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An Appraisal of the New Tax Regime of 2025: Commentary on Social Contract And Voluntary Tax Compliance

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ABSTRACT

This work conducts an appraisal of the new tax regime, while commenting on the principle of social contract and its effect on voluntary tax compliance in Nigeria. The idea of social contract entails the willing surrender of certain rights by members of the society and the assumption of certain duties which includes the payment of levies to the government, which in turn is obligated to utilize accrued resources to provide necessary facilities for tax payers. In a bid to streamline taxation in Nigeria and bring it in sync with global standards, some strategic tax legislations were enacted, taking effect from January 2026. The reforms which relate to unified fiscal legislation, expansion of non-oil revenue, enhancement of transparency and modernized tax administration through progressive tax measures and digital compliance systems at the local government, state and federal level are in tandem with best global taxation practices. However, the challenges that have bedeviled the Nigerian taxation reforms and administration include limited administrative capacity, corruption, low taxpayer awareness, lack of accountability, infrastructural gaps, federal cum state potential tax burden on small and medium enterprises. Thus, veritable findings have revealed that the novel tax reform and administration of 2025 have been able to improve the local revenue mobilization system, establishing the basis for citizens to demand for a fairer and stronger tax benefits and dividends from their society. Nonetheless, the paper recommends that the novel reforms in the tax acts should be religiously and effectively executed in order to broaden the tax net, support economic diversification and enhance Nigeria's global fiscal credibility and accountability to tax payers.

Keywords: Social Contract, Tax, Tax Reform and Voluntary Compliance

INTRODUCTION

Taxation has been described as "the means by which a government or the taxing authority imposes or levies a Tax on its citizens and business entities."[2] This paper provides an overview of the current taxation regime in Nigeria, particularly from the perspective of the social contract theory. It seeks to establish a nexus between the social contract theory resulting in good governance, and voluntary tax compliance. The relationship between tax payers who are required to pay taxes voluntarily, and the government who owes the people the obligation of funding social amenities with tax payers money, is akin to the principle of mutual burden and benefit. The paper commences by examining the background of social

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[2] MTN v. BIRS (2021) LPELR-56259(CA), per Nimpar, JCA

contract, voluntary compliance and morale of tax payers within the current Nigeria tax regime.

This work assesses the implications of the novel tax reform in Nigeria using the social contract, voluntary compliance and tax payers morale as litmus tests in ascertaining its usefulness and advantage to the extant law on Nigerian tax payers particularly with respect to public services and infrastructure.[3] It also conducts a comparative appraisal of social contract and voluntary tax in jurisdictions like the United States of America and United Kingdom, with the aim of tackling challenges and gaps in the current tax legislation in Nigeria.

Examining the Social Contract

Social contract was popularized in the 16th, 17th, and 18th centuries by theorists such as Thomas Hobbes, John Locke, and Jean-Jacques Rousseau, who proposed the concept as a means of explaining the origin of government, obligations of citizens, and the legitimacy of State authority over citizens. Statehood creates a relationship between the state and its citizens, and social contract is the conceptual base for said relationship. For instance, citizens' obligation to pay tax is balanced by their right to know the uses their taxes are channeled to and to demand transparent and effective management. It is the observance of this duty that will stimulate voluntary compliance by taxpayers.[4]

Hobbes portrayed the state of nature as one where life would be nasty, brutish, short, solitary and poor. Society was created, and the social contract theory conceived, to escape this state of chaos and pandemonium. Thus, citizens surrender their rights and privileges to a strong and capable ruler who would in turn cure the disorder and chaos in the society.[5] The views of John Locke are anchored on the principles of limited government and constitutional rule, which is to the effect that laws should be used to secure and protect the life, property and liberty of the citizens. He further argued that laws are essentially enacted to protect the free and equal natural rights which are conferred on citizens by virtue of being human.[6] Jeans-Jacques opined that in nature, persons are good and peaceful but there are vices inherent in the society that corrupts them. He anchored his theory on the general will as the basis for the organization of society, lending support to the idea of social contract.[7]

Succinctly, the idea of social contract entails that members of the society have reason to endorse and comply with the fundamental social rules, law and or principles of that society for the common good of the people and overall development of the society. It speaks to obligations on the part of both the government and the governed. Sovereignty is vested in the governing authority, and said sovereignty must be utilized for the benefit of the citizens. The provision of good governance is an essential fulfillment of government's obligations under the social contract. This involves tending to the general will, and catering for the welfare of citizens who have submitted themselves and their rights to be governed by the sovereign. The exercise of sovereign control by the instrumentality of laws and policies ought to enhance the commonwealth and result in developmental strides for the benefit of the citizens.

