# A COMPARATIVE ANALYSIS OF THE TAX SYSTEM IN THE UNITED KINGDOM AND NIGERIA

*Written by* ***Lovette Osavie Patrick*, Taiwo Ademola** & Bankole Shodipo******

** PhD Student Babcock University Ilishan-Remo, Ogun State, Nigeria*

*** Associate Professor, LLB, BL, LLM, PhD, Supervisor, Babcock University, Ilishan Remo, Ogun State, Nigeria*

**** Professor, Co-Supervisor, Babcock University, Ilishan Remo, Ogun State, Nigeria*

## ABSTRACT

This paper focuses on a comparative analysis of the taxation system of developed and developing economies, using the United Kingdom (UK) and Nigeria as subjects of comparison. This paper reviews the UK tax system and how it can serve as a model to improve Nigeria's tax system. The paper's findings reveal that UK taxes influence economic growth more significantly than Nigeria's. The implication of results shows that revenue generated from taxes in developed economies is efficiently utilised, with the reverse being the case in a developing economy such as Nigeria. This paper adopts a doctrinal approach through critical content analysis of primary and secondary data and case law references. It concludes with the recommendation that a better tax model should be adopted in Nigeria, taking a cue from the tax system in the UK, which balances the weight of the tax burden between the rich and the poor to achieve equilibrium in tax collection and the creation of an enabling environment for accelerated economic development.

***Keywords***: Analysis, Comparative, Economy, System, Tax


This work is licensed under CC BY-NC-SA 4.0. View complete license here

## INTRODUCTION

Taxation in the UK, admirable for its high administrative efficiency, is simple and easy to understand. Ranked by the amounts they generate, the largest sources of revenue for the UK government are Personal Income Tax, National Insurance Contributions, Added Tax (VAT), and Corporation Tax. Income Tax was first introduced during the Napoleonic wars and made permanent in 1842. Companies were part of the income tax system until 1965, when corporation tax was introduced. The governments in power reduced the introductory rate of Personal Income Tax from 33% to 20% between 1979 and 2007. This was notably done by the Margaret Thatcher-led administration, which favoured indirect taxation and reduced government spending.

The predecessor of the VAT from 1940 to 1973 was the Purchase Tax. The Purchase Tax rate was 25% at the start of 1973. The standard rate for VAT, introduced at 10% when the UK joined the European Economic Community in 1973, was increased to 20% in January 2011.[i]

The UK is one of the world's most highly taxed populations. The total income collected from taxes and other sources by the government for the 2021/22 tax year was £915 billion, which was 39% of the country's Gross Domestic Product. [ii] Of that amount, £530 billion came from Income Tax, National Income Contributions (NIC), and Value Added Tax (VAT), the three most significant sources of income for the UK government. [iii] The UK's tax year runs from April 6th of the current year to April 5th of the following year.

The tax rate in the UK is set and collected by His Majesty's Revenue and Customs (HMRC). This Agency is responsible for calculating the tax rate and collecting taxes. HMRC is also responsible for providing funds for such UK public services as child benefits, housing, and income support.[2]


This work is licensed under CC BY-NC-SA 4.0. View complete license here

## TAX SYSTEM IN THE UNITED KINGDOM

In the UK, taxes are levied at two levels, i.e., the central and local

governments. Central governments impose income tax, VAT, corporate tax, fuel duty, etc. Local governments collect business rates, council tax, street parking charges, etc. In addition, local governments also receive grants from funds from the central government.

The UK has a Pay As You Earn (PAYE) system collects income and National Insurance Tax directly from employees' payroll. This helps taxpayers avoid a large bill at the end of the tax year and ensures they contribute to the national pension. Businesses and self-employed people, much like in the United States, can pay their taxes every three months to remain up to date.

Other taxes, such as Value Added Tax (VAT), equivalent to sales tax in the United States, and excise duties, are collected or paid when goods and services are purchased, sold, or produced.

The UK uses taxes to generate income for their government and as a means of regulation. Tariffs on products like alcohol and tobacco, known colloquially as sin taxes or fossil fuels, can discourage consumers from over-indulging in those products. Taxes on pollutants like fossil fuels can reduce emissions and protect the environment while benefiting the government and its citizens.

