Privatization and The Widening Tax Net: Revenue Loss and Rising Taxation in Nigeria

Frederick Chirote Odo[1]; Nnamdi Casmir Ugwuonu[2]; Emmanuel Okey Udaya[3]
Eberechukwu Blessing Umeora[4]
[1] Department of Public Administration,
Caritas University, Enugu, Nigeria.
[2] Department of Employment Relations
and Human Resource Management,
Caritas University, Enugu, Nigeria.
[3] Faculty of Law, Spiritan University, Nneochi, Nigeria.
[4] Nekos Integrated Services Ltd. Enugu, Nigeria.
Corresponding author: Emmanuel Okey Udaya

https://doi.org/10.56201/ijssmr.vol.12no11.2026.pg208.214

Abstract
This paper examines privatization and the taxation regime in Nigeria. Its objective is to relate the current scope of taxation to the narrowing of government revenue sources that followed privatization. The study takes an explanatory approach and draws on secondary sources. It argues that the present scope of taxation results from the loss of revenue sources through the sale of public enterprises. It recommends that government reverse the privatization option and recreate government-owned capital, so that government can derive revenue from a wider range of sources.

Keywords: *privatization, taxation, sources, revenue, public enterprise*

1. Introduction

The introduction of the Structural Adjustment Programme (SAP) catalysed the process of privatization in Nigeria. The programme outlined measures that, if adopted, would change the goals, administration and management of most public sector enterprises in the interest of efficiency (Federal Republic of Nigeria, 1988). It was intended to restructure the economy and make it more competitive and productive, in line with the orthodox policy advice promoted by the International Monetary Fund (IMF) and the World Bank. The elements of structural adjustment included the deregulation and liberalisation of the economy, the privatization of public enterprises, the withdrawal of subsidies from some public services, the devaluation of domestic currencies such as the naira, and other market reforms (Ali, 2009). The sale of public enterprises was part of this restructuring. The Nigerian state embraced the programme in the expectation that it would promote macroeconomic growth. Many African countries, including Ghana and Zambia, adopted structural adjustment and other economic stabilisation programmes in the mid-1980s. To attain the macroeconomic goals promoted by the World Bank and the IMF, the guidelines on privatization and commercialization set out to:

- reconfigure and rationalise the public sector in order to reduce the dominance of unproductive investment in it;
- reorient enterprises slated for privatization and commercialization towards improved performance, viability and overall efficiency;

- ensure positive returns on public sector investment in commercialised enterprises;
- end the absolute reliance of commercially oriented public enterprises on the treasury for funding, and encourage them to approach the Nigerian capital market;
- begin the gradual transfer to the private sector of public enterprises that, by the nature of their operations and other socio-economic factors, are best run by the private sector;
- create a favourable investment climate for local and foreign investors;
- minimise internal and external debt; and
- provide institutional arrangements and operational guidelines to ensure that the gains from privatization and commercialization are sustained (Federal Republic of Nigeria, 1988).

By adopting privatization and commercialization, public enterprises in Nigeria have been subjected to unrestrained neo-liberal experimentation and the commercialisation of social services (Folabi, 2007). Public enterprises have been exposed to market values, and goods once provided by them have passed into private hands, in line with orthodox advice on national economic reform. This resembles the indigenisation policy of 1972, since the Nigerian Privatization Handbook (Federal Republic of Nigeria, 2001) shifts the emphasis from commercialization to attracting core investors and promoting foreign investment in the privatization programme. In adjusting to the tenets of structural adjustment, the Nigerian state withdrew from owning and managing public enterprises and began selling public assets to private hands. This has narrowed its sources of revenue and, in turn, limited its provision of social services. The performance of public enterprises is where government has most visibly affected people's lives, through the delivery of social welfare policies (Kor, 2001). Because government can no longer meet its legitimate responsibilities from its own resources, it has resorted to both horizontal and vertical expansion of taxation to boost its revenue base.

2. Objective of the Study

The objective of this study is to relate the current scope of taxation to the narrowing of government revenue sources that followed privatization.

3. Genesis of Privatization

Privatization is an ideological concept (Nwoye, 1995; Igbuzor, 2009). Ideology consists of logically related ideas that identify the principles or values that give legitimacy to political institutions or behaviour (Rodee, 1983). It may be used to justify the status quo or to justify attempts, violent or non-violent, to change it (Rodee, 1983). For much of the twentieth century, two opposing ideologies contended over how society should be governed and developed: capitalism and socialism, often described as ideologies of the right and the left. Capitalist ideology, typified by neo-liberalism, argued that a self-regulating market would bring about development spontaneously. Socialists and other interventionists argued that unregulated capitalism would always generate unemployment and human misery (Egwu, 1998).

