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REFORMING NIGERIA'S TAX ADMINISTRATION: A CRITIQUE OF THE NIGERIA REVENUE SERVICE (ESTABLISHMENT) BILL, 2024.

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ABSTRACT

Nigeria's persistent tax administration challenges including inefficiencies, fragmentation, and low compliance have significantly constrained the country's fiscal capacity and development potential. In response, the Nigeria Revenue Service (Establishment) Bill, 2024 seeks to replace the Federal Inland Revenue Service (FIRS). It proposes consolidating tax administration into a centralized authority, enhancing digitalization, strengthening governance structures, and promoting professionalization. Grounded in Public Choice Theory and New Institutional Economics, this critique evaluates the Bill's potential strengths, including improved efficiency, greater transparency, and increased voluntary compliance. However, it also highlights critical weaknesses, such as the risks of overcentralization, bureaucratic capture, and insufficient attention to subnational fiscal autonomy and public trust-building. While the Bill represents a positive step toward modernizing Nigeria's tax system, its success will ultimately depend on complementary reforms that ensure accountability, safeguard institutional integrity, and actively engage stakeholders at all levels. This study concludes by offering policy recommendations aimed at fostering a more inclusive, transparent, and sustainable revenue administration framework.

INTRODUCTION

Nigeria's tax administration has historically been characterized by systemic inefficiencies, fragmented institutional arrangements, and a chronically low tax-to-GDP ratio, which stood at just 10.86% in 2021 significantly below the African average of 16% and the global average of over 30% (OECD, 2022; IMF, 2021). This fiscal underperformance has severely constrained public investment and service delivery, deepening the country's dependency on volatile oil revenues and leaving critical sectors such as healthcare, education, and infrastructure grossly underfunded (World Bank, 2023; National Bureau of Statistics, 2023). The present tax framework operates under a multi-tiered structure involving the Federal Inland Revenue Service (FIRS), State Boards of Internal Revenue (SBIRs), and Local Government Councils, which often operate autonomously and in silos. This institutional fragmentation has led to duplicative functions, jurisdictional conflicts, and substantial revenue leakages, severely undermining tax compliance and administrative efficiency (BudgIT, 2022; PWC Nigeria, 2022).

Adding to these structural flaws are persistent issues of tax evasion, an exceedingly narrow tax base dominated by a few formal sectors and a generally low level of voluntary compliance, largely exacerbated by weak enforcement mechanisms, corruption, and poor taxpayer education (ICAN, 2022; NEITI, 2023). Additionally, Nigeria significantly lags behind in the digital transformation of its tax systems; despite global trends favoring automation and data-driven administration, many tax processes in Nigeria remain manual, paper-based, and opaque, thus perpetuating inefficiency and reinforcing a culture of distrust between taxpayers and authorities (Deloitte Nigeria, 2023; FIRS Annual Report, 2023).

Against this backdrop, the Nigeria Revenue Service (Establishment) Bill, 2024, has emerged as a potentially transformative legislative initiative. The Bill proposes the consolidation of federal tax functions under a centralized, professionalized entity—the Nigeria Revenue Service (NRS)—with the aim of simplifying tax administration, enhancing data integration, curbing jurisdictional overlap, and improving service delivery. Furthermore, the Bill introduces comprehensive governance and operational reforms, including the mandatory digitalization of tax processes, streamlined oversight mechanisms, and measures to bolster the autonomy and institutional integrity of tax authorities (Federal Ministry of Finance, 2024). These provisions align with broader objectives of enhancing administrative efficiency, promoting tax equity, expanding the tax net, and ultimately strengthening Nigeria's fiscal resilience and economic sustainability (Nigerian Economic Summit Group, 2024; CBN Economic Report, 2023).

Given the strategic importance of domestic resource mobilization for sustainable development, the Bill is a timely response to both domestic fiscal pressures and international calls for tax reform in developing economies. It presents a critical opportunity to reimagine Nigeria's tax system in a way that is more transparent, accountable, and development-oriented.

This study aims to critically examines the Nigeria Revenue Service (Establishment) Bill, 2024, analysing its strengths and weaknesses in the context of ongoing tax administration challenges. It assesses the Bill's potential to reform the Nigerian tax landscape and offers policy recommendations to address its shortcomings, with the goal of fostering a more inclusive, accountable, and effective revenue system.

