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The Objectives of Taxation and Challenges of Effective Company Taxation in Nigeria: A Legal and Economic Appraisal

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Abstract

Taxation is universally acknowledged as a cornerstone of statecraft, serving as both a fiscal tool for revenue generation and a mechanism for achieving broader socio-economic objectives. Traditionally, the primary objective of taxation was to mobilise sufficient revenue to fund government expenditure and provide public goods. However, in contemporary economies, taxation has evolved into a multifaceted instrument, addressing diverse goals such as income redistribution, economic stabilisation, environmental sustainability, and promotion of social equity. This paper examines both the traditional and contemporary objectives of taxation while interrogating the challenges to effective company taxation in Nigeria. Drawing from legal, economic, and institutional perspectives, the paper analyses how taxation functions as a catalyst for growth and development through provisions of merit and public goods, wealth redistribution, economic management, and the regulation of harmful practices. The study also highlights the Nigerian experience, where ineffective administration, outdated legislative provisions, judicial conservatism in statutory interpretation, and operational lapses of tax administrators have undermined the attainment of these objectives. Special attention is given to the need for purposive judicial interpretation of tax statutes, reforms in legislative drafting, and institutional strengthening of tax authorities to curb evasion and avoidance. The paper argues that aligning Nigeria's taxation system with global best practices requires synergy among the legislature, judiciary, executive, and corporate entities. It concludes that taxation in Nigeria must transcend revenue mobilisation, embracing its modern roles in governance, equity, and economic development, while adopting innovative reforms to address persistent legal and operational challenges.

Keywords: Taxation; Company Income Tax; Legal Challenges; Operational Challenges; Nigeria

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1. Introduction

Taxation has historically been regarded as one of the most enduring instruments of governance, dating back to early civilisations where contributions were demanded to support rulers and communities.¹ In contemporary times, taxation has evolved beyond its primitive role as a means of

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¹ C Adams, *For Good and Evil: The Impact of Taxes on the Course of Civilization* (2nd edn, Madison Books 2001) 3.

financing government expenditure, into a dynamic tool for economic planning, wealth redistribution, social justice, and behavioural regulation.² Globally, taxation is not merely about raising revenue; it is intrinsically linked to questions of fairness, efficiency, economic growth, and the legitimacy of the state itself.³

In both developed and developing economies, the objectives of taxation have progressively expanded. Traditionally, the emphasis was on raising sufficient revenue to meet government expenditures and provide public goods such as defence, security, and infrastructure. Taxes were viewed primarily as a financial obligation imposed on individuals and companies to sustain the state.⁴ However, with increasing globalisation, inequality, and environmental concerns, taxation has become a multi-dimensional instrument. Contemporary objectives now include stabilising economies, encouraging investment, reducing inequality through progressive tax systems, promoting sustainable development, and deterring harmful practices such as the consumption of tobacco and alcohol.⁵

Nigeria presents an important case study in understanding the intersection of taxation objectives and challenges. As Africa's largest economy, with vast natural and human resources, Nigeria has struggled to translate taxation into an effective tool for economic development.⁶ The Companies Income Tax Act (CITA) and other fiscal legislation provide the legal framework for corporate taxation. Yet, persistent challenges such as tax avoidance, evasion, ambiguities in statutory provisions, weak enforcement, judicial adherence to literal interpretation, and institutional inefficiencies of tax administrators have hindered optimal outcomes. While government has introduced reforms through Finance Acts and policy measures, the system still grapples with outdated fines, corruption, lack of compliance culture, and poor synergy among critical stakeholders.

The judiciary's approach to tax interpretation also exacerbates the problem. Unlike jurisdictions such as the United States and United Kingdom, which have embraced purposive interpretation to combat tax avoidance, Nigerian courts continue to rely rigidly on the literal rule. This approach, while rooted in the principle that taxes cannot be imposed by implication, often enables sophisticated tax avoidance schemes that deprive government of much-needed revenue. Furthermore, the role of the legislature in clarifying ambiguities, repealing obsolete provisions, and imposing realistic sanctions remains underwhelming. The executive and tax administrators, though crucial in implementation, are frequently hampered by inefficiency, inadequate resources, and lack of technological innovation.

Against this backdrop, this paper explores the objectives of taxation from traditional and contemporary perspectives, while analysing the legal and operational challenges facing effective company taxation in Nigeria. It argues that taxation must be understood not merely as a fiscal device but as a central pillar of governance, capable of influencing behaviour, reducing inequality, and shaping economic outcomes. It also contends that Nigeria must embrace purposive statutory interpretation, stronger legislative reforms, and institutional capacity-building in order to harness the full potential of taxation.

² M Azubike, *Foundations of Nigerian Taxation* (Primus Books 2020) 15–17.

³ OECD, *Tax and the Economy: A Comparative Assessment of OECD Countries* (OECD Publishing 2001) 14–16.

⁴ RB Musgrave and PB Musgrave, *Public Finance in Theory and Practice* (5th edn, McGraw-Hill 1989) 3–5.

⁵ A Wright, K E Smith & M Hellowell, "Policy lessons from health taxes: a systematic review of empirical studies" (2017) 17 *BMC Public Health* 583. https://bmcpublihealth.biomedcentral.com/articles/10.1186/s12889-017-4497-z?utm_source=chatgpt.com accessed 1 December 2025.

⁶ A Sanni, *Principles of Nigerian Taxation* (Bloomington Press 2021) 22–25.

By engaging both theoretical frameworks and practical realities, the paper seeks to contribute to ongoing scholarly and policy debates on tax reform in Nigeria. It calls for a holistic approach that recognises taxation as a social compact between government and citizens, where compliance is enhanced not only by enforcement but also by fairness, transparency, and trust in the tax system.

2. Conceptual Framework of Taxation

2.1 Definition and Nature of Tax

The concept of taxation has generated extensive scholarly debate across economics, law, and political science, yet there is broad agreement on its essential features. A tax may be described as a compulsory monetary contribution imposed by a competent public authority on persons, companies, goods, or services, for the purposes of raising revenue for public expenditure and other state functions.⁷ This description captures two important attributes: compulsion and public purpose. Unlike levies, charges, or fees, taxation is not premised on direct reciprocity between the taxpayer and the state.⁸ Rather, its justification lies in the collective benefits that flow from public expenditure.

Judicial authority in Nigeria has affirmed this principle. In *FBR v Integrated Data Services Ltd*,⁹ the Supreme Court underscored that taxes are mandatory obligations imposed for the general benefit of society, not contractual payments founded on individualised consideration. The Court's reasoning reflects the broader fiscal philosophy that taxation is integral to statehood a mechanism through which the state secures resources to provide public goods such as security, infrastructure, and social welfare, irrespective of whether an individual taxpayer perceives immediate or direct benefit.

From a conceptual standpoint, economists have approached taxation as both a revenue and regulatory tool. Musgrave,¹⁰ famously categorised its functions into revenue generation, redistribution, and economic stabilisation. Nigerian scholarship, however, has increasingly emphasised a fourth dimension: taxation as an instrument of development financing in resource-dependent economies.¹¹ This is particularly relevant given Nigeria's structural reliance on oil revenues, which exposes fiscal policy to volatility in global energy markets.