Voluntary Tax Compliance and Tax Morale

Voluntary tax compliance is the act of paying taxes mainly out of will on the ground that it is necessary, useful, moral, ethical, a civil duty, the right thing to do, etc.[8] the willing fulfillment of tax obligations without coercion or compulsion. The background of voluntary tax compliance and tax morale was captured in the opinion of Hon Justice Kanyip, where he posited that social contract can be expressed in the area of taxation, and where a civilized

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[3] A. Ariyo, *"Fiscal Policy and Taxation in Emerging African Economies"* (Lagos, Centre for Public Finance Studies, 2019).

[4] E Bassey and U Akpan, *"Taxation and Economic Development in Nigeria"* (Ibadan: University Press, 2020).

[5] Thomas Hobbes, *Leviathan*, Alfred Taylor (ed.) (Createspace Ind. Publishing, 2017)

[6] John Locke, *Two Treatises of Government*, Rod Hay (ed.), (McMaster University Press, 2004)

[7] Jean Jacques Rousseau, *The Social Contract* (Cosimo Inc., 2008)

[8] Available at www.igi-global.com accessed 14 April, 2026

society makes tax a part of the society, it must be willing to embrace the fact that acceptance of tax does not mean that it cannot give rise to substantial tensions and revolt.[9] This necessitates that the authority imposing the tax should reflect the society paying it. Since tax and society are linked, tax is integral to the process of the development of the modern State. However, it must be defined by the ability of the citizens to pay those levies. Tax is also linked to the development of the process of democracy and it gives rise to consensual taxation. An idea that provides the basis for the power of the State and at the same time binds the people and the State in which they live to pay specified tax in other to actualize the central goal of creating a functional government.[10]

Kanyip further argued that the orthodoxy which sees tax as compulsory has been challenged because compulsion comes into the picture when sanctions are imposed on the people by the government in the event of default. For instance, the very idea of value added tax, is to the effect that each time someone makes something good or adds value, it is taxed. In *FIRS v Agromix Nig Ltd,*[11] The respondent was incorporated on 6 September 1985 and argued successfully that it is not liable to pay tax on a tax assessment made in 2016, because it has neither engaged in any form of trading or business activity nor made any profit since its incorporation. The court held that under the Tax Acts, small businesses excluding "any business providing professional services" with an annual turnover of ₦50 million or less are exempt from income tax. Also, there is no obligation to submit a return in respect of value added tax for a small business except the small business chooses to file returns.[12]

Government trust has been identified as a key factor influencing voluntary tax compliance. To improve voluntary tax compliance, the government and tax authorities need to be more open and responsible.[13] Thus, when citizens perceive that public funds generated from taxation are put to good use transparently and accountably, and in ways that both directly and indirectly influence and affect their wellbeing in a positive manner, for instance the provision of public goods, citizens are more likely to voluntarily comply with taxation. The manner of use of resources accruing from taxation therefore have a direct effect on voluntary compliance and tax morale.

Tax morale has been identified as a strong tax-paying culture based on voluntary compliance - driven by a shared sense of responsibility rather than enforcement alone.[14] It refers to tax payers' perceptions which facilitates tax compliance or adherence in their society. Especially, when tax compliance is predicated on social contract and envisages the rise in citizens' trust in government attitude and actions, particularly where it has to do with effective and transparent use of tax payers' money. The issues of perceived fairness and reciprocity have a way of encouraging tax payers to voluntarily pay tax.[15] In Nigeria, the Fiscal Responsibility Act 2007[16] provides for the prudent management of the Nation's Resources and section 51 of the said Act provides that:

> 'a person shall have legal capacity to enforce the provision of this Act by obtaining prerogative orders or other remedies at the Federal High Court, without having to show any special particular interest".

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[9] B Kanyip, *"An Appraisal of the Legal and Institutional Framework on Taxation in Nigeria"*, a paper presented at the High Impact Federal Inland Revenue Service (FIRS) Interactive Conference with Honourable Justices of the Supreme Court, Court of Appeal and Judges of the Federal and State High Courts, which held from 15 - 19 August 2022 at Hilton London Kensington, 179-199 Holland Park Avenue, London, W11 4UL, United Kingdom

[10] Ibid.

[11] [2025] 1 NWLR (Pt. 1974) 649 (CA).