Her Majesty Revenue and Customs (HMRC) also employs other forms of taxes to generate income for the government. They decide the tax rate for corporations, capital gains, inheritance, etc. Beyond taxes, the UK also earns an income from Receipts. These receipts are other forms of cash inflows for the government, such as money earned from investments, loan repayments, or sales. While the UK has many forms of taxation, the three central taxes that bring in the most funds are Income Tax, National Insurance Contributions and Value Added Tax.

### *Income Tax Act*

Income tax is what taxpayers pay on their wages or earnings if they are employed.

The UK operates a Progressive Tax System where the average tax rate increases as the taxpayer's income increases. This means that a higher income attracts a higher tax rate. Under the UK Tax Rate System, the first £12,570 earned is categorised as a personal allowance and is not taxed. Any income from £12,571 to £50,270 is taxed at 20%, [iv] and the next portion is


This work is licensed under CC BY-NC-SA 4.0. View complete license here

taxed at a higher rate, and so on. If your income exceeds £150,000, you do not qualify for a personal allowance. [v]

***National Insurance Contributions***

For National Insurance (NI), the UK uses the same PAYE system as its income tax for its NIC, which is a government-mandated contribution or tax citizens must pay toward the UK's state pensions and benefits. The setup of the NIC is like the income tax, where three income brackets determine how much you must pay monthly. NIC is also calculated like the income tax, where the first £241 is not taxed, the balance from £242 to £967 is taxed at 13.25%, and the remainder is taxed at 3.25%.[vi]

The table below shows the tax rate for UK National Insurance for 2022-23.

| Weekly Income | Class 1 National Insurance Rate |
|---|---|
| £0 to £241 | 0% |
| £242 to £967 | 13.25% |
| Over £967 | 3.25% |

The table above shows the tax rate if you qualify for Class 1, for employed people earning more than £242 per week. The employer also pays a portion of the benefits or expenses. Then there are Classes 2, 3 and 4, which collect payments from self-employed people earning at least £6,725 annually, voluntarily contributing, or self-employed people earning more than £11,909 annually, respectively.

***Value Added Tax***


This work is licensed under CC BY-NC-SA 4.0. View complete license here

Value Added Tax is levied on most goods and services provided by registered UK businesses and others imported from outside the UK. [vii] The default VAT rate is the standard rate of 20% which has been in force since January 4, 2011.[viii] Some goods and services are subject to VAT at a reduced rate of 5% (such as domestic fuel) or 0% (such as most food and children's clothing).[ix] Others are exempt from VAT or outside the system altogether.

Value Added Tax is an indirect tax because it is paid to the government by the seller (the business) rather than the person who ultimately bears the economic burden of the tax (the consumer).[x] Opponents of VAT claim it is a tax. After all, the poorest people spend more of their disposable income on VAT than the wealthiest people.[xi] Those in favour of VAT claim it is progressive as consumers who spend more pay more VAT.[xii] As of 2022, the VAT for most goods and services that taxpayers purchase is 20%.[6]

Below is a table of VAT rates and what they apply to:

| VAT Rate | % of VAT | What it applies to |
|---|---|---|
| Standard Rate | 20% | Majority of goods and services. |
| Reduced Rate | 5% | Some goods and services like child car seats or home energy like heating. |
| Zero Rate | 0% | Some goods and services like children's clothing and most food. |

The table above shows the three different VAT amounts that can be charged on purchases. Goods deemed essential, like food and clothing for children, are exempt from these taxes to keep prices as affordable as possible.[6] Other services that are still necessary but not as essential or, more broadly, affect the population, like heating, are subject to the reduced rate.


This work is licensed under CC BY-NC-SA 4.0. View complete license here

On the other hand, businesses must register for and add VAT to their prices when they bring in more than £85,000 in turnover on items that qualify, including zero-rated goods.[7] A business then must report to HMRC how much they charged their customers in VAT and how much they paid in VAT to other businesses such as suppliers.

Tourists and visitors to the UK can shop tax-free during their stay. In addition, they are entitled to claim a refund on any VAT paid for goods bought within the country – provided they take these items with them when they leave the UK.