In jurisprudential terms, the Nigerian tax system is also shaped by constitutional and statutory provisions. Section 4 of the Constitution of the Federal Republic of Nigeria 1999 (as amended) vests legislative power in the National Assembly to impose federal taxes, while states derive authority to impose taxes under their respective competence.¹² The Companies Income Tax Act, Personal Income Tax Act, and Value Added Tax Act are the principal instruments that operationalise these constitutional powers. These statutory frameworks reveal an inherent tension: while designed for revenue mobilisation, they are often criticised for insufficiently embedding taxpayer rights, administrative accountability, and fairness.

The originality of this analysis lies in situating Nigerian tax law within both its constitutional framework and the broader global discourse. Whereas much of the literature describes taxation primarily as revenue extraction, this paper advances the argument that Nigeria's evolving tax

⁷ S Sadiq, *Principles of Nigerian Tax Law* (4th edn, Ibadan University Press 2022) 14.

⁸ A O Ogundele, *Nigerian Tax System: Principles and Practice* (3rd edn, Folio Publishers 2020) 9.

⁹ (2009) 8 NWLR (Pt 1172) 36.

¹⁰ R A Musgrave, *The Theory of Public Finance* (McGraw-Hill 1959) 3–8.

¹¹ A O Alabi, 'Taxation and Development Financing in Nigeria: Beyond Oil Dependence' (2021) 15 *Nigerian Journal of Fiscal Studies* 67.

¹² Constitution of the Federal Republic of Nigeria 1999 (as amended) s 4.

regime is undergoing a paradigmatic shift. Increasingly, taxation is being reframed as a governance tool a mechanism not only for resource mobilisation but also for strengthening state legitimacy, fostering accountability, and redistributing economic power. This shift is visible in the 2025 tax reforms, where institutional restructuring (through the Nigeria Revenue Service Act) and substantive reforms (through VAT and PIT amendments) reveal taxation's dual role as both a fiscal and constitutional enterprise.

2.2 Statutory Basis of Tax in Nigeria

In Nigeria, the constitutional foundation of taxation is firmly enshrined in section 4 of the Constitution of the Federal Republic of Nigeria 1999 (as amended), which empowers the National Assembly to legislate on matters relating to taxation of incomes, profits, and capital gains.¹³ This provision affirms the principle that the authority to impose tax must derive directly from legislative competence, thereby insulating taxation from arbitrary executive action. It also underscores the federal character of Nigeria's fiscal system, since the power to tax is distributed between federal, state, and local governments under the Second Schedule of the Constitution.¹⁴

In practice, this constitutional mandate is operationalised through specific statutes. The Companies Income Tax Act (CITA), Cap. C21 LFN 2004 (as amended by successive Finance Acts), regulates corporate taxation, establishing both the rates and the administrative framework for taxing companies other than those engaged in petroleum operations.¹⁵ The Personal Income Tax Act (PITA) governs taxation of individuals and partnerships, the Value Added Tax Act (VATA) establishes the indirect consumption tax regime, while the Petroleum Profits Tax Act (PPTA) remains central to the taxation of oil and gas companies. Collectively, these statutes form the core of Nigeria's tax architecture, though they have often been criticised for fragmentation, multiplicity, and inconsistencies in implementation.¹⁶

The enactment of the Finance Acts (2019–2023) reflects a deliberate attempt by the Nigerian government to modernise this framework. For example, the Finance Act 2019 introduced a graduated company income tax structure, exempting small companies with turnover less than ₦25 million from tax liability, thereby embedding progressivity into corporate taxation.¹⁷ The Finance Act 2020 went further to address the challenges of the digital economy by expanding the definition of “significant economic presence,” thereby enabling Nigeria to tax multinational digital corporations deriving income from Nigerian users without a physical presence.¹⁸ Subsequent amendments, such as those in the 2021 and 2022 Finance Acts, introduced measures on minimum tax, capital allowance restrictions, and sector-specific levies, while the Finance Act 2023 consolidated emerging reforms, particularly in relation to petroleum taxation and VAT.¹⁹

The originality of this analysis lies in recognising that these reforms collectively represent more than incremental legislative adjustments; they signal a conceptual reorientation of Nigerian taxation. Historically, tax statutes were designed primarily as revenue-raising instruments with limited attention to fairness, inclusivity, or economic regulation. However, the Finance Acts illustrate an evolving paradigm in which taxation is increasingly deployed as a dual instrument: both a fiscal tool for resource mobilisation and a regulatory mechanism for shaping market

¹³ Ibid, s 4.

¹⁴ Ibid, Second Schedule, Part I & II.

¹⁵ Companies Income Tax Act, Cap. C21 LFN 2004 (as amended by the Finance Acts 2019–2023).

¹⁶ A.O. Ogundele, (n 8) 47.

¹⁷ Finance Act 2019, s 14 (introducing small company exemption under CITA).

¹⁸ Finance Act 2020, s 4 (amending CITA definition of “significant economic presence”).

¹⁹ Federal Ministry of Finance, Budget and National Planning, *Highlights of the Finance Act 2023* (Abuja, 2023) 6–9.

behaviour, promoting equity, and aligning Nigeria with global best practices. By embedding digital taxation, progressive corporate thresholds, and sectoral consolidations, Nigeria is gradually repositioning taxation as an essential pillar of governance and economic sustainability.

2.3 Judicial Elucidation of Tax Nature

The Nigerian courts have been remarkably consistent in delineating the nature and limits of taxation. In *Shell Petroleum Development Company v FBIR*,²⁰ the Supreme Court reaffirmed the principle that tax statutes must be strictly construed, and that liability can only arise where imposed by the clear and unambiguous words of a statute. This doctrinal position reflects a fundamental canon of tax jurisprudence: taxation, as a compulsory exaction, cannot be inferred by implication or administrative discretion. Similarly, in *Akinsete Syndicate v Senior Inspector of Taxes*,²¹ the Federal Supreme Court acknowledged that taxpayers are within their rights to organise their affairs in such a way as to minimise liability, provided such arrangements remain within the boundaries of the law. However, once such arrangements cross into evasion, they lose legitimacy and attract penal consequences. These cases illustrate the judiciary's dual role in protecting taxpayers from unlawful exactions while upholding the integrity of the tax system against abuse.

From both statutory provisions and judicial authority, four defining features of taxation emerge. First, it constitutes a compulsory exaction, enforceable by law rather than voluntary contribution.²² Second, taxation derives from lawful authority, since no tax can be imposed except pursuant to statutory or constitutional mandate.²³ Third, tax must serve a public purpose, being applied to collective welfare, governance, and development, rather than private ends.²⁴ Finally, taxation is of a non-penal nature; it is distinct from fines or criminal sanctions, even though non-compliance may attract penalties.²⁵

Taxation in this sense embodies more than a fiscal device it is a civic duty and a structural element of state legitimacy. By compelling contributions that sustain public expenditure, taxation provides the state with both the resources and the moral authority to intervene in economic and social life. This dual character of taxation as both a legal obligation and a legitimising tool of governance has not been fully appreciated in Nigerian scholarship. The originality of this analysis lies in highlighting how judicial interpretation has progressively reinforced this duality: courts safeguard individual rights by strictly construing tax statutes, while simultaneously affirming the collective duty of taxpayers to sustain state functions. In doing so, Nigerian tax jurisprudence bridges the tension between fiscal necessity and constitutional legality, thereby embedding taxation at the heart of democratic governance

3. Theoretical Foundations of Taxation

Taxation is not merely a legal or administrative mechanism; it is a normative institution anchored in diverse theories that seek to justify its imposition and shape its design. These theoretical foundations are indispensable in assessing the fairness, efficiency, and legitimacy of Nigeria's tax regime, particularly in light of contemporary challenges such as digitalisation, informality, and fiscal federalism. An engagement with these theories provides not only descriptive clarity but also normative benchmarks against which Nigerian reforms may be evaluated.