[12] Nigeria Tax Act 2025, Ss 56(a), 202 and 22.

[13] A A Mebratu, 'Theoretical Foundations of Voluntary Tax Compliance: Evidence from a Developing Country' (2024) 11(1) Palgrave Macmillan 1.

[14] OECD, 'Tax Morale' available at https://www.oecd.org/en/topics/tax-morale.html accessed 14 April 2026.

[15] J Tilley, *"Revenue Law"* (2nd Butterworths, 1978) 662.9.

[16] Fiscal Responsibility Act, No. 31 of 2007.

In terms of locus standi, therefore, this provision permits "a person" to challenge the (wrong) utilisation of tax payers' monies.[17]

In *Cheney v. Conn*,[18] the claimant asserted that tax obligations placed on British citizens by the Finance Act 1964 were unlawful as the government partially used funds raised through taxation to fund nuclear weapons research, which contravened the Geneva Convention as incorporated into English law by the Geneva Convention Act 1957. In defence, Conn (Inspector of Taxes) contended that the specific destination of tax funds was irrelevant to the legality of such taxation. The issues the Court had to decide was whether the eventual usage of tax money and purpose for which it was collected could affect the legality of statutory taxation obligations. The High Court found for the defendant, with Ungoed-Thomas J stating:

If the purpose for which a statute may be used is an invalid purpose, then such remedy as there may be must be directed to dealing with that purpose and not to invalidating the statute itself".

He further reasoned that statutes are innately incapable of being illegal as the statute is itself law. As statutes are laws enacted by Parliament, to challenge them would be to challenge Parliament's legislative supremacy.[19]

To wit, it is a settled societal principle that tax plays a central role in generating the sums of money needed by the government to fund its developmental projects. Thus, the government must have the ability to tax and exercise economic power over citizens in line with extant tax laws for the benefit of the society. The constitution mandates the Federal government to levy and collect taxes[20] while the State, and by that extension, the local government may receive taxes as enabled by the national assembly.[21] And the Supreme Court in *AG Ogun State v Aberuagba & Ors*[22]suggests that taxing power follows legislative competence and the above arrangement which specifies the tax powers of the Federal Government impliedly enables and confers on the States the power to levy tax on items captured on what is called the residual legislative list.

Moreso, the government must simplify tax laws, procedures and provide a more straightforward compliance system, improve tax administration by adopting an efficient and fair tax administration and the key stakeholders must enhance transparency and accountability by providing clear information on tax revenues and expenditures.[23] Also, the government through her policy must foster a tax friendly environment that creates a sense of civic duty or culture that promotes voluntary tax compliance. Hence, the new tax regime creates streamlined tax rules that would modernize taxation and minimize complexity for tax payers. There would be increased tax exemptions for individuals and small businesses in other to encourage and facilitate economic growth and fairer tax system especially with respect to reduced tax rates, enforcement, debt recovery mechanisms, strengthening compliance, substitution power, assignment of tax debts, license revocation, issuance of advance ruling, payment of reward and so forth.[24]

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[17] On the effectiveness of this provision in ensuring proper utilization of resources, see E A Mannie and O Harrison, 'The Imperative of Participatory Budgeting in the Wake of Tax Reform in Nigeria: Lessons from Kenya' (unpublished).

[18] [1968] 1 WLR 242; [1968] 1 All ER 779; Federal Inland Revenue Service, "*2024 Annual Tax Performance Report"* (Abuja: Government Press 2024).

[19] This argument may be different in countries like Nigeria which operate constitutional supremacy. Unlike in the United Kingdom which operates parliamentary supremacy, statutes can be held to be constitutional if they are inconsistent with the provisions of the constitution, which is the fons et origo, the source and origin of the legal system: *AG Abia State v. AG Federation & Ors* (2006) 16 NWLR (Pt. 1005) 265 at 381.

[20] Second Schedule, Part I, item 59 of the Nigerian Constitution, 1999 (as amended)

[21] Second Schedule, Part II, item 7, ibid.

[22] [1985] LPELR-3164 (SC) 28.

[23] Organization for Economic Cooperation and Development, *"Tax Morale: What Drives People and Businesses to Pay Tax?***"** <https://www.oecd.org/23 en/publications/tax-morale_f3d8ea10-en.html> accessed 1 July 2025.

[24] Nigeria Tax Administration Act 2025, Ss 61-78.

