La-Net

TAX311

ENTREPRENEURSHIP IN TAXATION

TAX 311: Entrepreneurship in Taxation (2 Units C: LH 30)

Course Code: TAX 311

Course Title: Entrepreneurship in Taxation

Course Unit: 2 Units C

SERIES 1Foundations of Entrepreneurship in Taxation

SERIES 2Business Formation, Incorporation, and Consultancy Services

SERIES 3Entrepreneurial Idea Generation, Planning, and Feasibility Studies

SERIES 4Finance, Resources, and Marketing in Entrepreneurial Practice

SERIES 5Corporate Governance and the Nigerian Financial System

Series 1: Foundations of Entrepreneurship in Taxation

- **Part 1: Concept and Definition of Entrepreneurship**
    - **1.1.1 Meaning and scope of entrepreneurship**
    - **1.1.2 Importance of entrepreneurship in taxation**
- **Part 2: Classes and Phases of Entrepreneurship**
    - **1.2.1 Classes of entrepreneurship**
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- **Part 3: Youth Entrepreneurship and Entrepreneurial Agencies**

- **1.3.1 Role of youth in entrepreneurship**
- **1.3.2 Entrepreneurial agencies and their functions**
- **1.3.3 Challenges in entrepreneurship**

Introduction

Entrepreneurship is widely recognised as a cornerstone of economic progress and social transformation. Within the field of taxation, it opens doors to consultancy, advisory services, and innovative business opportunities that support both individuals and organisations. By exploring the foundations of entrepreneurship, learners will gain insight into how entrepreneurial activities intersect with taxation and contribute to sustainable development.

The aim of this Series is to equip you with a clear understanding of the meaning, scope, and importance of entrepreneurship, while also guiding you through its classes, phases, and the concept of the entrepreneurial window.

We shall commence this Series by examining the meaning and scope of entrepreneurship, followed by its importance in taxation. Next, we will explore the different classes and phases of entrepreneurship, including the entrepreneurial window. Afterwards, we will consider the role of youth in entrepreneurship, as well as the functions of entrepreneurial agencies. Finally, we will conclude by discussing the challenges that entrepreneurs often face in practice.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 1.1** define the concept and scope of entrepreneurship,
- **SLO 1.2** explain the importance of entrepreneurship in taxation,
- **SLO 1.3** classify the different types of entrepreneurship,
- **SLO 1.4** analyse the phases of entrepreneurship and the entrepreneurial window,
- **SLO 1.5** evaluate the role of youth in entrepreneurship,
- **SLO 1.6** describe the functions of entrepreneurial agencies, and
- **SLO 1.7** identify and discuss common challenges in entrepreneurship.

1.1 Concept And Definition Of Entrepreneurship

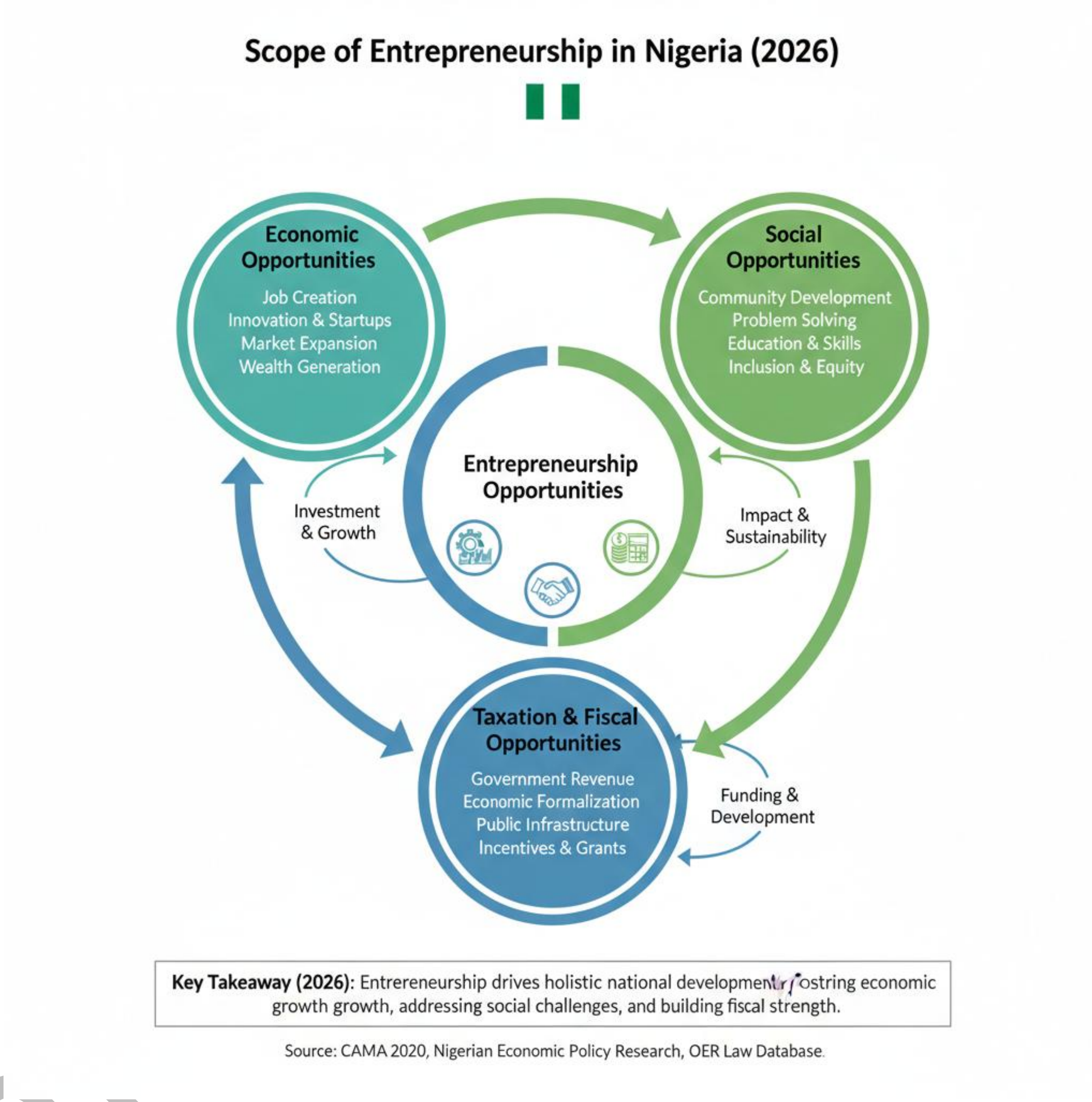
1.1.1 Meaning and scope of entrepreneurship

Entrepreneurship refers to the process of identifying, developing, and managing a business venture in order to make a profit while taking on financial risks. It involves creativity, innovation, and the ability to transform ideas into viable enterprises. The scope of entrepreneurship extends beyond profit-making to include social and economic contributions such as job creation, poverty reduction, and the promotion of innovation.

Entrepreneurship is not limited to starting new businesses. It also includes improving existing enterprises, offering consultancy services, and exploring opportunities in taxation-related activities. For instance, tax consultancy firms provide advisory services to individuals and organisations, thereby creating value and sustaining economic growth.

Fill in the blank: Entrepreneurship involves identifying, developing, and managing a ______ venture in order to make a profit.

Figure 1.1 Scope of entrepreneurship



1.1.2 Importance of entrepreneurship in taxation

Entrepreneurship in taxation is significant because it creates opportunities for consultancy, advisory services, and compliance support. Tax entrepreneurs help individuals and organisations navigate complex tax systems, ensuring proper filing, planning, and management of tax obligations. This reduces errors, prevents penalties, and enhances efficiency in financial management.

The importance of entrepreneurship in taxation also lies in its ability to generate employment, foster innovation in tax technology, and contribute to national revenue mobilisation. By offering services such as tax planning, auditing alternatives, and resource management, entrepreneurs in taxation strengthen both local and international business environments.

Fill in the blank: Entrepreneurship in taxation contributes to national ______ mobilisation.

Box 1.1: Selected examples of entrepreneurship in taxation

Old Mindset (Pre-2025)	Entrepreneurial Mindset (2026)
Hiding income to avoid high rates.	Using **Tax Credits** (e.g., 120% R&D deduction) to grow.
Keeping manual, paper-based receipts.	Adopting **Digital Invoicing** for instant VAT refunds.
Viewing tax as a "penalty."	Viewing tax as **Governance Data** to attract investors.

Pilot questions 1.1

1. Which term refers to the process of identifying, developing, and managing a business venture while taking risks?
2. List two ways entrepreneurship contributes to society beyond profit-making.
3. What is one example of entrepreneurship in taxation?
4. Fill in the blank: Entrepreneurship in taxation helps reduce ______ and prevent penalties.
5. Why is entrepreneurship important for national revenue mobilisation?

1.2 Classes And Phases Of Entrepreneurship

1.2.1 Classes of entrepreneurship

Classes of entrepreneurship are categories that group entrepreneurial activities based on their objectives, resources, and impact. The most common classes include **economic entrepreneurship**, which focuses on profit-making and wealth creation, **social entrepreneurship**, which addresses societal challenges such as poverty or education, and **socio-economic entrepreneurship**, which blends financial objectives with social impact.

In taxation, economic entrepreneurship may involve establishing consultancy firms, while social entrepreneurship could focus on providing tax education to underserved communities. Socio-economic entrepreneurship might combine both, offering affordable tax services while promoting compliance and financial literacy.

Fill in the blank: Social entrepreneurship primarily addresses _______ challenges such as poverty or education.

Table 1.1 Classes of entrepreneurship and their focus

Entrepreneurship Class	Strategic Focus	Taxation Example / Opportunity
Small Business (SME)	Providing a stable income, community service, and local employment.	**0% Corporate Income Tax (CIT)** for entities with turnover below **₦50 million**.
Scalable Startup	Rapid growth, technological disruption, and high-volume market capture.	**Pioneer Status Incentive (PSI)**: 3–5 year tax holidays for "eligible" sectors like Fintech and AgTech.
Social Entrepreneurship	Solving societal issues (health, education) with a self-sustaining business model.	**VAT Exemption** on essential goods/services and "Donation Deductibility" for corporate sponsors.
Intrapreneurship	Innovation and new venture creation *within* a large established corporation.	**R&D Tax Credits**: 120% deduction of expenses incurred on innovation within a large firm.
Innovative / Tech-Based	Developing new products or services that change consumer behavior.	**Intellectual Property (IP) Incentives**: Reduced withholding tax on royalties for locally developed patents.
International	Seeding opportunities across borders and global market expansion.	**Double Taxation Agreements (DTA)**: Leveraging treaties to avoid paying tax in both Nigeria and the target country.

1.2.2 Phases of entrepreneurship

Phases of entrepreneurship describe the stages through which an entrepreneurial venture progresses. These typically include the **idea generation phase**, where opportunities are identified, the **planning phase**, where feasibility studies and business plans are developed, and the **execution phase**, where the business is launched and managed.

In taxation, the idea generation phase might involve identifying gaps in tax compliance services. The planning phase could include designing a consultancy model, while the execution phase would involve offering services to clients and managing resources effectively.

Fill in the blank: The ______ phase of entrepreneurship involves identifying opportunities and generating ideas.

Figure 1.2 Phases of entrepreneurship

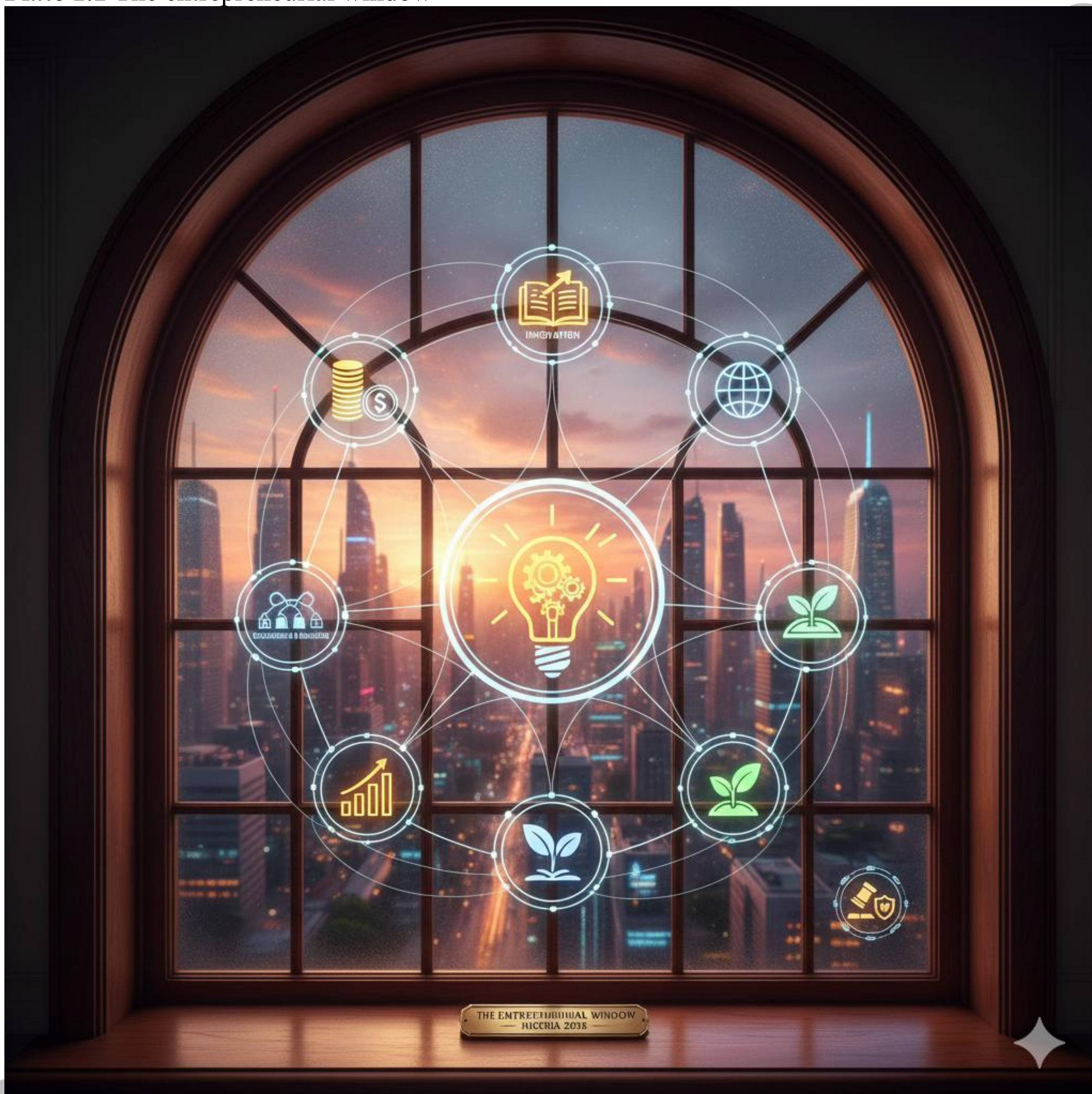
1.2.3 The entrepreneurial window

The **entrepreneurial window** refers to the period during which opportunities are most favourable for starting a business. It is influenced by factors such as market demand, availability of resources, and supportive government policies. Entrepreneurs must recognise and act within this window to maximise success.

In taxation, an entrepreneurial window may open when new tax laws are introduced, creating demand for advisory services. Similarly, technological advancements such as digital tax filing systems can create opportunities for entrepreneurs to develop supportive tools and services.

Fill in the blank: The entrepreneurial window is the period during which ______ are most favourable for starting a business.

Plate 1.1 The entrepreneurial window



Pilot questions 1.2

1. Which class of entrepreneurship focuses on profit-making and wealth creation?
2. What is the main objective of social entrepreneurship?
3. Name the three phases of entrepreneurship.
4. Fill in the blank: The entrepreneurial window is influenced by ______ demand, resources, and policies.
5. Give one example of an entrepreneurial window in taxation.

1.3 Youth Entrepreneurship And Entrepreneurial Agencies

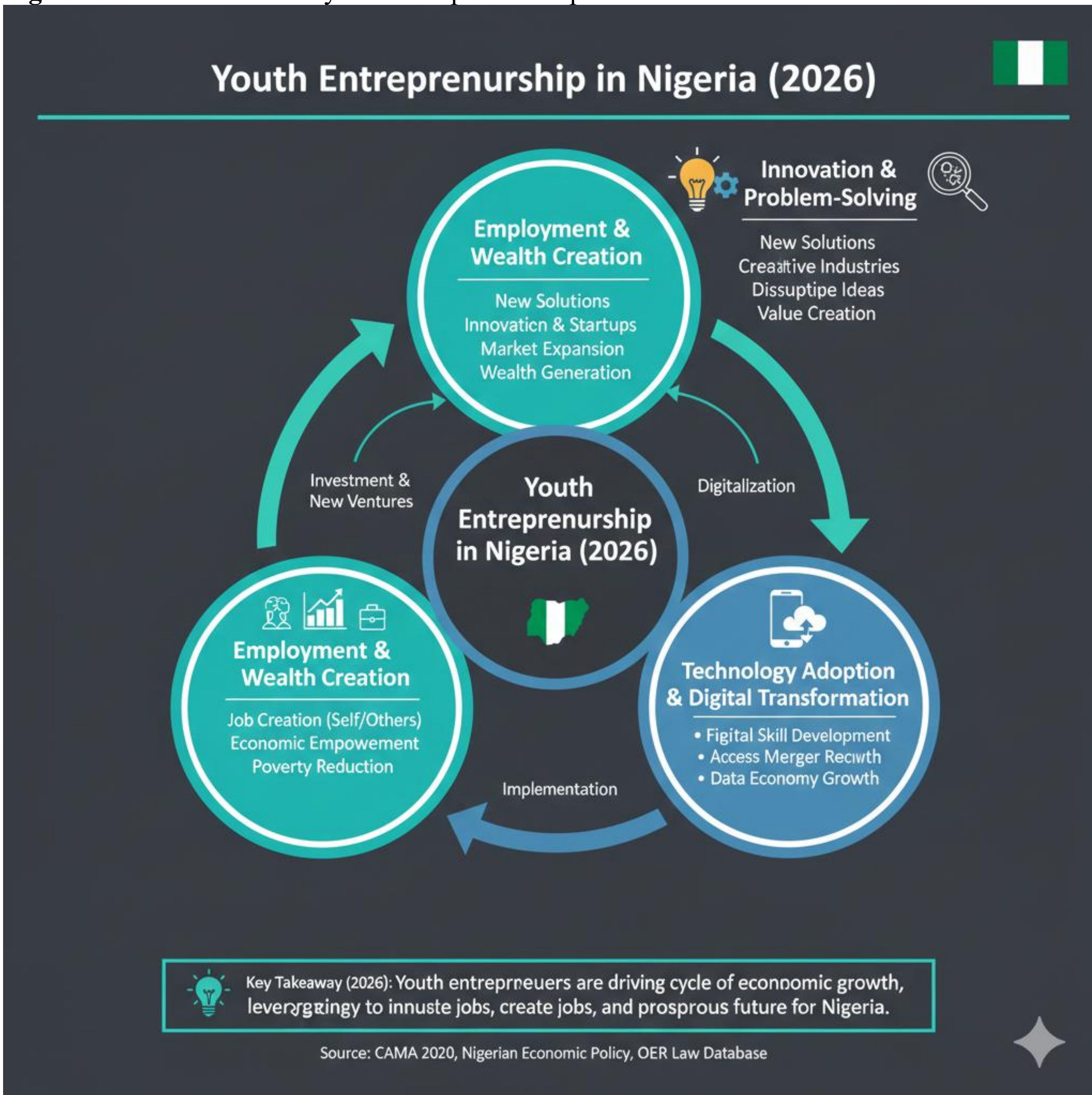
1.3.1 Role of youth in entrepreneurship

Youth entrepreneurship refers to the involvement of young people in creating and managing business ventures. It is important because young individuals often bring fresh ideas, creativity, and energy into the entrepreneurial space. They are more likely to adopt new technologies and explore innovative approaches to solving problems.

In taxation, youth entrepreneurship can manifest in the development of tax software, mobile applications for filing returns, or offering affordable consultancy services to small businesses. By engaging in entrepreneurship, young people not only create employment for themselves but also contribute to national development.

Fill in the blank: Youth entrepreneurship is important because young individuals often bring ______ ideas, creativity, and energy into business ventures.

Figure 1.3 Contributions of youth entrepreneurship



1.3.2 Entrepreneurial agencies and their functions

Entrepreneurial agencies are organisations established to support entrepreneurs through funding, training, mentorship, and policy advocacy. These agencies play a crucial role in providing resources and guidance that help entrepreneurs succeed.

In Nigeria, agencies such as the Bank of Industry (BOI), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and the Nigerian Investment Promotion Commission (NIPC) provide financial support, capacity building, and advisory services. Their functions include offering loans, organising training programmes, and creating enabling environments for entrepreneurship to thrive.

Fill in the blank: Entrepreneurial agencies provide support through funding, ______, mentorship, and policy advocacy.

Box 1.2: Selected entrepreneurial agencies in Nigeria

Agency	Primary Function & 2026 Focus	Key Support Programs
SMEDAN	**MSME Growth & Policy:** The "apex" agency for small businesses. It focuses on formalizing informal businesses and reviewing the National MSME Policy.	• **One Local Government, One Product (OLOP)** • Business Development Service Providers (BDSPs) • MSME Mass Registration Program.
Bank of Industry (BOI)	**Industrial Financing:** Provides long-term funding and recently launched a **Non-Interest Banking Window** for ethical financing.	• **iDICE Program** (Tech & Creative Funding) • RAPID (Rural Area Investment Development)

Agency	Primary Function & 2026 Focus	Key Support Programs
		• FGN ₦200bn Intervention Fund.
NITDA	**Digital Innovation:** Regulates IT and spearheads the **Startup Act** implementation. Focuses on "Made in Nigeria" tech and AI adoption.	• **3 Million Technical Talents (3MTT)** • Startup Labeling & Tax Incentives • Technology Incubation Hubs.
NEPC	**Export Promotion:** Helps entrepreneurs take Nigerian products to the global market, specifically targeting the **AfCFTA** trade area.	• **Export Expansion Grant (EEG)** • Go Global/Export Readiness Training • Women in Export initiatives.

