Tinubu Tax Reforms explained in Layman's Language

By Dada Olusegun

Since President Bola Tinubu transmitted four executive bills tagged #TaxReformBills to the national assembly, many needless controversies have engulfed the debate around the bill. Most of these controversies are simply borne out of inability of those flaming the controversies to carefully go through the contents of the bills currently before the parliament. As a result of, a lot of ordinary Nigerians are confused about the true position of these bills especially as it affects their pockets. I want to briefly breakdown the tax reform bills in a very concise and easily understood manner. The tax reform bills are four different bills that seeks to bring everything about taxation and administration of tax in Nigeria under four different pieces of legislation. The bills are as follows:

The Nigeria Tax Bill; The Nigeria Tax Administration Bill; The Nigeria Revenue Service Establishment Bill; The Joint Revenue Board Establishment Bill The Nigeria Tax Bill is where all major taxes imposed on individuals and companies are clearly stated as well as the rates. This bill is just like a compendium of taxes charged in Nigeria. The Nigeria Tax Bill basically amalgamated all the existing laws in which provisions for taxation was made. If passed, this bill will lead to the repeal of 11 laws that contain provisions on imposition and collection of taxes. Some of major provisions contained in the Nigeria Tax Bill that has far reaching bearing on both individuals and businesses include:

1. Exemption of individuals earning N800,000 or less from paying income tax. Currently, if you earn a total of N800,000 annually, you are required to pay N84,000 out of this amount as income tax. With this bill, you will not pay anything.

2.

3. Only those earning above N50 million get to pay 25% personal income rate. Under the current law, once you earn above N3.2 million you will be charged 24% income tax.

4. Exemption of small businesses from paying income tax. In this bill small companies are defined as those with annual turnover of N50 million or less. In the current law, small businesses are defined as those with turnover of N25 million or less. What this means is that up to 90% of businesses in Nigeria will be exempt from paying income tax.

5. Reduction of company income tax rate from 30% to 25% in 2026 for medium and large companies.

6. Elimination of minimum income tax of 1% charged on the gross earnings of medium and large companies that did not declare profit. Only profit is taxed under the new tax bill.

7. Harmonization of 2.5% education tax, 1% NITDA tax and 0.25% NASENI tax that many firms pay in addition to their company income tax annually into a single development levy of 2% that will be used exclusively to fund student loans from 2030. This further reduces the total tax burden of some companies from around 33.75% of their earnings (when you add these three deductions to their income tax rate of 30%) to just 27% of their earnings.

8. Review of the VAT revenue sharing formula where states now take 55% of the revenue instead of 50% while the federal government's share of VAT revenue shrinks from the current 15% to 10%. The share of LGAs remain the same.

9. Progressive increase in VAT rate from the current 7.5% to 10% in 2025; 12.5% between 2026-2029 and 15% from 2030.

10. Exemption of many basic items consumed by the poor from VAT such as food items, medical services and pharmaceuticals, educational fees, electricity etc.

11. Tax exemptions to encourage investment in both

associated natural gas and non-associated gas.

The Nigeria Tax Administration Bill on the other hand is the bill that sets out how the tax authorities will administer the taxes, which include assessment, collection of, and accounting for the various tax revenues they collect. The bill also outlines the powers and functions of the tax authorities, which taxes are reserved exclusively for the NRS to collect and which ones are reserved for the states among other miscellaneous provisions relevant to the effective administration of tax in Nigeria. Some of the major provisions of the Nigeria Tax Administration Bill include:

1. Drawing the rich into the tax net. The bill puts in place mechanism to ensure that individual customers of financial institutions whose cumulative transactions in a month amount to N25 million or more and corporate customers whose cumulative transactions in a month amount to N100 million or more do not evade taxes by mandating financial institutions to give the tax authority a list of such individual or corporate customers with their addresses.

2. Payment of taxes and royalties in Naira. Under this new provisions, taxes including royalty assessed in a currency other than the Nigerian Naira may be paid in that currency or in Naira at the prevailing exchange rate in the official exchange market. This will boost efforts to stabilize the Naira.

3. NRS to collect revenues hitherto collected by some regulatory agencies such as Nigeria Customs Service, Nigeria Upstream Petroleum Regulatory Commission (NUPRC), NPA, NIMASA, etc. This provision is meant to allow these regulatory agencies to focus on their regulatory functions while NRS whose duty is revenue collect carry out the collection of taxes and royalties.

4. Deployment of technology to automate tax assessment, collection and accounting. This will enhance tax collection especially on companies that operate digitally such as social media companies, music streaming platforms, etc.

5. Deduction of unremitted tax revenues by MDAs that serve as agents of tax authorities from their budgetary allocations.

6. A new VAT derivation model where 60% of VAT revenue standing to the credit of the states are shared on the basis of derivation while 20% is shared based on population sizes and the other 20% is shared equally among the states. Most importantly, VAT revenue for the purpose of the new derivation model will no longer be attributed to the place of remittance (which is usually the headquarters of companies) but attributed to the actual locations across the states where the consumption of goods and services took place. The current method favours states like Lagos, Rivers and Oyo states which have a lot of company headquarters located in them.

7. Installment payment of tax.

8. Funding of tax refund accounts by deducting a percentage of money collected by the tax authority before distribution. This is to ensure that every tax refund claim that is verified is paid. Before now the tax refund account was funded by budgetary provisions, which are grossly inadequate.

9. Establishment of Local Government Revenue Committee to handle collection of taxes, fines and rates under the jurisdiction of each local government area.

10. Harmonization of all tax offences and penalties to ensure compliance.

The Nigeria Revenue Service Establishment Bill seeks to change the name of Federal Inland Revenue Service (FIRS) into the Nigeria Revenue Service to reflect the fact that it collects revenue for the federation and not just the federal government since most of the revenue it collects are shared by the three tiers of government. The bill also specifically empowered the NRS to administer all taxes including the other taxes hitherto collected by some federal agencies like Nigeria Customs Service, NUPRC, NPA, NIMASA etc.

Finally, the Joint Revenue Board Establishment Bill provided for the establishment of three separate bodies namely:

1. Joint Revenue Board of Nigeria to help harmonize all taxes in the country and scrap nuisance taxes while also creating a national database of taxpayers.

2. Tax Appeal Tribunal to settle tax disputes between tax authorities on issues such as residency for the purpose of personal income tax collection etc.

3. Office of the Tax Ombudsman to help taxpayers get justice if they feel aggrieved against the tax authorities.

The above summary shows at a glance that these four bills, contrary to what some mischievous persons are pushing out there, are meant to radically transform tax administration in Nigeria for greater efficiency. These bills will update our archaic tax laws and simplify our complicated tax ecosystem. Apart from these, the tax reforms clearly favors the low income earners and small businesses, which will be exempted from paying income taxes. These bills are simply pro-poor, pro-growth and pro-efficiency. Every patriotic Nigeria needs to back these tax reforms.

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