The implications for national development would be manifest in areas like fiscal growth, broader tax base, anti-avoidance, building a resilient economy, predictability, transparent tax environment, development levy funds for education, security, reduced borrowing, stable non-oil revenue base, encouraging formalization and long-term growth. Interestingly, in the case of *Attorney-General of the Federation v. Attorney-General of Abia State & ors (No. 2)*[25] the supreme court interpreted tax to mean the net revenue that is collected from any State by the Government of the Federation which is payable to that State for the benefit of the taxpayers. The idea of unity of tax compliance is based on the tenets of social contract and manifested in various ways. It could be used to exercise economic power of the State in an independent, direct or indirect manner especially under the old taxation regime in Nigeria.[26] However, a lot has changed particularly with respect to the fact that taxation and representation are now intricately linked and expressed with the slogan "no taxation without representation" which is geared towards epitomizing tax as a fundamental norm that aids the society.[27]

Another twist to the idea of voluntary taxation and social contract is the paradox of consensual tax and the coercion that follows considering the constitutional provisions that are reflected within a chapter of the constitution which is clearly non-justiciable. Put differently, sections 24(f) and 42(2)(a) of the 1999 Constitution imposes a non-justiciable duty on the citizen to "declare his income honestly to appropriate and lawful agencies and pay his tax promptly,"[28] thereby giving the impression of compulsion on one hand and making it difficult for the enforcement and generation of taxes on the other hand. In the decided case of *Independent Television and Radio v ESBIR,*[29] It was held that by virtue of section 24(f) of the 1999 Constitution, payment of tax is an obligation of a citizen, and failure of a citizen to pay tax shall strip him of the protection afforded by section 44(1) of the Constitution. *Inter alia*, in the case of *AG, Lagos State v Eko Hotel,*[30] It was held that where a legally imposed collecting agent fails to collect and remit tax, it is liable to pay the tax, by virtue of section 19 of the Personal Income Tax Act. According to Richard Murphy, *"tax paid is the property of a government in which we have a stake, and in which we participate."* As such, the logic behind the above reasoning is that tax is not taxpayers' money, but government's money. And If tax were really taxpayers' money, then the government would have no right to spend it in the first place, because it would manifest the nexus between taxation and robbery. [31]

Summarily, the guiding principles of Nigeria tax system" as reflected in paragraph 2.1 of the National Tax Policy 2017, acknowledged that all existing and future taxes are expected to align with fundamental features like equity and fairness in order to ensure that Nigeria tax system expresses and uses procedures that are devoid of discrimination. The need for taxpayers to pay according to their ability with simplicity, certainty and clarity in a well-defined tax system cannot be overemphasized. Also, the time and manner for the fulfilment of tax obligations shall take into account the convenience of taxpayers and avoid undue difficulties and incidences of low compliance cost that are above the barest minimum. Tax administration in Nigeria should be efficient, flexible and cost-effective in line with international best practices. The flexible and dynamic nature of taxation must be sustainable in order to respond to changing circumstances in the economy in a manner that does not retard economic activities or tax morale. The tax system should promote sustainable revenue,

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[25] [2002] 6 NWLR (Pt. 764) 542.

[26] *Peace Mass Transit Ltd v FCT and Ors* [2014] LPELR-23740 (CA); *Best Children International Schools Ltd v FIRS* [2018] LPELR-46727 (CA).

[27] *Williams v LSDPC* [1978] 3 SC 11-17; *S. A. Authority v Regional Tax Board* [1970] LPELR-2967 (SC).

[28] E Tengs, *"Taxation as a Social Contract: Public goods and collective action in Sub-Saharan Africa*" QoG Working Paper Series number 2020:10, December 2020 <https://www.gu.se/sites/ default/files/2020-12/2020_10_Tengs.pdf> accessed 22 May 2025.

[29] [2015] 12 NWLR (Pt 1474) 442.

[30] [2006] NGSC 164.