Proponents of socialism argued that government should intervene to regulate the market (Egwu, 1998). The end of the twentieth century and of the Cold War marked a turning point in world history. Capitalism and neo-liberalism became dominant, and the drive for privatization intensified as a result. Many countries embarked on privatization programmes at different times. Much public infrastructure privatization has its origins in the deregulation policies of the United States in the 1970s (World Bank, 2008). Chile introduced the privatization of public enterprises in 1970. The United Kingdom pursued a rigorous programme in the 1980s, and Iheme (1997) observed that the British decision was driven largely by the need to cut public spending rather than by a wish to promote efficiency and competition. In other words, the United Kingdom privatised public enterprises in order to advance capitalist principles such as competition and individual struggle for survival.

Iheme (1997) also observed that former Eastern Bloc countries such as Romania and Czechoslovakia privatised public enterprises in the 1990s in order to reduce public spending.

Many countries privatised without comparing their own socio-economic circumstances with those of the developed economies from which the policy came.

4. Privatization in Nigeria

Decree 25 of 1988 and the Privatization and Commercialization Act of 1999 form the legal background of the privatization programme in Nigeria. The Bureau of Public Enterprises (BPE) and the National Council on Privatization are the state institutions responsible for it. Both the 1988 Decree and the 1999 Act empower these agencies to attract local and international investors to compete for, and buy wholly or partly, the public enterprises listed for privatization. The 1988 Decree and the 1999 Act define privatization as the relinquishment of part or all of the equity and interests held by the Federal Government or any of its agencies in enterprises that it owns wholly or partly (Obasanjo, 1999). Privatization is thus the total or partial withdrawal of government from the ownership, control and management of public enterprises (Nwoye, 1995). Several enterprises formerly owned and managed by the Nigerian state show how public assets were transferred to transnational companies and domestic investors. Onigbolo Cement Company was sold to Dangote Industries Ltd and a Benin Republic buyer for $15 million. Cement Company of Northern Nigeria was sold to Scancem of Norway and Domez Cement Company Ltd (Privatization Data Base, 2009). The Korean company KEPCO bought a majority shareholding in the Egbin power plant (Kolapo, 2007). Eleme Petrochemicals was sold to Indorama of Thailand for $146 million (Privatization Data Base, 2009). Ashaka Cement Company Plc was sold to Bluecircle Industries Nigeria for 15 million, and Festac 77 Hotel Plc to UAC Properties Development Company for 11 million (Privatization Data Base, 2009). FSB International Bank Plc was sold to MOB Nigeria. Unipetrol Nigeria Plc (now Oando) was sold to Ocean and Oil for $78.8 million, and Saquid Petroleum Nigeria Ltd bought African Petroleum Plc for $40 million (Privatization Data Base, 2009). The sale of public enterprises reduced the sources of government revenue, and the state's stake in the ownership and management of public enterprises became minimal, or zero in some cases. In its 1993 Human Development Report, the United Nations Development Programme (UNDP) warned that selling government assets for short-term revenue would bring long-term losses for consumers and damage the efficiency of the economy as a whole (Ukepevo, 1993). The report added that selling government enterprises to meet current liabilities mortgages the options of future generations (Ukepevo, 1993). Future generations would therefore pay for the reforms, which have cost government its sources of revenue and weakened its revenue base. Governments are then pushed towards rescue measures that ask taxpayers to meet the bills through higher tax rates and a wider scope of taxation.

5. Reasons for Taxation

Taxation is relevant to development. The ability of government to raise revenue for public needs depends not only on the country's economic resources and structure but also on citizens' willingness to provide that revenue. Securing that willingness requires government to be able to tap the country's major sources of wealth and to convince citizens that the resources taken in taxation are directed to their own good (Caiden, 1980), that is, to their development.

Development involves progression, movement and advancement towards better conditions (Okoli, 2002). It may be vertical or horizontal. It is vertical when new creations are introduced to improve people's living conditions, and horizontal when existing structures are expanded to widen the provision of public goods. However, it is conceived, development involves generating and regenerating public needs, which include the tangible and intangible assets that promote human well-being. For the authors, development means the population's access to:

- social services, including good education, adequate health care, information and means of

communication, employment opportunities, orderly refuse disposal, public conveniences, and law and order;

- public utilities, including potable water, good roads, electricity supply and public parks;
- institutional inputs, including credit facilities, low-cost housing programmes, affordable entrepreneurial training for skills acquisition, and support for co-operative organisations; and
- agricultural inputs, including tractors, insecticides, herbicides, hybrid seedlings, fertiliser and extension services, together with industrial development, which involves creating new capital, recreating existing capital and expanding existing capital.

