SAHEL INTERNATIONAL JOURNAL OF
ECONOMIC AND DEVELOPMENT STUDIES
Volume 1 | Issue 1 | January - June 2026
ISSN: 0189-1774

TAXATION AS A CATALYST FOR ECONOMIC DIVERSIFICATION IN NIGERIA: REDUCING OIL DEPENDENCE THROUGH FISCAL REFORMS

Manir Umar[1], Zubairu Muhammad Suleiman[2], Aliyu Muhammad[3], Umar Bello Sifawa[4], Babangida Tukur Balarabe[5]

[1]manirumar4@gmail.com | [2]zubairumuhammad111@gmail.com | [3]aliyumuhd73@gmail.com | [4]umarbello09@gmail.com | [5]btbniger@gmail.com

[1,2] Department of Economics, Faculty of Social Science Education, Shehu Shagari University of Education Sokoto State

[3] Department of Economics, School of Management and Financial Studies, Aliyu Magatakarda-Wamakko College of Technology and Advanced Studies Sokoto State

[4] Department of Accounting, School of Management and Financial Studies, Aliyu Magatakarda-Wamakko College of Technology and Advanced Studies Sokoto State

[5] Department of Banking and Finance, School of Management and Financial Studies, Aliyu Magatakarda-Wamakko College of Technology and Advanced Studies Sokoto State

[1] +2348030956085 | [2] +2348143886650 | [3] +2348069297114 | [4] +2347069099797 | [5] +2348069632025

DOI: 10.64290/SIJEDS.v1i1.1

Abstract

Nigeria's public finances have long depended on oil, which exposes the budget to price shocks and weakens incentives to build a broad domestic tax base. This study examines how tax policy between 2015 and 2026 has supported, or failed to support, economic diversification. It separates two things that are often run together: the diversification of government revenue and structural change in production and exports. It uses a qualitative, desk-based design that combines doctrinal analysis of the Finance Acts and the four tax reform laws signed on 26 June 2025 with trend analysis of official and multilateral data and a comparison with Indonesia, Malaysia and Ghana. The findings are fourfold. First, government revenue has diversified: non-oil taxes supplied about 76% of the Nigeria Revenue Service's 2025 collections, although part of the rise is nominal, the series are not comparable across institutions, and the tax-to-GDP ratio of about 9.4% in 2023 remains below the 12.75% level associated with faster development. Output and export indicators show no comparable shift so far: manufacturing held about 8% of real GDP in 2025 and non-oil products made up roughly 14 to 15% of merchandise exports. Second, the Economic Development Tax Incentive, in force from 1 January 2026, is designed to improve on pioneer holidays by linking relief to capital expenditure, but its broad sector list and the removal of the medium-company band create risks whose effects cannot yet be observed. Third, comparator experience shows the value of consolidated reform, the political fragility of broad taxes and the weak yield of narrow levies. Fourth, informality, multiple taxation, administrative capacity and data gaps limit what tax policy can achieve. The study recommends annual review of incentives, relief tailored to young manufacturers, a smoother small-company threshold, incentives to formalize, harmonized subnational levies, and diversification indicators that track production and exports as well as revenue.

Keywords: *Tax Reform; Economic Diversification; Non-Oil Revenue; Tax Incentives*

1. Introduction

Nigeria's public finances still move with the oil price. Crude oil earns most of the country's foreign exchange and, for much of the period under review, a large share of federal government revenue. This dependence leaves the budget exposed to price swings and production losses, and it weakens the government's incentive to build a broad domestic tax base (Ross, 2015; Prichard, 2015). The International Monetary Fund (IMF) observed in 2019 that Nigeria's non-oil revenue, at 3 to 4% of gross domestic product (GDP), was among the lowest in the world, and linked this to weak revenue administration and widespread non-compliance (IMF, 2019).

Additionally, the 2014 to 2016 oil price collapse and the 2016 recession made the risk plain, and Nigeria has since adopted a series of tax measures aimed at non-oil revenue: the Finance Acts of 2019 and 2020 and the four tax reform laws signed on 26 June 2025 and effective from 1st January 2026 (Federal Republic of Nigeria [FRN], 2025a, 2025b, 2025c, 2025d). The early evidence suggests movement. According to the IMF (2025), total government revenue rose from 9.8% of GDP in 2023 to an estimated 14.4% in 2024, with non-oil revenue rising from 5.8 to 9.2% of GDP over the same two years. Much of that jump reflects exchange-rate effects and one-off measures, so whether it signals durable structural change remains an open question. Three facts frame the problem. First, Nigeria's tax-to-GDP ratio remains low by African and global standards: the National Bureau of Statistics last reported 10.86% for 2021, while the IMF put the figure at 9.4% for 2023 (Africa Check, 2025). Second, tax policy has often been used to hand out incentives rather than to build a base, and incentives have not reliably produced industrial growth (IMF et al., 2015). Third, most small firms and informal businesses sit outside the tax net, so the sectors that diversification depends on contribute least to revenue. How tax policy can mobilize revenue and promote diversification at the same time is the gap this study addresses.

The study is timely because the 2025 laws took effect only on 1 January 2026, so the literature on their expected effects is thin. It brings together legal, fiscal and comparative evidence in one place, which should help policymakers, tax administrators and researchers. It also contributes to the state’s interest in fiscal policy reform and economic growth by offering a framework that links revenue mobilization to structural change.

2. Literature Review and Theoretical Framework

The literature treats taxation and diversification as two sides of one problem. A diversified economy produces a taxable base, and a broad tax base reduces the fiscal pull of resource rents. Tax policy can therefore support diversification through two channels: raising stable revenue to finance infrastructure, education and institutions, and shaping the incentives that firms face when deciding where to invest.

