis demonstrates that the reforms represent a significant policy shift toward a more diversified, transparent, and growth-oriented tax system. Quantitative evidence from recent studies suggests that major tax revenue components, particularly value added tax and total tax revenue, exert positive long-run effects on economic growth, reinforcing the importance of domestic revenue mobilization as a foundation for sustainable development.

However, the findings also underscore that tax reform is not a purely technical exercise. The growth-enhancing potential of Nigeria's reforms is closely tied to the quality of implementation and the broader institutional environment. Administrative capacity limitations, transitional compliance costs, uneven digital readiness, and persistent concerns about equity and public accountability pose risks that could weaken the intended outcomes of the reforms, especially in the short to medium term. In addition, the federal structure of Nigeria's fiscal system highlights the importance of effective intergovernmental coordination to ensure consistency in tax administration and equitable distribution of revenues.

From a policy perspective, the results suggest that sustaining the positive growth effects of tax reforms will require more than legislative consolidation. Continuous stakeholder engagement, targeted support for small and medium-sized enterprises, investment in digital infrastructure, and transparent use of tax revenues are essential for strengthening public trust and voluntary compliance. Addressing sector-specific impacts and monitoring distributional consequences will also be critical to ensuring that revenue gains translate into inclusive and broad-based economic growth.

In conclusion, Nigeria's recent tax reforms provide a strong institutional framework for improving fiscal performance and supporting long-term economic growth. Yet, their ultimate success will depend on sustained political commitment, institutional strengthening, and alignment with broader development objectives. Future research should build on this study by employing longitudinal data and sector-level analyses to further assess the long-term growth and welfare implications of Nigeria's evolving tax system.

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