Agency	Primary Function & 2026 Focus	Key Support Programs
NIPC	**Investment Promotion:** Acts as the bridge between foreign investors and local entrepreneurs; manages the **Pioneer Status Incentive**.	• **i-Guide Nigeria** (Investment Info Portal) • Strategic Investment Profiling • One-Stop Investment Centre (OSIC).
ITF	**Skills Development:** Focuses on human capital by providing technical and vocational training for employees and business owners.	• **National Industrial Skills Development Program** • Training Reimbursement Schemes for companies.

1.3.3 Challenges in entrepreneurship

Challenges in entrepreneurship are obstacles that hinder the growth and success of business ventures. These may include limited access to finance, inadequate infrastructure, lack of mentorship, and unfavourable government policies.

In taxation-related entrepreneurship, challenges may arise from frequent changes in tax laws, low awareness among taxpayers, and competition from established firms. Entrepreneurs must develop resilience, adaptability, and problem-solving skills to overcome these barriers.

Fill in the blank: One major challenge in entrepreneurship is limited access to ______.

Plate 1.2 Challenges in entrepreneurship

Pilot questions 1.3

1. What is youth entrepreneurship and why is it important?
2. Name two contributions of youth entrepreneurship in taxation.
3. List three entrepreneurial agencies in Nigeria.
4. Fill in the blank: Entrepreneurial agencies provide support through funding, training, mentorship, and ______ advocacy.
5. Identify one common challenge faced by entrepreneurs in taxation.

Series Summary

This Series has introduced you to the foundations of entrepreneurship in taxation, highlighting its purpose and relevance to both economic and social development. We began by exploring the meaning and scope of entrepreneurship, followed by its importance in taxation. Then, we examined the different classes of entrepreneurship, the phases through which ventures progress, and the concept of the entrepreneurial window. Finally, we considered the role of youth in entrepreneurship, the functions of entrepreneurial agencies, and the challenges that entrepreneurs often face.

By engaging with this Series, you should now be able to define the concept and scope of entrepreneurship, explain its importance in taxation, classify its different types, analyse its phases and windows of opportunity, evaluate the role of youth, describe the functions of entrepreneurial agencies, and identify common challenges. These outcomes directly align with the Series Learning Outcomes (SLOs) and provide you with a strong foundation for understanding entrepreneurship in taxation.

Glossary of Terms

- **Economic entrepreneurship**: Business activities focused on profit-making and wealth creation.
- **Entrepreneurial agencies**: Organisations that provide support to entrepreneurs through funding, training, mentorship, and policy advocacy.
- **Entrepreneurial window**: The period during which opportunities are most favourable for starting a business.
- **Entrepreneurship**: The process of identifying, developing, and managing a business venture while taking on financial risks.
- **Phases of entrepreneurship**: The stages of entrepreneurial activity, including idea generation, planning, and execution.
- **Social entrepreneurship**: Business activities aimed at addressing societal challenges such as poverty, education, or health.
- **Socio-economic entrepreneurship**: A blend of financial objectives with social impact, combining profit-making with social responsibility.
- **Youth entrepreneurship**: The involvement of young people in creating and managing business ventures, often characterised by innovation and creativity.

Concept Check Questions 1

Objective questions

1. Which class of entrepreneurship focuses on societal challenges? (Linked to SLO 1.3)
2. Fill in the blank: The ______ phase of entrepreneurship involves identifying opportunities and generating ideas. (Linked to SLO 1.4)

3. Which Nigerian agency supports entrepreneurs through loans and training programmes? (Linked to SLO 1.6)

Short-answer questions
4. Define entrepreneurship in your own words. (Linked to SLO 1.1)
5. Explain one way entrepreneurship in taxation contributes to national development. (Linked to SLO 1.2)

Long-answer questions
6. Analyse the phases of entrepreneurship and explain how they apply to taxation-related ventures. (Linked to SLO 1.4)
7. Evaluate the role of youth in entrepreneurship, giving examples of their contributions in taxation. (Linked to SLO 1.5)

Answers to Concept Check Questions 1

Objective questions

1. Social entrepreneurship.
2. Idea generation phase.
3. Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).

Short-answer questions
4. Entrepreneurship is the process of identifying, developing, and managing a business venture while taking on financial risks.
5. Entrepreneurship in taxation contributes to national revenue mobilisation by offering consultancy services that improve compliance.

Long-answer questions
6. **Basic response:** The phases of entrepreneurship include idea generation, planning, and execution. In taxation, these phases involve identifying gaps in compliance services, designing consultancy models, and delivering services to clients.
Value-added response: Beyond these phases, entrepreneurs must also adapt to changes in tax laws, integrate technology such as digital filing systems, and continuously innovate to remain competitive.

1. **Basic response:** Youth entrepreneurship brings innovation and creativity, such as developing tax software or offering affordable consultancy services.
   Value-added response: Outstanding contributions include leveraging digital platforms to expand access to tax education, creating mobile applications for filing returns, and promoting financial literacy among small businesses.

Answers to Pilot Questions 1

Part 1

1. Entrepreneurship.
2. Job creation and poverty reduction.
3. Tax consultancy firm.
4. Errors.
5. Revenue mobilisation.

Part 2

1. Economic entrepreneurship.
2. Addressing societal needs.
3. Idea generation, planning, execution.
4. Market demand.
5. Introduction of new tax laws.

Part 3

1. Youth entrepreneurship is the involvement of young people in creating and managing business ventures.
2. Developing tax software and offering affordable consultancy services.
3. BOI, SMEDAN, NIPC.
4. Policy advocacy.
5. Frequent changes in tax laws.

References and Attributions 1

- **Figure 1.1 Scope of entrepreneurship**: Suggested AI prompt "Create a simple diagram showing entrepreneurship scope: economic, social, taxation opportunities, with arrows linking them." Search string: "scope of entrepreneurship diagram OER".
- **Table 1.1 Classes of entrepreneurship and their focus**: Suggested AI prompt "Generate a table showing classes of entrepreneurship, their focus, and examples in taxation." Search string: "classes of entrepreneurship table OER".
- **Figure 1.2 Phases of entrepreneurship**: Suggested AI prompt "Create a flowchart showing phases of entrepreneurship: idea generation, planning, execution." Search string: "phases of entrepreneurship diagram OER".
- **Plate 1.1 The entrepreneurial window**: Suggested AI prompt "Generate an image of a window with icons representing business opportunities such as coins, books, and lightbulbs." Search string: "entrepreneurial window image OER".
- **Figure 1.3 Contributions of youth entrepreneurship**: Suggested AI prompt "Create a diagram showing youth entrepreneurship contributions: innovation, technology adoption, employment creation." Search string: "youth entrepreneurship diagram OER".
- **Box 1.2 Selected entrepreneurial agencies in Nigeria**: Suggested AI prompt "Generate a text box listing entrepreneurial agencies in Nigeria and their functions." Search string: "entrepreneurial agencies Nigeria OER".

- **Plate 1.2 Challenges in entrepreneurship**: Suggested AI prompt "Generate an image showing barriers to entrepreneurship such as roadblocks, financial constraints, and policy hurdles." Search string: "entrepreneurship challenges image OER".

TAX 311 Series 2 General Principles And Sources Of Tax Law In Nigeria

- **Part 2.1 General Principles Of Tax Law**
  - **2.1.1 Principle of legality**
  - **2.1.2 Principle of equality and fairness**
  - **2.1.3 Principle of certainty and convenience**
- **Part 2.2 Sources Of Tax Law In Nigeria**
  - **2.2.1 The Constitution of the Federal Republic of Nigeria**
  - **2.2.2 Acts of the National Assembly and subsidiary legislation**
  - **2.2.3 Case law and judicial precedents**
- **Part 2.3 Administrative Sources Of Tax Law**
  - **2.3.1 Tax authorities and regulatory agencies**
  - **2.3.2 Guidelines, circulars, and rulings**
  - **2.3.3 International treaties and agreements**
- **Part 2.4 Contemporary Issues In Nigerian Tax Law**

- **2.4.1 Challenges in enforcement and compliance**
- **2.4.2 Role of technology in tax administration**
- **2.4.3 Emerging trends and reforms**

Introduction

In the last Series, we explored the nature and purpose of taxation, focusing on its objectives, guiding principles, and role in Nigeria's development. Building on that foundation, this Series will introduce you to the general principles and sources of tax law in Nigeria, which form the legal backbone of the taxation system. Understanding these principles and sources is essential for interpreting tax obligations and appreciating how taxation is enforced in practice.

The aim of this Series is to equip you with knowledge of the fundamental principles that govern tax law and to familiarise you with the various sources from which Nigerian tax law is derived.

We shall commence this Series by examining the general principles of tax law, including legality, equality, certainty, and convenience. Next, we will explore the sources of tax law in Nigeria, such as the Constitution, legislation, and judicial precedents. Following that, we will consider administrative sources, including tax authorities, guidelines, and international agreements. Finally, we will wrap up by discussing contemporary issues in Nigerian tax law, focusing on enforcement challenges, the role of technology, and ongoing reforms.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 2.1** explain the general principles of tax law, including legality, equality, certainty, and convenience,
- **SLO 2.2** identify and describe the constitutional, legislative, and judicial sources of tax law in Nigeria,
- **SLO 2.3** analyse the role of administrative sources such as tax authorities, guidelines, and international agreements,
- **SLO 2.4** evaluate contemporary issues in Nigerian tax law, including enforcement challenges, technological innovations, and reforms.

Part 2.1 General Principles Of Tax Law

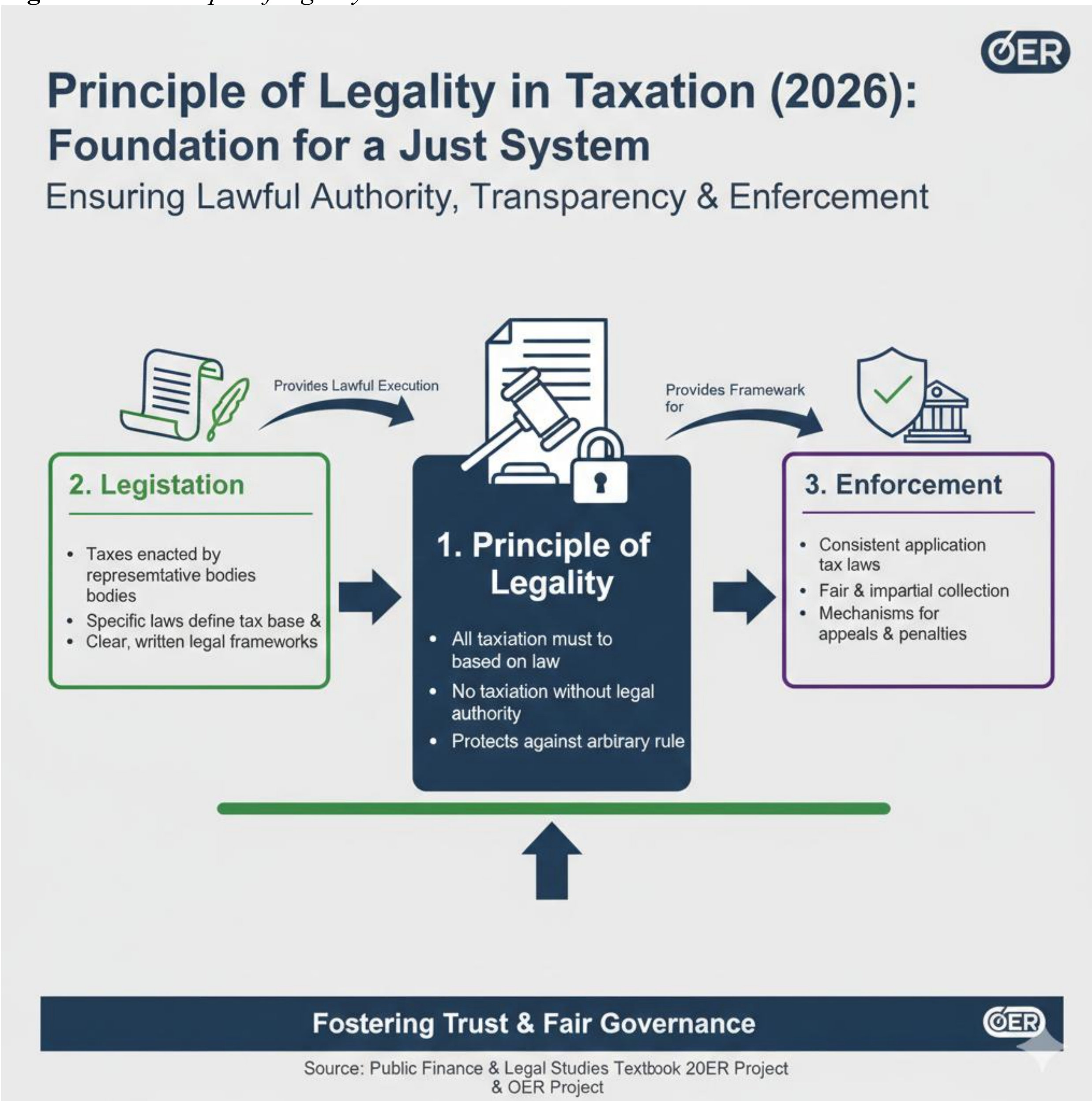
2.1.1 Principle of legality

The **principle of legality** means that taxes can only be imposed under the authority of law. In other words, no tax can be collected unless it has been clearly established by legislation. This principle protects citizens from arbitrary taxation and ensures that tax obligations are transparent and enforceable.

In Nigeria, the Constitution and Acts of the National Assembly provide the legal foundation for taxation. This principle guarantees that taxpayers are only bound by laws duly enacted by recognised authorities.

Fill in the blank: The principle of legality ensures that taxes can only be imposed under the authority of ______.

Figure 2.1: *Principle of legality in taxation*



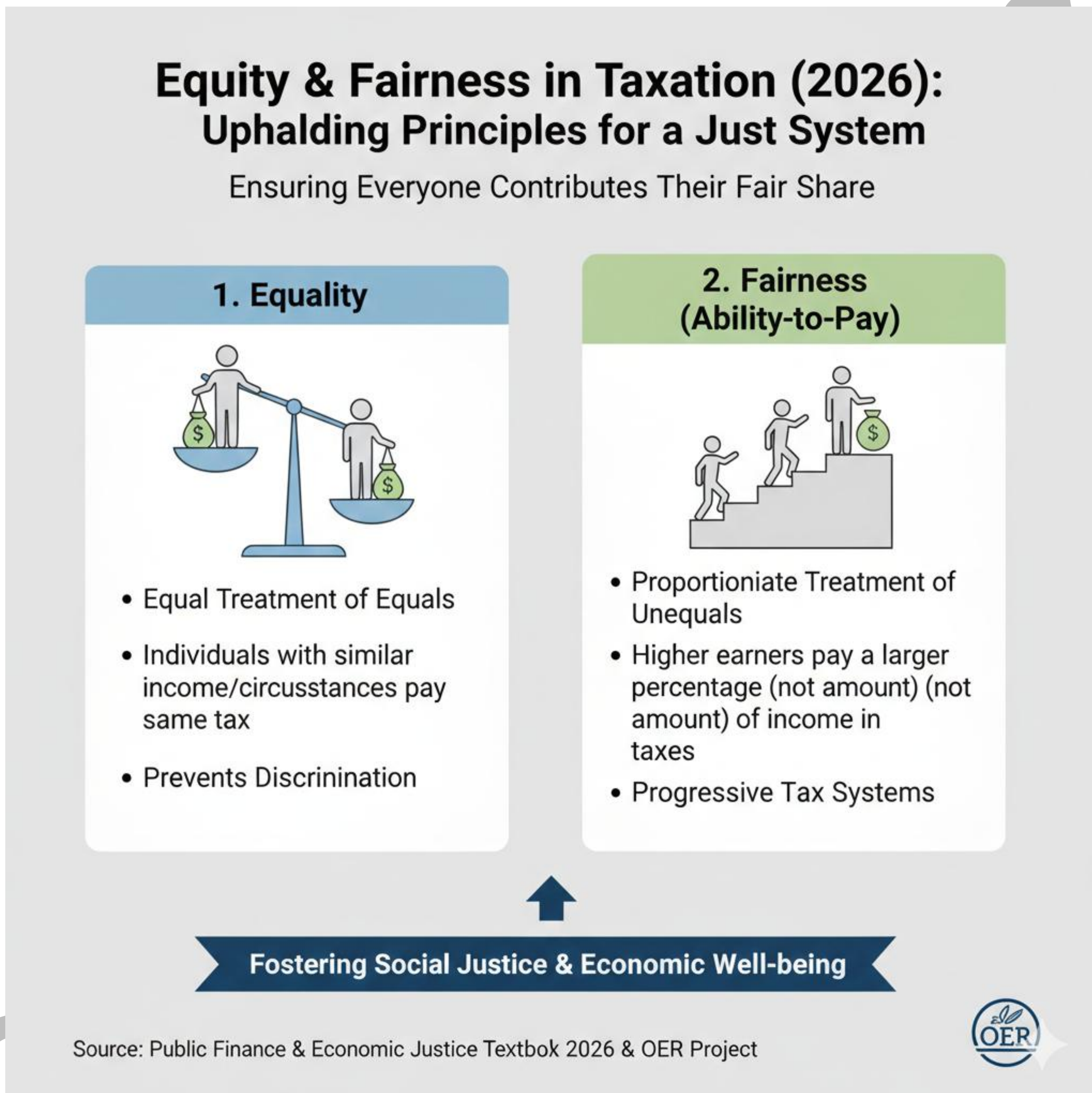
2.1.2 Principle of equality and fairness

The **principle of equality and fairness** requires that taxation should be applied in a just and equitable manner. This means that taxpayers in similar circumstances should be treated equally, while those with greater ability to pay should contribute more.

Equality ensures that no group is unfairly burdened, while fairness promotes trust in the tax system. In Nigeria, progressive taxation is often used to achieve fairness, where higher earners pay a larger proportion of their income.

Fill in the blank: The principle of equality requires that taxpayers in similar ______ should be treated equally.

Box 2.1: Dimensions of equality and fairness in taxation



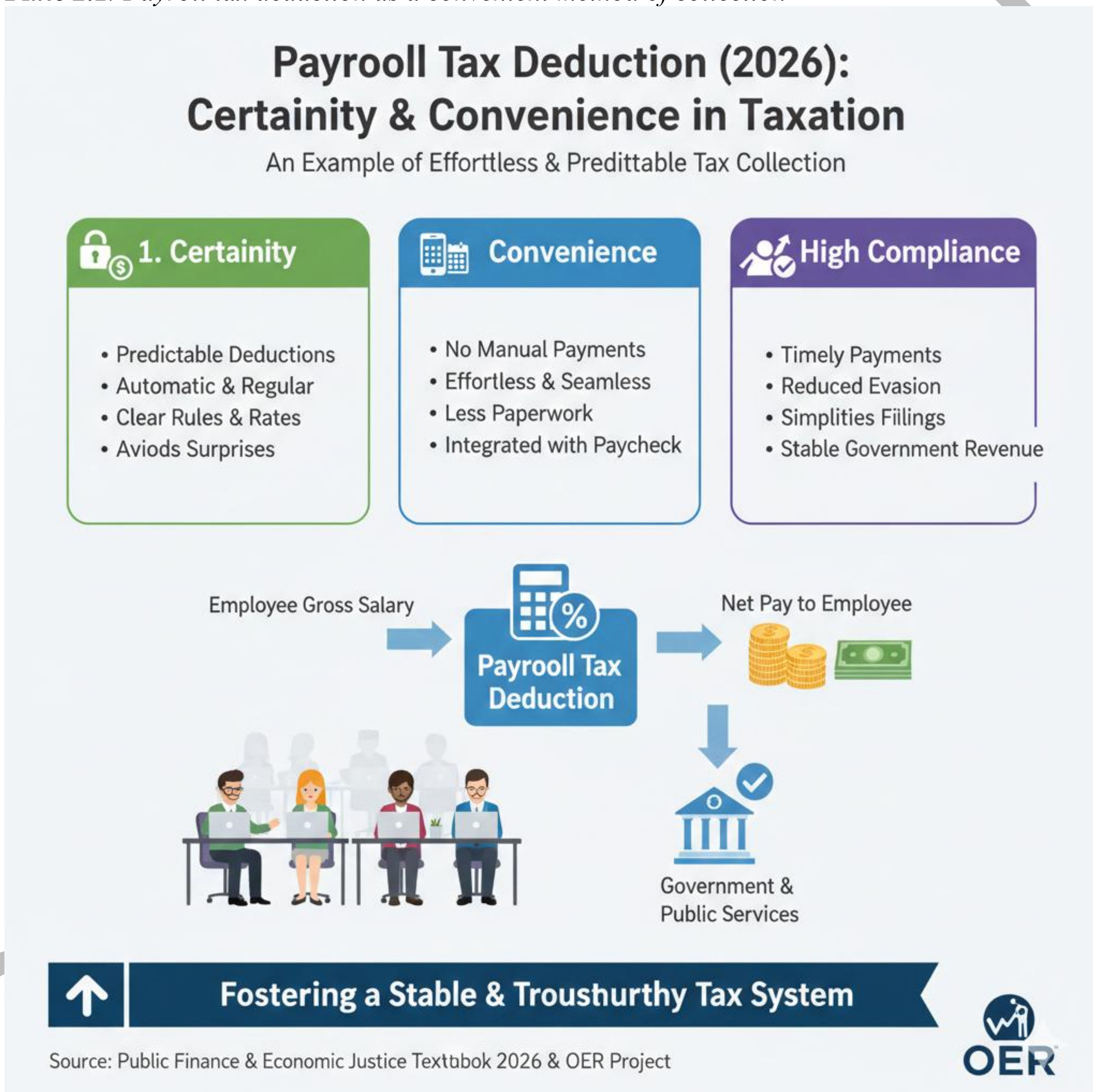
2.1.3 Principle of certainty and convenience

The **principle of certainty and convenience** ensures that taxpayers clearly know what they are required to pay, when to pay, and how to pay. Certainty reduces confusion and disputes, while convenience makes compliance easier.