2.1 Nigeria's Tax System and Non-Oil Revenue Performance, 2015 to 2026

2.1.1 Structure of the Tax System

Nigeria's tax system has three tiers. The federal government collects consumer income tax (CIT), value added tax (VAT), petroleum profits tax and customs duties. States collect personal income tax and various levies, and local governments collect minor charges. Before 2026 this structure rested on a patchwork of statutes and several earmarked levies, which created overlap, multiple taxation and high compliance costs. The 2025 reform laws were designed to consolidate this framework and take effect on 1 January 2026 (FRN, 2025a, 2025b, 2025c, 2025d; Ayeomoni, 2025).

2.1.2 Trend in Revenue, 2015 to 2025

The record shows two phases. From 2015 to about 2021, revenue stayed low. Owen (2019) puts federal revenue at 5.53% of GDP in 2016, or 6.27% once state revenues are included, and finds that combined federal and state non-oil revenue overtook oil revenue as early as 2015, although both amounts were small. The IMF described non-oil revenue of 3 to 4% of GDP in 2019 as one of the lowest in the world (IMF, 2019), and the National Bureau of Statistics last published a tax-to-GDP ratio of 10.86% for 2021 (Africa Check, 2025). From 2022 the picture changed, but the available series measure different things. Federal tax collections (the Nigeria Revenue Service, NRS, and its predecessor, the Federal Inland Revenue Service, FIRS), IMF measures of public revenue as a share of GDP, and tax-to-GDP ratios differ in institutional coverage, in whether they include non-tax revenue and grants, and in the GDP series used. They are therefore reported in three separate tables and are not spliced into one time series.

Table 1. ***Federal tax collections by the FIRS/NRS (nominal, ₦ trillion)***

Year	Non-oil taxes	Oil taxes	Total	Non-oil share	Sources
2022	5.96	not retrieved	not retrieved	n/a	Investors King (2026)
2024	15.9	5.8	21.7 (sum of components)	73%	NRS (2026), as reported by Guardian Nigeria (2026)
2025	21.5	6.8	28.3	76%	NRS (2026); Gazette NGR (2026); AllAfrica (2026a)

Notes. Coverage is taxes collected by the federal tax authority; state and local taxes are excluded. NRS statements give 2025 non-oil taxes as ₦21.4 trillion and ₦21.5 trillion (₦21.46 trillion in the later budget-defence figure) and total collections as ₦28.3 trillion (₦28.23 trillion in the later figure). One press account reports oil taxes of ₦6.6 trillion, which does not reconcile with these totals (6.6 + 21.5 = 28.1). The ₦6.8 trillion figure does reconcile with the ₦28.3 trillion total and with the reported 95% achievement of the ₦7.2 trillion oil target, so it is used here. The 2024 total is the sum of the two reported components and agrees with the reported ₦6.5 trillion increases to 2025. Other reports give different 2024 totals (₦21 trillion in a Presidency report; ₦25.5 trillion in another press account), which are not used.

Table 2. ***IMF estimates of public revenue (% of GDP)***

Item	2023 (actual)	2024 (estimate)	2025 (projection)	2026 (projection)
Total revenue and grants	9.8	14.4	14.2	13.8
Oil and gas revenue	3.3	4.1	5.1	4.9
Non-oil revenue	5.8	9.2	8.8	8.8

Source: IMF (2025b). Notes. The 2025 and 2026 columns are projections made in mid-2025, before the NRS 2025 outturn. IMF non-oil revenue includes non-tax revenue and is not the same as the non-oil tax collections in Table 1. The IMF puts the oil share of government revenue at about 30% in 2024 (IMF, 2025c).

Table 3. ***Tax-to-GDP ratios from different sources***

Year	Ratio	Source	Comment
2021	10.86%	National Bureau of Statistics, via Africa Check (2025)	Last NBS-published figure
2023	9.4%	IMF, via Africa Check (2025)	Used for the threshold comparison below
Not stated	10.3% to 13%	Presidency economic report, as reported by The Nigeria Lawyer (2026)	Base and end years and definition not stated; not used

Reference point: 12.75% of GDP, the tipping point identified by Gaspar et al. (2016a).

Read with these cautions, three points qualify the headline numbers. First, the rise is genuine but partly nominal. The Naira depreciated sharply after the 2023 exchange-rate reforms and inflation was high, so a share of the growth in naira collections reflects price and exchange-rate effects rather than a larger real

tax base; the IMF itself attributes the 2024 revenue gain partly to depreciation and improved administration (IMF, 2025a). In his part Owen (2019) noted that non-oil tax revenue moves with commodity cycles and currency movements, not independently of them. Second, composition matters. The federal tax authority attributed the 2025 growth to wider withholding-tax coverage, digitalization, compliance drives and stronger enforcement (NRS, 2026). These are administrative gains from an existing base. They show better collection from large formal taxpayers, not yet a broader base.

Third, the ratio is still below the growth threshold. At 9.4% of GDP in 2023, Nigeria's tax-to-GDP ratio sat well below the 12.75% tipping point identified by Gaspar et al. (2016a). The government's stated aim of reaching 18% is ambitious. Early 2026 data are provisional.