[31] G Loutzenhiser, "*Tiley's Revenue Law"* (9th ed, Hart Publishing, Oxford 2019), 10.48B.

economic growth and development while establishing synergy between tax policies and other economic policies of the government.[32]

Notable Excerpts from the Nigerian Tax Laws that Relate Directly To Social Contract And Voluntary Tax Compliance

The reform in the Nigerian taxation sphere is structured around four main pieces of legislation and they include Nigeria Tax Act 2025, Nigeria Tax Administration Act 2025, Nigeria Revenue Service Establishment Act 2025 and Joint Revenue Board Act 2025. The reforms of 2025 depict the response of the legislature in addressing the challenges of taxation in Nigeria or the positive reaction to the clarion call for a swift amendment or eradication of visible obstacles that have negatively affected the former tax regime and fiscal framework in Nigeria. The general discussion that led to the passing of the new tax Acts remains the trait of a democratic system with social contract values that would elicit voluntary tax compliance. This paper reveals the specific areas where the tax legislation relates directly to social contract and voluntary tax compliance in Nigeria. [33]

Digitization of Tax

This innovation was introduced into Nigeria's tax legal framework and operations with the aim of ensuring electronic filing, reducing compliance costs, invoicing and monitoring of transactions like value added tax in order to demystify the complex manual procedure and ensure transparency in the tax collection process across the states of the federation. Put differently, this novelty brought an abrupt end to the practice of manual tax collection, incidences of double taxation and poor documentation with the use of unilateral taxpayers register and tax identity number. With these structures in place, tax payers are expected to express their trust in the proficiency of the government or her tax agency by paying their tax voluntarily via personal assessment or when the demand is made by the tax authority. The Nigeria Revenue Service Establishment Act established the Nigeria Revenue Service and streamlined the procedure for collection of ministries, department and agencies debts from source in a unique and easy manner which requires production of warrant signed by the electronic collection platforms and endorsed by a judicial officer.[34]

Self-Assessment Returns by Taxpayer

In tandem with the new tax law, taxpayers with the right tax morale are expected to voluntarily conduct self-assessment and calculate their tax liability, file returns and remit taxes within the stipulated period. The essence of self-assessment is to encourage honesty, accountability, reduce administrative tax burden and increase participation in the tax system,[35] as far as the citizens know their tax will be used by the government to perfect her statutory obligation of rendering public services and capital infrastructure. Also, Nigeria Revenue Service is expected to carry out routine assessment, collection and accounting for revenue accruable to the government of the federation.[36]

Record-Keeping Obligations

The tax law encourages organizations and businesses to maintain their books of account, documents and records that would aid financial accuracy and transparency. The essence of record-keeping is to promote swift tax reporting, easy tax assessment and apt resolution of

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[32] *MTN Nigeria Communications Ltd v Benue State Internal Revenue Board Service (BIRS)* [2021] LPELR-56259(CA).

[33] M T Abdulrazaq, "Challenges of Tax Administration in Nigeria: A Review of Modernization Efforts." (2021) 12(1) *Nigerian Journal of Public Finance*, 45–62.

[34] Nigeria Service Establishment Act 2025, Ss 3 and 39.

[35] Nigeria Tax Administration Act 2025, Ss. 34-35.

[36] A Allott, *The Limits of Law* (Butterworths 1980) 155.

disputes between taxpayers and tax authorities. Whenever the government and taxpayers operate jointly, transparently and mutually, the level of trust and tax morale is strengthened.[37]

Mandatory Disclosure of Tax Planning Arrangement

The tax planning arrangement can reduce and discourage aggressive tax avoidance and tax evasion in Nigeria. Also, the need for mandatory disclosure can boost the level of equity and fairness in the tax system and increase transparency in corporate taxation through innovative strategies. Because, the extant tax law encourages taxpayers to act in good faith and pay fair share of taxes in order to assist the government realize good governance goals.

Cooperative Relationship between Tax Authorities and Taxpayers

The cooperative compliance model creates a platform where taxpayers and tax authorities interact constructively. As the tax authorities seizes the opportunity to carry out several awareness campaigns on the importance and benefit of diligent or voluntary tax compliance habits. Taxpayers are allowed to request information from tax officials and be granted access to relevant documents during tax audits. An instance of mutual cooperation between the state and taxpayers as recognized under the new tax legislation.

Reduction of Multiple Taxation

This is a measure taken by the novel tax legislation to reduce tax burden on the populace, which include imposition of a single 4% tax development levy with the aim of reducing tax complexity in all sectors of Nigeria. The improvement of the state of capital gains tax to 30%, thereby complimenting modern day tax realities and minimizing the window for tax avoidance. Also, the issues of dual or multiple taxation were addressed with the elimination of the medium company category, while allowing a 0% for small companies and 30% charge rate for large companies, which is a clear departure from the old taxation regime. The economic development tax incentive schemes are now better targeted and properly structured to meet economic needs of tax payers. For instance, qualified companies are subject to tax, companies are granted 5% annual tax credit for 5 years, additional 5 years for 100% reinvestment and 5-year extension to utilize outstanding tax credit. The new tax regime consolidates and places the tertiary education fund, police trust fund, National Agency for Science and Engineering Infrastructure, National Information Technology Development Agency at 4%.