For example, income tax is often deducted directly from salaries, which is both certain and convenient for employees. A tax system that is predictable and easy to comply with encourages voluntary payment and reduces evasion.

Fill in the blank: Certainty in taxation reduces ______ and disputes among taxpayers.

Plate 2.1: *Payroll tax deduction as a convenient method of collection*



Pilot questions 2.1

1. The principle of legality in taxation means:

a. Taxes can be imposed without legislation
b. Taxes must be established by law
c. Taxes are voluntary contributions
d. Taxes are optional for certain groups

2. Equality in taxation requires that:

a. All taxpayers pay the same amount
b. Taxpayers in similar circumstances are treated equally
c. Higher earners pay less tax
d. Taxpayers receive direct benefits

3. Fairness in taxation is achieved mainly through:

a. Regressive tax systems
b. Progressive tax systems
c. Voluntary donations
d. Arbitrary levies

4. Certainty in taxation ensures that taxpayers:

a. Clearly know their obligations
b. Can choose when to pay
c. Are exempt from compliance
d. Receive equal benefits

5. Convenience in taxation refers to:

a. Collecting taxes in a way that is easy for taxpayers
b. Allowing taxpayers to avoid payment
c. Increasing administrative burdens
d. Making taxes optional

Part 2.2 Sources Of Tax Law In Nigeria

2.2.1 The Constitution of the Federal Republic of Nigeria

The **Constitution of the Federal Republic of Nigeria** is the supreme law of the land, and it provides the fundamental framework for taxation. It clearly outlines the powers of the federal, state, and local governments to impose and collect taxes. This ensures that taxation is carried out within the boundaries of legality and authority.

The Constitution also establishes the principle of federalism in taxation, meaning that different levels of government have distinct responsibilities and powers. For example, the federal government may impose taxes on corporate income, while states may levy personal income taxes.

Fill in the blank: The Constitution of Nigeria provides the fundamental ______ for taxation and defines government powers.

Figure 2.2: *Constitutional framework for taxation in Nigeria*

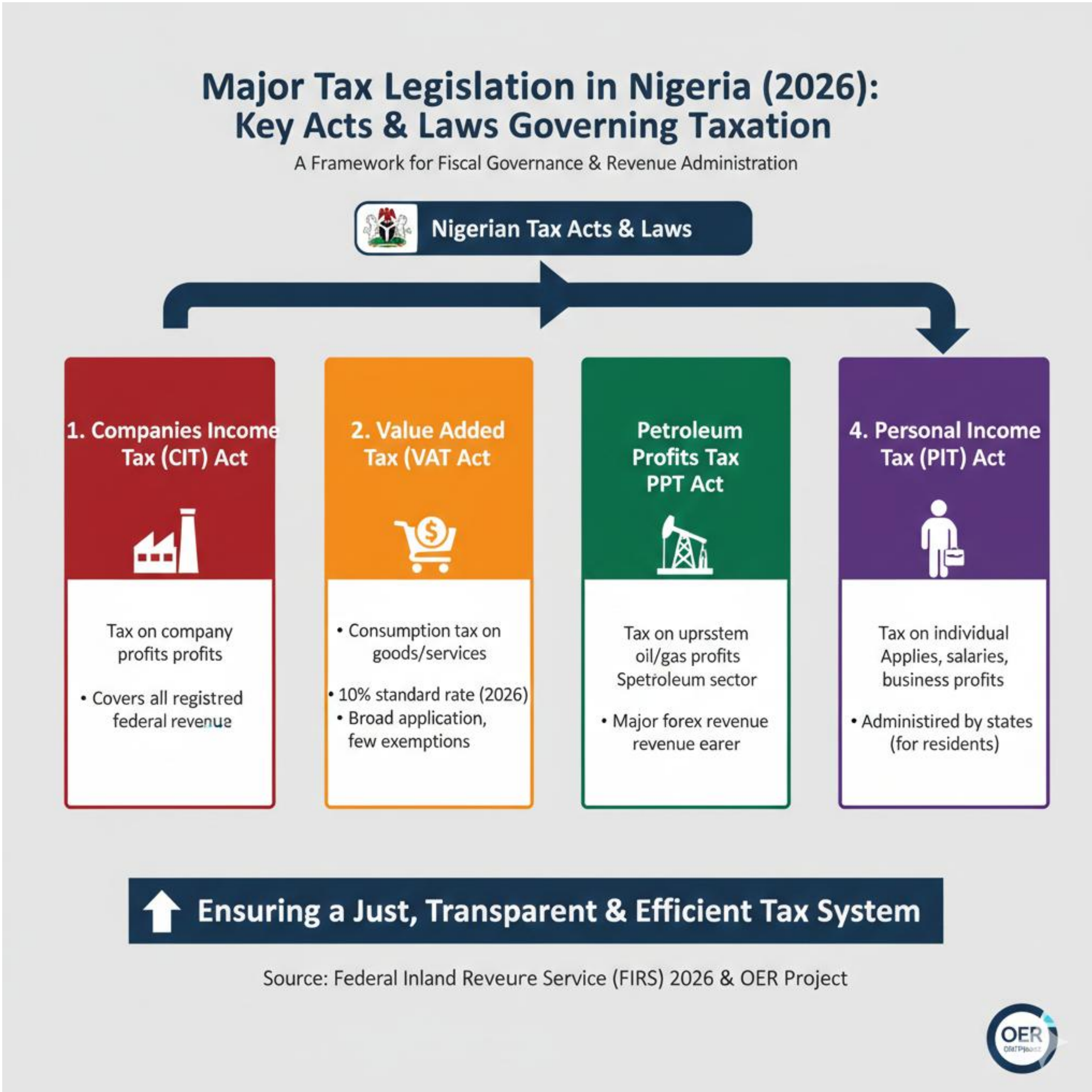
2.2.2 Acts of the National Assembly and subsidiary legislation

Acts of the National Assembly are another major source of tax law in Nigeria. These Acts establish specific taxes, such as the Companies Income Tax Act, the Value Added Tax Act, and the Petroleum Profits Tax Act. Subsidiary legislation, such as regulations and orders, further clarifies and guides the implementation of these Acts.

These laws provide detailed rules on how taxes are assessed, collected, and enforced. They also empower tax authorities to administer the system effectively.

Fill in the blank: The Companies Income Tax Act is an example of an Act passed by the ______ Assembly.

Box 2.2: Examples of tax legislation in Nigeria



2.2.3 Case law and judicial precedents

Case law refers to decisions made by courts in tax-related disputes. These judicial precedents serve as a source of tax law because they interpret and clarify existing legislation. Courts play a vital role in resolving ambiguities and ensuring fairness in the application of tax laws.

For example, when taxpayers challenge the interpretation of a tax provision, the court's ruling becomes a guiding precedent for future cases. This ensures consistency and predictability in the tax system.

Fill in the blank: Judicial precedents in taxation help to clarify and ______ existing legislation.

Plate 2.2: *Judicial role in interpreting tax law*

Pilot questions 2.2

1. The Constitution of Nigeria provides:

a. The fundamental framework for taxation
b. Voluntary guidelines for tax payment
c. No role in taxation
d. Direct benefits to taxpayers

2. Which of the following is an example of tax legislation in Nigeria?

a. Labour Act
b. Companies Income Tax Act
c. Criminal Code Act
d. Electoral Act

3. Subsidiary legislation in taxation refers to:

a. Judicial precedents
b. Regulations and orders clarifying Acts
c. Informal agreements
d. Voluntary contributions

4. Case law in taxation is important because:

a. It creates new taxes
b. It interprets and clarifies existing laws
c. It replaces Acts of the National Assembly
d. It eliminates the need for legislation

5. Judicial precedents in taxation ensure:

a. Consistency and predictability in the system
b. Arbitrary decisions by tax authorities
c. Voluntary compliance only
d. Elimination of tax laws

Part 2.3 Administrative Sources Of Tax Law

2.3.1 Tax authorities and regulatory agencies

Tax authorities are government bodies responsible for administering and enforcing tax laws. In Nigeria, the Federal Inland Revenue Service (FIRS) manages federal taxes, while State Boards of Internal Revenue handle state-level taxes. Local governments also have tax units that oversee levies within their jurisdictions.

These agencies ensure compliance, collect revenue, and provide guidance to taxpayers. They also play a role in interpreting tax laws and issuing directives to clarify obligations.

Fill in the blank: The Federal Inland Revenue Service (FIRS) is responsible for administering ______ taxes in Nigeria.

Figure 2.3: *Tax authorities in Nigeria*

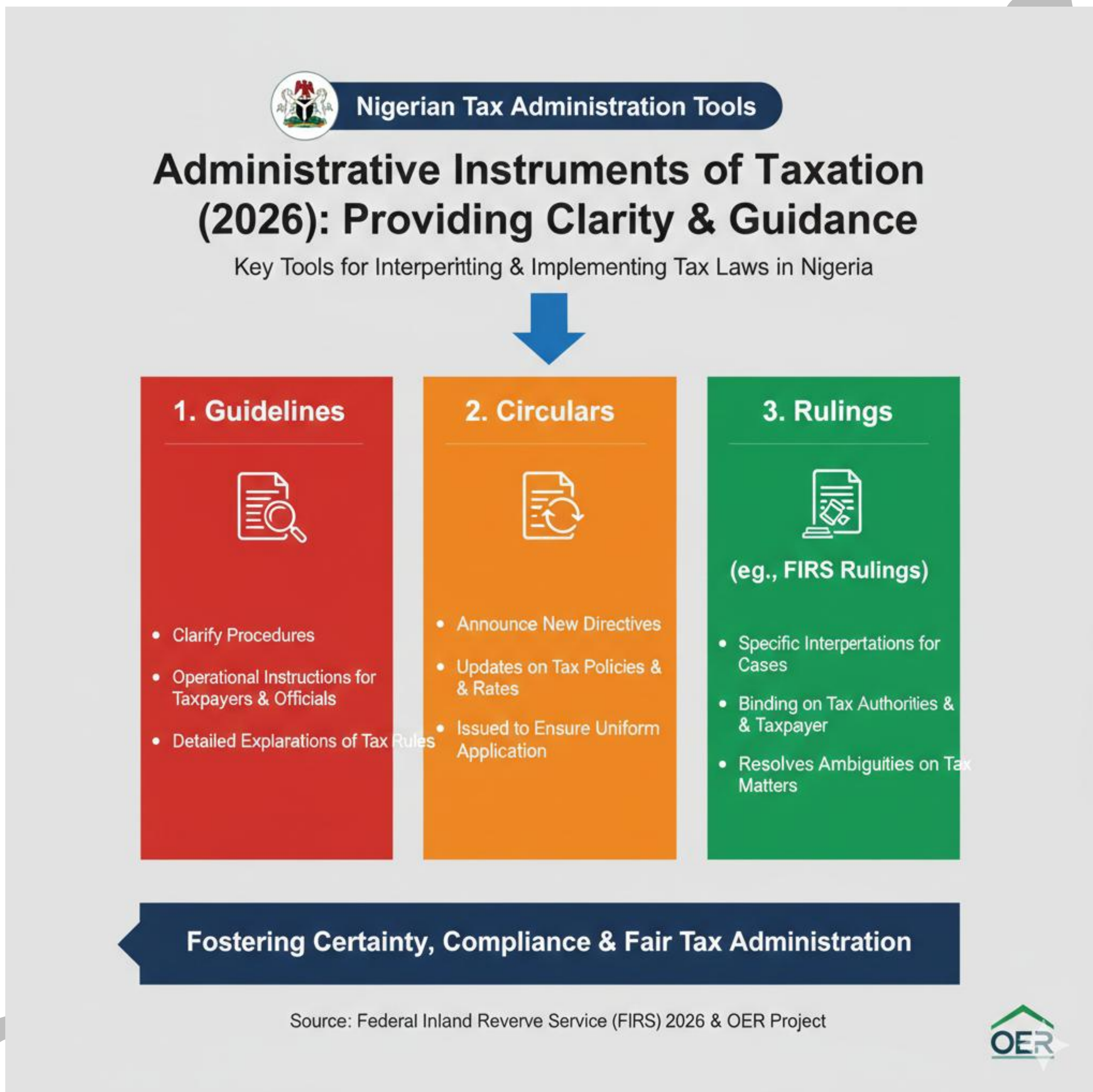
2.3.2 Guidelines, circulars, and rulings

Guidelines, circulars, and rulings are administrative instruments issued by tax authorities to provide clarity on how tax laws should be applied. They are not laws themselves, but they help taxpayers understand procedures and compliance requirements.

For example, FIRS may issue a circular explaining how Value Added Tax should be applied to digital services. These instruments reduce ambiguity and promote consistency in tax administration.

Fill in the blank: Circulars and rulings issued by tax authorities are designed to provide ______ on tax laws.

Box 2.3: Examples of administrative instruments in taxation



2.3.3 International treaties and agreements

International treaties and agreements also serve as sources of tax law in Nigeria. These include double taxation treaties, which prevent individuals and businesses from being taxed twice on the same income in different countries.

Nigeria has entered into several agreements with other nations to promote trade and investment. These treaties provide certainty for foreign investors and encourage cross-border economic activities.

Fill in the blank: Double taxation treaties are designed to prevent taxpayers from being taxed ______ on the same income.

Plate 2.3: *Signing of international tax agreements*

Pilot questions 2.3

1. The Federal Inland Revenue Service (FIRS) is responsible for:

a. Administering federal taxes
b. Collecting state taxes
c. Managing local levies
d. Issuing voluntary guidelines only

2. Guidelines and circulars issued by tax authorities:

a. Are laws passed by the National Assembly
b. Provide clarity on tax laws and procedures
c. Replace constitutional provisions
d. Eliminate the need for compliance

3. Which of the following is an example of an administrative instrument in taxation?

a. Value Added Tax Act
b. Circular clarifying VAT on digital services
c. Constitution of Nigeria
d. Judicial precedent

4. Double taxation treaties are designed to:

a. Increase tax burdens on foreign investors
b. Prevent taxpayers from being taxed twice on the same income
c. Replace domestic tax laws
d. Eliminate international trade

5. International tax agreements in Nigeria aim to:

a. Discourage cross-border investment
b. Promote trade and provide certainty for investors
c. Increase tax evasion
d. Reduce transparency in taxation

Part 2.4 Contemporary Issues In Nigerian Tax Law

2.4.1 Challenges in enforcement and compliance

Nigeria faces significant challenges in enforcing tax laws and ensuring compliance. **Tax evasion**, which is the deliberate avoidance of paying taxes, remains widespread. Many businesses operate in the **informal economy**, making it difficult for authorities to monitor and collect taxes. Weak enforcement mechanisms and limited capacity of tax agencies further compound the problem.

Public mistrust also plays a role, as many citizens doubt whether tax revenues are used effectively. This lack of confidence often leads to resistance and poor compliance.

Fill in the blank: One of the major challenges of taxation in Nigeria is widespread ______ by individuals and businesses.

Box 2.4: Key enforcement and compliance challenges in Nigeria

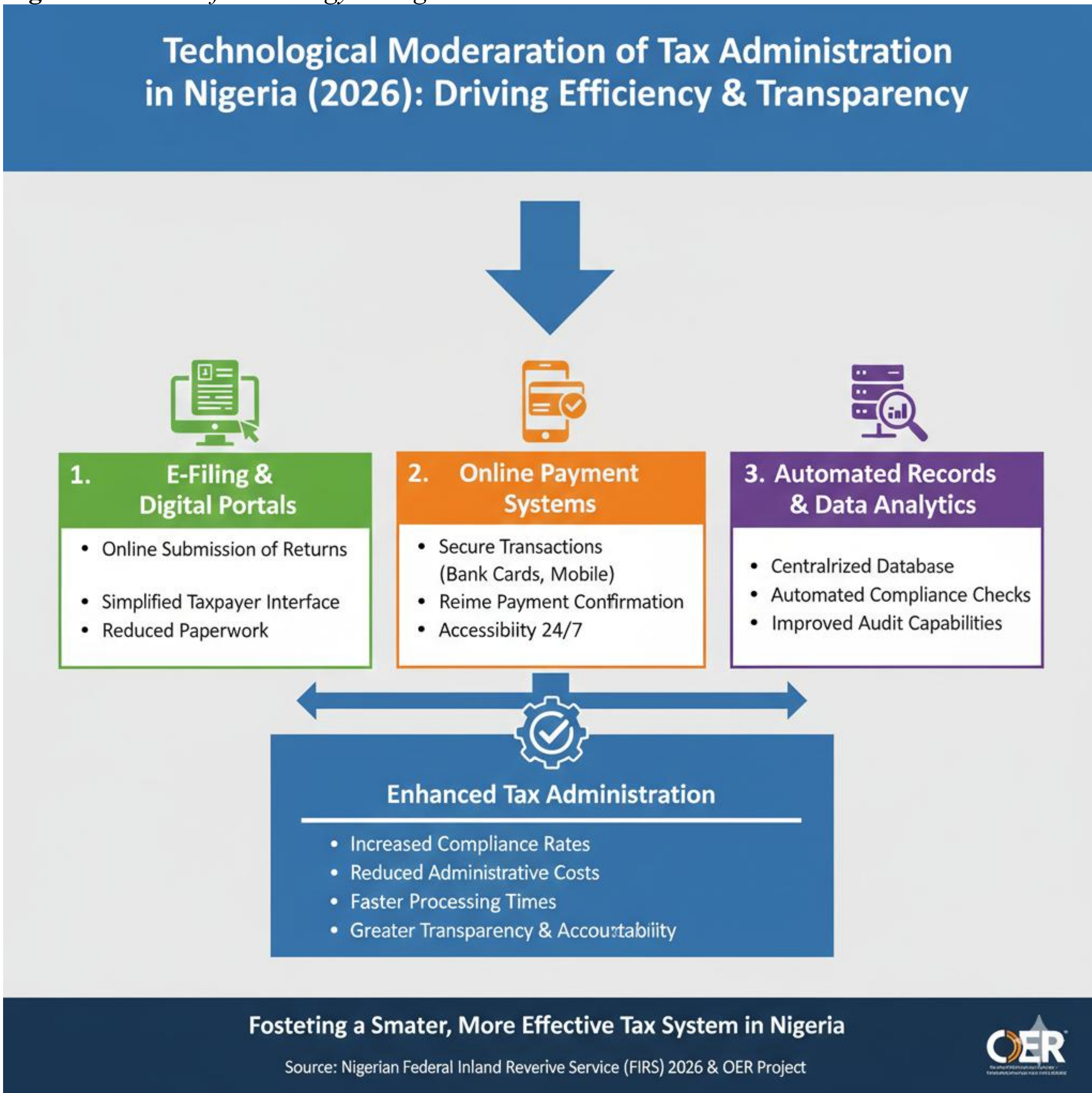
2.4.2 Role of technology in tax administration

Technology is increasingly being used to improve tax administration in Nigeria. **Digitalisation** has introduced electronic filing systems, online payment platforms, and automated record-keeping. These innovations make compliance easier for taxpayers and reduce opportunities for corruption.

For example, the Federal Inland Revenue Service (FIRS) has adopted electronic tax filing to streamline processes and enhance transparency. Technology also helps in tracking transactions, expanding the tax base, and reducing administrative costs.

Fill in the blank: Electronic filing systems introduced by FIRS are designed to improve ______ and transparency in tax administration.

Figure 2.4: *Role of technology in Nigerian tax administration*



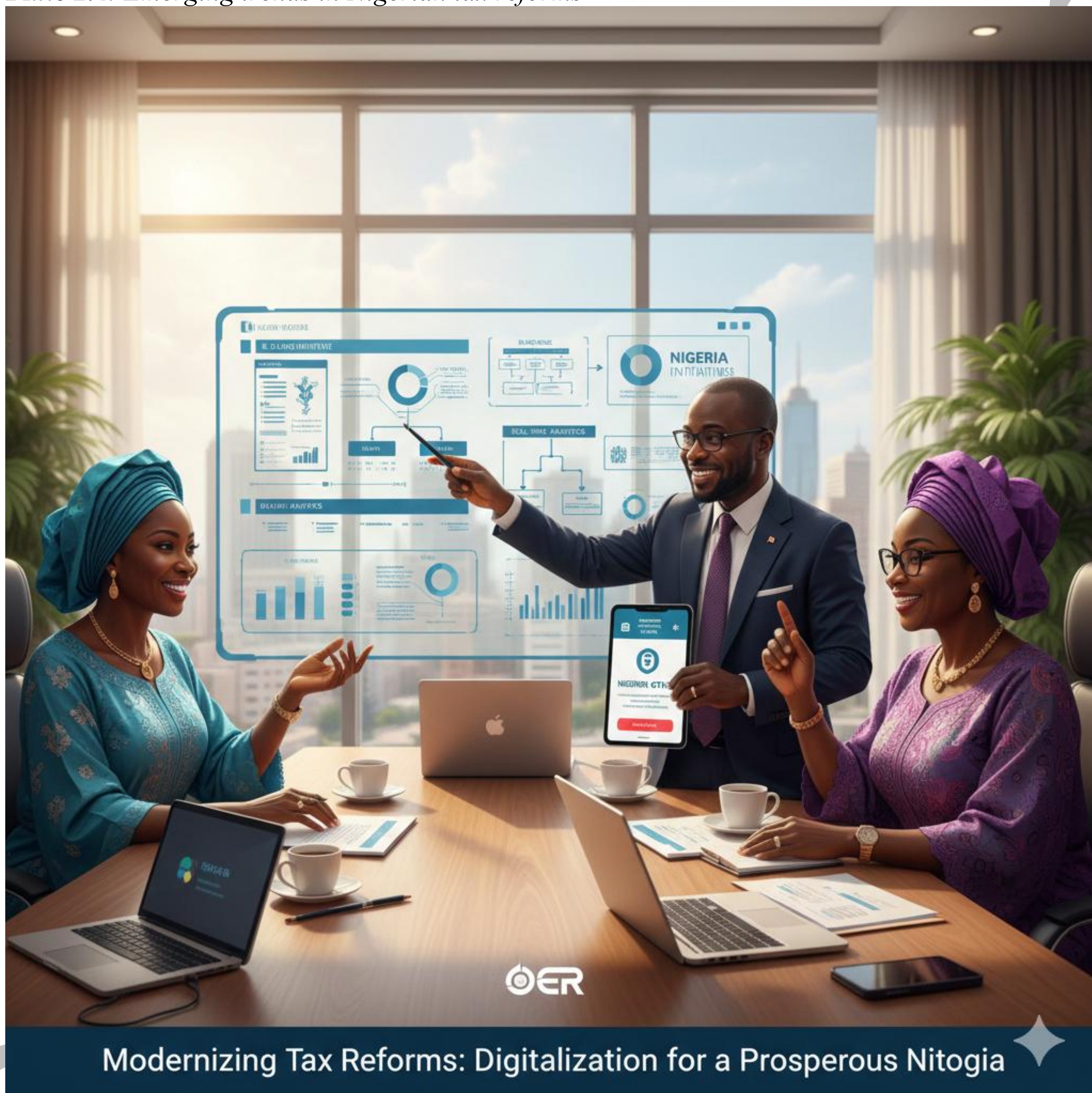
2.4.3 Emerging trends and reforms

Nigeria is currently pursuing reforms to strengthen its tax system. These include expanding the tax base to include digital services, improving enforcement mechanisms, and enhancing transparency in revenue use. International cooperation, such as double taxation treaties, is also helping Nigeria align with global standards.