A Presidency economic report cited in the press puts NRS collections at ₦21.6 trillion in the first half of 2026, up 49% year on year (The Nigeria Lawyer, 2026). The same report notes that the NRS mandate has widened to include non-tax revenue previously collected by other agencies, so the growth is not like for like. The NRS collection target of ₦40.71 trillion for 2026 is a projection, not an outcome. It is about 44% above the 2025 actual of ₦28.3 trillion (and about 61% above the 2025 target of ₦25.2 trillion), and it includes petroleum and mineral royalties transferred to the NRS by the reforms, so it is not comparable with the 2025 tax collections in Table 1 (NRS, 2026; Guardian Nigeria, 2026). It will test whether the 2025 gains can be sustained.

Non-oil taxes now supply roughly three quarters of the federal tax authority's collections: about ₦21.5 trillion of ₦28.3 trillion in 2025, against 73% in 2024 (Table 1). That is evidence that federal tax collections are far less dependent on oil taxes than the low non-oil base described by the IMF in 2019. It is a statement about government revenue. It does not prove that production has diversified, because most non-oil tax comes from sectors such as telecommunications, banking and trade, and from VAT on consumption. The test of diversification in production is whether manufacturing, agriculture and tradable services are growing as a share of output and exports, which section 2.1.3 highlight

2.1.3 Output and Export Indicators: Is Economy Diversifying?

Revenue diversification and structural change can move separately. A state can collect more non-oil tax from an unchanged production structure, for example through VAT on consumption or corporate tax on telecommunications and banking. Structural change would show up as a rising share of manufacturing and other tradable activities in output, and of non-oil goods in exports. Table 4 sets out indicators from National Bureau of Statistics (NBS) releases, taken from press reports of those releases where the primary release could not be retrieved. The 2025 non-oil export share is computed from the NBS values reported for 2025 (non-oil products ₦12.36 trillion; crude oil ₦47.43 trillion, which is 55.72% of exports). The NBS category "non-crude" exports includes refined petroleum products and gas, so it overstates diversification; only the "non-oil products" line (mainly agricultural and manufactured goods) is used here.

Two things follow. First, the non-oil share of GDP is a poor diversification indicator in Nigeria. Oil accounts for only about 3.5% of measured real GDP, yet it supplied about 30% of government revenue in 2024 (IMF, 2025c) and mineral products are close to 87% of exports. Second, the indicators for tradable production have barely moved. Manufacturing's share of GDP slipped in 2025, and non-oil products remained at roughly one seventh of exports; the rise from the depressed 2023 level of 8.7% brings the share back to about its 2019 level of 13.1% (Intelpoint, 2025), and the quarterly readings in 2026 show no steady upward trend. The fiscal evidence therefore supports the claim that government revenue has diversified. It does not yet support a claim that production or exports have. Because the 2025 laws took effect in 2026, their effects on these indicators cannot be assessed with the data available, and statements about those effects in this paper are prospective.

2.2 Tax Incentives and the 2025 Reform Laws

2.2.1 Incentives Before 2025

Between 2015 and 2024 Nigeria's incentive policy had two strands: relief for small business and sector-specific holidays. ENS Africa (2020) and Channels Television (2020) reported that the Finance Act 2019, signed on 13 January 2020, raised the VAT rate from 5 to 7.5% from 1 February 2020 and offset the increase with wider exemptions for basic food and a VAT registration threshold of ₦25 million in turnover. The Act also exempted small companies (turnover up to ₦25 million) from CIT and cut the rate for medium companies (₦25 million to ₦100 million) from 30 to 20%. Oluwa (2020) noted that agricultural producers were entitled to a five-year income tax holiday, renewable for three years. Furthermore, the Finance Act 2020 followed on 31 December 2020. It exempted small companies from the tertiary education tax and required non-resident companies making taxable supplies in Nigeria to register with the tax authority, and was accompanied by the Significant Economic Presence Order 2020, which extended CIT to non-resident companies with a significant economic presence (Punuka, 2021). Sector holidays under the Pioneer Status Incentive, administered by the Nigerian Investment Promotion Commission (NIPC), gave qualifying firms full income tax exemption for a fixed period. Between 2017 and the second quarter of 2025 the NIPC received 693 applications and approved 304, and reported about ₦8.7 trillion in investment commitments and nearly 59,000 direct jobs (Nwangwu, 2026).

Those figures are commitments, and they do not show the revenue forgone. The joint IMF, OECD, UN and World Bank report (2015) warns that many low-income countries rely on costly tax holidays, and that their effectiveness and efficiency often cannot be assessed because data and analytical tools are lacking.

2.2.2 The 2025 Reform Laws

On 26 June 2025 the President signed the Nigeria Tax Act, the Nigeria Tax Administration Act, the Nigeria Revenue Service (Establishment) Act and the Joint Revenue Board of Nigeria (Establishment) Act (FRN, 2025a, 2025b, 2025c, 2025d). The Acts were gazette in September 2025. Early commentary based on pre-gazette copies gave different commencement dates for some of them, so Table 5 uses the gazette position. Section references in Table 4 are to the Nigeria Tax Act (NTA) and the Nigeria Tax Administration Act (NTAA) as gazette.

