

Over-Taxed, Under-Served: The Consequences of Over-Taxation in Nigeria

by Fope Agbede

1.0 Introduction: The Taxation Dilemma in Nigeria

Nigeria's tax system is facing a critical dilemma: while the country grapples with a growing population and an expanding public sector, citizens and businesses are increasingly burdened by excessive taxes. Despite the numerous tax policies aimed at boosting government revenue, the system is plagued by inefficiencies, corruption, and poor service delivery, leaving taxpayers frustrated and disillusioned.

The high tax rates across various sectors—ranging from income tax to VAT—coupled with a lack of corresponding benefits, have sparked widespread debate about the fairness of the Nigerian taxation system. Nigerians, especially the middle class and small-to-medium-sized businesses, are feeling the weight of over-taxation, and the social consequences are becoming more evident every day.

In this article, we will explore the current state of over-taxation in Nigeria, focusing on the impact it has on the country's economy and society. From the escalating cost of living to the stifling effect on businesses, we will also examine how corruption and inefficient tax collection exacerbate the challenges faced by ordinary Nigerians.

Ultimately, the goal is to present a compelling case for urgent tax reform—a balanced system that not only eases the burden on citizens and businesses but also supports economic growth and ensures public services that benefit everyone. We will examine how tax reforms can help improve Nigeria's economic stability, create jobs, and build trust in government institutions.

Nigeria needs a tax system that fosters fairness, transparency, and sustainability—one that can provide the necessary infrastructure, healthcare, education, and security that every Nigerian citizen deserves.

2.0 The Current Tax Landscape in Nigeria

Nigeria's tax system is a blend of direct and indirect taxes, with numerous levies that apply to individuals and businesses alike. However, the country's tax structure faces significant challenges, including widespread tax evasion, inefficiencies in tax administration, and a lack

of transparency. These issues contribute to a growing frustration among taxpayers, particularly as the benefits of these taxes remain unclear to many Nigerians.

2.1 Personal Taxes: The Everyday Burden

Personal taxation in Nigeria primarily consists of income tax and Value Added Tax (VAT). While income tax rates are progressive, with the highest rate at 24%, compliance remains a significant issue, especially in the informal sector.

➤ Income Tax

Income tax is levied on both employed individuals and self-employed persons. The rates range from 7% to 24%, depending on an individual's income level. However, many high earners evade paying taxes, and the self-employed often fail to comply with tax filing requirements. According to the **Federal Inland Revenue Service (FIRS)**, income tax compliance remains low, especially among the middle class and small businesses. This challenge is compounded by a lack of tax education and awareness.¹

➤ Value Added Tax (VAT)

VAT is another significant source of revenue, with a rate of 7.5% applied to goods and services. However, VAT is considered a regressive tax, impacting low-income earners more than the wealthy, as they spend a larger portion of their income on consumption. The increase in VAT from 5% to 7.5% in 2020 was met with criticism, as citizens expected an improvement in public services in return for higher taxes, but saw little change.²

➤ Business Taxes: The Heavy Burden on Companies

Businesses in Nigeria also face a challenging tax landscape. With high corporate income tax rates, alongside various other levies, businesses in the private sector are under pressure to remain compliant while still competing in an already difficult environment.

¹ *Taxation in Nigeria: A guide for taxpayers.*

² *VAT in Nigeria: A review of implementation and impact on businesses.*

➤ **Corporate Income Tax**

Corporate income tax in Nigeria is levied at 30% for most companies. While this is comparable to global standards, the cumulative impact of various taxes, such as the **Withholding Tax** and **NITDA levy**, makes Nigeria's tax burden among the highest in Africa. This inhibits business growth, as the cost of compliance becomes a heavy financial burden for many companies.³

➤ **Customs Duties and Excise Taxes**

Nigeria also imposes customs duties and excise taxes, especially on imported goods, which can range between 20% and 30% depending on the item. These taxes raise the cost of doing business for Nigerian companies that rely on imports. Similarly, excise taxes on certain products such as alcohol and tobacco add additional burdens, which businesses must pass on to consumers.⁴

2.2 The Informal Sector: A Growing Problem

Nigeria's informal sector remains largely untaxed, yet it accounts for a substantial portion of the country's economy. The inability to properly tax this sector exacerbates the tax burden on formal businesses and individuals who are more likely to pay their fair share.