Theoretical Framework

1. Public Choice Theory

Public Choice Theory offers a compelling lens through which to interpret the dynamics of tax reform, particularly in politically complex and administratively fragmented settings such as Nigeria. Emerging at the intersection of economics and political science, the theory was pioneered by scholars such as James Buchanan and Gordon Tullock in their seminal work *The Calculus of Consent* (1962). It posits that political actor whether legislators, bureaucrats, or interest groups—are driven not by altruistic goals of public service, but by self-interest, much like individuals in market settings. Under this framework, public institutions are viewed as arenas of competing interests where policy outcomes, including tax reforms, are shaped by strategic bargaining, lobbying, and often rent-seeking behavior (Mueller, 2003). In the context of tax administration, this implies that inefficiencies such as fragmented tax authorities, redundant agencies, and discretionary exemptions are not merely technical problems, but the product of entrenched incentives that benefit specific stakeholders.

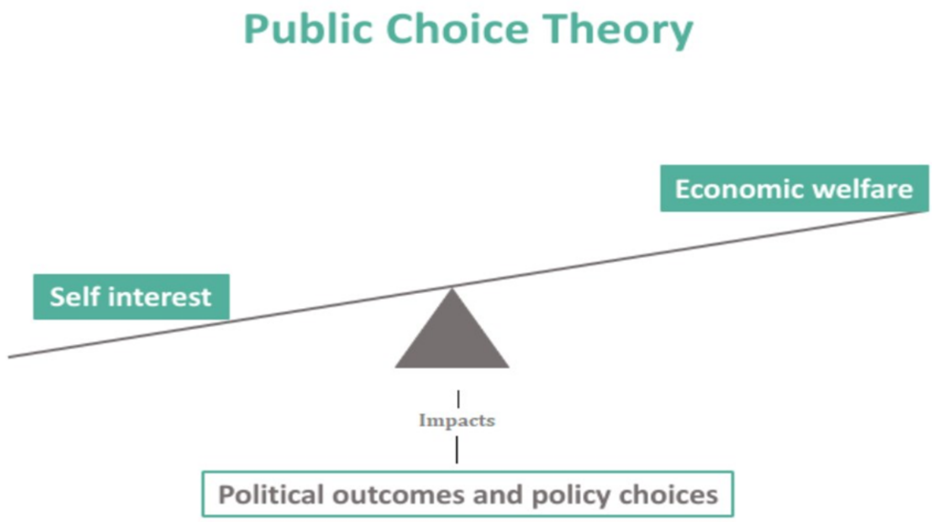

Figure 1: Source (WallStreetMojo, 2025).

Applying Public Choice Theory to the Nigeria Revenue Service (Establishment) Bill, 2024, provides critical insights into both the motivations for reform and the risks it entails. The Bill's centralization of tax authority into the Nigeria Revenue Service (NRS) can be seen as a rational attempt to reduce jurisdictional overlap and inefficiencies that have historically enabled rent-seeking by sub-national actors and officials operating in opaque systems. However, centralization alone does not eliminate self-interested behavior it merely shifts the arena in which it plays out. Without robust institutional checks and balances, such as transparency mechanisms, legislative oversight, and independent audits, the concentration of tax powers could create new opportunities for rent-seeking and bureaucratic capture at the federal level (Persson & Tabellini, 2000). Therefore, Public Choice Theory underscores the importance of designing reforms that not only streamline institutional structures but also align incentives, enhance accountability, and limit the discretion of officials. In the Nigerian context, this involves embedding anti-corruption safeguards, promoting stakeholder participation, and ensuring that the centralized NRS operates within a clearly defined legal and ethical framework.