Table 4. The four reform laws and their commencement

Instrument	Act number	Commencement	Source
Nigeria Tax Act (NTA)	No. 7 of 2025	1 January 2026	TheCable (2025a); Nairametrics (2025)
Nigeria Tax Administration Act (NTAA)	No. 5 of 2025	1 January 2026	TheCable (2025a); Nairametrics (2025)
Nigeria Revenue Service (Establishment) Act (NRSEA)	No. 4 of 2025	26 June 2025	TheCable (2025a); Nairametrics (2025)
Joint Revenue Board of Nigeria (Establishment) Act (JRBEA)	No. 6 of 2025	26 June 2025	TheCable (2025a); Nairametrics (2025)

Table 5. ***Provisions most relevant to diversification***

Provision	Legal basis	What it does	Scope and caveats	Relevance to diversification
Small-company relief	NTA s. 56(a) (rate) and s. 202 (definition); NTAA s. 147	0% CIT for a small company; reported exemption from tax on chargeable gains and from the development levy; professional service firms excluded (KPMG Nigeria, 2025; Nnodum et al., 2026)	Section 202 defines a small company as turnover of ₦50 million or less and fixed assets of ₦250 million or less. NTAA s. 147 defines a "small business" by turnover of ₦100 million or less for administrative purposes, so a firm can fall in one category and not the other (TheCable, 2025b). Eligibility must be tested under each Act.	Supports start-ups and SMEs, the likely source of new non-oil activity
Development levy	NTA s. 59	A single 4% levy on assessable profits, replacing the tertiary education tax and the NITDA, NASENI and Police Trust Fund levies (Mondaq, 2025)	Applies to companies chargeable to tax except small companies and non-resident companies	Cuts the number of levies, though the net burden depends on the firm
Minimum effective tax rate	NTA s. 57 (scope in s. 57(2))	A company whose effective tax rate is below 15% pays a top-up to reach 15% (Esuga & Onyia, 2025)	Applies only to constituent entities of multinational groups with aggregate turnover of at least €750 million (or equivalent), and to any other company with aggregate turnover of ₦50 billion or more in the financial year (KPMG Nigeria, 2025b; KPMG, 2026). Early commentary on pre-gazette drafts cited ₦20 billion (EY, 2025). Small and medium firms are outside its scope.	Limits erosion of the base, but constrains deep relief only for the largest investors
Economic Development Tax Incentive (EDTI)	NTA Chapter Eight, Part II (from s. 166; credit in s. 177; incentive period in s. 178); Tenth Schedule	Replaces the Pioneer Status Incentive with a 5% annual tax credit on qualifying capital expenditure, over five years, in listed priority sectors (KPMG, 2025; Forvis Mazars, n.d.)	Priority sectors, expenditure thresholds and sunset dates are set in the Tenth Schedule; a credit has value only against taxable profit	Ties relief to actual investment instead of a profit holiday
Nigeria Revenue Service	NRSEA (Act No. 4)	Converts the Federal Inland Revenue Service into the Nigeria Revenue Service with a wider revenue mandate (Techeconomy, 2025)	Commenced 26 June 2025	Improves administration and consolidates collection

Additionally, KPMG (2025) argued that the EDTI is the most consequential change for diversification, and it is better designed than what it replaces. Its credit is linked to qualifying capital expenditure, its priority sectors are listed in a schedule to the Act, each sector carries a sunset date, and the NIPC stopped accepting Pioneer Status applications on 10 November 2025 to prepare for the switch. Priority sectors include manufacturing, agro-processing, mining and renewable energy, and the incentive period can be extended where profits are reinvested in expansion (Nwangwu, 2026). These features match the

guidance of the IMF and its partners that incentives should be rules-based, legislated, tied to investment and reviewed periodically (IMF et al., 2015). Existing pioneer firms keep their holidays for up to two more years, which eases the transition (Nwangwu, 2026). Three concerns remain. First, breadth. With 51 priority sub-sectors, the list risks the kind of scattered targeting that weakens incentives. Second, usability. Esuga and Onyia, (2025) noted that tax credit only has value to a firm that has taxable profits against which to use it.

Unused credits can be carried forward for five assessment years after the priority period which helps, but young manufacturers with long loss-making years may still gain less than they would from accelerated depreciation, which the IMF et al. (2015) regard as more efficient than holidays. Third, thresholds. The small-company limit has doubled from ₦25 million to ₦50 million of turnover, but the medium-company category taxed at 20% under the Finance Act 2019 no longer exists: the Act now recognizes only small companies and every other company (Nnodum et al., 2026). On the face of the provisions, a firm with turnover between ₦50 million and ₦100 million, which previously paid 20%, now pays the standard 30% plus the 4% development levy, and any firm that outgrows the limit faces the same jump. That is a cliff that could discourage growth, although evidence on firm behavior must wait for post-2026 filing data. Some commentary cites a ₦100 million limit, which appeared in earlier drafts.

2.3 Comparative Lessons from Indonesia, Malaysia and Ghana

Each comparator has faced a version of Nigeria's problem: a revenue base too dependent on commodities, a low tax ratio, and political resistance to broad taxes. None is a perfect match, so the lessons are about design and sequencing, not about copying rates.

2.3.1 Indonesia: Broadening the Base by Statute

Indonesia enacted Law No. 7 of 2021 on the Harmonization of Tax Regulations (the HPP Law) on 29 October 2021. The law raised VAT from 10 to 11% from 1 April 2022, with a further step to 12% legislated for no later than 1 January 2025, introduced a carbon tax, created a voluntary disclosure programme, and cancelled a planned cut in the corporate rate so that it stayed at 22% (Ernst &Young, 2021; KPMG Indonesia, 2021). Thomas (2021) revealed that the finance ministry projected the tax-to-GDP ratio to rise from 8.56% in 2021 to 9.22% in 2022 and 10.12% three years later. Two lessons follow. Indonesia chose to broaden consumption and carbon tax bases through a single, consolidated law, much as Nigeria did in 2025. And its ratio remains low even by emerging-market standards, which suggests that tax-to-GDP gains are incremental and that a jump to the 12.75% tipping point should not be expected quickly. Law-firm commentary also notes that Indonesia paired fiscal reform with a push to use nickel reserves for battery and electric-vehicle manufacturing (Mallesons, 2021), a reminder that tax policy works best alongside industrial strategy.