➤ **Tax Exemption and Double Taxation**

Many small businesses operating in the informal sector are exempt from formal taxation but are still subject to informal taxes or bribes, often paid to local government officials. These hidden "taxes" can amount to a significant portion of the income of small-scale traders and entrepreneurs, undermining their ability to grow their businesses. The dual burden of formal and informal taxes limits the potential for economic advancement for these business owners.⁵

➤ **SME Taxation**

Small and medium-sized enterprises (SMEs) face difficulties in complying with tax regulations due to complex rules, lack of resources, and high compliance costs. Nigeria's tax laws are often not adapted to the unique challenges faced by SMEs, such as poor

³ **KPMG**. (2020). *Nigeria's tax system: An overview*.

⁴ *Customs duties in Nigeria: Implications for businesses*.

⁵ *Nigeria's informal sector: Challenges and opportunities for tax inclusion*.

infrastructure and limited access to capital. Simplifying tax rules for SMEs could encourage more compliance and foster growth in this vital sector.⁶

2.3 Tax Revenue Collection: The Struggle for Efficiency

Despite the broad range of taxes in Nigeria, the country's tax-to-GDP ratio remains one of the lowest in the world, signaling that many citizens and businesses are either evading taxes or not paying at all.

➤ **Underperformance in Revenue Generation**

Nigeria's tax system fails to generate sufficient revenue to meet the country's development needs. According to reports from the **Federal Inland Revenue Service (FIRS)**, Nigeria's tax-to-GDP ratio is consistently low, which contributes to a fiscal deficit. The country remains heavily dependent on oil revenues, making it vulnerable to fluctuations in global oil prices.⁷

➤ **Weak Tax Administration and Corruption:**

Inefficiencies and corruption within tax collection agencies further undermine the system's effectiveness. Reports of bribery, diversion of funds, and failure to properly allocate collected taxes have tarnished the reputation of tax authorities in Nigeria.⁸

3.0 The Impact of Overtaxation on Nigerian Citizens and Businesses

Overtaxation in Nigeria has far-reaching implications for both citizens and businesses. The tax burden is often perceived as a contributing factor to the country's economic challenges, from stifled entrepreneurship to increased poverty levels. Despite Nigeria's vast natural resources, the lack of efficient tax collection and the imposition of high taxes on the already financially strained population has led to significant socio-economic consequences.

3.1 For Citizens: A Growing Financial Burden

Overtaxation negatively impacts citizens, particularly the middle and lower-income groups, who bear the brunt of tax policies designed to fill the government's revenue gap.

⁶ *The challenges of tax compliance for Nigerian SMEs*

⁷ *Tax-to-GDP ratio in Nigeria: A statistical analysis*. Available at: [FIRS Tax-to-GDP Report](#)

⁸ *Corruption in Nigeria's tax administration: Impact and recommendations*.

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➤ **Reduced Disposable Income**

For individuals, the cumulative effect of direct and indirect taxes reduces disposable income, leading to a lower standard of living. For example, VAT is imposed on essential goods and services, making life's basic needs more expensive. Nigerians already face high inflation rates, and the added burden of taxes makes it harder to afford even basic necessities like food, clothing, and transportation.⁹

➤ **Increased Informal Payments**

Many citizens resort to informal channels of payment to bypass taxes, as the official system becomes too complicated or prohibitive. Informal payments, or bribes, are often demanded by officials in exchange for various government services, such as permits or protection from harassment by law enforcement. This further exacerbates inequality and entrenches the cycle of poverty.¹⁰

3.2 For Businesses: A Stifled Economy

Businesses, particularly small and medium-sized enterprises (SMEs), face a disproportionately high tax burden, which stifles innovation, reduces profitability, and discourages investment.