Emerging trends show a shift towards modernisation, with emphasis on digitalisation, accountability, and diversification of revenue sources beyond oil. These reforms aim to make taxation more effective and sustainable in the long term.

Fill in the blank: Nigeria's tax reforms aim to expand the tax base to include ______ services and improve enforcement.

Plate 2.4: *Emerging trends in Nigerian tax reforms*



Pilot questions 2.4

1. Which of the following is a major challenge in Nigerian tax enforcement?

a. Strong enforcement mechanisms
b. Tax evasion

c. High transparency
d. Effective compliance

2. The informal economy in Nigeria makes taxation difficult because:

a. It is fully regulated
b. It operates outside formal monitoring systems
c. It generates high compliance
d. It reduces tax evasion

3. Electronic filing systems introduced by FIRS aim to:

a. Increase corruption
b. Improve efficiency and transparency
c. Reduce compliance
d. Eliminate tax laws

4. Expanding the tax base to include digital services is an example of:

a. Emerging trends and reforms
b. Weak enforcement
c. Tax evasion
d. Informal economy

5. Nigeria's tax reforms aim to:

a. Reduce transparency and accountability
b. Diversify revenue sources beyond oil
c. Limit digitalisation
d. Eliminate international cooperation

Series Summary

This Series has examined the general principles and sources of tax law in Nigeria, which form the legal and administrative foundation of the country's taxation system. We began by exploring the principles of legality, equality, fairness, certainty, and convenience, which ensure that taxation is just, predictable, and enforceable. Then we considered the sources of tax law, including the Constitution, Acts of the National Assembly, and judicial precedents. Following that, we analysed administrative sources such as tax authorities, guidelines, and international treaties. Finally, we discussed contemporary issues, focusing on enforcement challenges, the role of technology, and ongoing reforms.

By completing this Series, you should now be able to explain the general principles of tax law (SLO 2.1), identify and describe the constitutional, legislative, and judicial sources of tax law in

Nigeria (SLO 2.2), analyse the role of administrative sources such as tax authorities and international agreements (SLO 2.3), and evaluate contemporary issues in Nigerian tax law, including enforcement challenges, technological innovations, and reforms (SLO 2.4).

Series Glossary

- **Administrative instruments**: Guidelines, circulars, and rulings issued by tax authorities to clarify tax laws.
- **Case law**: Judicial decisions that interpret and clarify tax legislation, serving as precedents.
- **Certainty**: A principle of taxation ensuring taxpayers clearly know their obligations.
- **Circulars**: Official communications from tax authorities explaining how laws should be applied.
- **Constitution**: The supreme law of Nigeria, which provides the fundamental framework for taxation.
- **Convenience**: A principle of taxation emphasising ease of payment and efficiency in collection.
- **Double taxation treaty**: An international agreement preventing taxpayers from being taxed twice on the same income.
- **Equality**: A principle of taxation requiring equal treatment of taxpayers in similar circumstances.
- **Fairness**: A principle of taxation ensuring contributions are based on ability to pay.
- **Federal Inland Revenue Service (FIRS)**: The Nigerian agency responsible for administering federal taxes.
- **Legality**: A principle of taxation stating that taxes must be imposed under the authority of law.
- **Subsidiary legislation**: Regulations and orders that clarify and guide the implementation of Acts of the National Assembly.

Concept Check Questions 2

Objective questions

1. Which principle of taxation ensures that taxes can only be imposed under the authority of law?
    1. Equality
    2. Legality
    3. Convenience
    4. Fairness
    (Linked to SLO 2.1)
2. Which of the following is an example of Nigerian tax legislation?

1. Labour Act
2. Companies Income Tax Act
3. Electoral Act

4. Criminal Code Act
   (Linked to SLO 2.2)

Short-answer questions
3. Define case law and explain its role in Nigerian taxation. (Linked to SLO 2.2)
4. State two administrative instruments used by tax authorities in Nigeria. (Linked to SLO 2.3)

Long-answer questions
5. Analyse the principle of equality and fairness in taxation, explaining how it is applied in Nigeria. (Linked to SLO 2.1)

- **Basic response**: Learners should explain that equality requires equal treatment of taxpayers in similar circumstances, while fairness ensures higher contributions from those with greater ability to pay.
- **Value-added response**: Outstanding learners may evaluate how progressive taxation in Nigeria attempts to achieve fairness, while discussing challenges such as enforcement and compliance.

1. Evaluate contemporary issues in Nigerian tax law, focusing on enforcement challenges and the role of technology. (Linked to SLO 2.4)

- **Basic response**: Learners should describe challenges such as tax evasion and weak enforcement, and explain how technology like electronic filing improves compliance.
- **Value-added response**: Outstanding learners may propose reforms such as expanding the tax base, strengthening transparency, and adopting international best practices.

Answers to Concept Check Questions 2

1. b
2. b
3. Case law refers to judicial decisions that interpret tax legislation. It ensures clarity and consistency in applying tax laws.
4. Guidelines and circulars.
   - **Basic response**: Equality requires equal treatment of taxpayers in similar circumstances, while fairness ensures higher contributions from those with greater ability to pay.
   - **Value-added response**: Progressive taxation in Nigeria attempts to achieve fairness, but enforcement challenges limit its effectiveness.
   - **Basic response**: Enforcement challenges include tax evasion and weak monitoring. Technology such as electronic filing improves compliance.
   - **Value-added response**: Reforms such as expanding the tax base, strengthening transparency, and adopting international best practices can further enhance Nigeria's tax system.

Answers to Pilot Questions 2

Part 2.1

1. b
2. b
3. b
4. a
5. a

Part 2.2

1. a
2. b
3. b
4. b
5. a

Part 2.3

1. a
2. b
3. b
4. b
5. b

Part 2.4

1. b
2. b
3. b
4. a
5. b

References and Attributions 2

- *Figure 2.1*: Principle of legality in taxation. Suggested AI prompt: "Create a diagram showing legality as the foundation of taxation, connected to legislation and enforcement."
- *Box 2.1*: Dimensions of equality and fairness in taxation. Suggested AI prompt: "Generate an infographic showing equality and fairness in taxation with examples of progressive tax."
- *Plate 2.1*: Payroll tax deduction as a convenient method of collection. Suggested AI prompt: "Create an illustration showing payroll tax deduction from employee salaries as an example of certainty and convenience."
- *Figure 2.2*: Constitutional framework for taxation in Nigeria. Suggested AI prompt: "Create a diagram showing Nigeria's federal, state, and local governments with their respective tax powers."

- *Box 2.2*: Examples of tax legislation in Nigeria. Suggested AI prompt: "Generate an infographic listing examples of Nigerian tax legislation such as CIT, VAT, and PPT Acts."
- *Plate 2.2*: Judicial role in interpreting tax law. Suggested AI prompt: "Create an illustration showing a Nigerian courtroom with judges interpreting tax law."
- *Figure 2.3*: Tax authorities in Nigeria. Suggested AI prompt: "Create a diagram showing Nigeria's tax authorities: FIRS at federal level, state boards, and local councils."
- *Box 2.3*: Examples of administrative instruments in taxation. Suggested AI prompt: "Generate an infographic showing examples of administrative instruments like guidelines, circulars, and rulings."
- *Plate 2.3*: Signing of international tax agreements. Suggested AI prompt: "Create an illustration showing officials from two countries signing a double taxation treaty."
- *Box 2.4*: Key enforcement and compliance challenges in Nigeria. Suggested AI prompt: "Generate an infographic showing enforcement and compliance challenges in Nigerian taxation."
- *Figure 2.4*: Role of technology in Nigerian tax administration. Suggested AI prompt: "Create a diagram showing e-filing, online payments, and automated records improving Nigerian tax administration."
- *Plate 2.4*: Emerging trends in Nigerian tax reforms. Suggested AI prompt: "Create an illustration showing Nigerian officials discussing tax reforms with digitalisation tools."

TAX311 Series 3 Forms And Legal Framework Of Taxation In Nigeria

- **Part 3.1 Forms Of Taxation In Nigeria**
  - **3.1.1 Direct taxation**
  - **3.1.2 Indirect taxation**
  - **3.1.3 Other specialised forms of taxation**
- **Part 3.2 Legal Framework For Taxation**
  - **3.2.1 Constitutional provisions**
  - **3.2.2 Statutory laws and Acts of the National Assembly**
  - **3.2.3 Subsidiary legislation and regulations**
- **Part 3.3 Institutional Framework For Taxation**
  - **3.3.1 Federal Inland Revenue Service (FIRS)**
  - **3.3.2 State Boards of Internal Revenue**
  - **3.3.3 Local government tax authorities**
- **Part 3.4 Contemporary Developments In The Legal Framework**

- **3.4.1 Judicial interpretations and precedents**

- **3.4.2 International influences and treaties**
- **3.4.3 Ongoing reforms and modernisation**

Introduction

Taxation in Nigeria is not only about collecting revenue, but also about the legal and institutional structures that make the system effective. Every tax imposed must be backed by law, and the framework that governs taxation ensures fairness, accountability, and compliance. Without a clear legal foundation, taxation would lack legitimacy and could not be enforced.

The aim of this Series is to introduce you to the different forms of taxation in Nigeria and to explain the legal and institutional frameworks that support them.

We shall commence this Series by examining the forms of taxation in Nigeria, distinguishing between direct, indirect, and specialised taxes. Next, we will explore the legal framework, focusing on constitutional provisions, statutory laws, and subsidiary legislation. Following that, we will analyse the institutional framework, highlighting the roles of the FIRS, state boards, and local government authorities. Finally, we will wrap up by considering contemporary developments, including judicial interpretations, international influences, and ongoing reforms.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 3.1** define and distinguish between direct, indirect, and specialised forms of taxation in Nigeria,
- **SLO 3.2** explain the constitutional, statutory, and regulatory framework that governs taxation in Nigeria,
- **SLO 3.3** analyse the roles of federal, state, and local tax authorities in administering taxation,
- **SLO 3.4** evaluate contemporary developments in Nigerian tax law, including judicial precedents, international treaties, and reforms.

Part 3.1 Forms Of Taxation In Nigeria

3.1.1 Direct taxation

Direct taxation refers to taxes that are levied directly on individuals or organisations, based on their income, profits, or property. Examples include personal income tax, companies income tax, and property tax. The burden of direct taxation cannot be shifted to another person, since it is paid directly by the taxpayer to the government.

Direct taxes are considered equitable because they are often progressive, meaning that those with higher incomes pay a larger proportion of their earnings. This helps to achieve fairness in the tax system.

Fill in the blank: Direct taxation is levied directly on individuals or organisations based on their ______ or property.

Figure 3.1: *Examples of direct taxation in Nigeria*

3.1.2 Indirect taxation

Indirect taxation refers to taxes that are levied on goods and services, rather than directly on income or property. Examples include value added tax (VAT), excise duties, and customs duties. The burden of indirect taxation can be shifted, since businesses often pass the cost on to consumers in the form of higher prices.

Indirect taxes are easier to collect because they are embedded in transactions, but they are often regressive, meaning they affect lower-income earners more heavily. Governments use indirect taxes to generate revenue and regulate consumption.

Fill in the blank: Indirect taxation is levied on ______ and services, and its burden can be shifted to consumers.

Plate 3.1: *Indirect taxation through value added tax on goods*

3.1.3 Other specialised forms of taxation

Nigeria also imposes **specialised forms of taxation** to address specific sectors or activities. These include petroleum profits tax, education tax, and capital gains tax. Such taxes are designed to target industries or transactions that generate significant revenue or require regulation.

For example, petroleum profits tax applies to companies engaged in oil exploration and production, while education tax is levied on corporate profits to fund educational development. Capital gains tax applies to profits made from the sale of assets such as land or shares.

Fill in the blank: Petroleum profits tax is levied on companies engaged in ______ exploration and production.

Box 3.1: Examples of specialised forms of taxation in Nigeria

Pilot questions 3.1

1. Direct taxation refers to taxes levied on:

a. Goods and services
b. Income, profits, or property
c. Imports only
d. Voluntary contributions

2. Which of the following is an example of indirect taxation?

a. Companies income tax
b. Property tax
c. Value added tax
d. Capital gains tax

3. The burden of indirect taxation is usually:

a. Borne directly by the taxpayer
b. Shifted to consumers through higher prices
c. Paid voluntarily by citizens
d. Exempted for businesses

4. Petroleum profits tax is an example of:

a. Direct taxation
b. Indirect taxation
c. Specialised taxation
d. Voluntary contribution

5. Education tax in Nigeria is levied on:

a. Personal income
b. Corporate profits
c. Property ownership
d. Imports and exports

Part 3.2 Legal Framework For Taxation

3.2.1 Constitutional provisions

The **Constitution of the Federal Republic of Nigeria** provides the supreme legal foundation for taxation. It defines the powers of the federal, state, and local governments to impose and collect taxes. This ensures that taxation is carried out within the boundaries of legality and authority.

The Constitution also establishes the principle of federalism in taxation, meaning that different levels of government have distinct responsibilities. For example, the federal government may impose corporate income tax, while states levy personal income tax.

Fill in the blank: The Constitution of Nigeria provides the supreme ______ foundation for taxation.

Figure 3.2: *Constitutional provisions for taxation in Nigeria*

3.2.2 Statutory laws and Acts of the National Assembly

Statutory laws are Acts passed by the National Assembly that establish specific taxes. Examples include the Companies Income Tax Act, the Value Added Tax Act, and the Petroleum Profits Tax Act. These laws provide detailed rules on how taxes are assessed, collected, and enforced.

They also empower tax authorities to administer the system effectively. Without statutory laws, taxation would lack clarity and enforceability.

Fill in the blank: The Value Added Tax Act is an example of a ______ law passed by the National Assembly.

Box 3.2: Examples of statutory tax laws in Nigeria

3.2.3 Subsidiary legislation and regulations

Subsidiary legislation refers to regulations, orders, and rules made under the authority of statutory laws. These instruments provide practical guidance on how tax laws should be applied. For example, regulations may specify procedures for filing returns or clarify exemptions.

Subsidiary legislation ensures flexibility in tax administration, allowing authorities to adapt to changing circumstances without passing new Acts.

Fill in the blank: Subsidiary legislation provides practical ______ on how tax laws should be applied.

Plate 3.2: *Subsidiary legislation in Nigerian taxation*

Pilot questions 3.2

1. The Constitution of Nigeria provides:

a. The supreme legal foundation for taxation
b. Voluntary guidelines for tax payment
c. No role in taxation
d. Direct benefits to taxpayers

2. Which of the following is an example of statutory tax law in Nigeria?

a. Labour Act
b. Companies Income Tax Act
c. Electoral Act
d. Criminal Code Act

3. Subsidiary legislation in taxation refers to:

a. Judicial precedents
b. Regulations and orders clarifying Acts
c. Informal agreements
d. Voluntary contributions

4. Statutory laws in taxation are important because they:

a. Provide detailed rules for assessment and collection
b. Replace constitutional provisions
c. Eliminate the need for compliance
d. Create voluntary contributions

5. Subsidiary legislation ensures:

a. Flexibility in tax administration
b. Arbitrary decisions by tax authorities
c. Elimination of statutory laws
d. Voluntary compliance only

Part 3.3 Institutional Framework For Taxation

3.3.1 Federal Inland Revenue Service (FIRS)

The **Federal Inland Revenue Service (FIRS)** is Nigeria's primary federal tax authority. It is responsible for assessing, collecting, and accounting for taxes such as companies income tax, petroleum profits tax, and value added tax. FIRS also issues guidelines and circulars to clarify tax laws and ensure compliance.

The agency plays a crucial role in modernising tax administration, introducing electronic filing systems and online payment platforms to improve efficiency and transparency.

Fill in the blank: The Federal Inland Revenue Service (FIRS) is responsible for administering ______ taxes in Nigeria.

Figure 3.3: *Functions of the Federal Inland Revenue Service*

3.3.2 State Boards of Internal Revenue

State Boards of Internal Revenue (SBIRs) administer taxes at the state level. They are responsible for personal income tax, capital gains tax, and other levies within their jurisdictions. SBIRs ensure that individuals and businesses comply with state tax laws and contribute to state development.

Each state has its own board, which works under the supervision of the Joint Tax Board to maintain uniformity and coordination across Nigeria.

Fill in the blank: State Boards of Internal Revenue are responsible for administering ______ income tax at the state level.

Box 3.3: Examples of state-level taxes in Nigeria

3.3.3 Local government tax authorities

Local government tax authorities administer taxes and levies within local jurisdictions. These include tenement rates, market levies, and motor park fees. Local governments rely heavily on these taxes to fund grassroots development projects such as community schools, health centres, and local infrastructure.

Although their scope is limited compared to federal and state authorities, local government tax units play a vital role in ensuring that taxation reaches every level of society.

Fill in the blank: Local government tax authorities administer levies such as ______ rates and market fees.

Plate 3.3: *Local government tax collection in Nigeria*

Pilot questions 3.3

1. The Federal Inland Revenue Service (FIRS) is responsible for:

a. Administering federal taxes
b. Collecting state taxes

c. Managing local levies
d. Issuing voluntary guidelines only

2. State Boards of Internal Revenue administer:

a. Corporate income tax
b. Personal income tax
c. Petroleum profits tax
d. Customs duties

3. Which of the following is an example of a state-level tax in Nigeria?

a. Value added tax
b. Personal income tax
c. Petroleum profits tax
d. Customs duties

4. Local government tax authorities administer:

a. Companies income tax
b. Tenement rates and market levies
c. Petroleum profits tax
d. Value added tax

5. The Joint Tax Board supervises:

a. Federal Inland Revenue Service only
b. State Boards of Internal Revenue
c. Local government tax authorities exclusively
d. International tax treaties

Part 3.4 Contemporary Developments In The Legal Framework

3.4.1 Judicial interpretations and precedents

Judicial interpretations play a vital role in shaping the legal framework of taxation in Nigeria. Courts resolve disputes between taxpayers and tax authorities, clarifying ambiguous provisions in tax laws. These decisions, known as **judicial precedents**, become guiding principles for future cases, ensuring consistency and fairness in the application of tax laws.

For example, when a company challenges the interpretation of a tax exemption clause, the court's ruling provides clarity not only for that case but also for similar cases in the future.

Fill in the blank: Judicial precedents in taxation ensure consistency and ______ in the application of tax laws.

Plate 3.4: *Judicial interpretations shaping tax law*

3.4.2 International influences and treaties

Nigeria's tax framework is increasingly influenced by **international treaties and agreements**, particularly double taxation treaties. These agreements prevent individuals and businesses from being taxed twice on the same income in different countries, thereby encouraging cross-border trade and investment.

International organisations such as the OECD also influence Nigeria's tax policies by promoting global standards on transparency and fair taxation. These influences help Nigeria align with international best practices.

Fill in the blank: Double taxation treaties are designed to prevent taxpayers from being taxed ______ on the same income.

Figure 3.4: *Double taxation treaties in practice*

3.4.3 Ongoing reforms and modernisation

Nigeria is currently pursuing **tax reforms** aimed at modernising its legal framework. These reforms include expanding the tax base to cover digital services, strengthening enforcement mechanisms, and enhancing transparency in revenue use.

Digitalisation is a key aspect of modernisation, with electronic filing systems and online payment platforms making compliance easier. These reforms aim to reduce dependence on oil revenue and create a more sustainable tax system.

Fill in the blank: Nigeria's ongoing tax reforms aim to expand the tax base to include ______ services.

Box 3.4: Key areas of Nigerian tax reforms

Pilot questions 3.4

1. Judicial precedents in taxation are important because they:

a. Create new taxes

b. Clarify and interpret existing laws
c. Replace statutory laws
d. Eliminate constitutional provisions

2. Double taxation treaties are designed to:

a. Increase tax burdens on foreign investors
b. Prevent taxpayers from being taxed twice on the same income
c. Replace domestic tax laws
d. Eliminate international trade

3. Which international organisation influences Nigeria's tax policies by promoting transparency and fair taxation?

a. World Bank
b. OECD
c. IMF
d. African Union

4. Nigeria's ongoing tax reforms aim to:

a. Reduce transparency and accountability
b. Expand the tax base to digital services
c. Limit electronic filing systems
d. Eliminate international cooperation

5. Digitalisation in Nigerian tax administration is designed to:

a. Make compliance easier and reduce corruption
b. Increase tax evasion
c. Replace statutory laws
d. Eliminate tax authorities

Series Summary

This Series has explored the forms and legal framework of taxation in Nigeria, highlighting how taxes are structured and governed. We began by examining the different forms of taxation, distinguishing between direct, indirect, and specialised taxes. Then we considered the legal framework, focusing on constitutional provisions, statutory laws, and subsidiary legislation. Following that, we analysed the institutional framework, looking at the roles of the Federal Inland Revenue Service, State Boards of Internal Revenue, and local government tax authorities. Finally, we discussed contemporary developments, including judicial interpretations, international influences, and ongoing reforms.