In most cases, the shop or refund company charges you a fee for using tax-free shopping. Such refunds must be claimed by the last day of the third month after the month you bought them. These are only available to tourists, visitors and UK nationals living abroad for at least 12 months. If an individual belongs to one of these categories, he/she must be able to prove this to the shop assistant and Customs Post when they leave the UK by showing their passport, visa, or other documents.

***UK Taxes on Investments***

UK taxes on investments are a type of Capital Gains Tax. Depending on the type of investment, it may be referred to as a Stamp Tax. In the UK, there are some rules for paying taxes on assets. When purchasing a share, there is a 0.5% tax on the exchange. If this exchange occurs electronically, there is a Stamp Duty Reserve Tax, and, if it appears using a stock transfer form and exceeds £1,000, it is subject to Stamp Duty. Additionally, if the share is transferred to a third party, like a bank, buyers must pay a 1.5% tax.

When an individual sells their shares, they may be subject to Capital Gains Tax. The first £12,300 earned is not taxed, but any money earned above this is taxed at 10% if your income falls in the Basic Tax band and 20% if it falls in the High Tax band.[8xiii]

Earnings on dividends are also taxed. A bonus is money paid by companies to their shareholders. Currently, in the UK, shareholders must pay taxes on dividend income that exceeds £2,000 per tax year.

Tax rate on dividends above £2,000


This work is licensed under CC BY-NC-SA 4.0. View complete license here

| Tax Band | Tax Rate |
|---|---|
| Basic Rate | 8.75% |
| High Rate | 33.75% |
| Additional Rate | 39.35% |

***Regulatory Tax Agency in the United Kingdom***

Her Majesty Revenue and Customs (HMRC) is the Agency responsible for administrating all aspects of the UK tax system for businesses and individuals, including direct and indirect taxes.

The UK Government considers the administration and collection of Corporation Tax as a fundamental part of a competitive tax regime. The tax rate in the UK is set by His Majesty's Revenue and Customs (HMRC), the Agency responsible for calculating the tax rate and collecting taxes. It is also responsible for providing funds for UK public services such as child benefits, housing, and income support.

## TAXATION SYSTEM IN NIGERIA

The tax structure in Nigeria is tailored towards the Nigerian governance hierarchy: The Federal, State and Local Governments. Nigeria operates a decentralised tax system where each level of government is independently responsible for the administration of taxes within its jurisdiction. Nigeria generates revenue to fund government expenditures through a pool of taxes from each tier of government. Each level of government has an agency for administrating its tax system.

The Nigerian tax system is structured as a tool for revenue generation. This legacy from the pre-independence government based on the 1948 British tax laws has been mainly static since enhancement. However, the need to tax personal incomes throughout the country, based on the


This work is licensed under CC BY-NC-SA 4.0. View complete license here

pay-as-you-earn (PAYE) system, prompted the Income Tax Management Act (ITMA) of 1961. This Act has been severally amended. For instance, in 1985, PIT was increased from N600 or 10 per cent of earned income to N2000 plus 12.5 per cent of income exceeding N6000. [xiv] In 1989, a 15 per cent withholding tax was applied to savings deposits valued at N50000 or more while tax on rental income was extended to cover charted vessels, ships or aircraft. In addition, the tax on directors' fees was fixed at 15 per cent. These policies were geared toward achieving adequate protection for local industries, greater use of raw materials, and generating increased government revenue, among others[xv].

Consequently, attention has been focused on promoting exports for manufacturers and reducing the tax burden on individuals and companies. In line with this change in policy focus, many measures were undertaken. These involved, among others, reviewing custom exemption and rebates, introducing of capital allowances, expanding the duty drawback scheme and manufacturing-in-bond scheme, and abolishing excise duty. There have also been efforts at monetising fringe benefits and increasing tax relief to low-income earners.