➤ **High Compliance Costs**

The cost of compliance with tax regulations is significant for Nigerian businesses. From maintaining detailed financial records to paying taxes on time, businesses often bear the financial and administrative costs that divert resources from core operations. These high costs deter investment, particularly in small businesses that are already financially constrained.¹¹

➤ **Lack of Incentives for Growth**

With taxes like corporate income tax, VAT, and numerous levies, Nigerian businesses struggle to reinvest profits into innovation or expansion. Instead of creating new jobs or contributing to economic growth, businesses are often forced to scale back or relocate operations outside of Nigeria where tax burdens are lighter.¹²

⁹ VAT in Nigeria: A review of implementation and impact on businesses.

¹⁰ Nigeria's informal sector: Challenges and opportunities for tax inclusion.

¹¹ Nigeria's tax system: An overview.

¹² Nigeria Economic Summit Group (NESG). (2019). *The challenges of tax compliance for Nigerian SMEs*

➤ **Adverse Effect on Foreign Direct Investment (FDI)**

High tax rates, along with complicated tax regulations, serve as barriers to foreign investment. Foreign investors often look for markets with stable tax policies and predictable economic environments. In Nigeria, the complex and frequently changing tax laws discourage FDI, which could otherwise create jobs and foster economic development. A lack of investor confidence also stems from concerns over corruption in tax administration and the poor infrastructure that hinders business growth.¹³

3.3 The Socio-Economic Consequences of Over-Taxation

The economic and social implications of overtaxation cannot be overstated. In Nigeria, the strain of taxation is felt most acutely by the poorest sectors of society, who are already grappling with low wages, limited access to education, and poor healthcare.

➤ **Poverty and Economic Inequality**

Overtaxation disproportionately affects the poor, exacerbating existing wealth inequalities. With more money allocated to taxes, many citizens struggle to meet their basic needs, pushing more individuals and families into poverty. According to the **National Bureau of Statistics (NBS)**, Nigeria's poverty rate remains high, with over 40% of the population living below the poverty line. This stark divide between the rich and the poor is largely driven by an inefficient tax system that leaves the vulnerable population overburdened.¹⁴

➤ **Loss of Public Trust**

When taxes are seen as unfair or improperly managed, public trust in government institutions diminishes. Citizens who feel overtaxed often view the government as inefficient, corrupt, or indifferent to their needs. This erosion of trust complicates the government's efforts to achieve national development goals. If the Nigerian government hopes to improve its tax collection system, it must first restore trust by ensuring transparency, fairness, and accountability in how taxes are collected and used.¹⁵

4.0 The Role of Government in Taxation and Reform

The Nigerian government plays a central role in the administration of the country's tax system. Its responsibility is not only to collect revenue but also to ensure that the tax system is fair, transparent, and contributes positively to national development. The government's role

¹³ **FIRS.** (2021). *Tax-to-GDP ratio in Nigeria: A statistical analysis*

¹⁴ *Nigeria's tax compliance rate and its challenges*

¹⁵ **Transparency International.** (2020). *Corruption in Nigeria's tax administration: Impact and recommendations.*

also extends to making reforms that address the challenges of overtaxation, ensure efficiency in tax collection, and stimulate economic growth by reducing the burden on citizens and businesses.

4.1 Government's Responsibility in Tax Administration

The government is responsible for establishing a tax framework that reflects the country's economic realities while ensuring that the tax system is equitable. In recent years, the Nigerian government has taken steps to reform the tax system to increase revenue and reduce overreliance on oil exports. However, the government's failure to address the inefficiencies within the system has led to frustrations among the public and business community.

➤ Revenue Generation

Nigeria relies heavily on taxes as a source of government revenue, especially given the volatility of oil prices. The Federal Inland Revenue Service (FIRS) plays a critical role in administering and collecting taxes such as income tax, VAT, and excise duties. However, the current tax system is plagued by inefficiency, poor compliance, and a reliance on a small tax base.¹⁶

➤ Equity and Fairness

A key issue with Nigeria's tax system is its lack of equity. The wealthy and multinational corporations often find ways to evade taxes through loopholes and tax havens. Meanwhile, the burden of taxation falls heavily on the average Nigerian citizen and small businesses. The government's role, therefore, is to ensure that taxes are levied fairly and that wealthy individuals and corporations contribute their fair share to the national coffers.¹⁷

4.2 Proposed Reforms to Address Over-Taxation

To alleviate the burden of overtaxation on citizens and businesses, several reforms are necessary. These reforms can make Nigeria's tax system more efficient, equitable, and conducive to economic growth.