By completing this Series, you should now be able to define and distinguish between the forms of taxation (SLO 3.1), explain the constitutional, statutory, and regulatory framework that governs taxation in Nigeria (SLO 3.2), analyse the roles of federal, state, and local tax authorities (SLO 3.3), and evaluate contemporary developments in Nigerian tax law, including judicial precedents, international treaties, and reforms (SLO 3.4).

Series Glossary

- **Capital gains tax**: A tax on profits made from the sale of assets such as land or shares.
- **Companies Income Tax Act (CITA)**: A statutory law that governs taxation of corporate profits in Nigeria.
- **Constitution**: The supreme law of Nigeria that provides the legal foundation for taxation.
- **Direct taxation**: Taxes levied directly on individuals or organisations, such as income or property tax.
- **Education tax**: A specialised tax levied on corporate profits to fund educational development.
- **Federal Inland Revenue Service (FIRS)**: Nigeria's federal tax authority responsible for administering federal taxes.
- **Indirect taxation**: Taxes levied on goods and services, such as VAT and excise duties.
- **Judicial precedent**: A court decision that clarifies tax law and serves as a guide for future cases.
- **Petroleum profits tax**: A specialised tax levied on companies engaged in oil exploration and production.
- **State Boards of Internal Revenue (SBIRs)**: State-level tax authorities responsible for personal income tax and other levies.
- **Subsidiary legislation**: Regulations and orders that clarify and guide the implementation of statutory tax laws.
- **Tenement rates**: Local government taxes levied on property occupancy.
- **Value Added Tax (VAT)**: An indirect tax levied on goods and services at each stage of production or distribution.

Concept Check Questions 3

Objective questions

1. Which of the following is an example of direct taxation?
    1. Value Added Tax
    2. Companies Income Tax
    3. Customs duties
    4. Excise duties
    (Linked to SLO 3.1)
2. Which statutory law governs corporate taxation in Nigeria?

1. Labour Act
2. Companies Income Tax Act
3. Electoral Act

4. Criminal Code Act
   (Linked to SLO 3.2)

Short-answer questions
3. Define indirect taxation and give one example. (Linked to SLO 3.1)
4. State two functions of the Federal Inland Revenue Service (FIRS). (Linked to SLO 3.3)

Long-answer questions
5. Analyse the institutional framework for taxation in Nigeria, explaining the roles of federal, state, and local authorities. (Linked to SLO 3.3)

- **Basic response**: Learners should explain that FIRS administers federal taxes, SBIRs manage state-level taxes, and local governments collect levies such as tenement rates and market fees.
- **Value-added response**: Outstanding learners may evaluate how coordination among these authorities, through the Joint Tax Board, ensures uniformity and efficiency in Nigeria's tax system.

1. Evaluate contemporary developments in Nigeria's tax framework, focusing on judicial precedents, international treaties, and reforms. (Linked to SLO 3.4)

- **Basic response**: Learners should describe how judicial precedents clarify laws, treaties prevent double taxation, and reforms expand the tax base.
- **Value-added response**: Outstanding learners may propose how Nigeria can further modernise its tax system by adopting global best practices, strengthening enforcement, and leveraging digitalisation.

Answers to Concept Check Questions 3

1. b
2. b
3. Indirect taxation is levied on goods and services. Example: Value Added Tax.
4. Functions include assessing and collecting federal taxes, and issuing guidelines to clarify tax laws.
   - **Basic response**: FIRS administers federal taxes, SBIRs manage state-level taxes, and local governments collect levies such as tenement rates and market fees.
   - **Value-added response**: Coordination through the Joint Tax Board ensures uniformity and efficiency across Nigeria's tax system.
   - **Basic response**: Judicial precedents clarify laws, treaties prevent double taxation, and reforms expand the tax base.
   - **Value-added response**: Nigeria can modernise its tax system by adopting global best practices, strengthening enforcement, and leveraging digitalisation.

Answers to Pilot Questions 3

Part 3.1

1. b
2. c
3. b
4. c
5. b

Part 3.2

1. a
2. b
3. b
4. a
5. a

Part 3.3

1. a
2. b
3. b
4. b
5. b

Part 3.4

1. b
2. b
3. b
4. b
5. a

References and Attributions 3

- *Figure 3.1*: Examples of direct taxation in Nigeria. Suggested AI prompt: “Create a diagram showing direct taxation types: personal income tax, corporate tax, property tax.”
- *Plate 3.1*: Indirect taxation through value added tax on goods. Suggested AI prompt: “Create an illustration showing goods in a Nigerian market with VAT included in the price.”
- *Box 3.1*: Examples of specialised forms of taxation in Nigeria. Suggested AI prompt: “Generate an infographic showing specialised taxes in Nigeria: petroleum profits tax, education tax, capital gains tax.”
- *Figure 3.2*: Constitutional provisions for taxation in Nigeria. Suggested AI prompt: “Create a diagram showing Nigeria’s federal, state, and local governments with their respective tax powers.”

- *Box 3.2*: Examples of statutory tax laws in Nigeria. Suggested AI prompt: "Generate an infographic listing examples of Nigerian statutory tax laws such as CIT, VAT, and PPT Acts."
- *Plate 3.2*: Subsidiary legislation in Nigerian taxation. Suggested AI prompt: "Create an illustration showing Nigerian tax officials issuing regulations and guidelines for taxpayers."
- *Figure 3.3*: Functions of the Federal Inland Revenue Service. Suggested AI prompt: "Create a diagram showing FIRS functions: assessment, collection, accounting, and issuing guidelines."
- *Box 3.3*: Examples of state-level taxes in Nigeria. Suggested AI prompt: "Generate an infographic showing examples of state-level taxes administered by SBIRs in Nigeria."
- *Plate 3.3*: Local government tax collection in Nigeria. Suggested AI prompt: "Create an illustration showing Nigerian local government officials collecting market levies in a community."
- *Plate 3.4*: Judicial interpretations shaping tax law. Suggested AI prompt: "Create an illustration showing Nigerian judges in a courtroom interpreting tax law."
- *Figure 3.4*: Double taxation treaties in practice. Suggested AI prompt: "Create a diagram showing how double taxation treaties prevent double taxation between Nigeria and another country."
- *Box 3.4*: Key areas of Nigerian tax reforms. Suggested AI prompt: "Generate an infographic showing key areas of Nigerian tax reforms such as digitalisation and transparency."

TAX311 Series 3 Forms And Legal Framework Of Taxation In Nigeria

Part 3.1 Forms Of Taxation In Nigeria

3.1.1 Direct taxation

3.1.2 Indirect taxation

3.1.3 Other specialised forms of taxation

Part 3.2 Legal Framework For Taxation

3.2.1 Constitutional provisions

3.2.2 Statutory laws and Acts of the National Assembly

3.2.3 Subsidiary legislation and regulations

Part 3.3 Institutional Framework For Taxation

3.3.1 Federal Inland Revenue Service (FIRS)

3.3.2 State Boards of Internal Revenue

3.3.3 Local government tax authorities

Part 3.4 Contemporary Developments In The Legal Framework

3.4.1 Judicial interpretations and precedents

3.4.2 International influences and treaties

3.4.3 Ongoing reforms and modernisation

Introduction

Taxation in Nigeria is not only about collecting revenue, but also about the legal and institutional structures that make the system effective. Every tax imposed must be backed by law, and the framework that governs taxation ensures fairness, accountability, and compliance. Without a clear legal foundation, taxation would lack legitimacy and could not be enforced.

The aim of this Series is to introduce you to the different forms of taxation in Nigeria and to explain the legal and institutional frameworks that support them.

We shall commence this Series by examining the forms of taxation in Nigeria, distinguishing between direct, indirect, and specialised taxes. Next, we will explore the legal framework, focusing on constitutional provisions, statutory laws, and subsidiary legislation. Following that, we will analyse the institutional framework, highlighting the roles of the FIRS, state boards, and local government authorities. Finally, we will wrap up by considering contemporary developments, including judicial interpretations, international influences, and ongoing reforms.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 3.1** define and distinguish between direct, indirect, and specialised forms of taxation in Nigeria,
- **SLO 3.2** explain the constitutional, statutory, and regulatory framework that governs taxation in Nigeria,
- **SLO 3.3** analyse the roles of federal, state, and local tax authorities in administering taxation,
- **SLO 3.4** evaluate contemporary developments in Nigerian tax law, including judicial precedents, international treaties, and reforms.

Part 3.1 Forms Of Taxation In Nigeria

3.1.1 Direct taxation

Direct taxation refers to taxes that are levied directly on individuals or organisations, based on their income, profits, or property. Examples include personal income tax, companies income tax, and property tax. The burden of direct taxation cannot be shifted to another person, since it is paid directly by the taxpayer to the government.

Direct taxes are considered equitable because they are often progressive, meaning that those with higher incomes pay a larger proportion of their earnings. This helps to achieve fairness in the tax system.

Fill in the blank: Direct taxation is levied directly on individuals or organisations based on their ______ or property.

Figure 3.1: *Examples of direct taxation in Nigeria*

3.1.2 Indirect taxation

Indirect taxation refers to taxes that are levied on goods and services, rather than directly on income or property. Examples include value added tax (VAT), excise duties, and customs duties. The burden of indirect taxation can be shifted, since businesses often pass the cost on to consumers in the form of higher prices.

Indirect taxes are easier to collect because they are embedded in transactions, but they are often regressive, meaning they affect lower-income earners more heavily. Governments use indirect taxes to generate revenue and regulate consumption.

Fill in the blank: Indirect taxation is levied on ______ and services, and its burden can be shifted to consumers.

Plate 3.1: *Indirect taxation through value added tax on goods*

3.1.3 Other specialised forms of taxation

Nigeria also imposes **specialised forms of taxation** to address specific sectors or activities. These include petroleum profits tax, education tax, and capital gains tax. Such taxes are designed to target industries or transactions that generate significant revenue or require regulation.

For example, petroleum profits tax applies to companies engaged in oil exploration and production, while education tax is levied on corporate profits to fund educational development. Capital gains tax applies to profits made from the sale of assets such as land or shares.

Fill in the blank: Petroleum profits tax is levied on companies engaged in ______ exploration and production.

Box 3.1: Examples of specialised forms of taxation in Nigeria

Pilot questions 3.1

Direct taxation refers to taxes levied on:

Goods and services

Income, profits, or property
Imports only
Voluntary contributions

Which of the following is an example of indirect taxation?

Companies income tax
Property tax
Value added tax
Capital gains tax

The burden of indirect taxation is usually:

Borne directly by the taxpayer
Shifted to consumers through higher prices
Paid voluntarily by citizens
Exempted for businesses

Petroleum profits tax is an example of:

Direct taxation
Indirect taxation
Specialised taxation
Voluntary contribution

Education tax in Nigeria is levied on:

Personal income
Corporate profits
Property ownership
Imports and exports

Part 3.2 Legal Framework For Taxation

3.2.1 Constitutional provisions

The **Constitution of the Federal Republic of Nigeria** provides the supreme legal foundation for taxation. It defines the powers of the federal, state, and local governments to impose and collect taxes. This ensures that taxation is carried out within the boundaries of legality and authority.

The Constitution also establishes the principle of federalism in taxation, meaning that different levels of government have distinct responsibilities. For example, the federal government may impose corporate income tax, while states levy personal income tax.

Fill in the blank: The Constitution of Nigeria provides the supreme ______ foundation for taxation.

Figure 3.2: *Constitutional provisions for taxation in Nigeria*

3.2.2 Statutory laws and Acts of the National Assembly

Statutory laws are Acts passed by the National Assembly that establish specific taxes. Examples include the Companies Income Tax Act, the Value Added Tax Act, and the Petroleum Profits Tax Act. These laws provide detailed rules on how taxes are assessed, collected, and enforced.

They also empower tax authorities to administer the system effectively. Without statutory laws, taxation would lack clarity and enforceability.

Fill in the blank: The Value Added Tax Act is an example of a ______ law passed by the National Assembly.

Box 3.2: Examples of statutory tax laws in Nigeria

3.2.3 Subsidiary legislation and regulations

Subsidiary legislation refers to regulations, orders, and rules made under the authority of statutory laws. These instruments provide practical guidance on how tax laws should be applied. For example, regulations may specify procedures for filing returns or clarify exemptions.

Subsidiary legislation ensures flexibility in tax administration, allowing authorities to adapt to changing circumstances without passing new Acts.

Fill in the blank: Subsidiary legislation provides practical ______ on how tax laws should be applied.

Plate 3.2: *Subsidiary legislation in Nigerian taxation*

Pilot questions 3.2

The Constitution of Nigeria provides:

The supreme legal foundation for taxation
Voluntary guidelines for tax payment
No role in taxation
Direct benefits to taxpayers

Which of the following is an example of statutory tax law in Nigeria?

Labour Act
Companies Income Tax Act
Electoral Act
Criminal Code Act

Subsidiary legislation in taxation refers to:

Judicial precedents
Regulations and orders clarifying Acts
Informal agreements
Voluntary contributions

Statutory laws in taxation are important because they:

Provide detailed rules for assessment and collection
Replace constitutional provisions
Eliminate the need for compliance
Create voluntary contributions

Subsidiary legislation ensures:

Flexibility in tax administration
Arbitrary decisions by tax authorities
Elimination of statutory laws
Voluntary compliance only

Part 3.3 Institutional Framework For Taxation

3.3.1 Federal Inland Revenue Service (FIRS)

The **Federal Inland Revenue Service (FIRS)** is Nigeria's primary federal tax authority. It is responsible for assessing, collecting, and accounting for taxes such as companies income tax, petroleum profits tax, and value added tax. FIRS also issues guidelines and circulars to clarify tax laws and ensure compliance.

The agency plays a crucial role in modernising tax administration, introducing electronic filing systems and online payment platforms to improve efficiency and transparency.

Fill in the blank: The Federal Inland Revenue Service (FIRS) is responsible for administering ______ taxes in Nigeria.

Figure 3.3: *Functions of the Federal Inland Revenue Service*

3.3.2 State Boards of Internal Revenue

State Boards of Internal Revenue (SBIRs) administer taxes at the state level. They are responsible for personal income tax, capital gains tax, and other levies within their jurisdictions. SBIRs ensure that individuals and businesses comply with state tax laws and contribute to state development.

Each state has its own board, which works under the supervision of the Joint Tax Board to maintain uniformity and coordination across Nigeria.

Fill in the blank: State Boards of Internal Revenue are responsible for administering ______ income tax at the state level.

Box 3.3: Examples of state-level taxes in Nigeria

3.3.3 Local government tax authorities

Local government tax authorities administer taxes and levies within local jurisdictions. These include tenement rates, market levies, and motor park fees. Local governments rely heavily on these taxes to fund grassroots development projects such as community schools, health centres, and local infrastructure.

Although their scope is limited compared to federal and state authorities, local government tax units play a vital role in ensuring that taxation reaches every level of society.

Fill in the blank: Local government tax authorities administer levies such as ______ rates and market fees.

Plate 3.3: *Local government tax collection in Nigeria*

Pilot questions 3.3

The Federal Inland Revenue Service (FIRS) is responsible for:

Administering federal taxes
Collecting state taxes
Managing local levies
Issuing voluntary guidelines only

State Boards of Internal Revenue administer:

Corporate income tax
Personal income tax
Petroleum profits tax
Customs duties

Which of the following is an example of a state-level tax in Nigeria?

Value added tax
Personal income tax
Petroleum profits tax
Customs duties

Local government tax authorities administer:

Companies income tax
Tenement rates and market levies
Petroleum profits tax
Value added tax

The Joint Tax Board supervises:

Federal Inland Revenue Service only
State Boards of Internal Revenue
Local government tax authorities exclusively
International tax treaties

Part 3.4 Contemporary Developments In The Legal Framework

3.4.1 Judicial interpretations and precedents

Judicial interpretations play a vital role in shaping the legal framework of taxation in Nigeria. Courts resolve disputes between taxpayers and tax authorities, clarifying ambiguous provisions in tax laws. These decisions, known as **judicial precedents**, become guiding principles for future cases, ensuring consistency and fairness in the application of tax laws.

For example, when a company challenges the interpretation of a tax exemption clause, the court's ruling provides clarity not only for that case but also for similar cases in the future.

Fill in the blank: Judicial precedents in taxation ensure consistency and ______ in the application of tax laws.

Plate 3.4: *Judicial interpretations shaping tax law*

3.4.2 International influences and treaties

Nigeria's tax framework is increasingly influenced by **international treaties and agreements**, particularly double taxation treaties. These agreements prevent individuals and businesses from being taxed twice on the same income in different countries, thereby encouraging cross-border trade and investment.

International organisations such as the OECD also influence Nigeria's tax policies by promoting global standards on transparency and fair taxation. These influences help Nigeria align with international best practices.

Fill in the blank: Double taxation treaties are designed to prevent taxpayers from being taxed ______ on the same income.

Figure 3.4: *Double taxation treaties in practice*

3.4.3 Ongoing reforms and modernisation

Nigeria is currently pursuing **tax reforms** aimed at modernising its legal framework. These reforms include expanding the tax base to cover digital services, strengthening enforcement mechanisms, and enhancing transparency in revenue use.

Digitalisation is a key aspect of modernisation, with electronic filing systems and online payment platforms making compliance easier. These reforms aim to reduce dependence on oil revenue and create a more sustainable tax system.

Fill in the blank: Nigeria's ongoing tax reforms aim to expand the tax base to include ______ services.

Box 3.4: Key areas of Nigerian tax reforms

Pilot questions 3.4

Judicial precedents in taxation are important because they:

Create new taxes
Clarify and interpret existing laws
Replace statutory laws
Eliminate constitutional provisions

Double taxation treaties are designed to:

Increase tax burdens on foreign investors
Prevent taxpayers from being taxed twice on the same income
Replace domestic tax laws
Eliminate international trade

Which international organisation influences Nigeria's tax policies by promoting transparency and fair taxation?

World Bank
OECD
IMF
African Union

Nigeria's ongoing tax reforms aim to:

Reduce transparency and accountability
Expand the tax base to digital services
Limit electronic filing systems
Eliminate international cooperation

Digitalisation in Nigerian tax administration is designed to:

Make compliance easier and reduce corruption
Increase tax evasion
Replace statutory laws
Eliminate tax authorities

Series Summary

This Series has explored the forms and legal framework of taxation in Nigeria, highlighting how taxes are structured and governed. We began by examining the different forms of taxation, distinguishing between direct, indirect, and specialised taxes. Then we considered the legal framework, focusing on constitutional provisions, statutory laws, and subsidiary legislation. Following that, we analysed the institutional framework, looking at the roles of the Federal Inland Revenue Service, State Boards of Internal Revenue, and local government tax authorities. Finally, we discussed contemporary developments, including judicial interpretations, international influences, and ongoing reforms.

By completing this Series, you should now be able to define and distinguish between the forms of taxation (SLO 3.1), explain the constitutional, statutory, and regulatory framework that governs taxation in Nigeria (SLO 3.2), analyse the roles of federal, state, and local tax authorities

(SLO 3.3), and evaluate contemporary developments in Nigerian tax law, including judicial precedents, international treaties, and reforms (SLO 3.4).

Series Glossary

Capital gains tax: A tax on profits made from the sale of assets such as land or shares.
Companies Income Tax Act (CITA): A statutory law that governs taxation of corporate profits in Nigeria.
Constitution: The supreme law of Nigeria that provides the legal foundation for taxation.
Direct taxation: Taxes levied directly on individuals or organisations, such as income or property tax.
Education tax: A specialised tax levied on corporate profits to fund educational development.
Federal Inland Revenue Service (FIRS): Nigeria's federal tax authority responsible for administering federal taxes.
Indirect taxation: Taxes levied on goods and services, such as VAT and excise duties.
Judicial precedent: A court decision that clarifies tax law and serves as a guide for future cases.
Petroleum profits tax: A specialised tax levied on companies engaged in oil exploration and production.
State Boards of Internal Revenue (SBIRs): State-level tax authorities responsible for personal income tax and other levies.
Subsidiary legislation: Regulations and orders that clarify and guide the implementation of statutory tax laws.
Tenement rates: Local government taxes levied on property occupancy.
Value Added Tax (VAT): An indirect tax levied on goods and services at each stage of production or distribution.

Concept Check Questions 3

Objective questions

Which of the following is an example of direct taxation?
- Value Added Tax
- Companies Income Tax
- Customs duties
- Excise duties

(Linked to SLO 3.1)

Which statutory law governs corporate taxation in Nigeria?

- Labour Act
- Companies Income Tax Act
- Electoral Act
- Criminal Code Act

(Linked to SLO 3.2)

Short-answer questions
3. Define indirect taxation and give one example. (Linked to SLO 3.1)
4. State two functions of the Federal Inland Revenue Service (FIRS). (Linked to SLO 3.3)

Long-answer questions
5. Analyse the institutional framework for taxation in Nigeria, explaining the roles of federal, state, and local authorities. (Linked to SLO 3.3)

Basic response: Learners should explain that FIRS administers federal taxes, SBIRs manage state-level taxes, and local governments collect levies such as tenement rates and market fees.
Value-added response: Outstanding learners may evaluate how coordination among these authorities, through the Joint Tax Board, ensures uniformity and efficiency in Nigeria's tax system.

Evaluate contemporary developments in Nigeria's tax framework, focusing on judicial precedents, international treaties, and reforms. (Linked to SLO 3.4)

Basic response: Learners should describe how judicial precedents clarify laws, treaties prevent double taxation, and reforms expand the tax base.
Value-added response: Outstanding learners may propose how Nigeria can further modernise its tax system by adopting global best practices, strengthening enforcement, and leveraging digitalisation.