Although governments hold economic resources and wealth that they can tap to provide public needs, they still need tax revenue from citizens to supplement other revenue sources needed for the development agenda. Tax revenues are raised from compulsory levies that governments impose on citizens. Even before colonial administration, Nigerian communities had their own approaches to taxation whenever community problems called for collective action. Today governments have devised collective approaches to generating tax revenue. Tax revenue should be well coordinated and tied to the provision of public needs, because proper accountability encourages people to pay their taxes when due.

6. Taxation

When people in a defined community wish to undertake a project, they may impose a compulsory levy on themselves to raise the money needed. Such a levy is a tax. A tax is a compulsory levy that an organised group imposes on its members so that a substantial sum can be raised to finance a tangible or intangible project. Tax is one of the sources of government revenue: a compulsory levy imposed on citizens to defray costs that government has incurred or will incur (Onah and Ekpong, 2008), and tied to the provision of public goods and services. Recent events show, however, that tax is no longer an annual event. It can now be daily, weekly, monthly and yearly. Taxation is therefore the means by which governments raise revenue to finance expenditure, by imposing compulsory levies on citizens and artificial persons, that is, corporate entities (Oyewo, 2013). All citizens are legally bound to pay the taxes imposed on them, and default is a punishable offence. In return, citizens expect tax revenue to be invested accountably. Tax revenue is not meant to benefit only those from whom it is collected, but to further public goods and services.

Government needs are set out in the size of the budget and in expenditure decisions, and the provision of public goods and services reflects government intentions and the demands of society. While government must tax to meet these needs, it must tax only what lies within taxpayers' income, from which taxable income is determined. Taxable income is what remains after free pay allowances are deducted from a person's annual income. Free pay allowances are special considerations that help the taxpayer meet personal responsibilities. Expressed mathematically, taxable income = total income − free pay allowances. Such allowances are based on, among other things, marital status, the number of dependent children, dependent relatives and life insurance premiums.

7. Taxation in Nigeria

Tax was introduced in Nigeria so that the revenue could finance social services and development projects for citizens' well-being.

Taxation in Nigeria is traced to Lord Frederick Lugard, who in 1904 introduced community tax in Northern Nigeria (Ola, 1985). He later made changes that led to the Native Revenue Ordinance of 1917. An amending ordinance extending its provisions to Southern Nigeria was passed in 1918. The first ordinance was applied to Abeokuta in present-day Ogun State and to Benin City in present-day Edo State (Ola, 1985). It was extended to Eastern Nigeria in 1928.

Formal income taxation began only in 1940, although a simplified form dated from 1927. Northern Nigeria was the first of the regions to impose direct personal taxation.
The Native Revenue Ordinances of 1917, 1918 and 1928 were later consolidated in the Direct Taxation Ordinance No. 4 of 1940, Cap. 54 (Ola, 1985). This repealed the Native Revenue Ordinance, Cap. 74 of the 1923 edition, and the Native Direct Taxation (Colony) Ordinance No. 41 of 1937 (Ola, 1985).
Before Lugard introduced taxation in 1904, communities in Nigeria, particularly in the south-east, paid their taxes collectively by providing their own security arrangements, ponds for harvesting rainwater, cleared roads and public resting places for recreation. Today, income tax is raised on income from various sources.

The main taxes are as follows.
Personal Income Tax (PIT). This is a tax on the income of individuals. Each year, tax officials assess citizens to establish their annual incomes and free pay allowances, which depend on marital status, dependent relatives and other variables set by the prevailing tax laws.

Company Income Tax (CIT). This is a tax on company profits, generally charged on gross profits after the deduction of all costs. Newly established companies receive tax holidays to help them stabilise their business.

Property Tax (PT). This is an annual tax on the possessions of taxpayers, assessed on the gross value of the property.
The authors argue that the United Nations Development Programme had warned that selling public enterprises to raise short-term revenue would produce economic crises. Soon afterwards, the Federal Military Government began raising national tax rates to fill the gap created by the sales, and Value Added Tax (VAT) and other tax reforms followed.

Value Added Tax (VAT). VAT was introduced in Nigeria by the Value Added Tax Decree of 1993, published in the Federal Official Gazette Extraordinary No. 27, Vol. 80 of 1 September 1993, and came into effect on 1 January 1994 (Ola and Adeyemo, 1998). It is a tax on spending, so it is paid as one buys. It is not an annual, monthly, weekly or daily tax but is payable each time a purchase is made. In other words, it is a tax on the consumption of certain goods and services.

Pay as You Use. This tax applies to commercial transport. Road tax is charged once a vehicle is put on the road, but not more than once a day, so the amount depends on the number of days the vehicle operates.