➤ Simplification of the Tax System

¹⁶ International Monetary Fund (IMF). (2020). *Nigeria's taxation system and its impact on the economy*

¹⁷ Ogunleye, O., & Osundina, M. (2021). *Tax avoidance and the Nigerian economy*. *African Journal of Taxation*, 3(2), 45-61.

The current tax system in Nigeria is overly complex, with numerous taxes and levies that confuse taxpayers and increase compliance costs. The government should focus on simplifying the system to make it easier for businesses and individuals to understand and comply with tax laws. Simplifying the process for filing tax returns and reducing the number of taxes could encourage more people to comply with the tax system and boost government revenue.¹⁸

➤ **Enhanced Tax Collection Mechanisms**

The Nigerian government must invest in better tax collection mechanisms to ensure that taxes are collected efficiently and transparently. This includes implementing digital tax platforms and improving the automation of tax collection, which can reduce the opportunities for corruption and enhance accountability. Strengthening the capacity of FIRS and local tax authorities to monitor tax compliance and enforce payment will also reduce the burden on citizens.¹⁹

➤ **Broaden the Tax Base**

One of the main challenges facing Nigeria is its narrow tax base. A large percentage of the population is either excluded from the tax system or engaged in informal economic activities that do not generate taxable income. The government must take steps to broaden the tax base by encouraging small businesses to register and comply with tax laws. This can be achieved by reducing the costs of formalizing a business and offering incentives for businesses in the informal sector to join the formal economy.²⁰

➤ **Tax Incentives for Businesses and Investors**

The Nigerian government should also consider implementing tax incentives to encourage investment in critical sectors such as manufacturing, agriculture, and technology. By offering tax breaks, exemptions, or rebates, the government can attract foreign and local investors, which would stimulate job creation and economic growth. However, these incentives must be carefully targeted and managed to avoid tax evasion or exploitation by large corporations.²¹

➤ **Strengthening Public Trust in the Tax System**

¹⁸ World Bank report . (2019). *Reforming Nigeria's tax system for growth*.

¹⁹ PricewaterhouseCoopers (PwC). (2020). *Nigeria's tax reforms: Challenges and opportunities*.

²⁰ Ogunleye, O., & Osundina, M. (2021). *Taxation and the informal economy in Nigeria*. *International Journal of Economics and Finance*, 12(1), 34-49.

²¹ International Finance Corporation (IFC). (2020). *Tax incentives and investment climate in Nigeria*.

In addition to structural reforms, the government must also focus on rebuilding public trust in the tax system. Citizens are more likely to comply with tax laws if they believe that the government is using tax revenue efficiently and equitably.

➤ **Transparency and Accountability**

For Nigeria's tax system to be successful, the government must ensure that revenue is transparently managed. This includes providing regular reports on how tax revenue is spent and ensuring that funds are allocated to projects that directly benefit the public. Citizens must see a direct correlation between the taxes they pay and the services they receive.²²

➤ **Public Awareness Campaigns**

The government must also engage in public awareness campaigns to educate citizens on the importance of paying taxes and how it contributes to the development of the country. Public education initiatives can help improve tax compliance and foster a culture of responsibility among Nigerians.²³

5.0 The Impact of Over-Taxation on Nigeria's Economy and Citizens

Overtaxation has far-reaching consequences for Nigeria's economy, businesses, and citizens. While taxation is necessary to generate revenue for the government, excessive and poorly administered taxes can stifle economic growth, discourage investment, and increase the financial burden on citizens. This section explores the multifaceted impact of overtaxation on Nigeria's socioeconomic landscape.