Protection of Low Income Earners

The new tax legislation protects low income earners by removing value added tax on essential goods and healthcare in order to help maintain equity and social fairness. Thus, if citizens perceive the system as fair and beneficial in all ramifications, they are more likely to comply voluntarily. For instance, the new tax law has these breakdowns for personal income: individuals earning ₦800,000.00 (Eight Hundred Thousand Naira) are exempted, while subsequent accruable income amounting to the sum of ₦2,200,000, ₦9,000,000, ₦13,000,000, ₦25,000,000 and ₦50,000,000 are to be charged at the rate of 15%, 18%, 21%, 23% and 25% respectively. Also, certain funds for instance pension, insurance and incidental funds within that purview may be described as targeted relief allowances.

Also, companies are classified according to financial threshold: designation of ₦50 million and below for small companies and asset schedule for those below ₦250 million to the exclusion of businesses rendering professional services. The inclusivity provision that accommodates tax for instruments and items like Bitcoins, virtual transaction and money disposal, allowable deductions and tax for members of staff. It has made enforcement and compliance very easy, as the procedures are now a true reflection and testament of consistency, modernized tax rules and digital compliance systems. Also, the recognition of three revenue authorities, cooperation, integrated taxation system and value added tax and

[37] (n 24), Ss. 31, 102.

income tax. The tension and disagreement caused by redistribution of value added tax or revenue between federating states, local governments and the federal government arising from complaints of lack of fairness, transparency and inappropriate sharing formula has been resolved by the incursion of the new tax legislation.[38]

Fairness and Equity for Individuals and Company

The new tax law aided in the reduction of taxation burden on taxpayers, by insisting on an equitable and fair tax procedure anchored on the proportion of pay as you earn (PAYE).[39] The essence of this innovation is to increase tax morale and voluntary compliance among taxpayers, which is expressed in the conscious and religious practice of self-assessment with high hopes that sectors like education, public health and security would be upgraded rapidly.[40] As where fairness and equity is deployed in the taxation system, companies would be willing to comply with tax guidelines, computation and streamlining of capital allowance, believing that the process would entitle them to enjoy 100% allowance that would be spread annually according to the prescribed percentage. Retainment of 1% of asset value as notional amount and permitting agricultural business under exemption category for only the first five years of commencement of business and after five years, when the business becomes liable to be taxed in line with the approved agricultural scheme.

Also, where companies decide to conduct a merger, the implication is that assets are transferred at residual value and unutilized capital allowance and losses are available for use by the surviving company and taxes deducted at source are also available for use, and sale or transfer resulting to cessation, unutilized capital allowance and losses are not available for use by the surviving company. While assets are recognized at their transfer value, those taxes deducted at source would not be available. For upstream petroleum operations, date of transfer or sales amounts to accounting year commencement to 31st December of the same year. As such, the relevant tax authority must be notified before the companies can undertake in the restructuring of business concerns and business restructure is exempt from value added tax, especially where the purchaser uses the transferred portion of a business for the same kind of business, the transfer is not treated as a supply of goods or services for value added tax purposes, provided the purchaser is registered.

This procedure adopted for businesses or companies provides clarity and structure for tax treatment during business reorganizations, making it better structured and not set up to tax even in losses. As the minimum tax payable by such companies is at least 15% based on the effective tax rate deduced from their net income. These are for companies with aggregate turnover of N50b or ₤750m for multinational companies, while companies with low tax liabilities due to deductions or exemptions may still be required to pay additional tax.

Furthermore, certain companies within the free zones or with low turnover are exempt from minimum tax provisions, because the risk of excessive tax burden is that some small businesses may retreat into informality.[41]

The State Regulator and Voluntary Compliance

The joint tax board was established under this act to carry out functions which include uniform tax coordination, creating synergy between the various tax authorities, advising the government at different levels on tax policies and conducting impact assessment of tax on the economy.[42] The act establishes the tax appeal tribunal and the office of the tax ombud, a dual dispute resolution mechanism, availing taxpayers with options to settle disputes or seek

[38] Federal Government of Nigeria, *"Nigerian Tax Reform and Administration Act, 2025"* (Abuja: Federal Ministry of Finance, 2025).

[39] Nigeria Tax Act 2025, Ss. 1-8.