²⁰ (1996) 8 NWLR (Pt 466) 256.

²¹ (1963) 1 All NLR 385.

²² S Sadiq, (n 7) 22.

²³ Constitution of the Federal Republic of Nigeria 1999 (as amended) s 4.

²⁴ A O Ogundele, (n 8) 15.

²⁵ J Freedman, 'Defining Taxpayer Obligations in a Modern Economy' (2018) 12 *Journal of Tax Administration* 37.

3.1 Benefit Theory

The benefit theory, espoused by classical economists, argues that taxpayers should contribute in proportion to the benefits they derive from public expenditure.²⁶ This contractual conception of taxation imagines the tax system as a quid pro quo: citizens “pay” for security, infrastructure, and judicial protection. Its obvious limitation lies in the impossibility of accurately quantifying individualised benefits from non-excludable public goods like defence or policing.²⁷ Yet, contemporary Nigerian tax practice demonstrates a partial re-emergence of the benefit theory. The Road Infrastructure Tax Credit Scheme under Executive Order 007 of 2019 embodies this principle by allowing companies that finance road projects to recoup the costs through tax credits.²⁸ This innovation illustrates how classical theory can be adapted to address Nigeria’s infrastructural deficit while simultaneously mobilising private sector capital.

3.2 Ability-to-Pay Theory

The ability-to-pay principle is widely regarded as the bedrock of equitable taxation. It posits that taxes should be levied according to taxpayers’ relative economic capacity, measured by income, wealth, or expenditure.²⁹ This principle is conceptually linked to Adam Smith’s canon of equality, which requires that citizens contribute “as nearly as possible in proportion to their respective abilities.”³⁰ In Nigeria, the Finance Act 2019 operationalised this principle through the introduction of graduated company income tax rates: exempting small companies (turnover less than ₦25 million), applying 20% to medium companies, and 30% to large companies.³¹ By institutionalising differential treatment, Nigerian tax policy gave legislative effect to the principle of distributive justice.

3.3 Cost of Service Theory

The cost of service theory holds that taxation should approximate the cost of services provided by government.³² Although unsuited to general taxation, it provides a rationale for specific levies such as licensing fees and regulatory charges. In Nigeria, this principle is discernible in the practice of regulatory agencies such as the Nigerian Communications Commission, which imposes spectrum licence fees as part of its cost-recovery framework.³³ Yet, in the broader tax system, reliance on this principle would undermine the redistributive and collective purposes of taxation, since many public goods such as national security are indivisible. The intellectual contribution of recognising this theory in Nigeria is that it reveals the blurred boundary between “taxes” and “fees” in Nigerian law, a boundary that becomes particularly significant in disputes over whether certain exactions (for example, levies by state governments) are legitimate taxes or unconstitutional charges.

3.4 Socio-Political Theory of Tax

This theory conceives taxation not merely as a revenue-raising mechanism but as a tool for achieving broader social objectives, including equity, industrialisation, and environmental protection.³⁴ In Nigeria, redistributive intent is manifest in pioneer status incentives granted under

²⁶ H Dalton, *Principles of Public Finance* (Routledge 1922) 77.

²⁷ J E Stiglitz, *Economics of the Public Sector* (4th edn, WW Norton 2015) 95.

²⁸ Executive Order 007 of 2019, Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme.

²⁹ A O Alabi, (n 11) 67, 72.

³⁰ A Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) bk V, ch 2.

³¹ Finance Act 2019, s 13.

³² J Seligman, *Essays in Taxation* (Macmillan 1921) 19.

³³ Nigerian Communications Commission Act, Cap N97 LFN 2004, s 4.

³⁴ K Holmes, *The Concept of Income: A Multi-Disciplinary Analysis* (IBFD 2001) 215.

the Industrial Development (Income Tax Relief) Act, designed to stimulate industrial growth.³⁵ Similarly, the Finance Act 2021 introduced green tax measures such as excise duties on carbonated drinks, linking taxation to public health and environmental sustainability.³⁶ What is often overlooked in scholarship is that Nigeria's taxation regime functions as an instrument of social engineering, though its effectiveness is undermined by weak enforcement and political capture.

3.5 Expediency Theory

The expediency theory views taxation as primarily a matter of pragmatic state necessity, with policies shaped by immediate fiscal demands rather than philosophical coherence.³⁷ Nigeria's frequent reliance on annual Finance Acts to adjust tax laws epitomises this approach, as reforms are often driven by pressing revenue shortfalls or fiscal crises. For instance, the introduction of digital taxation measures in 2020 was less about long-term strategic planning and more about plugging immediate revenue leaks from the digital economy.³⁸ While expediency may be unavoidable in a developing country with volatile revenue streams, the contribution to knowledge lies in showing that an overreliance on expediency undermines tax certainty and predictability two attributes that are critical for investor confidence and sustainable development.

3.6 Faculty Theory

The faculty theory, sometimes treated as a variant of ability-to-pay, posits that taxation should be based not only on actual benefits or realised income but also on an individual's general faculty or capacity to earn.³⁹ This principle underpins provisions such as the minimum tax in section 33 of the Companies Income Tax Act (CITA), which obliges companies to pay tax even in years of little or no profit.⁴⁰ It also explains deemed income provisions designed to capture latent earning capacity. In Nigeria, this theory has often been criticised for imposing a burden on struggling businesses, yet it reflects an important normative stance: that taxation is about potential contribution to the collective, not merely actualised earnings.

Taken together, these theories demonstrate that Nigerian taxation is not underpinned by a single philosophical model but by a hybrid of overlapping, sometimes conflicting, principles. The originality of this analysis lies in situating Nigeria's specific legislative innovations within broader theoretical debates, thereby bridging the gap between abstract theory and concrete legal practice. This contributes to scholarship by showing that theoretical frameworks are not merely descriptive categories but living influences on legislative and judicial choices in Nigeria.

4. Objectives of Taxation

Taxation, beyond its function as a fiscal device, constitutes an indispensable instrument of governance, development planning, and social engineering. Its objectives have evolved significantly from a narrow preoccupation with raising revenue to encompass broader socio-economic and political purposes. In classical economic thought, taxation was primarily conceived as a means of financing government expenditure.⁴¹ However, in contemporary discourse, taxation is also evaluated in terms of its ability to promote fairness, achieve redistribution, regulate

³⁵ Industrial Development (Income Tax Relief) Act, Cap I17 LFN 2004.

³⁶ Finance Act 2021, s 17.

³⁷ R A Musgrave, (n 10) 58.

³⁸ Finance Act 2020, s 4 (Significant Economic Presence rules).

³⁹ U Sadiq, 'Revisiting the Faculty Theory of Taxation in Developing Economies' (2020) 8 Journal of African Fiscal Studies 145, 149.

⁴⁰ Companies Income Tax Act, Cap C21 LFN 2004, s 33 (as amended).

⁴¹ H Dalton, (n 26) 1.

consumption patterns, stimulate economic growth, and advance sustainable development.⁴² The Nigerian experience reflects this evolution, as statutory reforms and judicial interpretations increasingly underscore taxation as a dynamic policy instrument rather than a static revenue tool.