2.3.2 Malaysia: The Cost of Reversing a Broad Tax

Malaysia introduced a 6% goods and services tax (GST) on 1 April 2015 to widen the revenue base and reduce reliance on income from the state oil company Petronas as oil prices fell (Malay Mail, 2021; Free Malaysia Today, 2018). After the 2018 election the government cut the rate to zero from 1 June 2018 and reinstated a narrower sales and service tax from 1 September 2018 (Arab News, 2018; Malay Mail, 2021). The critics of the reform called the abolition a backward step because the GST's original aim was to reduce petroleum dependence. The government’s own fiscal review shows that in 2018 federal revenue still reached RM232.9 billion, with sales and service tax and a one-off pension fund contribution cushioning the shortfall. The lesson for Nigeria is political rather than technical. A broad tax that voters see as a cost without visible benefit is vulnerable to reversal, and reversal pushes the budget back toward commodity revenue. Nigeria's 2025 laws will need visible public spending and clear communication to avoid a similar backlash.

2.3.3 Ghana: Narrow Taxes and the Limits of New Levies

Ghana is the closest African comparator. Institute for Fiscal Studies & Ministry of Finance, Ghana (2024) report that Ghana's tax-to-GDP ratio was 13.8% in 2022, typical of sub-Saharan Africa but below countries at a similar income levels. In 2022 it introduced a 1.5% electronic transfer levy (E-Levy), cut to 1% in March 2023 after public protest. Moreover, Business and Financial Times (2025) averred that the levy raised GH¢1.46 billion in 2023 against a target of GH¢4.7 billion. In 2025 the government abolished the E-Levy, the betting tax, the COVID-19 levy, the emissions levy and VAT on motor insurance, and later reported that non-oil tax revenue rose from 12.6% of GDP in 2024 to 13.1% in 2025 (MyJoyOnline, 2026). Critics, however, warned of substantial revenue loss from the repeals (Business & Financial Times, 2025). The lesson is that new levies on transactions, rushed and unpopular, can underperform, while improved administration and a simplified system can raise collections without higher rates. Nigeria's 4% development levy consolidates earlier levies rather than adding a new tax on transactions, which is consistent with this lesson.

2.4 Theoretical Framework

Three bodies of theory guide this study. First, the Fiscal Contract and the Resource Curse. Fiscal sociology holds that governments dependent on citizens' taxes must bargain with them, which strengthens accountability and the quality of public services (Prichard, 2015; Moore et al., 2018). Resource rents break this link: when the state lives off oil, it has less reason to build tax institutions or answer to taxpayers. Ross (2015) reviews the resource curse literature and concludes that oil is most damaging to governance and diversification where institutions are weak and rents flow directly to the state. Nigeria fits this pattern closely. Second, Tax Capacity and State Capacity. Gaspar et al. (2016a) find a tipping point at roughly 12.75% of GDP in the tax-to-GDP ratio, above which growth and development accelerate. Their companion paper uses Nigeria, through the experience of Lagos State, as one of four case studies of how improved tax capacity forms part of wider state building (Gaspar et al., 2016b). The implication is that revenue mobilization is a precondition for diversification, not only a consequence of it. Third, Theory of Tax Incentives. Incentives are justified when they correct a market failure, such as a positive spillover from new industries or the high start-up costs of manufacturing. They are harmful when they simply reduce revenue on investment that would have happened anyway. The joint report by the IMF, OECD, UN and World Bank (2015) argues that incentives aimed at export-oriented sectors and mobile capital tend to work better than those aimed at domestic-market or extractive activities, and that investment tax credits and accelerated depreciation deliver more investment per unit of revenue lost than tax holidays.

2.5 Empirical Review

Nigerian studies on non-oil taxes and growth reach mixed conclusions, partly because of different periods, variables and estimators. Using an autoregressive distributed lag (ARDL) model on 1994 to 2019 data, Oghuma et al. (2022) found that CIT and customs and excise duties raised growth, while VAT and personal income tax were associated with lower growth. Ndu and Uguru (2022) covered 2001 to 2021 and reported that VAT, CIT and customs and excise duties each had a positive and significant effect on growth. Owuru and Olabisi (2020) used quarterly data for 2011 to 2016 and concluded that non-oil tax revenue contributed more to inclusive growth than oil revenue. Olawale (2025), using data from 1993 to 2022, found a significant effect for CIT but none for VAT or customs and excise duties.

Two patterns stand out. CIT is the most consistently significant variable, which suggests that the formal corporate sector is where tax policy has most traction. VAT results are inconsistent, possibly because collection depends heavily on compliance and on how the revenue is spent. Most of these studies end before the 2025 reforms, and they treat tax revenue as a single aggregate rather than examining incentive design, so the link between specific tax instruments and structural change remains under-researched.

3. Methodology

3.1 Research Design

The study uses a qualitative, desk-based design that combines doctrinal analysis of tax legislation with descriptive analysis of secondary fiscal data. This design suits the research questions, which ask how policy instruments are built and what they imply for diversification, rather than whether one variable statistically causes another. It follows the structured approach to integrative literature review described by Snyder (2019), in which sources are selected against stated criteria, analyzed systematically and synthesized into a coherent argument.