[40] J Tilley, *"Revenue Law"* (2nd Butterworths, 1978).

[41] Organization for Economic Cooperation and Development, "Tax Administration 3.0: Digital Transformation of Tax Systems" (2020) 20(2) *Journal on Budgeting*, 1–40.

[42] Joint Revenue Board Act 2025, Ss 3, Part V-VI and Second and Third Schedule; Nigeria Tax Act 2025, Ss. 1, 3.

redress in the event of any tax right violation or malpractices. The office of the tax ombud serves as a regulatory body and watchdog for taxpayers. While, the taxpayers and tax authority can equally access the tax appeal tribunal and any recognized alternative dispute resolution platform.[43]

Sequel to the provisions of the act, the office of the tax ombud was established for the benefit of small medium enterprises. The tax appeal tribunal serves purely as an administrative tribunal or quasi-judicial panel. The office of the tax ombud has power to carry out investigation on procedural complaints of the tax authority. The office of the tax ombud has jurisdiction over operational issues upon which it can give rulings and decisions, not issues bordering on assessment. While the tax appeal tribunal has the power to review assessments in tandem with the objectives of the Joint Revenue Board of Nigeria (Establishment) Act, 2025 where the legal and institutional framework for the harmonization and coordination of revenue administration and practices that promotes the rights of taxpayers in Nigeria is embedded.

Alternative Dispute Resolution and Objection of Tax Payers

The tax authority was previously mandated by the old tax regime to respond within 90 days of receipt of an objection, as failure to respond will deem the taxpayer's objection to be valid. However, under the new tax era, the time has been reduced to 7 days with the same effect as the former. The tax authority has been given the power to assign tax debts to a third party in order to enhance enforcement of all processes before the expiration of the time allocated for the assignment. Also, the idea of alternative dispute resolution has been introduced into the tax system with the aim of enhancing easy dispensation of justice at the rate of 10% for federal, 55% for states, and 35% for local governments. Further, it is to be equitably shared at the rate of 50%, where the population is 20%, and the place of consumption is 30%. And the act defines what falls within the meaning of small company, by describing them as a company with turnover of N100m alongside all other qualifications to aid adequate assessment.[44]

Comparative Lessons from the United States of America and United Kingdom

United States of America

The nexus between taxation and availability of public essentials for tax payers resident in the United States of America is a clear manifestation of the tenets of social contract and voluntary tax compliance triggered by high tax morale within that jurisdiction. The nation assesses, collects and computes taxes of individuals, estates or corporate bodies through the instrumentality of agencies like the Inland Revenue Service and the Internal Revenue Service. Thus, individuals, estates or corporate bodies file returns or statements based on their capacity and self-assessment at designated time and place of tax. The tax regulations specify the mode and style of payment of taxes, criminalizes tax evasion and provides penalties for non-compliance. This is proof of a functional tax system where legislation and enforcement are empowered by the social contract, voluntary compliance and increased tax morale. For instance, the United States taxation system recognizes the fact that the tax authority cannot be everywhere at the same time and in other to actualize tax efficiency, it allows self-assessment and third party reporting which entails information from the banks and companies of the taxpayers via request for audit and occasional use of sanctions.

Furthermore, the United State of America in a bid to establish trust and faith in the her tax system has empowered the tax authority or other authorized third party agency in the country to embark on simplified reporting system, taxpayers education, digital filing development of public institutions, welfare provision, protection and compliance with the letter and spirit of the extant tax legislation. Conversely, the United State government in a bid to maintain continuity and cooperation within the tax environment, has repeatedly enjoined the tax payers to have faith in the government and voluntarily comply with payment of tax as part of their

[43] KPMG Nigeria, *"Overview of the Nigerian Tax Reform Act 2025"* <https://home.kpmg/ng> accessed 21 November 2025.

[44] (n 28), s. 141.

civic duty, because the mode of operation of the tax authority in partnership with the government would be largely predicated on fairness, transparency and accountability which epitomizes the principles of social contract.[45]

United Kingdom

Taxation within this clime is the major source of generating revenue, and the process of assessment, collection, mode of payment, penalties for default and audit of tax authority or taxpayers is handled by the tax agency called His Majesty Revenue and Customs. Pursuant to sections 7-25 of the Taxes Management Act 1970, the tax authority encourages tax payers to conduct self-assessment, submit or file tax returns, confirm receipt of notification on what is chargeable and swiftly disclose correct tax information with respect to their personal or business activity or face the penalties enumerated in the extant tax legislation.