4.1 Traditional Objectives

4.1.1 Provision of Merit Goods

Merit goods are those services and commodities that society considers inherently beneficial, yet which may be under-consumed if left entirely to market allocation.⁴³ These include education, healthcare, housing, and social welfare programmes. The rationale for taxing to provide merit goods is grounded in the state's paternalistic responsibility to correct market failures and ensure equitable access to essential services.

In Nigeria, taxation has historically played a central role in this regard. Revenue from the Companies Income Tax (CIT) contributes significantly to the financing of the Universal Basic Education (UBE) scheme through allocations under the UBE Act.⁴⁴ Similarly, tax revenues are utilised to fund public health interventions such as immunisation campaigns, HIV/AIDS programmes, and subsidised maternal healthcare. These allocations are not merely fiscal transfers but affirm the constitutional directive in section 18 and 20 of the 1999 Constitution (as amended) requiring the state to provide free education and adequate healthcare.

The Finance Act 2021 represents a further evolution of this principle by introducing earmarked levies such as the ₦10 per litre excise duty on carbonated drinks.⁴⁵ While ostensibly intended to discourage harmful consumption, the levy was also designed to bolster public health expenditure. This duality taxation as both a behavioural regulator and a funding mechanism highlights the normative expansion of tax objectives from revenue mobilisation to proactive social governance.

4.1.2 Provision of Public Goods

Public goods, classically defined as non-excludable and non-rivalrous, include defence, policing, judicial services, and basic infrastructure.⁴⁶ Since private markets are unable or unwilling to supply these goods at efficient levels, taxation remains the primary instrument for their financing.

In Nigeria, corporate taxation under the Companies Income Tax Act (CITA) continues to be a major source of funding for public goods such as highways, security architecture, and judicial infrastructure.⁴⁷ The Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme, introduced by Executive Order 007 of 2019, exemplifies this nexus: companies that invest in constructing or rehabilitating federal roads are allowed to offset such investments against their CIT liabilities.⁴⁸ This framework reveals a symbiotic relationship between taxation and public goods provision, as it mobilises private capital for public infrastructure while simultaneously satisfying tax obligations.

The originality of this Nigerian adaptation lies in its hybridisation of classical tax theory with practical governance challenges. While public goods are universally recognised as legitimate

⁴² R.B. Musgrave and P B Musgrave, (n 4) 210.

⁴³ J.E. Stiglitz, (n 27) 98.

⁴⁴ Universal Basic Education Commission Act, Cap U4 LFN 2004, s 11.

⁴⁵ Finance Act 2021, s 17.

⁴⁶ P Samuelson, 'The Pure Theory of Public Expenditure' (1954) 36 *Review of Economics and Statistics* 387.

⁴⁷ Companies Income Tax Act, Cap C21 LFN 2004 (as amended).

⁴⁸ Executive Order 007 of 2019, Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme.

objects of taxation, Nigeria's use of tax credits for direct infrastructure provision underscores a shift towards collaborative models of tax-funded development. This reflects a pragmatic recognition that the state alone may be fiscally constrained, thereby necessitating innovative public private tax mechanisms.

4.2 Contemporary Objectives

The objectives of taxation in contemporary governance extend far beyond the classical role of financing state expenditure. They encompass redistributive justice, macroeconomic regulation, public health protection, price stability, and long-term developmental goals. In Nigeria, these objectives reflect both domestic socio-economic realities and global fiscal trends, highlighting taxation as an indispensable instrument of governance, economic policy, and social engineering.

4.2.1 Redistribution of Wealth

A central contemporary objective of taxation is to mitigate economic inequality through redistributive mechanisms. Progressive taxation, premised on the ability-to-pay principle, ensures that higher earners contribute proportionately more to public revenue. This reflects Adam Smith's canon of equality, which remains relevant in addressing structural inequality within developing economies. Nigeria operationalised this principle through the Finance Act 2019, which exempted small companies with turnover below ₦25 million from companies income tax, imposed a 20% rate on medium-sized companies, and maintained the 30% rate for large enterprises with turnover exceeding ₦100 million.⁴⁹ Similarly, the graduated tax bands in the Personal Income Tax Act (PITA) promote vertical equity and expand the redistributive base.

Redistribution also finds expression in the channeling of tax revenues into social protection initiatives such as the National Social Investment Programme (NSIP), which provides conditional cash transfers, school feeding, and enterprise empowerment schemes.⁵⁰ This aligns taxation with poverty alleviation and inclusive growth, reinforcing the normative view that taxation is not merely fiscal but also an instrument of social justice. Judicial affirmation of this redistributive function can be discerned in *FBIR v Integrated Data Services Ltd*,⁵¹ where the court stressed that taxation constitutes a civic duty owed by corporate citizens in sustaining collective welfare. Nigeria's case thus contributes to the broader global debate on whether tax justice can be achieved in contexts of weak institutions and entrenched inequality.

4.2.2 Management of the Economy

Taxation functions as a key macroeconomic tool, allowing governments to regulate inflation, stimulate investment, and maintain stability. Keynesian economics underscores the counter-cyclical role of taxation, whereby states can expand or contract fiscal capacity to moderate economic cycles. Nigeria has applied this in varying degrees. Pioneer status incentives under the Industrial Development (Income Tax Relief) Act grant tax holidays to companies investing in strategic sectors, encouraging diversification beyond oil dependence.⁵² Similarly, the Finance Act 2020 extended the tax net to non-resident companies providing digital services with "significant economic presence" (SEP), thereby recognising the fiscal potential of the digital economy while safeguarding domestic revenue.⁵³

⁴⁹ Finance Act 2019, s 33.

⁵⁰ Federal Government of Nigeria, *National Social Investment Programmes* (NSIP) Framework (2018).

⁵¹ (2009) 5 TLRN 40.

⁵² Industrial Development (Income Tax Relief) Act Cap I17 LFN 2004, ss 1–3.

⁵³ Finance Act 2020, s 4; Companies Income Tax Act Cap C21 LFN 2004, s 13(2)(c).

This adaptation reveals Nigeria's unique contribution to global tax discourse: while OECD members focus on digital taxation through multilateral instruments, Nigeria has pursued unilateral reform through the SEP framework. The approach illustrates both innovation and limitation innovation because it expands the tax nexus beyond physical presence, and limitation because enforcement remains weak without international consensus.

4.2.3 Safety of Society from Harmful Practices

Taxation increasingly serves as a regulatory tool to curb harmful consumption and protect public health. Excise duties commonly referred to as "sin taxes" operate not only as revenue devices but also as behavioural incentives. In Nigeria, the Finance Act 2021 introduced excise duties on non-alcoholic carbonated drinks to reduce excessive sugar consumption and address rising cases of diabetes and obesity.⁵⁴ Similarly, higher tobacco taxes serve a dual role of deterring harmful habits while contributing to healthcare financing. This aligns with the socio-political theory of taxation, which situates fiscal policy as an instrument of welfare promotion.

What is original to Nigeria's experience is the tension between public health objectives and political resistance from industry stakeholders. Manufacturers of carbonated drinks lobbied against the tax, citing potential job losses and declining consumer demand. This underscores the political economy dimension of taxation balancing societal welfare with the economic interests of powerful corporate actors.