2. New Institutional Economics (NIE) Theory:

New Institutional Economics (NIE) theory is an extension of traditional economic theory that emphasizes the critical role of institutions defined as the formal and informal rules, norms, and enforcement mechanisms in shaping economic behaviour and performance. Unlike classical economics, which often assumes frictionless markets and perfect information, NIE acknowledges that real-world transactions are burdened by costs such as information asymmetry, enforcement problems, and bargaining difficulties. As stated by North (1990), institutions provide the necessary structure for economic exchange by reducing uncertainty and fostering cooperation among individuals and organizations. A central tenet of NIE is the importance of institutional trust and rule-based governance in promoting economic efficiency and development. By establishing predictable patterns of interaction and credible commitment mechanisms, effective institutions lower transaction costs and facilitate investment, innovation, and long-term growth. NIE integrates insights from economics, political science, law, and organizational theory, recognizing that economic outcomes are deeply embedded within broader social and political structures. Key contributors to NIE, including Douglass North, Oliver Williamson, and Ronald Coase, have demonstrated how institutions evolve over time in response to changing economic and technological environments. In essence, NIE shifts the focus from purely market mechanisms to the "rules of the game" that govern economic interactions, highlighting how institutional quality directly influences a nation's prosperity.

Applying New Institutional Economics (NIE) to the reform of Nigeria's tax administration, particularly the *Nigeria Revenue Service (Establishment) Bill, 2024*, highlights the critical role of institutional quality in determining the success of such structural changes. NIE emphasizes that efficient economic outcomes depend not merely on formal organizational restructuring but on the effectiveness of the "rules of the game" the legal, administrative, and cultural institutions that govern behavior (North, 1990). The Bill's attempt to centralize tax administration under the Nigeria Revenue Service (NRS) reflects an effort to reduce transaction costs, address jurisdictional fragmentation, and promote more predictable and enforceable tax collection practices. However, from an NIE perspective, centralization without strengthening the underlying institutional framework such as ensuring transparency, building trust, and creating credible enforcement mechanisms risks perpetuating inefficiencies under a new guise. As Coase (1937) and Williamson (1985) argue, governance structures must minimize opportunism and foster compliance to be truly effective. In Nigeria's context, where institutional trust remains fragile and enforcement often selective, the success of the NRS will depend not just on organizational design but also on the broader institutional reforms that can support rule-based governance, accountability, and citizen confidence in the tax system. Without these, the reform may entrench new forms of rent-seeking and bureaucratic inefficiency.

Overview of Tax Administration in Nigeria

Tax administration encompasses the set of processes, institutions, and mechanisms responsible for the assessment, collection, enforcement, and management of taxes. It plays a fundamental role in securing the revenue needed to finance public goods and services, thereby sustaining governance and promoting economic development (Bird & Zolt, 2008). A well-functioning tax administration system is typically assessed based on its efficiency, equity, simplicity, transparency, and accountability. Efficient tax administration minimizes both the cost of collection for the government and the compliance burden for taxpayers, while transparency and according to Asada (2010), the works of Nigeria, the structure of tax administration reflects the country's federal system, with tax responsibilities shared among federal, state, and local governments. However, this multi-tiered framework has often led to overlapping functions, inconsistent enforcement, multiple taxation, and revenue leakages. In the works of Ola (2001), Nigeria's tax administration has historically been weakened by excessive political interference, inadequate manpower, corruption, and a weak legal framework, resulting in low revenue yields relative to the size of the economy. More recently, scholars like Naiyeju (2010) have emphasized that successful tax administration reform in Nigeria requires not only structural and technological changes but also a shift in administrative culture moving towards greater professionalism, autonomy, and taxpayer-centered service delivery. For example, the partial autonomy granted to the Federal Inland Revenue Service (FIRS) through the FIRS (Establishment) Act of 2007 improved revenue mobilization to an extent, but issues of institutional overlap and enforcement gaps at the state and local levels persist (Kiabel & Nwokah, 2009).

Globally, trends in tax administration reform have increasingly focused on digitization, risk-based compliance strategies, and the creation of autonomous revenue authorities (ARAs) to reduce political influence and enhance operational efficiency (Fjeldstad & Moore, 2008). Nigeria has begun to align with these trends, particularly through initiatives such as the adoption of the TaxPro Max platform by the FIRS. Nevertheless, challenges remain, particularly in integrating tax administration efforts across all tiers of government and addressing the pervasive informality in the economy (PwC Nigeria, 2023). In this context, the Nigeria Revenue Service (Establishment) Bill, 2024, represents a significant reform effort. By proposing a centralized tax administration body, it aims to harmonize tax collection, reduce redundancies, and introduce stronger governance mechanisms. However, as Public Choice Theory suggests, the success of such reforms depends heavily on the establishment of robust accountability systems to guard against rent-seeking and the abuse of centralized authority (Asada, 2010; Ola, 2001).