Answers to Concept Check Questions 3

b
b
Indirect taxation is levied on goods and services. Example: Value Added Tax.
Functions include assessing and collecting federal taxes, and issuing guidelines to clarify tax laws.
Basic response: FIRS administers federal taxes, SBIRs manage state-level taxes, and local governments collect levies such as tenement rates and market fees.
Value-added response: Coordination through the Joint Tax Board ensures uniformity and efficiency across Nigeria's tax system.
Basic response: Judicial precedents clarify laws, treaties prevent double taxation, and reforms expand the tax base.
Value-added response: Nigeria can modernise its tax system by adopting global best practices, strengthening enforcement, and leveraging digitalisation.

Answers to Pilot Questions 3

Part 3.1

b
c

b
c
b

Part 3.2

a
b
b
a
a

Part 3.3

a
b
b
b
b

Part 3.4

b
b
b
b
a

References and Attributions 3

Figure 3.1: Examples of direct taxation in Nigeria. Suggested AI prompt: “Create a diagram showing direct taxation types: personal income tax, corporate tax, property tax.”

Plate 3.1: Indirect taxation through value added tax on goods. Suggested AI prompt: “Create an illustration showing goods in a Nigerian market with VAT included in the price.”

Box 3.1: Examples of specialised forms of taxation in Nigeria. Suggested AI prompt: “Generate an infographic showing specialised taxes in Nigeria: petroleum profits tax, education tax, capital gains tax.”

Figure 3.2: Constitutional provisions for taxation in Nigeria. Suggested AI prompt: “Create a diagram showing Nigeria’s federal, state, and local governments with their respective tax powers.”

Box 3.2: Examples of statutory tax laws in Nigeria. Suggested AI prompt: “Generate an infographic listing examples of Nigerian statutory tax laws such as CIT, VAT, and PPT Acts.”

Plate 3.2: Subsidiary legislation in Nigerian taxation. Suggested AI prompt: "Create an illustration showing Nigerian tax officials issuing regulations and guidelines for taxpayers."
Figure 3.3: Functions of the Federal Inland Revenue Service. Suggested AI prompt: "Create a diagram showing FIRS functions: assessment, collection, accounting, and issuing guidelines."
Box 3.3: Examples of state-level taxes in Nigeria. Suggested AI prompt: "Generate an infographic showing examples of state-level taxes administered by SBIRs in Nigeria."
Plate 3.3: Local government tax collection in Nigeria. Suggested AI prompt: "Create an illustration showing Nigerian local government officials collecting market levies in a community."
Plate 3.4: Judicial interpretations shaping tax law. Suggested AI prompt: "Create an illustration showing Nigerian judges in a courtroom interpreting tax law."
Figure 3.4: Double taxation treaties in practice. Suggested AI prompt: "Create a diagram showing how double taxation treaties prevent double taxation between Nigeria and another country."
Box 3.4: Key areas of Nigerian tax reforms. Suggested AI prompt: "Generate an infographic showing key areas of Nigerian tax reforms such as digitalisation and transparency."

TAX311 Series 4 Income Tax And Personal Taxation Principles

Part 4.1 Concept Of Income Tax
4.1.1 Definition and scope of income tax
4.1.2 Objectives of income tax
4.1.3 Importance of income tax in national development
Part 4.2 Principles Of Personal Taxation
4.2.1 Equity and fairness in personal taxation
4.2.2 Progressive and regressive taxation systems
4.2.3 Certainty, convenience, and efficiency in personal taxation
Part 4.3 Administration Of Personal Income Tax In Nigeria
4.3.1 Legal basis and statutory provisions
4.3.2 Role of tax authorities in personal taxation
4.3.3 Procedures for assessment, collection, and enforcement
Part 4.4 Contemporary Issues In Personal Taxation

4.4.1 Challenges in compliance and enforcement
4.4.2 Role of technology in personal taxation
4.4.3 Reforms and future prospects

Introduction

In the last Series, we explored the forms and legal framework of taxation in Nigeria, focusing on how taxes are structured and governed. Building on that foundation, this Series will introduce you to the principles of income tax and personal taxation, which directly affect individuals and households. Understanding these principles is essential because income tax is one of the most significant sources of government revenue and plays a central role in promoting fairness and national development.

The aim of this Series is to explain the concept of income tax, highlight the principles of personal taxation, and examine how personal income tax is administered in Nigeria. It also seeks to familiarise you with contemporary issues and reforms that shape personal taxation today.

We shall commence this Series by defining income tax, its scope, objectives, and importance. Next, we will explore the principles of personal taxation, including equity, fairness, and the nature of progressive and regressive systems. Following that, we will analyse the administration of personal income tax in Nigeria, focusing on its legal basis, tax authorities, and procedures. Finally, we will wrap up by discussing contemporary issues such as compliance challenges, the role of technology, and ongoing reforms.

Series Learning Outcomes

Upon completing this Series, you should be able to:

- **SLO 4.1** define income tax and explain its scope, objectives, and importance in national development,
- **SLO 4.2** analyse the principles of personal taxation, including equity, fairness, and taxation systems,
- **SLO 4.3** describe the administration of personal income tax in Nigeria, including its legal basis, authorities, and procedures,
- **SLO 4.4** evaluate contemporary issues in personal taxation, including compliance challenges, technological innovations, and reforms.

Part 4.1 Concept Of Income Tax

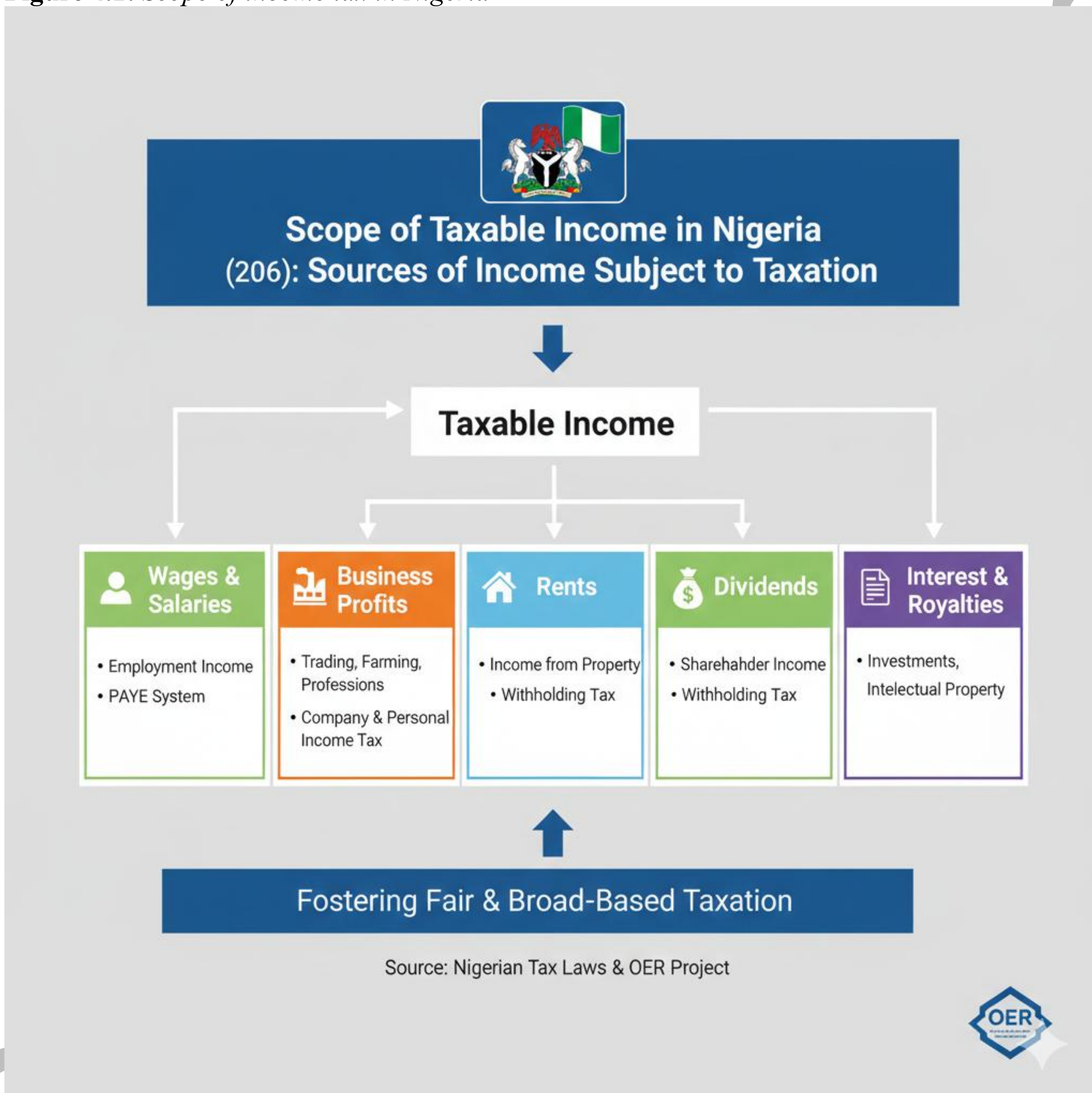
4.1.1 Definition and scope of income tax

Income tax is a compulsory levy imposed by the government on the earnings of individuals and organisations. It applies to wages, salaries, business profits, rents, dividends, and other forms of income. The scope of income tax covers both residents and non-residents who derive income from Nigeria, ensuring that all taxable earnings contribute to national revenue.

Income tax is one of the most significant sources of government funding, and its scope extends across various sectors of the economy.

Fill in the blank: Income tax is a compulsory levy imposed on the ______ of individuals and organisations.

Figure 4.1: *Scope of income tax in Nigeria*



4.1.2 Objectives of income tax

The objectives of income tax go beyond revenue generation. They include:

Redistribution of wealth: Ensuring that higher earners contribute more to support social equity.

Economic regulation: Influencing consumption and investment patterns through tax policies.
Funding public services: Providing resources for education, healthcare, defence, and infrastructure.

Income tax is therefore a tool for both economic management and social justice.

Fill in the blank: One of the objectives of income tax is the ______ of wealth to promote social equity.

Box 4.1: Objectives of income tax

4.1.3 Importance of income tax in national development

Income tax plays a vital role in **national development**, which refers to the overall improvement of a country's economic, social, and political systems. By funding public services and infrastructure, income tax contributes directly to the welfare of citizens.

It also helps stabilise the economy by providing predictable revenue streams, reducing dependence on volatile sources such as oil. In this way, income tax strengthens governance and supports long-term development goals.

Fill in the blank: Income tax contributes to national development by funding public services and ______.

Plate 4.1: *Income tax supporting national development projects*

Pilot questions 4.1

Income tax is levied on:

Goods and services
Earnings of individuals and organisations
Imports only
Voluntary contributions

Which of the following is an objective of income tax?

Reducing government revenue
Redistribution of wealth
Eliminating public services
Encouraging tax evasion

Income tax contributes to national development by:

Funding infrastructure and public services
Reducing transparency
Limiting economic growth
Eliminating government revenue

The scope of income tax in Nigeria includes:

Only wages and salaries
Wages, profits, rents, and dividends
Imports and exports only
Voluntary donations

Economic regulation through income tax involves:

Influencing consumption and investment patterns
Eliminating government authority
Reducing transparency in taxation
Making taxes optional

Part 4.2 Principles Of Personal Taxation

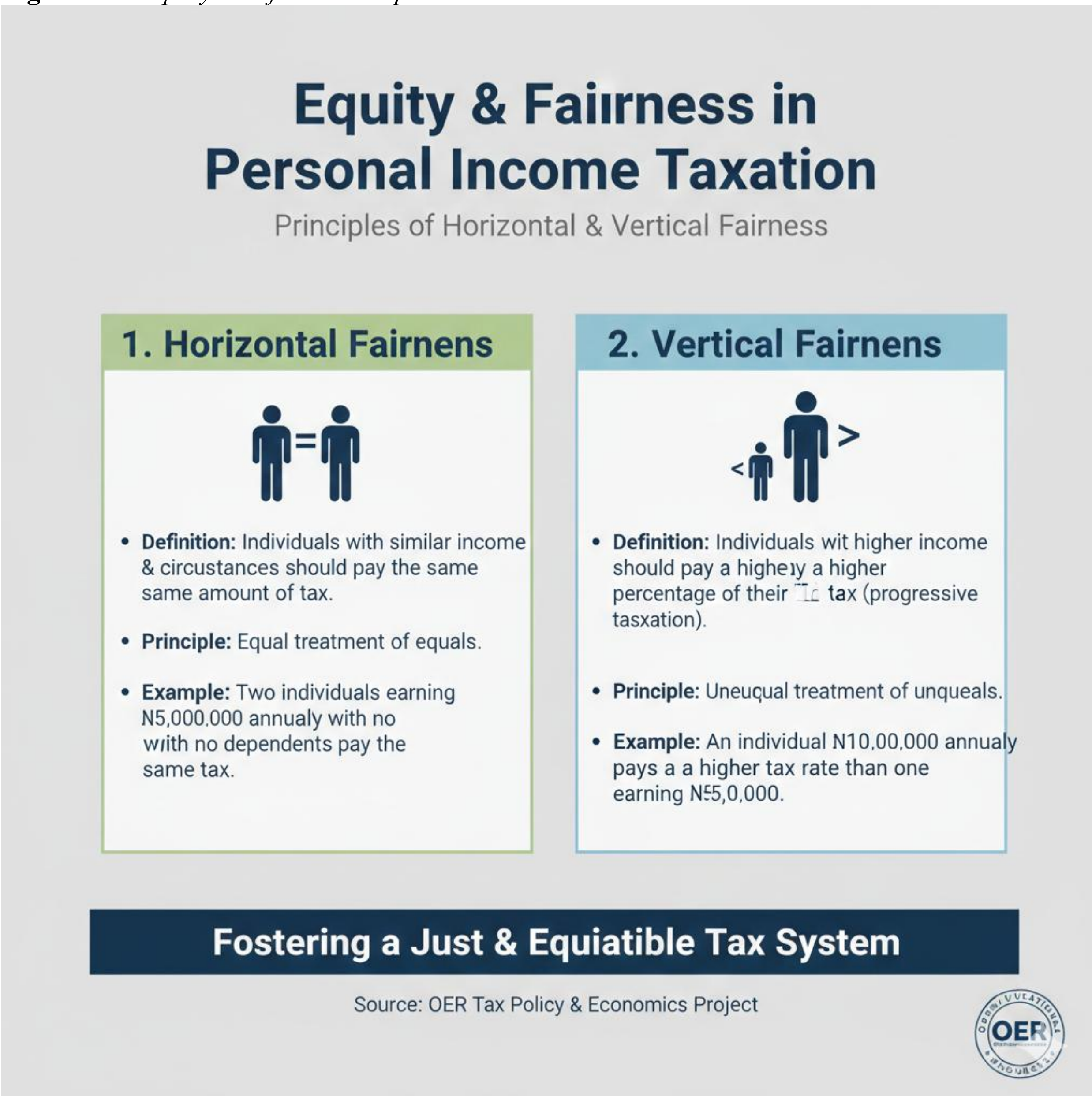
4.2.1 Equity and fairness in personal taxation

The principle of **equity and fairness** in personal taxation requires that individuals contribute according to their ability to pay. This means that taxpayers in similar circumstances should be treated equally, while those with higher incomes should contribute more. Equity promotes trust in the tax system and ensures that taxation does not disproportionately burden any group.

In Nigeria, personal income tax is structured to reflect fairness, with progressive rates applied to higher earners. This helps redistribute wealth and supports social justice.

Fill in the blank: Equity in personal taxation requires that individuals contribute according to their ______ to pay.

Figure 4.2: *Equity and fairness in personal taxation*



4.2.2 Progressive and regressive taxation systems

A **progressive taxation system** is one where tax rates increase as income increases. This ensures that wealthier individuals contribute a larger proportion of their earnings. Progressive taxation is widely considered fairer because it reduces inequality.

In contrast, a **regressive taxation system** places a heavier burden on lower-income earners, as they pay a larger proportion of their income compared to wealthier individuals. Indirect taxes such as VAT often have regressive effects because they apply equally to all consumers regardless of income.

Fill in the blank: A progressive taxation system ensures that tax rates ______ as income increases.

Box 4.2: Comparison of progressive and regressive taxation

4.2.3 Certainty, convenience, and efficiency in personal taxation

The principles of **certainty, convenience, and efficiency** are essential for effective personal taxation. Certainty ensures that taxpayers clearly know what they are required to pay, when, and how. Convenience makes compliance easier, for example through payroll deductions. Efficiency means that the cost of collecting taxes should not outweigh the revenue generated.

Together, these principles encourage voluntary compliance and reduce disputes between taxpayers and authorities.

Fill in the blank: Efficiency in personal taxation means that the cost of collection should not outweigh the ______ generated.

Plate 4.2: *Payroll deduction as a convenient method of personal taxation*

Pilot questions 4.2

Equity in personal taxation requires that:

All taxpayers pay the same amount
Individuals contribute according to their ability to pay
Taxes are voluntary contributions
Taxpayers receive equal benefits

A progressive taxation system ensures that:

Tax rates decrease as income increases
Tax rates increase as income increases
All taxpayers pay the same rate
Lower earners pay less proportionally

Which of the following is an example of regressive taxation?

Personal income tax
Value Added Tax
Corporate income tax
Petroleum profits tax

Certainty in personal taxation ensures that taxpayers:

Clearly know their obligations
Can choose when to pay
Are exempt from compliance
Receive equal benefits

Efficiency in personal taxation means:

The cost of collection should not outweigh the revenue generated
Taxes are optional for certain groups
Compliance is reduced
Administrative burdens are increased

Part 4.3 Administration Of Personal Income Tax In Nigeria

4.3.1 Legal basis and statutory provisions

The administration of **personal income tax** in Nigeria is governed by the **Personal Income Tax Act (PITA)**. This law provides the framework for assessing, collecting, and enforcing personal income tax. It specifies who is liable to pay, the rates applicable, and the procedures for compliance.

The Act applies to individuals, partnerships, communities, and families, ensuring that all taxable persons contribute to government revenue. It also empowers tax authorities to enforce compliance through penalties and sanctions.

Fill in the blank: The Personal Income Tax Act (PITA) provides the legal ______ for assessing and collecting personal income tax.

Figure 4.3: *Legal basis of personal income tax in Nigeria*

4.3.2 Role of tax authorities in personal taxation

Tax authorities play a central role in administering personal income tax. At the federal level, the Federal Inland Revenue Service (FIRS) oversees certain categories of taxpayers, such as members of the armed forces and residents of the Federal Capital Territory. At the state level, State Boards of Internal Revenue (SBIRs) administer personal income tax for residents and businesses within their jurisdictions.

These authorities are responsible for issuing tax assessments, collecting payments, and enforcing compliance. They also provide guidance to taxpayers through circulars and public education campaigns.

Fill in the blank: State Boards of Internal Revenue are responsible for administering personal income tax at the ______ level.

Box 4.3: Roles of tax authorities in personal taxation

4.3.3 Procedures for assessment, collection, and enforcement

The administration of personal income tax follows clear procedures:

- **Assessment**: Tax authorities determine the taxable income of individuals based on returns submitted.
- **Collection**: Taxes are collected either directly from taxpayers or through payroll deductions.
- **Enforcement**: Penalties and sanctions are applied to defaulters, including fines and possible prosecution.

These procedures ensure that personal income tax is collected fairly and efficiently, while encouraging voluntary compliance.

Fill in the blank: The administration of personal income tax involves assessment, collection, and ______ of compliance.

Plate 4.3: *Procedures for assessment, collection, and enforcement of personal income tax*

Pilot questions 4.3

The Personal Income Tax Act (PITA) provides:

The legal basis for personal income tax
Voluntary guidelines for tax payment
No role in taxation
Direct benefits to taxpayers

Which authority administers personal income tax at the state level?

Federal Inland Revenue Service
State Boards of Internal Revenue
Local government councils
International tax agencies

The Federal Inland Revenue Service administers personal income tax for:

All residents of Nigeria
Members of the armed forces and residents of the FCT
Only corporate organisations
International investors

The administration of personal income tax involves:

Assessment, collection, and enforcement
Voluntary donations only
Imports and exports
Judicial precedents exclusively

Penalties and sanctions in personal income tax administration are designed to:

Encourage compliance
Reduce government revenue
Eliminate statutory laws
Make taxes optional

Part 4.4 Contemporary Issues In Personal Taxation

4.4.1 Challenges in compliance and enforcement

Nigeria faces several challenges in ensuring compliance with personal income tax. **Tax evasion**, which is the deliberate avoidance of paying taxes, remains widespread. Many individuals and businesses operate in the **informal economy**, making it difficult for authorities to monitor and collect taxes. Weak enforcement mechanisms and limited capacity of tax agencies further compound the problem.

Public mistrust also contributes to poor compliance, as many citizens doubt whether tax revenues are used effectively. This lack of confidence often leads to resistance and reluctance to pay taxes.

Fill in the blank: One of the major challenges of personal taxation in Nigeria is widespread ______ by individuals and businesses.

Box 4.4: Key compliance and enforcement challenges in Nigeria

4.4.2 Role of technology in personal taxation

Technology is increasingly being used to improve personal taxation in Nigeria. **Digitalisation** has introduced electronic filing systems, online payment platforms, and automated record-keeping. These innovations make compliance easier for taxpayers and reduce opportunities for corruption.

For example, payroll systems now automatically deduct personal income tax, while online portals allow individuals to file returns conveniently. Technology also helps expand the tax base by tracking transactions more effectively.

Fill in the blank: Electronic filing systems introduced in Nigeria are designed to improve ______ and transparency in personal taxation.

Figure 4.4: *Role of technology in personal taxation*

4.4.3 Reforms and future prospects

Nigeria is currently pursuing **tax reforms** to strengthen personal taxation. These reforms include expanding the tax base to cover digital services, improving enforcement mechanisms, and enhancing transparency in revenue use.