4.2.4 Economic Price Stability

Another important contemporary objective of taxation is to promote price stability by moderating aggregate demand. In theory, reducing indirect taxes during inflationary pressures lowers the cost of living, while raising them in times of overheating can dampen excessive demand. Although Nigeria has not fully deployed taxation as a deliberate price stabilisation tool, certain fiscal measures have had indirect effects. For instance, VAT exemptions on staple food items and reduced import duties on essential goods have cushioned households from inflationary shocks.⁵⁵

This reveals a gap in Nigeria's fiscal strategy: while taxation could serve as a proactive counter-inflationary instrument, its current use remains reactive and limited. Contribution to knowledge here lies in demonstrating that the underutilisation of tax policy in managing inflation reflects both weak institutional foresight and over-reliance on monetary policy levers.

4.2.5 Economic Growth and Development

Taxation also functions as a strategic driver of economic growth and long-term development. Revenues finance critical infrastructure, education, healthcare, and technology, which in turn enhance productivity. Tax incentives further stimulate entrepreneurship, attract foreign direct investment, and align fiscal policy with sustainable development objectives.

The Petroleum Industry Act 2021 represents a significant structural reform by replacing the Petroleum Profits Tax with Hydrocarbon Tax and CIT, thereby improving competitiveness in the energy sector.⁵⁶ Likewise, the Finance Act 2022 introduced renewable energy tax incentives, situating Nigeria within global sustainability discourse and linking taxation to the achievement of Sustainable Development Goals (SDGs). These initiatives demonstrate how Nigeria, though a

⁵⁴ Finance Act 2021, s 17.

⁵⁵ Value Added Tax Act Cap V1 LFN 2004, First Schedule (as amended).

⁵⁶ Petroleum Industry Act 2021, ss 260–311.

developing economy, is gradually aligning fiscal policy with global imperatives of climate change mitigation and green growth.

The contribution to knowledge here lies in Nigeria's evolving use of taxation not only as a fiscal necessity but as a developmental instrument reflecting the gradual shift from extractive fiscalism towards more transformative and sustainable fiscal practices.

5. Legal Challenges to Effective Company Taxation in Nigeria

Company taxation in Nigeria, governed primarily by the Companies Income Tax Act (CITA), Cap C21 LFN 2004 (as amended by the Finance Acts 2019–2023), is pivotal for revenue mobilisation and fiscal policy. It is not merely a revenue tool but also a regulatory mechanism that shapes investment flows, corporate behaviour, and Nigeria's integration into the global economy. Yet, its effectiveness is undermined by a range of legal challenges: definitional ambiguities, statutory overlaps, judicial inconsistencies, and inadequate adaptation to global economic realities. These challenges highlight the tension between Nigeria's constitutional mandate to impose taxation and the principle of certainty that underpins modern tax jurisprudence.⁵⁷

5.1 Ambiguities and Contradictions in the Companies Income Tax Act

5.1.1 Scope of “Profits Accruing in, Derived from, or Brought into Nigeria”

Section 9(1) CITA subjects to tax “the profits of any company accruing in, derived from, brought into, or received in Nigeria.” While broad in formulation, this provision raises serious interpretive challenges. The Court of Appeal in *Shell Petroleum Development Company v FBIR*⁵⁸ held that profits must have a Nigerian nexus before being taxable. However, the exact scope of such nexus remains unsettled, especially where profits are generated outside Nigeria and subsequently repatriated.

The emergence of the digital economy complicates this further. Multinationals may derive profits from Nigerian customers without establishing a physical presence, creating uncertainty as to whether such profits fall within the ambit of section 9(1). The Finance Act 2019 sought to remedy this by introducing “significant economic presence” (SEP) as a taxable nexus.⁵⁹ Yet, the absence of detailed statutory thresholds in the principal legislation leaves interpretive discretion largely to administrative authorities, undermining predictability for taxpayers.

5.1.2 Overlaps between CITA and Other Legislation

CITA often overlaps with sector-specific statutes, leading to contradictions that frustrate compliance. A prominent example is the taxation of insurance companies under section 16 CITA, which prescribes minimum tax bases inconsistent with accounting standards under IFRS 17 and the Insurance Act 2003.⁶⁰ This duality creates uncertainty and increases compliance costs for insurers, as companies must navigate conflicting obligations.

Similarly, the Petroleum Industry Act (PIA) 2021 repealed the Petroleum Profits Tax Act but introduced the Hydrocarbon Tax alongside residual CITA obligations.⁶¹ This dual structure has generated confusion over transitional arrangements and deductible expenses, eroding the principle

⁵⁷ R B Musgrave and P B. Musgrave, (n 4) 201.

⁵⁸ (1996) 8 NWLR (Pt 466) 256.

⁵⁹ Finance Act 2019, s 4.

⁶⁰ Companies Income Tax Act, Cap C21 LFN 2004, s 16; Insurance Act 2003, s 55.

⁶¹ Petroleum Industry Act 2021, ss 260–302.

of tax clarity. Without harmonisation between CITA and sectoral statutes, taxpayers are left vulnerable to conflicting interpretations, undermining both certainty and fairness.

5.1.3 Ambiguities in Deductibility of Expenses

Sections 24 and 27 CITA regulate allowable and disallowable deductions, but their language particularly the requirement that expenses be “wholly, reasonably, exclusively and necessarily” incurred has proved contentious. Nigerian courts have generally adopted a restrictive approach. In *Shell Petroleum v FBIR*,⁶² deductions were narrowly interpreted in favour of the tax authority. Such restrictive judicial reasoning, combined with vague statutory drafting, discourages legitimate business expenses, drives aggressive tax planning, and increases the likelihood of disputes.

5.2 Judicial Inconsistencies and Narrow Interpretations

Judicial interpretation is expected to provide clarity in resolving statutory ambiguities, thereby ensuring predictability and stability in tax law. However, Nigerian courts have frequently adopted inconsistent approaches, oscillating between literalist and purposive interpretations of tax statutes. This inconsistency has produced uncertainty in the administration of company taxation and weakened the principle of legal certainty.

A literalist stance, as exemplified in *FBIR v Halliburton (WA) Ltd*,⁶³ has led to the disallowance of deductions not expressly provided under the Companies Income Tax Act (CITA). Such rigidity ignores the economic realities of business operations and hampers taxpayer confidence in the fairness of the system. Conversely, in *Nigerian Bottling Company Plc v FBIR*,⁶⁴ the court employed a purposive approach, recognising that commercial realities may justify broader deductibility of expenses. The coexistence of these divergent approaches illustrates a lack of coherent judicial philosophy in tax adjudication.

The consequences are significant. On the one hand, literalism may protect government revenue but risks stifling legitimate business expenses and discouraging investment. On the other hand, purposivism fosters commercial fairness but may inadvertently expand deductions beyond legislative intent, thereby eroding the tax base. The lack of balance between these approaches creates unpredictability, undermines tax planning, and perpetuates disputes between taxpayers and the revenue authorities.

This judicial vacillation demonstrates a deeper institutional weakness: Nigerian tax jurisprudence has not fully engaged with modern economic realities, particularly in the context of globalisation, digital commerce, and complex cross-border transactions. Unless courts develop a consistent interpretative framework grounded in purposive reasoning but sensitive to statutory limits the adjudicatory process will continue to perpetuate uncertainty, impairing both revenue mobilisation and investor confidence.

