

BREAKING THE BURDEN: UNDERSTANDING REGRESSIVE TAXATION AND THE CALL FOR EQUITY IN NIGERIA'S TAX SYSTEM

Taxation plays a crucial role in financing government operations and public services in Nigeria. Over the years, the structure of taxation has evolved to include various forms, ranging from direct taxes, such as Personal Income Tax, to indirect ones, like Value Added Tax (VAT). However, understanding how these taxes impact different income groups helps promote fairness, especially when considering principles such as equity and ability to pay. This conversation becomes even more relevant as Nigeria seeks to grow its economy and improve revenue generation.

The Regressive Tax System: How It Affects Different Income Levels

A regressive tax system is one in which lower-income earners contribute a larger portion of their income compared to higher-income earners.

In Nigeria, indirect taxes such as VAT—currently at 7.5%—are charged uniformly on goods and services. While this promotes ease of collection, it also means everyone pays the same amount regardless of income level.

For example, both a person earning ₦50,000 and another earning ₦1,000,000 pay ₦750 VAT on goods worth ₦10,000. The flat-rate design means that, although equal in amount, the tax represents a larger share of the lower-income earner's resources. This highlights how such taxes may affect segments of the population differently.

The Principle of Equity: Ensuring Fair Contribution Across Income Levels

The principle of equity in taxation suggests that individuals and businesses should contribute taxes according to their ability to pay.

In practice, this means that those who earn more or generate higher profits could contribute a proportionately larger share to public revenue.

Nigeria's tax framework, guided by laws like the Personal Income Tax Act (PITA) and Companies Income Tax Act (CITA), offers a blend of both progressive and flat-rate taxes. As indirect taxes continue to serve as key revenue sources, it becomes important to assess how best to align tax strategies with equitable outcomes, ensuring no group bears an undue share of the burden.



Embracing Sound Tax Principles for National Development

Nigeria's tax policies are underpinned by several globally recognised principles, including:

- **Equity:** taxes should reflect the taxpayer's economic situation.
- **Certainty:** tax obligations must be clear and predictable.
- **Convenience:** tax payment processes should be simple and accessible.
- **Economy:** the cost of collection should be minimal relative to the revenue raised.

When applied effectively, these principles help build public trust, enhance compliance, and ensure that taxation contributes positively to economic development without placing unnecessary strain on any particular group.

How Discovery Consulting Supports Companies Within the Tax Framework

Navigating the complexities of Nigeria's tax system requires more than just knowledge of tax rates. It demands a strategic approach that takes into account a company's size, sector, and operations. This is where Discovery Consulting comes in.

- Apply equitable tax strategies to prevent excess burden or underpayment.
- Stay updated with reforms and compliance requirements.
- Handle tax audits and advisory needs with professionalism.

Whether you are a startup or an established enterprise, Discovery Consulting equips you with the tools and insights to operate confidently within Nigeria's tax environment.

Final Thoughts

Nigeria's tax system continues to evolve to meet the growing needs of its economy. While indirect taxes remain important, conversations around equity and fairness are gaining ground. By understanding how different forms of taxation affect various income groups and applying core tax principles, we can work towards a system that benefits both the government and its citizens.

At Discovery Consulting, we are committed to supporting companies in aligning their operations with these principles—ensuring compliance, reducing risk, and enhancing financial efficiency.

We help businesses:

- Understand their tax obligations and current exposure.
- Structure their operations in line with tax laws like CITA and PITA.

Let us help you unlock smarter tax management today.