Sources of Data

The study relies on three categories of source, all in the public domain. First, the Finance Acts and the four 2025 tax reform laws. Second, IMF Article IV and related country documents, joint IMF-OECD-UN-World Bank guidance on tax incentives (2015), and World Bank materials. Third, collection figures published by the Federal Inland Revenue Service and its successor, the Nigeria Revenue Service, and statistical bulletins from the National Bureau of Statistics. Where a primary series could not be retrieved directly, the figure is taken from an IMF report or from an agency statement as reported in the press, and is labeled as such.

3.3 Period, Search Procedure and Selection Criteria

The review spanned 2015 to 2026. The start date captures the aftermath of the 2014 to 2016 oil price shock and the first modern incentive reforms, and the end date captures the first year of the new laws. The evidence cut-off is November 2026: this is the date of the final search and verification of every figure, statute reference and web source, and publications or data released after it are not considered.

Sources were located in three steps. First, statutes and official documents (the gazette Acts, IMF country reports and press releases, and NRS and NBS releases) were retrieved from the publishing institution where possible. Second, the academic and policy literature was searched by keyword, using terms such as non-oil revenue Nigeria, tax incentives and pioneer status, Economic Development Tax Incentive, minimum effective tax rate, tax capacity tipping point, and the equivalent terms for each comparator country, in Google Scholar and in the IMF and World Bank repositories, and extended by backward citation from the key papers. Third, practitioner analyses of the 2025 laws and press reports of agency statements were searched on the open web, mainly to locate provisions and figures that could not be retrieved from an official release. A source was included if it was published within the period, addressed Nigerian or comparator-country taxation, revenue or incentives, and came from an identifiable author or institution. Opinion pieces and unattributed web content were excluded. Where the same figure appeared in several places, the primary source (an IMF report, an NRS or NBS release, or a statute) was preferred over press coverage of it, and conflicting figures are reported with the reason for the choice made (see the notes to Table 1).Because the new laws are recent, the study separates four classes of evidence, set out in Table 6, and does not use the weaker classes to support claims that need the stronger ones.

Table 6. ***Classes of evidence and how they are used***

Class	Examples used in this study	Treatment
Published outturn	NRS 2024 and 2025 collections; NBS 2025 GDP and trade data; IMF 2023 actuals	Used for trend claims
Provisional implementation evidence (2026)	NRS first-half 2026 collections (press report of a Presidency report); NBS Q1 and Q2 2026 trade data; NIPC EDTI guidelines and the April 2026 transition clarification	Used descriptively; not used to infer effects of the reforms
Projections and targets	IMF 2025 and 2026 projections; the NRS ₦40.71 trillion target for 2026; the government's aim of an 18% tax-to-GDP ratio	Reported as projections, never as outcomes
Legal text	The NTA, NTAA, NRSEA and JRBEA as gazetted	Used for analysis of design and commencement

3.4 Method of Analysis

Three techniques are used.

Trend analysis of oil and non-oil revenue, revenue-to-GDP and tax-to-GDP ratios, using published figures.

Doctrinal and thematic analysis of statutory provisions and policy documents, coded by theme (incentive design, administration, small-business relief, compliance), following the steps for trustworthy thematic analysis set out by Nowell et al. (2017).

Comparative analysis of Indonesia, Malaysia and Ghana. These countries were chosen because each has used tax policy to manage dependence on commodities or to broaden the base, and because their experience can be documented from public sources.

3.5 Validity, Limitations and Ethics

Triangulating legal texts, official statistics and independent analysis limits reliance on any single source. Three limitations apply. First, 2025 and 2026 data are provisional and revenue-to-GDP figures differ across institutions because of differences in definitions and GDP bases. Second, the 2025 laws have been in force for less than a year, so their effects are assessed from design and early indicators, not outcomes. Third, a desk-based design cannot test causal effects; the study therefore makes analytical claims rather than statistical ones. No human participants were involved, and all material is cited to its source.

4. Summary of Findings

The study set out to assess how tax policy between 2015 and 2026 has supported economic diversification in Nigeria. Four findings answer the research questions.

Government revenue has diversified; production and exports have not yet. Non-oil taxes supplied about ₦21.5 trillion of the ₦28.3 trillion collected by the federal tax authority in 2025 (76%, against 73% in 2024), and the IMF estimates that non-oil revenue rose from 5.8 to 9.2% of GDP between 2023 and 2024. Part of the rise is nominal, the series are not comparable across institutions, and the tax-to-GDP ratio of about 9.4% in 2023 remained below the 12.75% tipping point. Output and export indicators show no matching shift: manufacturing's share of GDP slipped in 2025, non-oil products were about 14.5% of merchandise exports, and mineral products were close to 87% of exports.

Incentive design has improved on paper, and its effects are still prospective. The 2025 laws replace open-ended pioneer holidays with a capital-linked credit, a single development levy and a wider small-company exemption. The design matches international guidance, but the breadth of priority sectors and the absence of a medium-company band are weaknesses. No post-implementation evidence on the Economic Development Tax Incentive was available by the cut-off date.

Comparator experience is instructive. Indonesia shows the value of consolidated reform and the slowness of ratio gains, Malaysia the political risk of reversing a broad tax, and Ghana the poor yield of narrow, rushed levies.

Structural constraints persist. Informality, multiple taxation, administrative capacity and weak data limit what tax policy can do for diversification.

5. Conclusion and Policy Recommendations

Based on the study findings presented above, this study proposes the following recommendations

Review the Economic Development Tax Incentive annually. Publish the revenue cost and the investment attracted by sector, as a tax expenditure statement, and use the results to prune the priority list.

Offer relief that suits young manufacturers. Consider accelerated depreciation or a longer carry-forward period for firms in their loss-making years, because a credit is of little use without profits.