5.2.1 Literalism vs. Purposive Interpretation

In *FBIR v Halliburton (WA) Ltd*,⁶⁵ the Federal High Court adopted a literalist stance, holding that deductions not expressly provided for under the Companies Income Tax Act (CITA) could not be allowed. This rigid approach reflects the traditional doctrine that tax statutes must be construed strictly in favour of the revenue authority unless clear statutory language permits otherwise. By

⁶² (1996) 8 NWLR (Pt 466) 256.

⁶³ (2014) 3 TLRN 1.

⁶⁴ (2009) 20 TLRN 1.

⁶⁵ (2014) 6 TLRN 1.

contrast, in *Nigerian Bottling Company Plc v FBIR*,⁶⁶ the court embraced a purposive interpretative approach, acknowledging that the commercial realities of business operations may justify a broader conception of deductible expenses beyond narrow statutory wording.

These divergent approaches illustrate a deeper tension within Nigerian tax adjudication: whether courts should prioritise strict construction to protect revenue or purposive interpretation to reflect business realities and fairness. On one hand, strict construction promotes administrative certainty and limits judicial activism. On the other, purposive interpretation aligns with global trends in tax jurisprudence, where courts increasingly recognise that rigid literalism may distort economic substance and discourage investment. The absence of a consistent interpretative methodology creates unpredictability, impairing taxpayers' ability to plan effectively and undermining the principle of legal certainty, which is fundamental to both tax justice and investment climate stability.

The contribution to knowledge here lies in showing that Nigeria's jurisprudence is caught between two competing paradigms: the colonial legacy of strict construction of tax statutes and the modern shift towards purposive, business-sensitive interpretation. Resolving this tension requires not only judicial reorientation but also legislative clarification, particularly in defining what constitutes expenses "wholly, reasonably, exclusively and necessarily" incurred under sections 24 and 27 CITA.⁶⁷ Without such clarity, Nigerian courts risk perpetuating inconsistency, thereby weakening the coherence of the tax system.

5.2.2 Inadequate Judicial Engagement with Modern Realities

Nigerian courts have often struggled to reconcile statutory provisions with the realities of modern commerce. While statutory tax law is designed within the context of conventional business models, judicial interpretation has not always evolved to address emerging economic patterns. For instance, disputes relating to e-commerce and cross-border service provision reveal a tendency toward judicial restraint rather than purposive innovation. In *Vodacom Business Nigeria Ltd v FIRS*,⁶⁸ the Court of Appeal upheld the imposition of Value Added Tax (VAT) on satellite bandwidth services, affirming Nigeria's authority to tax digital transactions. This decision demonstrated judicial recognition of the evolving nature of commerce in the digital space. However, such dynamism has not been mirrored in corporate income taxation, where judicial reluctance to creatively engage with concepts like "significant economic presence" has left considerable uncertainty regarding the taxation of profits derived from digital footprints. This gap highlights the judiciary's uneven engagement with modern business realities and its implications for tax certainty.

5.3 Globalisation and Digital Economy Challenges

5.3.1 Taxing the Digital Economy

The digitalisation of commerce arguably presents the most profound challenge to Nigerian company taxation. Traditional nexus rules, rooted in the physical presence requirement of "permanent establishment," are manifestly inadequate for taxing borderless, virtual operations. Recognising this gap, the Finance Act 2019 introduced the Significant Economic Presence (SEP) rule under section 13(2)(c) of CITA.⁶⁹ While the SEP (Non-Resident Companies) Order 2020 provided thresholds for taxing digital services, enforcement has been undermined by definitional

⁶⁶ (2009) 15 TLRN 1.

⁶⁷ Companies Income Tax Act Cap C21 LFN 2004, ss 24 and 27.

⁶⁸ (2019) 3 NWLR (Pt 1659) 206.

⁶⁹ Companies Income Tax Act Cap C21 LFN 2004, s 13(2)(c) (as amended by the Finance Act 2019).

ambiguities and administrative capacity gaps.⁷⁰ Moreover, the absence of global consensus on taxing digital activities complicates Nigeria's efforts, as unilateral approaches risk double taxation and trade disputes. Nigeria's experience illustrates the limitations of transplanting global tax concepts without adequate domestic institutional capacity.

5.3.2 Base Erosion and Profit Shifting (BEPS)

Nigeria's tax base is further threatened by base erosion and profit shifting (BEPS), where multinational corporations exploit transfer pricing loopholes, treaty mismatches, or hybrid arrangements to minimise liability. The Income Tax (Transfer Pricing) Regulations 2018 were enacted to align with OECD BEPS recommendations and to provide clarity on intra-group pricing.⁷¹ However, gaps between these Regulations and CITA provisions especially on documentation and enforcement have limited their efficacy. In addition, Nigeria's reluctance to fully adopt the OECD Multilateral Instrument (MLI) constrains its ability to curb treaty abuse and participate in coordinated international tax responses. This selective engagement with global tax reform initiatives leaves Nigeria at a structural disadvantage in countering sophisticated avoidance schemes.

5.3.3 Double Taxation and Treaty Gaps

Nigeria's double taxation treaty (DTT) network compounds these challenges. Many of Nigeria's treaties, drafted decades ago, define "permanent establishment" narrowly in terms of physical presence, thereby excluding digital business models. This inadequacy has created disputes, facilitated revenue leakages, and limited Nigeria's capacity to assert taxing rights over digital and service-based transactions. Although the Court of Appeal in *Stabilini Visinoni Ltd v Federal Board of Inland Revenue*⁷² recognised that treaties duly ratified under the Constitution are binding,⁷³ administrative practice often disregards treaty obligations, leading to inconsistent enforcement and undermining Nigeria's credibility in international tax relations. A comprehensive overhaul of Nigeria's treaty policy is thus essential to ensure alignment with global realities, protect revenue, and reduce disputes.

6. Operational Challenges to Effective Company Taxation in Nigeria

Beyond the statutory framework, the efficacy of company taxation in Nigeria is constrained by significant operational challenges that cut across administrative, institutional, and compliance dimensions. While the Federal Inland Revenue Service (FIRS) established under the FIRS (Establishment) Act 2007 remains the principal agency for enforcing the Companies Income Tax Act (CITA), its effectiveness is undermined by persistent inefficiencies that frustrate the attainment of fiscal and socio-economic objectives.⁷⁴

These challenges reflect the enduring gap between statutory design and administrative reality. On one hand, successive Finance Acts (2019–2023) have introduced ambitious reforms aimed at modernising tax administration, expanding the tax base, and aligning Nigeria with global best

⁷⁰ Significant Economic Presence (Non-Resident Companies) Order 2020, Federal Republic of Nigeria Official Gazette No 21, Vol 107 (10 February 2020).

⁷¹ Income Tax (Transfer Pricing) Regulations 2018, Federal Republic of Nigeria Official Gazette No 30, Vol 105 (21 March 2018).

⁷² (2014) 8 TLRN 1 (CA).

⁷³ Income Tax (Transfer Pricing) Regulations 2018, Federal Republic of Nigeria Official Gazette No 30, Vol 105 (21 March 2018).

⁷⁴ Federal Inland Revenue Service (Establishment) Act 2007, Cap F36 LFN 2007.

practices.⁷⁵ On the other hand, weak enforcement mechanisms, technological deficiencies, inadequate manpower, and entrenched bureaucratic practices have limited the transformative impact of these reforms. This paradox illustrates a recurring theme in Nigerian taxation: legal innovation often outpaces institutional readiness.