The Nigeria Revenue Service (Establishment) Bill, 2024

The Nigeria Revenue Service (Establishment) Bill, 2024 is a pivotal component of an ambitious and comprehensive tax reform initiative designed to overhaul Nigeria's underperforming and fragmented tax administration system. Recognizing the critical role of efficient tax collection in bolstering fiscal stability and promoting sustainable economic development, the Bill was introduced alongside three other reform-oriented legislations the Nigeria Tax Bill, the Nigeria Tax Administration Bill, and the Joint Revenue Board (Establishment) Bill forming the foundation of a new, unified tax framework (Federal Ministry of Finance, 2024). Specifically, the Bill aims to repeal the outdated Federal Inland Revenue Service (Establishment) Act of 2007, which has been criticized for enabling jurisdictional overlap, administrative inefficiencies, and significant revenue leakages (BudgIT, 2022).

At the heart of the Bill is the creation of the Nigeria Revenue Service (NRS), envisioned as a centralized, professionalized authority responsible for tax collection and administration across the country. The centralization effort reflects a deliberate strategy to consolidate tax functions, standardize procedures, and eliminate the duplication of roles that historically existed between the Federal Inland Revenue Service (FIRS), State Boards of Internal Revenue (SBIRs), and Local Government Councils (World Bank, 2023). According to the OECD (2022), unified tax systems are critical in developing economies to enhance transparency, broaden the tax base, and improve compliance. Furthermore, the NRS is mandated to leverage digital technologies, align with international best practices, and promote voluntary taxpayer compliance through more transparent, accountable, and efficient mechanisms (Deloitte Nigeria, 2023). By restructuring the legal and institutional landscape of tax administration, the Nigeria Revenue Service (Establishment) Bill, 2024, seeks not only to boost government revenue but also to restore taxpayer confidence, reduce Nigeria's overreliance on oil revenues, and position the country for more sustainable economic growth.

Strengths of the Bill

The *Nigeria Revenue Service (Establishment) Bill, 2024* presents several notable strengths aimed at transforming and modernizing Nigeria's tax administration framework, these strengths include;

1. **Technological Advancements:** According to the OECD (2010), digitalization of tax services increases transparency, minimizes leakages, and improves taxpayer convenience, particularly in economies struggling with informal sector dominance. The bill mandates deploying digital platforms and centralized databases, ensuring transparency and reducing corruption. Automated systems for real-time monitoring align with international best practices, fostering efficient tax collection (IMF, 2022).

2. **Autonomy and professionalism** within the NRS, aiming to insulate tax administration from undue political interference. As Fjeldstad and Moore (2008) note, granting tax agencies operational autonomy can significantly enhance accountability, service delivery, and trust in tax institutions, all of which are essential for improving voluntary compliance.

3. **Tax Relief and Incentives:** Exemptions for small businesses and minimum wage earners can stimulate entrepreneurship and disposable income. The gradual corporate tax reduction from 30% to 25% by 2026 positions Nigeria as an attractive destination for foreign direct investment (World Bank, 2023).

4. **Centralization of tax collection:** Under a single federal body the Nigeria Revenue Service (NRS) seeks to eliminate jurisdictional overlap and enhance administrative efficiency. According to Bird and Zolt (2005), unified tax systems in developing countries often improve revenue generation and reduce opportunities for evasion and corruption. By creating a single point of authority, the Bill aspires to standardize procedures and reduce the confusion historically associated with multiple taxing agencies at the federal, state, and local levels.

5. **International Collaboration:** Provisions for adherence to international tax treaties and enhanced dispute resolution mechanisms align Nigeria with global standards, combating base erosion and profit shifting (BEPS) (OECD, 2021).

Weaknesses of the Bill

While the Nigeria Revenue Service (Establishment) Bill, *2024* introduces important reforms, it also presents several notable weaknesses that may undermine its effectiveness. These weaknesses include;

1. **Risk of Overcentralization**: While the Bill seeks to streamline tax administration, it risks creating an overly centralized bureaucracy, which could reduce flexibility and responsiveness at the local level. As Prud'homme (1995) argues, excessive centralization in developing countries often undermines efficiency and alienates sub-national governments from the revenue process.