Smooth the small-company threshold. Introduce a graduated band above ₦50 million of turnover, or a phase-in of the development levy, so that growth does not trigger a jump to the full 30% rate.

Make formalization worthwhile. Offer a simple presumptive tax for micro and unincorporated businesses and tie registration to access to credit, public contracts and services, as already proposed by practitioners

Coordinate with non-tax policy. Because MSMEs ranked high interest rates and power costs alongside taxes as their main constraints, tax reform should be sequenced with energy and financing policy.

References

Africa Check. (2025). *Fact or spin? Fact-checking Nigerian president Tinubu's Independence Day speech*. https://www.africacheck.org/fact-checks/reports/fact-or-spin-fact-checking-nigerian-president-tinubus-independence-day

Ayeomonie, F. (2025). The new era of taxation in Nigeria: What businesses and individuals should know about the 2025 tax reform acts. *Mondaq*. https://www.mondaq.com/nigeria/tax-authorities/1658706/the-new-era-of-taxation-in-nigeria-what-businesses-and-individuals-should-know-about-the-2025-tax-reform-acts

Business & Financial Times. (2025). *Fiscal shock ahead: IERPP predicts GH¢7.1 bn revenue drop from tax reforms*. https://thebftonline.com/?p=220338

Business Day. (2020). *Fiscal impact of the 2020 Finance Act on MSMEs*. https://businessday.ng/business-economy/article/fiscal-impact-of-the-2020-finance-act-on-msmes/

Channels Television (2020). Finance Act 2019: 20 basic food items and sanitary pads make VAT exemption list. https://www.channelstv.com/2020/01/19/finance-act2019-20-basic-food-items-and-sanitary-pads-make-vat-exemption-list/

ENS Africa. (2020). *Nigeria's Finance Bill, 2019 signed into law*. https://www.ensafrica.com/news/detail/2142/nigerias-finance-bill-2019-signed-into-law

Esuga, S. K., & Onyia, I. (2025). *Nigeria Tax Act (NTA) 2025: Key highlights for manufacturing businesses*. TNP. https://tnp.com.ng/nigeria-tax-act-nta-2025-key-highlights-for-manufacturing-businesses/

Ernst &Young. (2021). *Indonesia passes wide-ranging tax law amendments* (Global Tax Alert, Document ID 2021-2039). https://taxnews.ey.com/news/2021-2039-indonesia-passes-wide-ranging-tax-law-amendments

Federal Republic of Nigeria. (2025a). *Nigeria Tax Act, 2025* (Act No. 7). Federal Government Printer.

Federal Republic of Nigeria. (2025b). *Nigeria Tax Administration Act, 2025* (Act No. 5). Federal Government Printer.

Federal Republic of Nigeria. (2025c). *Nigeria Revenue Service (Establishment) Act, 2025*. Federal Government Printer.

Federal Republic of Nigeria. (2025d). *Joint Revenue Board of Nigeria (Establishment) Act, 2025* (Act No. 6). Federal Government Printer.

Forvis Mazars. (n.d.). *Implementation of Nigeria's Economic Development Tax Incentive (EDTI)*. https://www.forvismazars.com/ng/en/insights/local-publications/local-insights/economic-development-tax-incentive-edti

Free Malaysia Today. (2018, May 3). *Finance ministry: Unwise to replace GST by relying on oil revenue*. https://www.freemalaysiatoday.com/category/nation/2018/05/03/finance-ministry-unwise-to-replace-gst-by-relying-on-oil-revenue

Gaspar, V., Jaramillo, L., & Wingender, P. (2016a). *Tax capacity and growth: Is there a tipping point?* (IMF Working Paper No. 16/234). International Monetary Fund. https://doi.org/10.5089/9781475558173.001

Gaspar, V., Jaramillo, L., & Wingender, P. (2016b). *Political institutions, state building, and tax capacity: Crossing the tipping point* (IMF Working Paper No. 16/233). International Monetary Fund. https://doi.org/10.5089/9781475558142.001

Institute for Fiscal Studies & Ministry of Finance, Ghana. (2024). *A survey of the Ghanaian tax system (2023)*. https://ifs.org.uk/sites/default/files/2024-10/Survey%20of%20the%20Ghanaian%20Tax%20S

ystem.pdf

International Monetary Fund. (2019, April 1). *Nigeria: Mobilizing resources to invest in people* (IMF Country Focus). https://www.imf.org/en/news/articles/2019/04/01/na040219-nigeria-mobilizing-resources-to-invest-in-people

International Monetary Fund. (2025). *Nigeria: 2025 Article IV consultation* (IMF Country Report No. 25/157). https://meetings.imf.org/-/media/Files/Publications/CR/2025/English/1ngaea2025001-print-pdf.ashx

International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, & World Bank. (2015). *Options for low income countries' effective and efficient use of tax incentives for investment: A report to the G-20 Development Working Group*. http://hdl.handle.net/10986/22923

Investors King. (2026). *Nigeria Revenue Service surpasses tax targets for five consecutive years as non-oil revenue quadruples*. https://investorsking.com/2026/02/12/nigeria-revenue-service-surpasses-tax-targets-for-five-consecutive-years-as-non-oil-revenue-quadruples/

KPMG. (2025). *Nigeria: Transition to new economic development tax incentive scheme* (TaxNewsFlash). https://kpmg.com/us/en/taxnewsflash/news/2025/11/nigeria-transition-new-economic-development-tax-incentive-scheme.html

