

**A COMPREHENSIVE TAX HISTORY OF
NIGERIA**

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A Publication of the Federal Inland Revenue Service



Produced by
Safari Books Ltd
Ile Ori Detu
1 Shell Close
Onireke Ibadan
Email: safarinigeria@gmail.com

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A COMPREHENSIVE TAX HISTORY OF NIGERIA

Edited by Ifueko Omoigui Okauru

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Foreword

Several volumes have been written on the subject of taxation and even more volumes on the history of Nigeria. However, while some writers may be credited with the occasional treatise on the history of taxation in Nigeria, it is doubtful if a comprehensive treatment of Nigerian taxation has been done from a decidedly historical perspective. Yet, so much that exists in the form or nature of modern Nigerian tax practice is premised substantially on historical antecedents. This publication narrates the historical evolution of taxation in Nigeria, drawing upon linkages from the past that have provided a continuum for the present, with the view that such analysis would provide a useful guiding tool that would enhance policy reforms.

Our country has depended far too long on mineral wealth as a source of government revenue. Persistent fluctuations in global oil prices especially the most recent experience which was occasioned by the global economic meltdown; the exhaustible nature of mineral wealth and in our own case, the insecurity in the Niger Delta have collectively brought to the fore the dangers in our continued dependence on petrodollars. Fortunately, this development has awakened the debate on more sustainable revenue sources to fund government programmes and policies; with the result that taxation now occupies the front burner in our national development debates. This development has also occurred at a time when the Federal Inland Revenue Service, as the government's taxman, has come under the visionary and innovative leadership of Ifueko Omoigui Okauru. The impressive successes recorded in the last eight years in tax administration have had concomitant results on the growth of non-oil revenue. It is hoped that this impressive trend will continue such that non-oil revenue will eventually account for a substantial portion of the country's total revenues.

This book is thoroughly researched and it is my belief that the information and insights offered in it will be useful to a wide range of readers including tax administrators, policy formulators, academics, students, lawyers, historians and tax practitioners. Without a shadow of reservation, I recommend this book to the reading public.

Ngozi Okonjo-Iweala

Coordinating Minister for the Economy and Honourable Minister of Finance

Federal Republic of Nigeria

Abuja, February 2012

Preface

At the Regional Enlarged Management Meeting of the Federal Inland Revenue Service held in Lagos on 17th May 2007, a discussion arose as to what had been happening in the tax system before the advent of comprehensive reforms beginning in 2004. This discussion led to the conception of the museum project as a strategy for preserving developmental milestones in the tax sector for the sake of posterity. As a corollary to the museum project, the idea of documenting a *comprehensive tax history of Nigeria* was also conceived. To this end, the *Tax History and Policy Support Unit* was established in the Office of the Executive Chairman. At the beginning, the terms of reference of the unit was to research and document a comprehensive history of taxation in Nigeria covering pre-colonial, colonial and post-colonial developments. Since then however, the terms of reference of the unit have been expanded to include documentation of the reforms and change processes taking place within the Service and the tax sector. This publication, the unit's first, is the coming to fruition of the initial task bestowed on it.

This book discusses the evolution of taxation in Nigeria within the framework of eight broad themes i.e., *The Origin and Practice of Fiscal Federalism in Nigeria*, *The Constitutional Context for Taxation*, *The Three Eras of Taxation in Nigeria*, *The Structure and Jurisdiction of Nigerian Tax Authorities*, *Instruments of Tax Policy*, *Statutory Developments*, *Beyond Oil Revenue: The Case for Tax Reform* and *Making the Nigerian Tax System Globally Competitive*.

The first chapter looks into the key concepts of fiscal federalism; traces the origin of states' creation; the factors that led to creation of states in Nigeria and the practice of fiscal federalism in Nigeria since 1946. It also analyses the reports and recommendations of the various Revenue Allocation Commissions in Nigeria.

Chapter two analyses the taxing provisions under the various constitutional arrangements Nigeria's has had since the amalgamation of the Northern and Southern Protectorates in 1914. These constitutions, nine in all, include the Lugard, Clifford, Richards, McPherson, Lyttleton, Independence, 1963, 1979 and 1999 Constitutions.

Chapter three is a narrative on the nature and practice of taxation covering the three main eras that define Nigeria's history. These are the pre-colonial, colonial and post-colonial eras. Attempts have been made to juxtapose the evolution of taxation in Nigeria *vis-à-vis* the political formation of pre-colonial empires, bringing out how such political formations, as they were, accounted for varying developmental levels of taxation in those provinces and the impact of colonial policy in redefining not just existing practices but also in creating

novel conditions to facilitate colonial rule, conditions which have continued to define or at least, influence the nature and practice of Nigerian taxation.

Chapter four discusses tax administration focusing on tax authorities such as the Federal Inland Revenue Service (FIRS), States Board of Internal Revenue (SBIRs) and Local Governments Revenue Committees (LGRCs). The narrative includes the composition as well as taxes administered by these tax authorities.

Chapter five analyses in detail, the various tax Ordinances, Acts and Decrees (including changes and amendments thereto) since 1903. This analysis is anchored on the fact that legislation is a tool of public policy and a history of taxation would be incomplete without the statutory instruments that give the various taxes their legal status. Chapter six discusses other policy instruments that have influenced the development of Nigerian taxation over time. These include case law, budget speeches, avoidance of double taxation agreements and recently, the National Tax Policy.

Chapter seven of the book highlights the challenges associated with over dependence on mineral wealth; as well as the myriad of developmental challenges that make the case for expanding the revenue base imperative. The eight and last chapter of this work reviews the on-going efforts to place taxation at the pedestal where it would become the pivot of national development. These efforts are essentially reform strategies that beginning with the formation of a Study Group on the Nigerian tax system in 2002, have been implemented towards a more efficient tax administration system.

It is hoped that this book would serve the purpose of providing a historical framework that would benefit the on-going reforms aimed at making the Nigerian tax system globally competitive; provide a useful benchmark for future reforms, and also serve as a veritable reference material for tax academics, practitioners, administrators and students. Although the work is essentially the research work of the Tax History and Policy Support Unit, two external reviewers were briefed to go through the manuscript and ensure structural and narrative harmony as well as content integrity. Needless to say that in spite of everything, the publication, along with any perceived shortcoming, remains that of the Federal Inland Revenue Service.

Ifueko Omoigui Okauru, MFR

Executive Chairman, Federal Inland Revenue Service

Abuja, February 2012

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Ifueko Omoigui Okauru, MFR

Executive Chairman, Federal Inland Revenue Service

Abuja, 2012