From an administrative perspective, issues of tax collection efficiency, taxpayer registration, and audit capacity remain acute.⁷⁶ Despite the introduction of the TaxPro Max digital platform in 2021, compliance monitoring is still plagued by systemic loopholes, allowing significant revenue leakages. Institutionally, FIRS has struggled to build the human and technological infrastructure necessary to manage complex cross-border transactions, digital economy taxation, and aggressive tax planning strategies employed by multinational corporations.⁷⁷ At the compliance level, a culture of weak voluntary disclosure and resistance to taxation persists among corporations, partly fuelled by perceptions of government mismanagement of tax revenues.

The consequence of these operational gaps is that taxation in Nigeria risks being viewed less as a mechanism for equitable redistribution and sustainable development, and more as an arbitrary exaction vulnerable to evasion and avoidance. Unless operational reforms match the ambition of legislative innovations, the corporate tax regime will continue to underperform relative to its potential, undermining both fiscal sustainability and public trust.

6.1 Weak Institutional Capacity of the FIRS

Despite statutory reforms, the FIRS continues to face severe institutional and technical deficits. Manpower limitations, inadequate funding, and reliance on outdated enforcement techniques prevent robust monitoring of corporate taxpayers. Although digital innovations such as the TaxPro Max platform have been introduced, infrastructural glitches and poor connectivity limit their reach, particularly outside urban centres. According to the Joint Tax Board (JTB), fewer than 15% of Nigerian companies are effectively within the tax net, revealing structural weaknesses in taxpayer identification and compliance monitoring.⁷⁸ The lack of specialised training also hampers the agency's ability to deal with complex issues such as transfer pricing, base erosion, and cross-border digital taxation. Without strengthening institutional resilience, even the most progressive legislative reforms risk remaining on paper.

6.2 Corruption and Lack of Transparency

Corruption within tax administration distorts enforcement and compromises revenue generation. Reports of collusion between tax officials and corporate taxpayers particularly through under-declaration of profits, manipulation of deductible expenses, and “settlements” to avoid audits remain rife.⁷⁹ Such practices erode confidence in the tax system, discouraging voluntary compliance. Transparency is further undermined by the absence of visible accountability in the utilisation of tax revenues. As the Supreme Court observed in *A-G Ogun State v Aberuagba*,⁸⁰ the legitimacy of taxation rests on mutual trust between citizens and the state; when taxpayers perceive

⁷⁵ Finance Act 2019, Finance Act 2020, Finance Act 2021, Finance Act 2022, Finance Act 2023.

⁷⁶ S Abiola and M Asiweh, ‘Impact of Tax Administration on Government Revenue in a Developing Economy: A Case Study of Nigeria’ (2012) 2 *International Journal of Business and Social Science* 99.

⁷⁷ O Oyebanji, ‘Data and Technology in Nigerian Tax Administration: Challenges and Prospects’ (2022) 36 *Nigerian Tax Journal* 117.

⁷⁸ Joint Tax Board, *Communiqué on National Tax Policy Implementation* (2022) <https://www.jtb.gov.ng> accessed 25 September 2025.

⁷⁹ A O Abiola, ‘Tax Corruption and Revenue Administration in Nigeria’ (2020) 14 *Nigerian Journal of Fiscal Studies* 45.

⁸⁰ (1985) 1 NWLR (Pt 3) 395.

systemic corruption and diversion of funds, tax morality collapses, fostering evasion and informality.

6.3 High Compliance Costs

The Nigerian tax environment imposes disproportionately high compliance costs relative to other jurisdictions. Frequent amendments to tax statutes via the Finance Acts (2019–2023) create uncertainty, requiring businesses to continuously adjust accounting systems. The World Bank's Ease of Paying Taxes Index reports that Nigerian companies spend an average of 343 hours annually on compliance, compared to the global average of 237 hours.⁸¹ For small and medium-sized enterprises (SMEs) which constitute over 80% of Nigerian businesses this creates unsustainable administrative burdens. Ironically, a regime intended to foster inclusivity through the Finance Act 2019's tax exemptions for SMEs may inadvertently exclude them from formal compliance due to high transaction costs.

6.4 Multiplicity of Taxes and Jurisdictional Conflicts

Nigeria's federal system exacerbates company taxation challenges through overlapping jurisdictions. While CITA governs federal corporate income tax, states and local governments impose additional levies such as signage fees, development levies, and business premises tax. Many of these are unconstitutional, yet persist in practice. In *A-G Lagos State v Eko Hotels Ltd*,⁸² the Supreme Court denounced such duplicative taxation. Nevertheless, sub-national authorities, driven by revenue desperation, continue to proliferate levies. The result is double taxation, rising compliance costs, and discouragement of investment. The absence of a harmonised intergovernmental fiscal framework highlights the need for constitutional and institutional reforms.

6.5 Tax Evasion and Aggressive Avoidance

Evasion and aggressive avoidance remain deeply entrenched in Nigeria's corporate landscape. Multinationals exploit loopholes in CITA through transfer pricing manipulation, under-invoicing, and routing transactions through tax havens. While the Income Tax (Transfer Pricing) Regulations 2018 attempt to align Nigeria with OECD standards, enforcement remains weak due to lack of expertise, inadequate access to data, and weak cross-border cooperation.⁸³ Nigerian jurisprudence, as seen in *Akinsete Syndicate v Senior Inspector of Taxes*,⁸⁴ has long condemned fraudulent concealment of profits, yet enforcement lags behind. Furthermore, the absence of a robust General Anti-Avoidance Rule (GAAR) leaves the FIRS vulnerable to sophisticated tax planning schemes, unlike peer jurisdictions such as South Africa, the UK, and Canada.

6.6 Low Tax Morality and Informality

Low tax morale is a socio-political as much as an operational problem. Companies often view taxation as illegitimate, citing corruption, poor service delivery, and lack of visible returns on tax contributions. This perception, coupled with Nigeria's large informal sector estimated at over 60% of GDP, weakens compliance. Although the Voluntary Assets and Income Declaration Scheme (VAIDS) of 2017 sought to encourage disclosure, participation was limited, reflecting entrenched

⁸¹ World Bank Group, *Doing Business 2020: Ease of Paying Taxes Index* (World Bank 2020) 172.

⁸² (2019) 12 NWLR (Pt 1687) 379.

⁸³ Income Tax (Transfer Pricing) Regulations 2018, Federal Republic of Nigeria Official Gazette No 16, Vol 105, 21 February 2018.

⁸⁴ (1963) LLR 61.

distrust in government institutions.⁸⁵ Without rebuilding taxpayer trust through transparency and accountability, legal and institutional reforms will fail to translate into behavioural change.

6.7 Technological and Data Limitations

Effective company taxation in the digital era requires strong technological capacity and access to reliable data. Nigeria lags behind in both. Weak integration between the FIRS, the Corporate Affairs Commission (CAC), and financial institutions leaves many companies outside the tax net. The Tax Identification Number (TIN) system, though a step forward, suffers from loopholes that allow multiple registrations or outright evasion.⁸⁶ Inadequate adoption of big data analytics and artificial intelligence tools also impedes the ability of the FIRS to track profit-shifting strategies and digital transactions. Without modernising its technological infrastructure, Nigeria risks widening its tax gap in the age of global digitalisation.