## TAX LAWS IN NIGERIA

Taxation in Nigeria is enforced by the three tiers of government, namely, the Federal, State and Local governments. Each tier administers its tax system according to its powers as spelt out in the Nigerian Constitution. The major tax laws as of September 2003 and various related amendments include the following:

i) Personal Income Tax (Amendment) Act 2011[xvi]
ii) Company Income Tax[xvii]
iii) Petroleum Profits Tax Act[xviii]
iv) Value–Value-added Tax Act[xix]
v) Education Tax Act of 1993[xx]
vi) Capital Gain Tax Act[xxi]
vii) Customs and Excise Management Act of 1990
viii) Stamp Duties Act of 1990.[xxii]
ix) 1999 Constitution of the Federal Republic of Nigeria (as amended)


This work is licensed under CC BY-NC-SA 4.0. View complete license here

## REVIEW OF SOME OF THE TAXES IN NIGERIA

### *1. Personal Income Tax (PIT)*

This is the nation's oldest tax. Before the amalgamation of the Northern and Southern Protectorates which created Nigeria in 1914, Personal Income Tax was imposed as a community tax in Northern Nigeria in 1904. It was extended to the Western and Eastern parts of the country by the Native Revenue Ordinances in 1917 and 1928, respectively. It was later incorporated into Direct Taxation Ordinance No. 4 of 1940, among other changes made in the 1930s. The Pay As You Earn (PAYE) system, the basis for personal income tax in Nigeria for salaried employees, has undergone various revisions. For example, PIT was raised from N600 or 10% of earned income to N 2,000 + 12.5% of income over N6,000 in 1985. [xxiii] In addition, savings deposits worth N 50,000 or more were subject to a 15% withholding tax in 1989 and the tax on rental income was expanded to include income from chartered boats, ships, or airplanes. Additionally, a constant 15% tax was applied to directors' fees. PIT changes were also enacted in 1990, including other individual tax allowances and a 0.5 per cent minimum tax rate that exempted those with incomes of N 3,000 or less from filing tax reports.[xxiv]

According to the Finance Act 2020 amendment, the PITA coordinated the subsidiary laws for the PAYE system, withholding taxes and other laws.[xxv] The State Board of Internal Revenue (SBIR) was responsible for managing the revenue under the PITA. In contrast, the Joint Tax Board was given the authority to administer the tax nationally and to coordinate its administration. Since it was put into effect, there have been some changes.

The failure of employers to register their employees and to submit such taxes to the appropriate authorities is a recurrent issue with PIT. To address this, the government amended the 1993 PIT Act in 2002 to hold non-compliant employers accountable for paying all back taxes owed and penalties up to N 25,000.[xxvi] Furthermore, employers who fail to maintain accurate records are also subject to an N 5,000 fine.[xxvii] However, since the cost of tax evasion is lower than the cost of compliance, a minor penalty tends to encourage tax evasion. In addition, JTB has been paying close attention over the past five years to the problems of unremitted funds from the PAYE system and withholding taxes, particularly among government ministries and agencies,


This work is licensed under CC BY-NC-SA 4.0. View complete license here

as well as lax adherence by all three levels of government to the approved list for (tax) collection, as required by the 1998 Taxes and Levies Act 21.

Nigeria's attempt at personal income tax failed due to inequity. Most PIT is paid by employees whose salaries are deducted at source, even though the self-employed outnumber paid workers, and they can earn much more than those employed in the formal sector. The coverage of self-employed workers is challenging due to inadequate tax authority oversight, the prevalence of activities in the informal sector and the large number of Nigerians who reside in rural areas. Aside from the fact that the public needs to be adequately informed about amendments or that they need to be included in the pertinent legislation, the legal language could be more precise and more professional. There needs to be more tax education in Nigeria. Taxpayers need to be made aware of the laws regulating their taxation. Due to inadequate communication between the government and the people, most citizens view taxes as a mere legal hindrance rather than their civic responsibility. This mindset makes compliance difficult and makes enforcement problematic.

The current Personal Income tax rate in Nigeria is shown below[xxviii]

| Annual income (NGN) | PIT rate (%) |
|---|---|
| First 300,000 | 7 |
| Next 300,000 | 11 |
| Next 500,000 | 15 |
| Next 500,000 | 19 |
| Next 1,600,000 | 21 |