Pay as You Load (tippers). This road tax applies to tipper trucks and is paid according to the number of loads per day. A tipper that loads twenty times a day pays twenty times a day. It is not a once-a-day charge but a load-and-pay tax.

Tax on mobile businesses. Mobile businesses have no fixed or traceable address. They display goods for sale on motor vehicles, tables, the ground or wheelbarrows. Tax is collected from them whenever they come out to trade.

8. Implications of Emerging Taxation Policies
Taxation in Nigeria has expanded in both vertical and horizontal directions to pay for the losses attributed to the privatization of public enterprises. Privatization has reduced government's sources of revenue. The channels through which government can raise revenue have been

narrowed or closed, because revenue from privatised enterprises has not met citizens' demands for the maintenance of the public domain.

Taxation in Nigeria has moved beyond double taxation to multiple taxation, as citizens pay for the cost of development projects and services. Raising the rates of income and property taxes does not solve the problem created by fewer revenue sources. It leaves citizens with less income for household maintenance. Opening new areas of taxation likewise creates multiple taxation and worsens citizens' economic conditions. The introduction of VAT, pay as you use, pay as you load and the tax on mobile businesses, for instance, has caused economic shocks. Citizens' enterprise is difficult to sustain when many are struggling to afford three meals of adequate quality a day. Government should therefore re-establish and reclaim privatised public enterprises, regain sources of revenue, widen its income base and depend less on taxation to meet development costs.

9. Conclusion

This study has argued that the current wave of taxation in Nigeria can be traced to the negative effects of privatization. Privatization has reduced the sources of government revenue and weakened its revenue base. To close the resulting gap, government is using both vertical and horizontal taxation strategies. This places a heavy burden on citizens and weakens their ability to build their own capital, so that they are being de-empowered. Subtraction should not exceed addition: the benefits citizens derive from public goods and services should not be outweighed by the taxes they pay. The emerging taxation regime contradicts the ability-to-pay principle, which seeks to set contributions by a subjective or objective measure of the sacrifice a taxpayer is able to make (Onah and Ekpong, 2008).

10. Recommendations

- Government should withdraw from the experiment of privatization, since it has failed to open up the national economy for positive change.
- Government should create and recreate capital in order to widen its sources of revenue and reduce its reliance on taxation as the main source. Forgotten projects that could improve government's economic position if revisited include the Peugeot assembly plant in Kaduna, the Renault assembly plant in Bauchi, the Volkswagen assembly plant in Lagos, ANAMMCO in Enugu and Niger Steel in Enugu.

References

Ali, W. O. (2009) The impact of globalization on conflicts in Africa. In: Best, S. O. (ed.) Introduction to Peace and Conflict Studies in West Africa: A Reader. Nigeria: Spectrum Books Limited.

Caiden, N. (1980) Budgeting in Poor Countries: Ten Common Assumptions Re-examined. February.

Egwu, S. G. (1998) Structural Adjustment, Agrarian Change and Rural Ethnicity in Nigeria. Research Report No. 103. Uppsala: The Nordic Africa Institute.

Federal Republic of Nigeria (1988) Guidelines on Privatization and Commercialization of Government Enterprises. Lagos: Federal Government Printer.

Federal Republic of Nigeria (1988) Privatization and Commercialization Decree.

Federal Republic of Nigeria (2001) The Nigerian Privatization Handbook.

Folabi, S. B. (2007) Political and economic globalization: the privatization question in Nigeria and the challenge of a developmental state. Nigerian Journal of International Affairs, 33(2), p. 85.

Igbuzor, O. (2009) Privatization in Nigeria: critical issues of concern to civil society.

Kolapo, Y. (2007) Privatization cost and value. The Punch, 28 May, p. 22.

Kor, M. (2001) Rethinking Globalization: Critical Issues and Policy Choices. London: Zed Books.

Nwoye, M. I. (1995) Beyond Crisis: Towards Democratic Developmental States in Africa.

Okoli, F. C. (2002) Public Administration in Nigeria: Nature, Principles and Applications. John Jacob's Classic Publishers Ltd.

Ola, C. S. (1985) Nigerian Income Tax Law and UK Practice. Macmillan Publishers.

Ola, C. S. and Adeyemo, A. I. (1998) Public Finance in Nigeria. C.S.S. Limited.

Onah, F. E. and Ekpong, E. (2008) Public Finance, Fiscal Policy and Public Financial Management in Nigeria. University of Calabar Press.

Oyewo, B. M. (2013) Taxation and tax policy as government strategic tools for economic development in Nigeria. Journal of Business and Management.

Privatization Data Base (2009) Privatization Data Base.

Rodee, C. (1983) Introduction to Political Science. McGraw-Hill International Book Company.

Ukepevo, G. (1993) Not the answer. News Watch, 5 July.