Future prospects show a shift towards modernisation, with emphasis on accountability, digitalisation, and diversification of revenue sources beyond oil. If successfully implemented, these reforms will make personal taxation more effective and sustainable.

Fill in the blank: Nigeria's tax reforms aim to expand the tax base to include ______ services and improve enforcement.

Plate 4.4: *Reforms in Nigerian personal taxation*

Pilot questions 4.4

Which of the following is a major challenge in Nigerian personal taxation?
- Strong enforcement mechanisms
- Tax evasion
- High transparency
- Effective compliance

The informal economy makes personal taxation difficult because:
- It is fully regulated
- It operates outside formal monitoring systems
- It generates high compliance
- It reduces tax evasion

Electronic filing systems introduced in Nigeria aim to:
- Increase corruption

Improve efficiency and transparency

Reduce compliance
Eliminate tax laws

Expanding the tax base to include digital services is an example of:

Compliance challenges
Role of technology
Tax reforms and future prospects
Informal economy

Nigeria's tax reforms aim to:

Reduce transparency and accountability
Diversify revenue sources beyond oil
Limit digitalisation
Eliminate international cooperation

Series Summary

This Series has focused on income tax and personal taxation principles, which are central to Nigeria's revenue system and directly affect individuals and households. We began by defining income tax, its scope, objectives, and importance in national development. Then we explored the principles of personal taxation, including equity, fairness, progressive and regressive systems, as well as certainty, convenience, and efficiency. Following that, we examined the administration of personal income tax in Nigeria, highlighting its legal basis under PITA, the roles of tax authorities, and the procedures for assessment, collection, and enforcement. Finally, we discussed contemporary issues such as compliance challenges, the role of technology, and ongoing reforms.

By completing this Series, you should now be able to define income tax and explain its objectives (SLO 4.1), analyse the principles of personal taxation (SLO 4.2), describe how personal income tax is administered in Nigeria (SLO 4.3), and evaluate contemporary issues including compliance, technology, and reforms (SLO 4.4).

Series Glossary

- **Assessment**: The process by which tax authorities determine the taxable income of individuals.
- **Certainty**: A principle of taxation ensuring taxpayers clearly know their obligations.
- **Convenience**: A principle of taxation emphasising ease of payment and efficiency in collection.
- **Equity**: A principle of taxation requiring individuals to contribute according to their ability to pay.
- **Income tax**: A compulsory levy imposed on the earnings of individuals and organisations.
- **Informal economy**: Economic activities not regulated or monitored by government, often outside the tax system.
- **Payroll deduction**: Automatic deduction of taxes from employee salaries by employers.

Personal Income Tax Act (PITA): The statutory law governing personal income tax in Nigeria.
Progressive taxation: A system where tax rates increase as income increases.
Regressive taxation: A system where lower-income earners bear a heavier tax burden relative to their income.
Redistribution of wealth: Using taxation to reduce inequality by requiring higher earners to contribute more.
Tax evasion: The deliberate avoidance of paying taxes.

Concept Check Questions 4

Objective questions

Which law provides the legal basis for personal income tax in Nigeria?

Labour Act
Personal Income Tax Act
Electoral Act
Criminal Code Act
(Linked to SLO 4.3)

Which of the following is an example of regressive taxation?

Personal income tax
Value Added Tax
Corporate income tax
Petroleum profits tax
(Linked to SLO 4.2)

Short-answer questions

3. Define income tax and state one of its objectives. (Linked to SLO 4.1)
4. Mention two roles of tax authorities in administering personal income tax. (Linked to SLO 4.3)

Long-answer questions

5. Analyse the principles of equity and fairness in personal taxation, explaining how they are applied in Nigeria. (Linked to SLO 4.2)

Basic response: Learners should explain that equity requires individuals to contribute according to their ability to pay, while fairness ensures higher earners contribute more.
Value-added response: Outstanding learners may evaluate how Nigeria's progressive tax rates attempt to achieve fairness, while discussing challenges such as enforcement and compliance.

Evaluate contemporary issues in Nigerian personal taxation, focusing on compliance challenges and the role of technology. (Linked to SLO 4.4)

Basic response: Learners should describe challenges such as tax evasion and weak enforcement, and explain how technology like electronic filing improves compliance.
Value-added response: Outstanding learners may propose reforms such as expanding the tax base, strengthening transparency, and adopting international best practices.

Answers to Concept Check Questions 4

b
b
Income tax is a compulsory levy imposed on the earnings of individuals and organisations. One objective is revenue generation.
Roles include assessing taxable income and collecting payments.

Basic response: Equity requires individuals to contribute according to their ability to pay, while fairness ensures higher earners contribute more.
Value-added response: Nigeria's progressive tax rates attempt to achieve fairness, but enforcement challenges limit effectiveness.
Basic response: Compliance challenges include tax evasion and weak monitoring. Technology such as electronic filing improves compliance.
Value-added response: Reforms such as expanding the tax base, strengthening transparency, and adopting international best practices can further enhance Nigeria's tax system.

Answers to Pilot Questions 4

Part 4.1

b
b
a
b
a

Part 4.2

b
b
b
a
a

Part 4.3

a
b
b
a

a

Part 4.4

b
b
b
c
b

References and Attributions 4

Figure 4.1: Scope of income tax in Nigeria. Suggested AI prompt: "Create a diagram showing wages, salaries, business profits, rents, and dividends as sources of taxable income."
Box 4.1: Objectives of income tax. Suggested AI prompt: "Generate an infographic showing objectives of income tax such as revenue generation and redistribution of wealth."
Plate 4.1: Income tax supporting national development projects. Suggested AI prompt: "Create an illustration showing Nigerian infrastructure projects such as roads, schools, and hospitals funded by income tax."
Figure 4.2: Equity and fairness in personal taxation. Suggested AI prompt: "Create a diagram showing horizontal fairness and vertical fairness in personal taxation."
Box 4.2: Comparison of progressive and regressive taxation. Suggested AI prompt: "Generate an infographic comparing progressive and regressive taxation systems with examples."
Plate 4.2: Payroll deduction as a convenient method of personal taxation. Suggested AI prompt: "Create an illustration showing payroll tax deduction from employee salaries as an example of convenience."
Figure 4.3: Legal basis of personal income tax in Nigeria. Suggested AI prompt: "Create a diagram showing PITA as the legal framework for personal income tax, including liability and enforcement."
Box 4.3: Roles of tax authorities in personal taxation. Suggested AI prompt: "Generate an infographic showing the roles of tax authorities in personal taxation in Nigeria."
Plate 4.3: Procedures for assessment, collection, and enforcement of personal income tax. Suggested AI prompt: "Create an illustration showing Nigerian tax officials assessing returns, collecting payments, and enforcing compliance."
Box 4.4: Key compliance and enforcement challenges in Nigeria. Suggested AI prompt: "Generate an infographic showing compliance and enforcement challenges in Nigerian personal taxation."
Figure 4.4: Role of technology in personal taxation. Suggested AI prompt: "Create a diagram showing e-filing, online payments, and payroll deductions improving Nigerian personal taxation."

Plate 4.4: Reforms in Nigerian personal taxation. Suggested AI prompt: "Create an illustration showing Nigerian officials discussing tax reforms with digitalisation tools."

TAX311 Series 5 Taxation Of Business Entities, Capital Gains, And Goods And Services

Part 5.1 Taxation Of Business Entities
- **5.1.1 Companies income tax**
- **5.1.2 Petroleum profits tax**
- **5.1.3 Education tax and other levies on businesses**

Part 5.2 Capital Gains Taxation
- **5.2.1 Concept and scope of capital gains tax**
- **5.2.2 Computation and assessment of capital gains tax**
- **5.2.3 Exemptions and reliefs under capital gains tax**

Part 5.3 Taxation Of Goods And Services
- **5.3.1 Value added tax (VAT)**
- **5.3.2 Excise duties**
- **5.3.3 Customs duties and tariffs**

Part 5.4 Contemporary Issues In Business And Goods Taxation

5.4.1 Challenges in compliance and enforcement
5.4.2 Role of technology in business taxation
5.4.3 Reforms and international influences

Introduction

Taxation of businesses, capital transactions, and goods and services forms the backbone of Nigeria's fiscal system. While personal income tax ensures individuals contribute to national revenue, business and goods taxation generates substantial income for the government and directly influences investment, trade, and economic growth. Understanding these areas is essential for appreciating how Nigeria funds development and regulates economic activity.

The aim of this Series is to explain how business entities, capital gains, and goods and services are taxed in Nigeria, while also highlighting contemporary challenges and reforms that shape the system.

We shall commence this Series by examining the taxation of business entities, including companies income tax, petroleum profits tax, and education tax. Next, we will explore capital gains taxation, focusing on its scope, computation, and exemptions. Following that, we will analyse the taxation of goods and services, with emphasis on VAT, excise duties, and customs tariffs. Finally, we will wrap up by discussing contemporary issues such as compliance challenges, the role of technology, and international influences on business and goods taxation.

Series Learning Outcomes

Upon completing this Series, you should be able to:

SLO 5.1 explain the taxation of business entities in Nigeria, including companies income tax, petroleum profits tax, and education tax,
SLO 5.2 define capital gains tax and demonstrate how it is computed and assessed,
SLO 5.3 describe the taxation of goods and services, including VAT, excise duties, and customs tariffs,
SLO 5.4 evaluate contemporary issues in business and goods taxation, including compliance challenges, technological innovations, and international influences.

Part 5.1 Taxation Of Business Entities

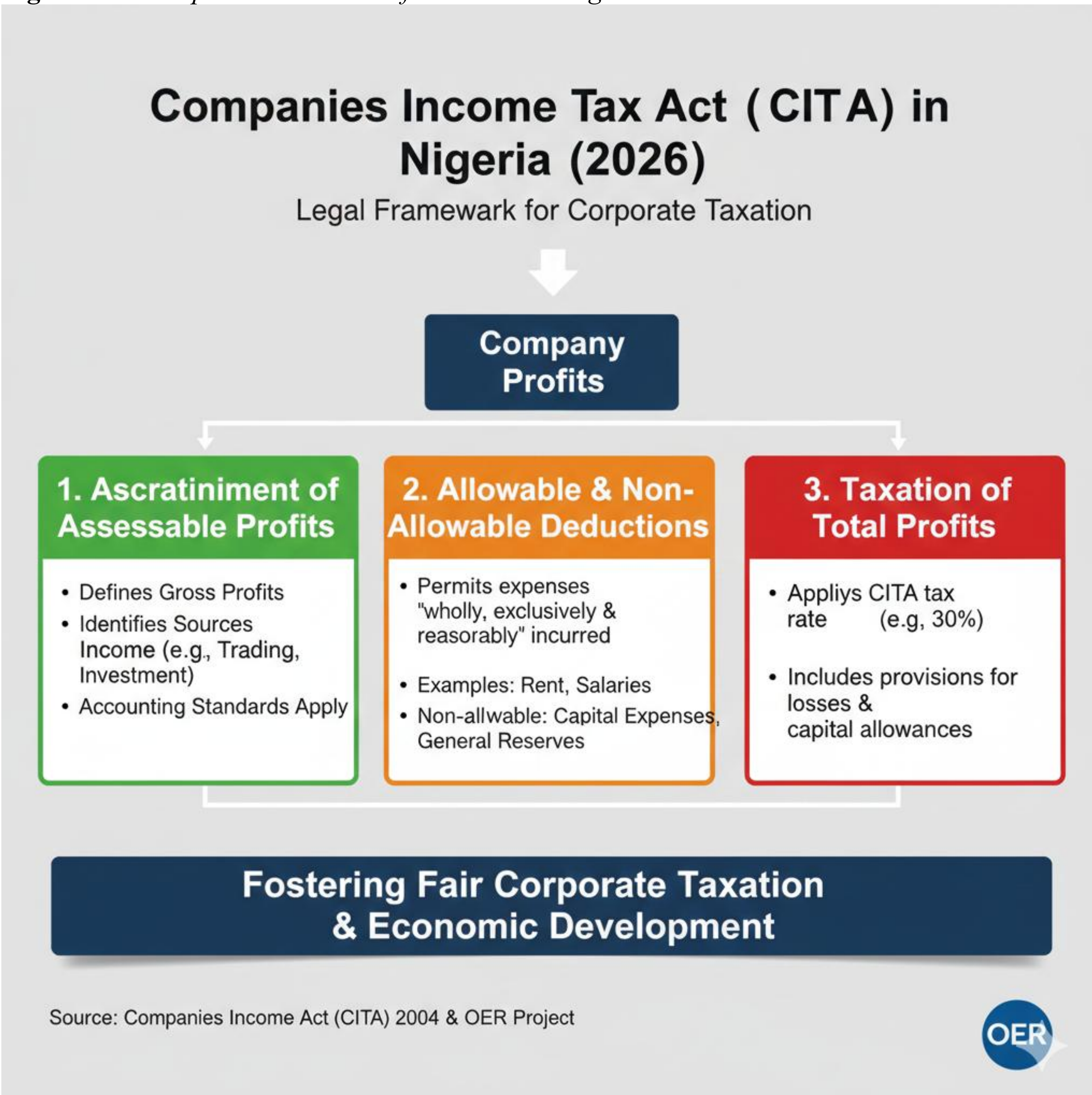
5.1.1 Companies income tax

Companies income tax (CIT) is a levy imposed on the profits of incorporated companies in Nigeria, excluding those engaged in petroleum operations. It is governed by the **Companies Income Tax Act (CITA)**, which specifies the applicable rates, exemptions, and procedures for assessment and collection.

CIT is one of the most important sources of government revenue, as it ensures that businesses contribute fairly to national development. The tax is assessed on profits after allowable deductions, such as business expenses and capital allowances.

Fill in the blank: Companies income tax is imposed on the ______ of incorporated companies in Nigeria.

Figure 5.1: *Companies income tax framework in Nigeria*



5.1.2 Petroleum profits tax

Petroleum profits tax (PPT) is a specialised tax levied on companies engaged in petroleum exploration and production. It is governed by the **Petroleum Profits Tax Act (PPTA)** and applies to profits derived from upstream petroleum operations.

PPT is a major source of revenue for Nigeria, given the country's reliance on oil. The tax rate is higher than that of CIT, reflecting the strategic importance and profitability of the petroleum sector.

Fill in the blank: Petroleum profits tax is levied on companies engaged in ______ exploration and production.

Plate 5.1: *Petroleum profits tax in Nigeria's oil sector*

5.1.3 Education tax and other levies on businesses

Education tax is a levy imposed on the profits of all Nigerian companies, administered by the Tertiary Education Trust Fund (TETFund). Its purpose is to provide sustainable funding for educational development. The tax is currently charged at a fixed percentage of assessable profits.

Other levies on businesses include the **National Information Technology Development Levy (NITDL)**, which supports ICT development, and sector-specific charges such as environmental levies. These taxes ensure that businesses contribute to broader social and economic goals beyond revenue generation.

Fill in the blank: Education tax is imposed on the profits of Nigerian companies to fund ______ development.

Box 5.1: Examples of business levies in Nigeria

Pilot questions 5.1

Companies income tax in Nigeria is governed by:

Petroleum Profits Tax Act
Companies Income Tax Act
Personal Income Tax Act
Value Added Tax Act

Petroleum profits tax applies to:

All incorporated companies
Companies engaged in petroleum exploration and production
Small businesses only
Educational institutions

Education tax in Nigeria is administered by:

Federal Inland Revenue Service
Tertiary Education Trust Fund
Ministry of Finance
State Boards of Internal Revenue

Which of the following is an example of a business levy supporting ICT development?

Value Added Tax
National Information Technology Development Levy
Customs duty
Excise duty

Companies income tax is assessed on:

Gross revenue before deductions
Profits after allowable deductions
Voluntary contributions
Imports and exports only

Part 5.2 Capital Gains Taxation

5.2.1 Concept and scope of capital gains tax

Capital gains tax (CGT) is a levy imposed on the profit realised from the sale or disposal of capital assets such as land, buildings, and shares. It is governed by the **Capital Gains Tax Act**

(CGTA) in Nigeria. The scope of CGT covers both individuals and corporate bodies that derive gains from the disposal of chargeable assets.

CGT ensures that wealth generated from asset appreciation contributes to government revenue, rather than remaining untaxed.

Fill in the blank: Capital gains tax is imposed on the profit realised from the sale or disposal of ______ assets.

Figure 5.2: *Scope of capital gains tax in Nigeria*

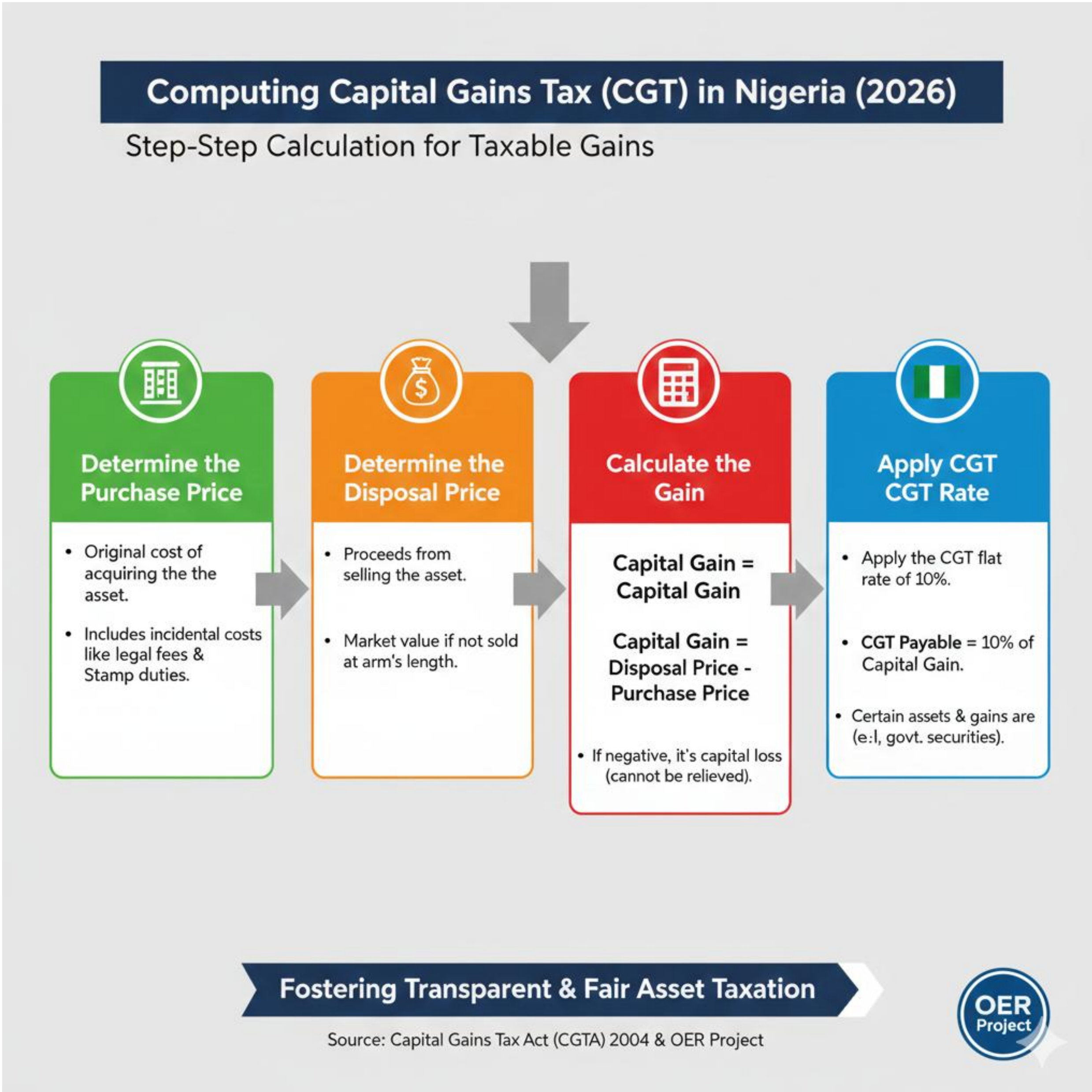
5.2.2 Computation and assessment of capital gains tax

The computation of CGT involves determining the **chargeable gain**, which is the difference between the disposal proceeds and the acquisition cost of the asset, after deducting allowable expenses. The applicable tax rate is then applied to the chargeable gain to arrive at the tax payable.

Tax authorities assess CGT based on returns submitted by taxpayers. Proper record-keeping of acquisition costs and disposal proceeds is essential to ensure accurate computation.

Fill in the blank: The chargeable gain is the difference between disposal proceeds and ______ cost of the asset.

Box 5.2: Steps in computing capital gains tax



5.2.3 Exemptions and reliefs under capital gains tax

Certain transactions are exempt from CGT in Nigeria. These include gains from the disposal of decorations awarded for valour, gains from transfers between spouses, and gains from the disposal of assets used for charitable purposes.

Reliefs are also available to reduce the burden of CGT. For example, **roll-over relief** allows taxpayers to defer CGT when proceeds from the disposal of an asset are reinvested in acquiring a similar asset.

Fill in the blank: Roll-over relief allows taxpayers to defer CGT when proceeds are ______ in acquiring a similar asset.

Plate 5.2: *Roll-over relief in capital gains taxation*

Pilot questions 5.2

Capital gains tax in Nigeria is governed by:

Companies Income Tax Act
Capital Gains Tax Act

Petroleum Profits Tax Act
Value Added Tax Act

Capital gains tax applies to profits realised from:

Sale of goods and services
Disposal of capital assets
Imports and exports
Voluntary contributions

The chargeable gain is calculated as:

Disposal proceeds minus acquisition cost and allowable expenses
Gross revenue minus voluntary donations
Imports minus exports
Profits before deductions

Which of the following is exempt from capital gains tax?