5.1 Economic Consequences

➤ **Reduced Investment and Business Growth**

High tax rates, coupled with multiple levies imposed by federal, state, and local governments, discourage investment in the Nigerian economy. Small and medium-sized enterprises (SMEs), which make up the backbone of Nigeria's economy, are particularly vulnerable to excessive

²² **Transparency International.** (2020). *Corruption and tax revenue management in Nigeria.*

²³ **FIRS.** (2021). *Tax compliance and public education in Nigeria.*

taxation. Many SMEs operate on thin profit margins, and overtaxation often forces them to shut down or relocate to countries with more favorable tax regimes.²⁴

➤ **Encouragement of Informal Economic Activities**

Excessive taxation pushes many businesses and individuals into the informal sector to evade tax burdens. The informal economy, estimated to contribute 57.7% of Nigeria's GDP, often escapes taxation, further narrowing the government's revenue base and perpetuating a vicious cycle of overtaxation for compliant taxpayers.²⁵

➤ **Capital Flight**

Overtaxation of businesses and high-net-worth individuals often results in capital flight, as investors seek more stable and less burdensome environments. This exacerbates Nigeria's foreign exchange challenges and limits the availability of funds for domestic investment.²⁶

5.2 Social Consequences

➤ **Increased Poverty Levels**

For ordinary citizens, overtaxation exacerbates financial hardship, particularly in a country where a significant portion of the population lives below the poverty line. Taxes on essential goods and services, such as VAT on food items and utilities, disproportionately impact low-income households, further widening income inequality.²⁷

➤ **Public Distrust in Government**

Citizens are less willing to comply with tax obligations when they perceive that tax revenues are mismanaged or that government officials are corrupt. The lack of visible benefits from tax payments—such as improved infrastructure, healthcare, and education—fuels public distrust and noncompliance, leading to a breakdown in the social contract between citizens and the government.²⁸

5.3 Impact on Taxpayer Behavior

➤ **Tax Evasion and Avoidance**

²⁴ **World Bank.** (2019). *Ease of Doing Business: Nigeria*

²⁵ **ILO.** (2020). *The Informal Economy in Nigeria*.

²⁶ **PricewaterhouseCoopers.** (2020). *The Nigerian Tax System: Implications for Economic Growth*

²⁷ **Oxfam International.** (2021). *Inequality in Nigeria: Exploring the Role of Taxes*

²⁸ **Transparency International.** (2020). *Public Trust and Governance in Nigeria*.

The heavy tax burden motivates individuals and corporations to find ways to evade or avoid taxes. This includes underreporting income, exploiting legal loopholes, or outrightly refusing to pay taxes. Such behavior reduces government revenue and undermines the effectiveness of the tax system.²⁹

➤ **Brain Drain**

Overtaxed professionals and entrepreneurs often seek opportunities abroad, leading to a brain drain that deprives Nigeria of its skilled workforce. This has long-term implications for the country's development and economic competitiveness.³⁰

5.4 Addressing the Impact

To mitigate the adverse effects of overtaxation, the government must adopt policies that promote economic growth and reduce the tax burden on businesses and citizens. Transparent management of tax revenue and improved service delivery will help rebuild public trust and foster compliance. Additionally, reforms to simplify the tax system and broaden the tax base can address inequities and promote fairness.

6.0 Conclusion: Rethinking Taxation for Sustainable Development

Taxation is undeniably a cornerstone of governance and nation-building, but in Nigeria, overtaxation has become a double-edged sword. While taxes are necessary for funding public services and infrastructure, the excessive and often poorly coordinated levies at different levels of government have stifled economic growth, burdened citizens, and eroded trust in the government.

The Nigerian government must rethink its approach to taxation by addressing the systemic issues driving overtaxation. This includes simplifying the tax system, ensuring fair and equitable tax policies, and promoting transparency and accountability in the use of tax revenues. By doing so, the government can rebuild public trust and encourage compliance, ultimately creating a more sustainable and inclusive economy.

As taxpayers, citizens also have a role to play in holding the government accountable. Advocacy for tax justice, civic engagement, and demand for better service delivery are essential to driving the reforms needed for a fairer tax system. Nigeria's future depends on a

²⁹ : Ogunleye, O., & Osundina, M. (2021). *Tax Evasion in Nigeria: Causes and Solutions*. *African Journal of Taxation*, 3(2), 45-61.

³⁰ *The Economist*. (2021). *Nigeria's Brain Drain Crisis*

balanced approach to taxation—one that promotes development without sacrificing the welfare of its people.