Also, in view of the dynamic nature and emerging global trends within and outside the United Kingdom, digital taxation, voluntary compliance and increased tax morale that is anchored on the tenets of social contract has found its way into several tax legislations with conspicuous dividends in sectors like public transportation, public education, justice and legal service delivery and subsidized rates for certain goods and medical kits, where the need arises all as a result as a result of the fusion of social contract into taxation.[46]

CONCLUSION

The Nigerian tax reform and administration of 2025 marked a pivotal step toward transforming the nation's fiscal landscape and terrain from the traditional dependence on oil revenue into modernized and diversified economy vide a consolidated tax system. In a bid to achieve this feat, the taxation regime of 2025 has largely anchored its tentacles on the wheels of social contract theory as expressed through modernized administrative structures, compliance through digitalization and a fair tax system which are development-oriented. However, the success of this current tax framework depends majorly on the industry stakeholders like the government and tax payers. Because the onus lies on the government to foster good governance, address issues surrounding implementation of tax policy, capacity constraints, public awareness gaps, infrastructural weaknesses and inter-governmental coordination issues. While, the tax payers must in tandem with the extant tax law in discharging their civic responsibility of paying tax or in consonance with a high tax morale voluntarily pay their taxes in view of manifest social benefits.

Moreso, the idea of voluntary compliance is largely based on the dividends of a transparent and accountable tax administration expressed in public services available to the taxpayers.[47] The 2025 Nigerian tax reform is arguably one of the most ambitious overhauls of the country's fiscal system in decades. Its strength lies in its comprehensiveness, potential to dramatically improve Nigeria's revenue base, make taxation more equitable, promote formalization, investment economic growth, strengthen institutional capacity and transparency.[48] In the case of *Eti-Osa Local Government v Mr. Rufus Jegede and Anor*[49] It was held that taxation should be a tool of social engineering, societal class structural adjustment in the hands of a responsive and sensitive government and a basis for the government to render social services based on the voluntary compliance of tax payers ability to pay levies and taxes.

Furthermore, the development of our tax law by the courts has been on a strict legal basis when it comes to construing the wordings of the tax legislation, as any ambiguity must be

[45] United States of America, Internal Revenue Code, s. 6011-13.

[46] United Kingdom, Taxes Management Act 1970, s. 7-25.

[47] W Prichard, *"Tax, Politics, and the Social Contract in Africa in Oxford Research Encyclopedia of 95 Politics"* (Oxford University Press, May 2019).

[48] N Brooks, "*The Responsibility of Judges in Interpreting Tax Legislation"* in Graeme S. Cooper (ed,) 90 - Tax Avoidance and the Rule of Law (Amsterdam: IBFD, 1997) 93.

[49] [2007] 10 NWLR (Pt 1043).

resolved in favour of the taxpayer.[50]Thus, the principles of social contract and compliance with voluntary taxation epitomizes the nexus between personal freedom and collective wellbeing. Because personal freedom entails the non-intervention of the state in the life of the individual, while collective wellbeing is best expressed as the intervention of the state in the lives of the individual for the generality of the public, common good and welfare of the citizens. The new tax regime provides for clear and favorable tax rules for business operation and restructuring like merger, acquisitions, sales and transfers in order to modernize and encourage foreign investment vide a national single window and technology.[51] Lastly, the short notice and implementation time set out for the new tax legislations from passage to enforcement may give all taxpayers and tax institutions enough time to prepare and commence smoothly.[52]

RECOMMENDATIONS

1. The government should conduct intensive outreaches and campaigns to educate taxpayers on the innovations in the new tax laws and the need for voluntary tax compliance.
2. The government must keep its own end of the social contract by ensuring that public expenditure mirrors the needs of citizens, by the transparent and accountable utilization of public revenue. This will inevitably increase tax morale and lead to higher levels of voluntary compliance with tax obligations.
3. The government should adopt the stakeholder engagement strategy in addressing the issues of balancing taxation across the federal, state and local government areas in Nigeria.
4. The tax monitoring, collection and evaluation should be done by a statutory and independent revenue body that can track implementation, revenue outcomes and unintended consequences within the shores of Nigeria.
5. Regulators and governments must insist on anti-corruption safeguards, strong checks, audit and data protection when collecting taxation data.
6. The policies of the government should strengthen and support small medium enterprises by providing technical assistance and software grants or subsidized digital solutions that can boost the morale of the taxpayers.

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