Sale of land for profit
Transfer of assets between spouses
Disposal of shares for gain
Sale of buildings for profit

Roll-over relief allows taxpayers to:

Avoid filing tax returns
Defer CGT when proceeds are reinvested in similar assets
Pay taxes voluntarily
Exempt all business profits from taxation

Part 5.3 Taxation Of Goods And Services

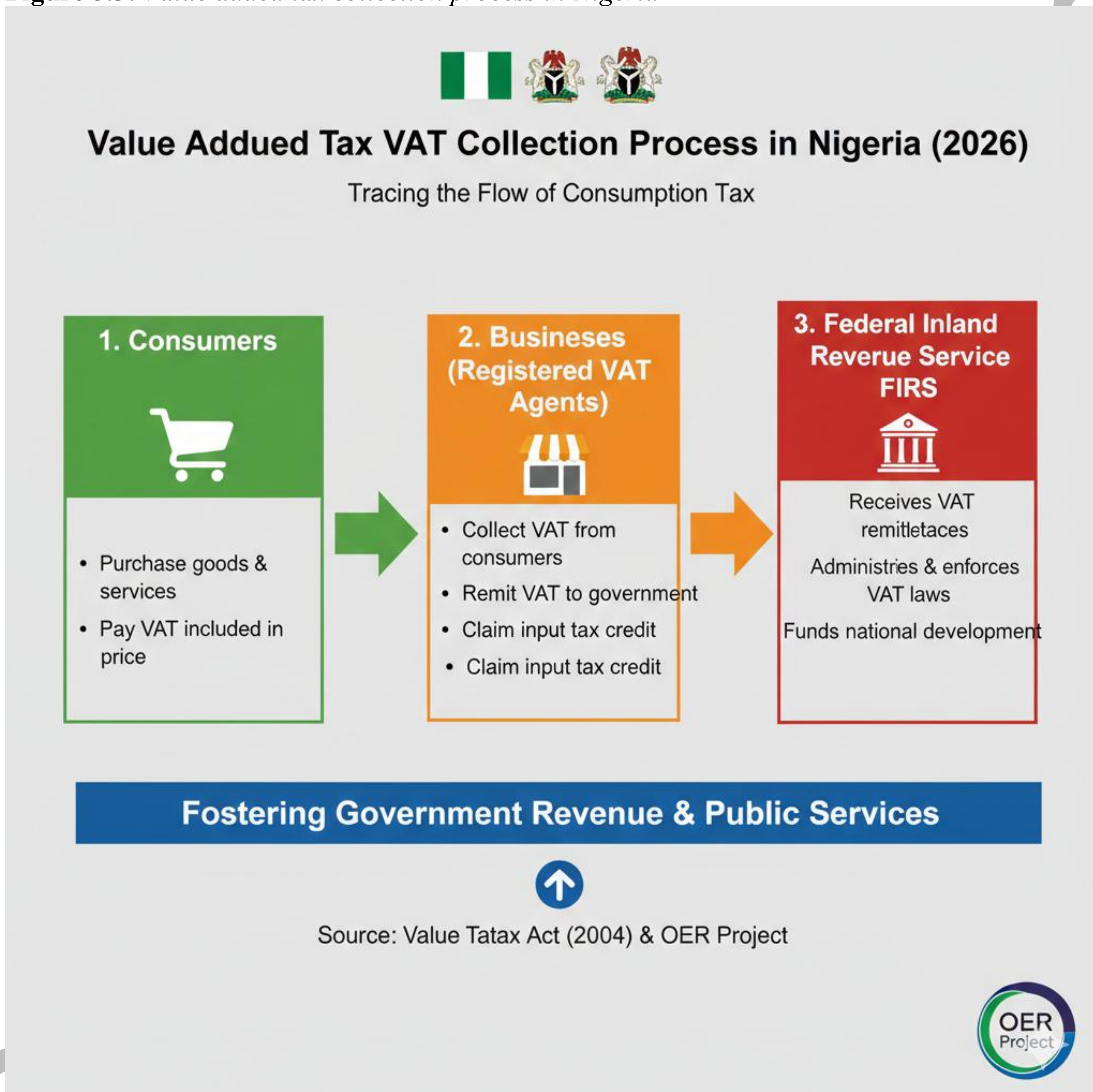
5.3.1 Value added tax (VAT)

Value added tax (VAT) is an indirect tax levied on goods and services at each stage of production and distribution. In Nigeria, VAT is governed by the **Value Added Tax Act (VATA)** and administered by the Federal Inland Revenue Service (FIRS). Businesses collect VAT from consumers and remit it to the government, making it a major source of revenue.

VAT is considered regressive because it applies equally to all consumers, regardless of income. However, it is relatively easy to collect since it is embedded in transactions.

Fill in the blank: Value added tax is levied on goods and ______ at each stage of production and distribution.

Figure 5.3: *Value added tax collection process in Nigeria*



5.3.2 Excise duties

Excise duties are taxes imposed on specific goods produced within a country, such as alcohol, tobacco, and petroleum products. They are designed not only to generate revenue but also to regulate consumption of goods that may have social or health implications.

Excise duties are collected from manufacturers and producers, who often pass the cost on to consumers through higher prices.

Fill in the blank: Excise duties are imposed on specific goods produced within a ______, such as alcohol and tobacco.

Plate 5.3: *Excise duties on selected goods in Nigeria*

5.3.3 Customs duties and tariffs

Customs duties and tariffs are taxes imposed on goods imported into or exported out of a country. They are administered by the Nigeria Customs Service and serve both revenue and regulatory purposes.

Customs duties protect local industries by making imported goods more expensive, while tariffs can be used to encourage or discourage trade with specific countries.

Fill in the blank: Customs duties are imposed on goods ______ into or exported out of a country.

Box 5.3: Functions of customs duties and tariffs

Pilot questions 5.3

Value added tax in Nigeria is governed by:

Companies Income Tax Act
Value Added Tax Act
Petroleum Profits Tax Act
Capital Gains Tax Act

Excise duties are imposed on:

All goods and services
Specific goods produced within a country
Imports only
Voluntary contributions

Customs duties are administered by:

Federal Inland Revenue Service
Nigeria Customs Service
State Boards of Internal Revenue
Ministry of Finance

Which of the following is an example of goods subject to excise duty?

Land and buildings
Alcohol and tobacco
Imports of machinery
Charitable donations

Customs duties serve to:

Protect local industries and regulate trade
Reduce government revenue
Eliminate statutory laws
Make taxes optional

Part 5.4 Contemporary Issues In Business And Goods Taxation

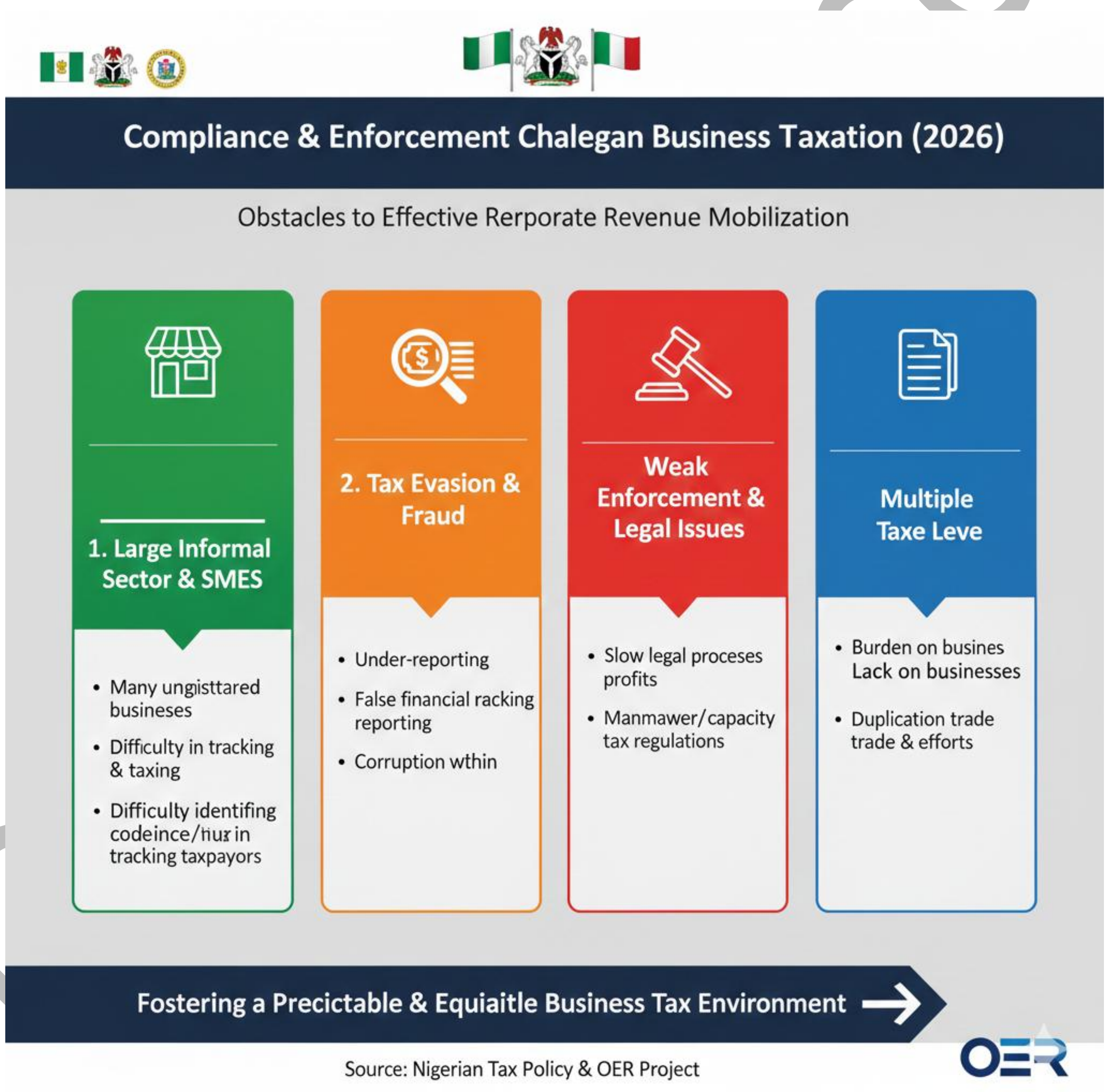
5.4.1 Challenges in compliance and enforcement

Taxation of business entities and goods in Nigeria faces several challenges. **Tax evasion**, where businesses deliberately avoid paying taxes, remains a major issue. The **informal sector**, which accounts for a significant portion of economic activity, is difficult to monitor and often escapes taxation. Weak enforcement mechanisms and limited capacity of tax authorities further hinder effective compliance.

Public mistrust also contributes to poor compliance, as many businesses question whether tax revenues are used transparently and effectively.

Fill in the blank: One of the major challenges in business taxation in Nigeria is widespread ______ by companies and traders.

Box 5.4: Key compliance and enforcement challenges in Nigeria



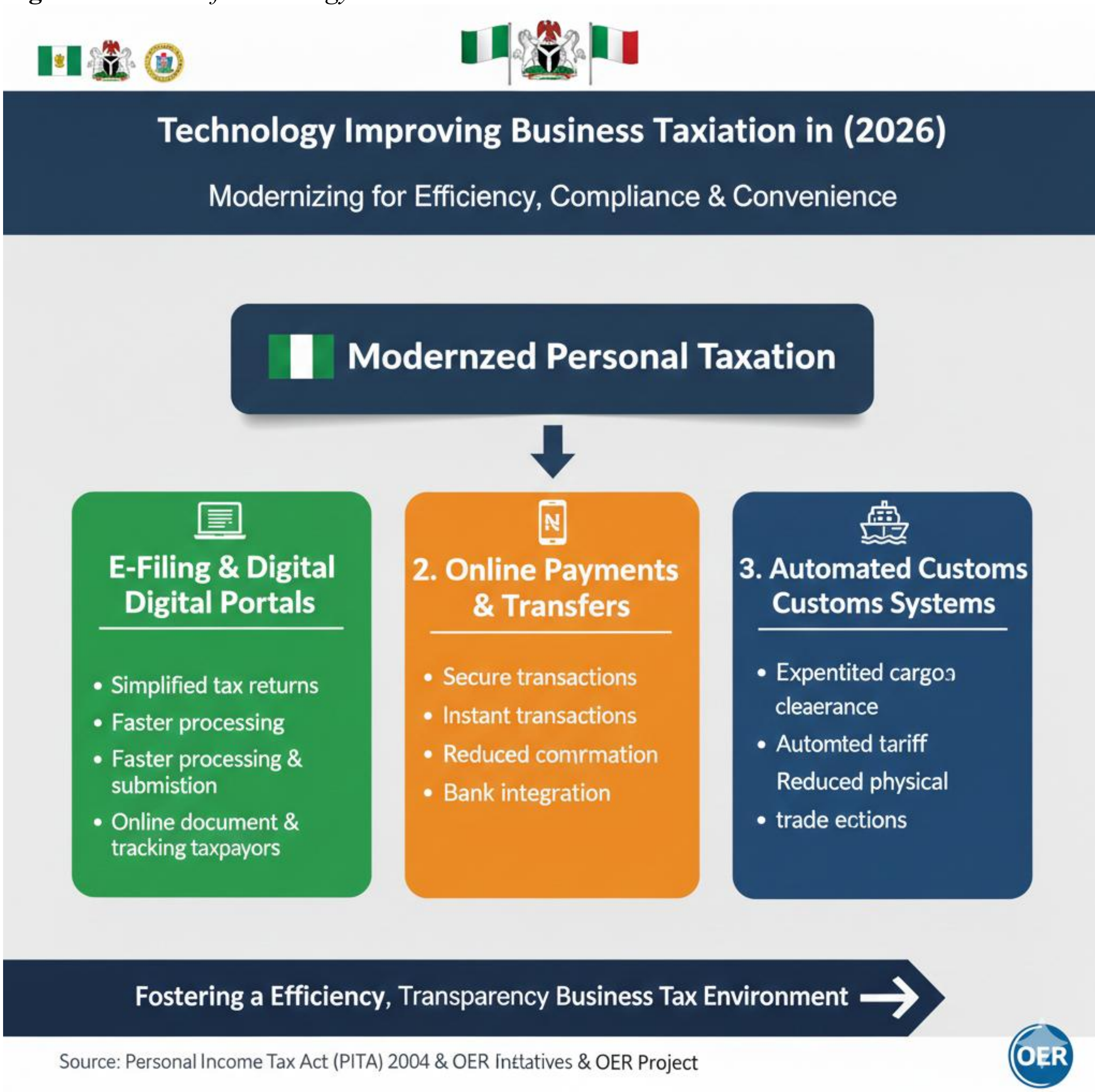
5.4.2 Role of technology in business taxation

Technology is transforming business taxation in Nigeria. **Digitalisation** has introduced electronic filing systems, online payment platforms, and automated record-keeping. These innovations reduce human error, improve transparency, and make compliance easier for businesses.

For example, VAT returns can now be filed electronically, while customs duties are processed through automated systems that track imports and exports more efficiently. Technology also helps expand the tax base by capturing transactions that were previously unrecorded.

Fill in the blank: Electronic filing systems introduced in Nigeria are designed to improve ______ and transparency in business taxation.

Figure 5.4: *Role of technology in business taxation*



5.4.3 Reforms and international influences

Nigeria is pursuing **tax reforms** to strengthen business and goods taxation. These reforms include expanding the tax base to cover digital services, improving enforcement mechanisms, and enhancing transparency in revenue use.

International influences also play a role. Agreements such as double taxation treaties encourage cross-border trade and investment, while global standards promoted by organisations like the OECD push Nigeria towards greater transparency and fairness.

Fill in the blank: Double taxation treaties are designed to prevent businesses from being taxed ______ on the same income in different countries.

Plate 5.4: *Reforms and international influences in business taxation*

Pilot questions 5.4

Which of the following is a major challenge in Nigerian business taxation?

Strong enforcement mechanisms
Tax evasion

High transparency
Effective compliance

The informal sector makes business taxation difficult because:

It is fully regulated
It operates outside formal monitoring systems
It generates high compliance
It reduces tax evasion

Electronic filing systems introduced in Nigeria aim to:

Increase corruption
Improve efficiency and transparency
Reduce compliance
Eliminate tax laws

Expanding the tax base to include digital services is an example of:

Compliance challenges
Role of technology
Tax reforms and international influences
Informal economy

Double taxation treaties are designed to:

Increase tax burdens on businesses
Prevent businesses from being taxed twice on the same income
Replace domestic tax laws
Eliminate international trade

Series Summary

This Series has examined the taxation of business entities, capital gains, and goods and services, which are crucial components of Nigeria's fiscal system. We began by exploring how companies are taxed through the Companies Income Tax Act, petroleum profits tax, and education tax. Then we considered capital gains taxation, focusing on its scope, computation, and exemptions. Following that, we analysed the taxation of goods and services, including VAT, excise duties, and customs tariffs. Finally, we discussed contemporary issues such as compliance challenges, the role of technology, and international influences.

By completing this Series, you should now be able to explain the taxation of business entities (SLO 5.1), define and compute capital gains tax (SLO 5.2), describe the taxation of goods and services (SLO 5.3), and evaluate contemporary issues in business and goods taxation (SLO 5.4).

Glossary Of Terms

Capital gains tax (CGT): A levy imposed on profits realised from the sale or disposal of capital assets.
Chargeable gain: The difference between disposal proceeds and acquisition cost, after allowable expenses.
Companies Income Tax Act (CITA): The law governing taxation of corporate profits in Nigeria.
Customs duties: Taxes imposed on goods imported into or exported out of a country.
Education tax: A levy on company profits used to fund tertiary education through TETFund.
Excise duties: Taxes imposed on specific goods produced within a country, such as alcohol and tobacco.
Petroleum profits tax (PPT): A tax levied on companies engaged in petroleum exploration and production.
Roll-over relief: A provision allowing deferral of CGT when proceeds are reinvested in similar assets.
Tariffs: Taxes or duties imposed on imports or exports to regulate trade and protect local industries.
Value added tax (VAT): An indirect tax levied on goods and services at each stage of production and distribution.

Concept Check Questions 5

Objective questions

Which law governs corporate taxation in Nigeria?
Petroleum Profits Tax Act
Companies Income Tax Act
Capital Gains Tax Act
Value Added Tax Act
(Linked to SLO 5.1)

Which of the following is exempt from capital gains tax?

Sale of land for profit
Transfer of assets between spouses
Disposal of shares for gain
Sale of buildings for profit
(Linked to SLO 5.2)

Short-answer questions

3. Define value added tax and state one reason why it is considered regressive. (Linked to SLO 5.3)
4. Mention two challenges faced in enforcing business taxation in Nigeria. (Linked to SLO 5.4)

Long-answer questions

5. Analyse the taxation of goods and services in Nigeria, focusing on VAT, excise duties, and customs tariffs. (Linked to SLO 5.3)

Basic response: Learners should describe VAT as an indirect tax on goods and services, excise duties on specific goods, and customs duties on imports and exports.

Value-added response: Outstanding learners may evaluate how these taxes influence consumption, protect local industries, and generate revenue.

Evaluate contemporary issues in Nigerian business taxation, focusing on compliance challenges and international influences. (Linked to SLO 5.4)

Basic response: Learners should explain challenges such as tax evasion and informal sector dominance, and note the role of treaties.

Value-added response: Outstanding learners may propose reforms such as expanding the tax base, adopting global standards, and leveraging technology for transparency.

Answers to Concept Check Questions 5

b

b

VAT is an indirect tax levied on goods and services at each stage of production. It is considered regressive because it applies equally to all consumers regardless of income.

Challenges include tax evasion and dominance of the informal sector.

Basic response: VAT applies to goods and services, excise duties to specific goods, and customs duties to imports and exports.

Value-added response: These taxes influence consumption, protect industries, and generate revenue for government.

Basic response: Compliance challenges include tax evasion and informal sector dominance. International treaties prevent double taxation.

Value-added response: Reforms such as expanding the tax base, adopting global standards, and leveraging technology can improve transparency and efficiency.

Answers to Pilot Questions 5

Part 5.1

b

b

b

b

b

Part 5.2

b

b
a
b
b

Part 5.3

b
b
b
b
a

Part 5.4

b
b
b
c
b

References and Attributions 5

Figure 5.1: Companies income tax framework in Nigeria. Suggested AI prompt: "Create a diagram showing company profits, allowable deductions, and taxation under CITA."

Plate 5.1: Petroleum profits tax in Nigeria's oil sector. Suggested AI prompt: "Create an illustration showing oil rigs and petroleum companies paying petroleum profits tax."

Box 5.1: Examples of business levies in Nigeria. Suggested AI prompt: "Generate an infographic showing examples of business levies in Nigeria such as education tax and ICT levy."

Figure 5.2: Scope of capital gains tax in Nigeria. Suggested AI prompt: "Create a diagram showing land, buildings, and shares as examples of assets subject to capital gains tax."

Box 5.2: Steps in computing capital gains tax. Suggested AI prompt: "Generate an infographic showing steps in computing capital gains tax in Nigeria."

Plate 5.2: Roll-over relief in capital gains taxation. Suggested AI prompt: "Create an illustration showing reinvestment of proceeds from asset disposal into new assets under roll-over relief."

Figure 5.3: Value added tax collection process in Nigeria. Suggested AI prompt: "Create a diagram showing VAT collection from consumers through businesses to government in Nigeria."

Plate 5.3: Excise duties on selected goods in Nigeria. Suggested AI prompt: "Create an illustration showing excise duty applied to tobacco and alcohol products in Nigeria."

Box 5.3: Functions of customs duties and tariffs. Suggested AI prompt: "Generate an infographic showing functions of customs duties and tariffs in Nigeria."

Box 5.4: Key compliance and enforcement challenges in Nigeria. Suggested AI prompt: "Generate an infographic showing compliance and enforcement challenges in Nigerian business taxation."

Figure 5.4: Role of technology in business taxation. Suggested AI prompt: "Create a diagram showing e-filing, online payments, and automated customs systems improving Nigerian business taxation."

Plate 5.4: Reforms and international influences in business taxation. Suggested AI prompt: "Create an illustration showing Nigerian officials discussing tax reforms with international cooperation symbols."