7. Recommendations for Effective Company Taxation in Nigeria

To address the persistent challenges in Nigeria's company taxation regime and achieve the objectives of efficiency, fairness, and revenue mobilisation, a multi-dimensional reform approach is required. These recommendations are not merely a repetition of existing prescriptions but represent a synthesis of practical insights and scholarly analysis, highlighting areas where Nigeria can achieve originality in its tax reform trajectory and contribute to broader discourse on taxation in emerging economies.

7.1 Legislative Reforms

The first step towards reform must be legislative coherence. Harmonisation of tax laws is necessary to align provisions of the Companies Income Tax Act (CITA) with contemporary economic realities. Insurance taxation, digital economy rules, and dividend provisions are areas currently marked by ambiguity and inconsistency, leading to uncertainty both for revenue authorities and corporate taxpayers. Clarification in these areas would not only prevent revenue leakages but also demonstrate Nigeria's readiness to adapt its fiscal laws to dynamic global changes.

Equally important is the consolidation of overlapping statutes, particularly the integration of the Taxes and Levies (Approved List for Collection) Act with CITA. Such consolidation will reduce the incidence of arbitrary levies by sub-national governments and simplify compliance procedures for businesses. Beyond technical simplification, this reform signals an important contribution to knowledge by suggesting a unified legislative model for emerging economies grappling with federal complexities.

Codifying SME exemptions and rationalising tax incentives into a single, coherent framework will further ensure predictability and fairness. Nigeria's incentive regime has historically been fragmented, often abused, and sometimes contradictory to broader fiscal objectives. By proposing a codified framework, this recommendation contributes a practical mechanism for balancing the need for growth incentives with the imperative of preventing abuse.

Finally, legislative reform must also adapt to the realities of the digital economy. Establishing clear thresholds and rules for taxation of digital enterprises, drawing inspiration from international best

⁸⁵ Federal Inland Revenue Service (FIRS), *Report on VAIDS Implementation* (2019) <https://www.firs.gov.ng> accessed 25 September 2025.

⁸⁶ O Oyebanji, 'Data and Technology in Nigerian Tax Administration: Challenges and Prospects' (2022) 36 *Nigerian Tax Journal* 117.

practices such as OECD BEPS Action 1, would place Nigeria at the forefront of developing jurisdictions addressing the challenge of taxing digital presence. This is an original contribution as it reflects a proactive framework, avoiding reliance on outdated nexus rules that ignore intangible and online business models.

7.2 Judicial Reforms

Judicial reforms are equally critical. Courts in Nigeria have often oscillated between strict and purposive interpretation of tax statutes, leading to unpredictability. A consistent purposive approach would balance the state's revenue interests with the taxpayer's right to fairness, strengthening jurisprudence in a way that aligns with modern tax realities. This call for interpretive consistency is itself an original scholarly contribution, as it emphasises the judiciary's role not merely as an arbiter of disputes but as a partner in effective fiscal governance.

The establishment of specialised tax divisions within the Federal High Court or the creation of dedicated tax courts would also provide institutional capacity for faster, more expert adjudication. This addresses the systemic delays and inconsistencies that currently plague tax litigation. Moreover, embedding regular capacity-building programmes for judges on emerging tax issues digital economy, transfer pricing, international tax law will enhance interpretative quality. This recommendation contributes to knowledge by highlighting the judiciary as an underexplored frontier of tax reform in Nigeria.

7.3 Institutional and Administrative Reforms

Institutional strengthening, particularly of the Federal Inland Revenue Service (FIRS), is indispensable. Enhancing digital compliance infrastructure, expanding risk-based assessments, and ensuring that e-filing and monitoring systems are user-friendly and secure, would modernise administration and reduce both evasion and harassment. This perspective contributes to operational scholarship by linking taxpayer experience with compliance culture.

Equally, continuous human capital development for tax officials through training, certifications, and even secondments abroad will not only improve technical competence but also instil ethical standards. This recommendation stresses professionalism as a cornerstone of effective tax administration, an insight that strengthens both academic and policy discourse.

Inter-agency collaboration with the Corporate Affairs Commission, Central Bank, and Customs remains essential to close compliance gaps. Nigeria's experience can provide comparative lessons for other jurisdictions struggling with fragmented governance structures. Similarly, the development of whistleblower frameworks that ensure protection and transparency adds a unique angle to discussions on accountability in tax administration.

7.4 Policy and Economic Reforms

Policy reforms must go beyond administration to address underlying economic incentives. Rationalising tax incentives to prioritise sectors such as renewable energy, technology, and infrastructure ensures that fiscal tools are aligned with developmental goals. This makes a dual contribution: advancing the academic argument for targeted incentives and providing policymakers with a roadmap for maximising developmental impact.

Cooperative compliance programmes, including voluntary disclosure schemes and collaborative frameworks, can be designed to leverage technology and cross-border information exchange. By proposing a shift from adversarial enforcement to cooperative engagement, this work contributes an original re-imagination of the relationship between taxpayers and tax authorities in Nigeria.

Finally, fiscal federalism requires rethinking. The reassessment of revenue-sharing mechanisms and intergovernmental taxing powers will minimise conflicts between tiers of government, foster state-level fiscal autonomy, and preserve national cohesion. This intervention contributes to scholarship by reconciling federalism theory with practical tax administration in a developing economy.

7.5 Comparative and Strategic Insights

Nigeria can also benefit from lessons in comparative practice. The operational independence and digital enforcement of South Africa, Ghana's harmonised frameworks, and regional cooperation under ATAF provide models worth adapting. However, the originality of this recommendation lies in emphasising "integrated implementation": policies must not merely be borrowed but must be contextually adapted to Nigeria's socio-political realities.

8. Conclusion

Nigeria's company taxation regime remains at the intersection of legal complexity, administrative inefficiency, and evolving economic realities. This article has demonstrated that the persistent challenges ranging from statutory ambiguities and judicial inconsistencies to institutional weaknesses and low tax morale undermine the effectiveness of taxation as both a fiscal and developmental tool. The implication is that Nigeria's company taxation is not merely a technical exercise in revenue collection, but a governance issues that touches on legitimacy, trust, and the broader social contract between the state and its corporate citizens.

Achieving the objectives of efficiency, equity, revenue mobilisation, and sustainable development requires an integrated and multi-dimensional reform strategy. Legislatively, harmonisation of conflicting statutes and clarification of ambiguous provisions are essential to reduce loopholes and ensure alignment with modern business practices, including digital and cross-border commerce. Judicially, the courts must embrace a coherent interpretative philosophy, favouring purposive reasoning that balances revenue protection with fairness and commercial realities. Institutionally, the Federal Inland Revenue Service must be strengthened through enhanced digitalisation, capacity building, and inter-agency collaboration, thereby closing compliance gaps while reducing opportunities for corruption and arbitrariness. At the policy level, rationalised incentives, cooperative compliance frameworks, and recalibrated fiscal federalism are required to align taxation with Nigeria's developmental priorities.

Comparative experiences from South Africa, Ghana, and regional tax cooperation frameworks reveal that success in company taxation depends less on statutory design alone and more on effective enforcement, political will, and the cultivation of trust between taxpayers and the state. This underscores the need for Nigeria to move beyond ad hoc reforms toward a stable, predictable, and transparent tax regime that fosters voluntary compliance.

In conclusion, a credible company taxation system in Nigeria must be strategic, evidence-based, and socially grounded. By leveraging technology, embedding transparency, and prioritising taxpayer rights alongside revenue objectives, Nigeria can transform taxation into a catalyst for inclusive growth and sustainable national development.