

NIGERIA'S NEW 5% FUEL TAX REGIME; A BURDEN TOO GREAT

By Hon Emma Nnadi

The announcement of the 5% surcharge on fuel products which was made through the Nigeria Tax Administration Act signed into law by President Bola Tinubu on June 26, 2025 and to take effect on January 1, 2026, outlines the introduction of the surcharge, which is expected to generate approximately N796 billion annually for federal government. That surcharge will apply to fossil fuel products such as petrol, diesel, and aviation fuel, excluding clean or renewable energy products, household kerosene, cooking gas, and compressed natural gas (CNG), in simple language "anytime you buy fuel, you pay 5% tax for it" Ostensibly, imposition of a 5% tax on fuel in Nigeria now is a

taxes on luxury goods and services, such as high-end vehicles, private jets, and luxury real estate. This would ensure that the tax burden is distributed more equitably, with the wealthy bearing a greater proportion of the tax load.

Another potential solution is to implement a more efficient and effective tax collection system, which would minimize tax evasion and ensure that all eligible taxpayers contribute to the nation's revenue. This could be achieved through the use of technology, such as online tax filing systems and digital payment platforms, which would streamline the tax collection process and reduce the opportunities for tax evasion.

Consequently, government could also consider introducing a tax on foreign exchange transactions, which would help to reduce the volatility of the naira and generate revenue for the government. This would also help to discourage speculative activities in the foreign exchange market, which would have a stabilizing effect on the currency.

In addition, the government could explore the possibility of public-private partnerships (PPPs) to finance infrastructure projects, which would not only generate revenue but also help to improve the nation's infrastructure. PPPs would allow the government to leverage the expertise and resources of the private sector to deliver projects that would otherwise be unaffordable.

Moreover, the government could consider introducing a wealth tax on high-net-worth individuals, which would help to redistribute wealth and generate revenue for the government. This would also help to reduce income inequality, which is a major challenge facing the country.

Furthermore, the government could explore the possibility of creating a sovereign wealth fund, which would help to manage the country's natural resource wealth and generate revenue for future generations. This would ensure that the country's wealth is managed in a sustainable and responsible manner, and that future generations benefit from the country's natural resource endowment.

In conclusion, the imposition of a 5% tax on fuel in Nigeria is a regressive measure that will have far-reaching and deleterious effects on the country's economy and its citizens. Instead of relying on this draconian measure, the government should explore alternative revenue generation solutions that are more equitable and less burdensome on the already impoverished masses. By adopting a more nuanced and multi-faceted approach to revenue generation, the government can ensure that the tax burden is distributed more equitably, and that the nation's economy is managed in a sustainable and responsible manner.

Ostensibly, imposition of a 5% tax on fuel in Nigeria now is a calamitous decision that will undoubtedly exacerbate the country's already precarious economic situation. The burgeoning masses, who are barely eking out a living, will be disproportionately affected by this draconian measure, which will inevitably lead to a further diminution of their purchasing power and a concomitant decline in their standard of living. Painfully, the ripple effects of this tax will be far-reaching and deleterious, precipitating a cascade of price increases across various sectors, including transportation, manufacturing, and commerce. This, in turn, will lead to a diminution in economic activity, as consumers will be forced to curtail their spending, thereby precipitating a decline in aggregate demand. The resultant economic stagnation will have a debilitating impact on the nation's already fragile economy.

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Furthermore, the tax will also have a pernicious impact on the country's inflation rate, as the increased cost of fuel will lead to higher production costs, which will, in turn, be passed on to consumers in the form of higher prices. This will create a vicious cycle of inflation, where prices will continue to rise, further eroding the purchasing power of the Nigerian masses. In light of these adverse economic effects, it is imperative that federal government explores alternative revenue generation solutions that do not disproportionately burden the already impoverished masses. One potential solution is to increase