KPMG Indonesia. (2021). *Harmonization of Tax Regulations Law* (Tax News Flash). https://assets.kpmg.com/content/dam/kpmg/id/pdf/2021/12/id-tnf-dec2021-harmonization-tax-regulations-law.pdf

KPMG Nigeria. (2025). Updates to the Nigeria Tax Act (NTA), 2025. *Mondaq*. https://www.mondaq.com/nigeria/tax-authorities/1661912/updates-to-the-nigeria-tax-act-nta-2025

Malay Mail. (2021). *Harmonise GST, SST to bridge tax revenue shortfalls, MIER says*. https://www.malaymail.com/news/malaysia/2021/10/22/harmonise-gst-sst-to-bridge-tax-revenue-shortfalls-mier/2015212

Mallesons. (2021). *Indonesia's harmonized tax law*. https://www.mallesons.com/sg/en/insights/latest-thinking/indonesias-harmonized-tax-law.html

Ministry of Finance Malaysia. (n.d.). *Fiscal updates 2018*. https://www.mof.gov.my/portal/arkib/fiscal/2018/FISCAL_UPDATES_2018.pdf

Mondaq. (2025). *Know your taxes: The tax reforms and your statutory filing obligations: A simplified guide*. https://www.mondaq.com/nigeria/tax-authorities/1691640/know-your-taxes-the-tax-reforms-and-your-statutory-filing-obligations-a-simplified-guide

Moore, M., Prichard, W., & Fjeldstad, O.-H. (2018). *Taxing Africa: Coercion, reform and development*. Zed Books.

MyJoyOnline. (2026). *Abolishing taxes did not reduce revenue; Ghana collected more in 2025: Ato Forson*. https://www.myjoyonline.com/abolishing-taxes-did-not-reduce-revenue-ghana-collected-more-in-2025-ato-forson/

Ndu, C., & Uguru, L. C. (2022). Non-oil tax revenue and economic growth in Nigeria. *Journal of Taxation and Economic Development, 21*(2), 12–25. https://jted.citn.org/home/journal/80

Nigeria Revenue Service. (2026). *NRS sets N40.71 trillion revenue target for 2026* [Press statement, as reported by PM News]. https://pmnewsnigeria.com/2026/02/10/nrs-sets-n40-71-trillion-revenue-target-for-2026/

Nnodum, J. T. U., Jr., Nwachukwu, C., & Ekpenyong, N. (2026). Opportunities for small and mid-sized companies in the 2026 tax reforms: Exemptions, reliefs, and growth incentives. *BusinessDay*. https://businessday.ng/news/legal-business/article/opportunities-for-small-and-mid-sized-companies-in-the-2026-tax-reforms-exemptions-reliefs-and-growth-incentives/

Nowell, L. S., Norris, J. M., White, D. E., & Moules, N. J. (2017). Thematic analysis: Striving to meet the trustworthiness criteria. *International Journal of Qualitative Methods, 16*(1), 1–13.

Nwangwu, C. (2026). Nigeria retains 149 pioneer firms as new tax incentive system begins. *BusinessDay*. https://businessday.ng/business-economy/article/nigeria-retains-149-pioneer-firms-as-

new-tax-incentive-system-begins/

Oghuma, R. I., Eluyela, D. F., & Iyoha, F. O. (2022). Investigating the dynamic nexus between non-oil taxes and economic growth in Nigeria: An ARDL approach. *International Journal of Energy Economics and Policy, 12*(5), 498–504. https://doi.org/10.32479/ijeep.10832

Olawale, B. V. (2025). The impact of non-oil revenue on the economic growth: Evidence from Nigeria. https://journals.unizik.edu.ng/ubsjbep/article/view/7632

Oluwa, O (2020). *Finance Act 2019 at a glance*. TNP https://tnp.com.ng/insights/finance-act-2019-at-a-glance

Owen, O. (2019). *Nigeria's transformation to a post-oil future is complete*. Oxford Martin School. https://www.oxfordmartin.ox.ac.uk/blog/nigerias-transformation-to-a-post-oil-future-is-complete

Owuru, J. E., & Olabisi, O. E. (2020). Revenue beyond oil reliance: Can Nigeria leverage non-oil tax revenue for inclusive and pro-poor growth? *International Journal of Academic Research in Business and Social Sciences, 10*(9), 199–212.

Prichard, W. (2015). *Taxation, responsiveness and accountability in sub-Saharan Africa: The dynamics of tax bargaining*. Cambridge University Press.

Punuka Attorneys & Solicitors. (2021, January 14). Finance Act 2020: Key changes to the Nigeria tax regimes. *Mondaq*. https://www.mondaq.com/nigeria/tax-authorities/1025420/finance-act-2020-key-changes-to-the-nigeria-tax-regimes

Ross, M. L. (2015). What have we learned about the resource curse? *Annual Review of Political Science, 18*, 239–259.

Small and Medium Enterprises Development Agency of Nigeria, & National Bureau of Statistics. (2019). *MSME national survey 2017*. SMEDAN and NBS.

Snyder, H. (2019). Literature review as a research methodology: An overview and guidelines. *Journal of Business Research, 104*, 333–339.

Techeconomy. (2025). *FIRS collects ₦22.59 trillion in first nine months of 2025*. https://techeconomy.ng/firs-collects-22-59-trillion-in-first-nine-months-of-2025

Thomas, V. F. (2021, October 9). *New tax law expected to raise tax revenue by at least 9%*. The Jakarta Post. https://www.thejakartapost.com/news/2021/10/11/new-tax-law-hoped-to-raise-tax-revenue-by-at-least-9