2. **Potential for Bureaucratic Capture and Rent-Seeking:** Concentrating tax authority within a single federal agency without equally strong accountability mechanisms could foster bureaucratic capture, where officials prioritize private interests over public

welfare. Persson and Tabellini (2000) emphasize that institutional reforms must guard against new forms of rent-seeking arising from unchecked power centralization.

3. **Insufficient Emphasis on Institutional Trust-Building**: The Bill largely focuses on technical and organizational reforms but pays inadequate attention to strengthening institutional trust, which is crucial for tax compliance. According to North (1990), sustainable governance reforms require investments in the credibility and legitimacy of institutions, not just administrative restructuring.

4. **Limited Autonomy for Sub-National Revenue Collection:** By heavily centralizing tax powers, the Bill could undermine the fiscal autonomy of states and local governments, worsening vertical fiscal imbalances. Bird (2010) argues that effective fiscal federalism requires a balance between central oversight and local revenue-raising capabilities to promote accountability and development.

5. **Unclear Mechanisms for Public Engagement and Transparency:** Although the Bill introduces oversight provisions, it remains vague about how public participation, taxpayer feedback, and transparency will be institutionalized. As the World Bank (2016) highlights, transparent engagement with stakeholders is essential to building taxpayer morale and combating corruption.

Conclusion

The Nigeria Revenue Service (Establishment) Bill, 2024 stands as a bold and ambitious legislative intervention aimed at rectifying the deep-rooted inefficiencies that have historically plagued Nigeria's tax administration system. By proposing the consolidation of federal tax functions into a centralized authority, emphasizing the adoption of digital technologies, professionalizing revenue collection, and aligning with international best practices, the Bill has the potential to mark a transformative turning point in Nigeria's domestic revenue mobilization efforts. If effectively implemented, these measures could significantly improve administrative efficiency, foster greater transparency, expand the tax base, and ultimately enhance Nigeria's fiscal resilience, thereby enabling more sustainable financing for critical development needs.

However, despite its many strengths, the Bill is not without notable shortcomings. Chief among these are the risks associated with bureaucratic overcentralization, the potential for rent-seeking behavior within a powerful centralized agency, the erosion of subnational fiscal autonomy, and the Bill's limited attention to institutional trust-building and citizen engagement mechanisms. Insights from Public Choice Theory underline the danger that self-interest and rent-seeking can thrive within overly centralized structures without adequate checks and balances. Similarly, New Institutional Economics theory highlights the pivotal role of strong, credible institutions and not just organizational reforms in ensuring long-term economic performance and governance stability.

Thus, while structural realignment of the tax system is necessary, it is insufficient on its own to achieve the Bill's transformative goals. A comprehensive approach is required, one that embeds robust institutional safeguards, strengthens accountability frameworks, fosters participatory governance, and deliberately builds public trust in the new tax system. Without these complementary reforms, the risk remains that the Bill's lofty ambitions could be undermined by the same systemic weaknesses it seeks to correct. In sum, advancing Nigeria's tax reform agenda demands not only administrative modernization but also a deep commitment to institutional integrity, transparency, inclusivity, and federal balance.

Recommendations

1. Government should introduce strong, independent oversight bodies, regular audits, and transparent reporting systems to mitigate the risks of bureaucratic capture and rent-seeking within the new Nigeria Revenue Service (NRS).

2. Government should create formal mechanisms that allow states and local governments to maintain certain revenue-raising powers within a harmonized national framework, thus preventing fiscal alienation and promoting ownership at all levels.

3. Policy makers should establish clear procedures for taxpayer consultations, feedback loops, and public engagement initiatives to build trust and improve voluntary compliance, following global best practices recommended by the World Bank and OECD.

4. Government should prioritize efforts to build the credibility, legitimacy, and fairness of tax institutions through taxpayer education, anti-corruption measures, and service quality improvement.

5. Government should roll out the NRS reforms in phases, with periodic performance evaluations and stakeholder consultations to ensure that emerging challenges are addressed dynamically and the reform objectives are not derailed.

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