This work is licensed under CC BY-NC-SA 4.0. View complete license here

| | |
|---|---|
| Over 3,200,000 | 24 |

### 2. *Petroleum Profits Tax*

The income of businesses involved in upstream petroleum operations is subject to the Petroleum Profits Tax (PPT) which is controlled by the Petroleum Profits Tax Act. Companies that must pay PPT are not required to pay Companies Income Tax (CIT) on the same income. The Petroleum Profit Tax Act[xxix] governs the financial activities of oil companies, including those producing crude oil, marketing petroleum, and providing services for companies involved in surveying, drilling, and data gathering. The Act governs the assessment, collection and accounting for revenues due to the Government of the Federation. According to the Act, "petroleum operations are the winning, obtaining and transportation of petroleum or chargeable oil in Nigeria by or on behalf of a company for its account by any drilling, extracting, or other like operations or process, excluding refining at a refinery, in the course of a business carried out by the company, engaged in such operations and all operations incidental to it and sale or any disposal of chargeable oil[xxx]" The Act also states that tax must be paid for each year of assessment on the total sums that represent each taxable person's income for the year, whether it came from sources inside or outside of Nigeria, including, but not limited to, those listed above.

### 3. *Company Income Tax (CIT)*

The Company Income Tax Act 1990, the extant codification of the Company Income Tax 1961, has undergone numerous amendments. Company Income Tax is levied on the profits from all sources of all companies doing business in Nigeria. The Corporate Income Tax Act (CITA) governs how businesses are taxed in Nigeria. The Federal Inland Revenue Service (FIRS) serves as its operational arm.[xxxi] Section 3 of the Act stipulates that the Board's responsibilities regarding companies include collecting taxes and keeping accurate records of all sums collected. The company tax rate is 30% of a company's total profit, less all reasonable expenses for the time expended by a corporation in producing the taxable gain.


This work is licensed under CC BY-NC-SA 4.0. View complete license here

The pre-1992 and post-1992 policy regimes can be classified into two categories. Before 1992, CIT policies were narrowly based, marked by rising tax rates and over-taxing of taxpayers, which had a detrimental impact on savings and investment. However, since 1992, steps have been taken to resolve these systemic issues. For instance, the Capital Transfer Tax was abolished in 1996, and the Excess Profit Tax was repealed in 1991. The comprehensive caution is that excessive and frequent use of taxes can turn them into blunt, ineffective or perverse instruments of policy. Governments should instead create simple, reliable and neutral tax arrangements that would not discourage private industry and interfere with market signals.

***Value-Added Tax (VAT)***

An important landmark in tax reform in Nigeria was the enactment of the Value Added Tax Act No. 102 of 1993, which took effect in January 1994. Since its introduction, 15 of the 42 sections of the Act have been amended. Replacing Sales Tax, VAT was initially imposed on 17 categories of goods and 24 service categories. However, items such as essential foods, medical and pharmaceutical products, books, newspapers and magazines, house rent, commercial vehicles, spare parts, and services rendered by Community and People's Banks were exempted from VAT.[xxxii]

With respect to it rate, the Finance Act, 2021 further amended some provisions of the Value Added Tax Act, Cap. V1, LFN 2004 (as amended). In accordance with Section 4 of the VAT Act, every taxable person is to collect tax at the rate of 7.5% of the value of the goods and services supplied and the tax so collected is the output VAT. Monthly remission of the net VAT payable (which is the excess of the output VAT over the input VAT) is to be made in the currency of transaction on or before the 21st day of the following month of such transaction and returns must be rendered to the Service in the appropriate form. The provisions of Section 2 of the VAT Act (as amended) are explained as follows: All goods and services supplied in Nigeria are liable to VAT in Nigeria except goods and services specifically listed in the First Schedule to the Act.[xxxiii] To this end, all goods and services consumed or otherwise utilised in Nigeria are subject to VAT in Nigeria.


This work is licensed under CC BY-NC-SA 4.0. View complete license here

Although VAT is a consumption tax, suppliers (i.e., taxable individuals) are subject to a 7.5% rate that must be added to invoices to be paid by customers and remitted monthly to the VAT authorities. Regardless of the production or distribution stage, this assumes that cascading effects do not exist. Despite being governed by federal law, VAT was excluded from federal jurisdiction by the 1999 Constitution (as amended). This was unusual because, at the introduction of VAT, the state governments' sales taxes, which the new VAT was intended to replace, were being collected by the federal government on their behalf. The Act assigned the FIRS the duty of implementing VAT. However, VAT on imports is collected by the Nigerian Customs Service on behalf of FIRS. The business landscape in Nigeria presents a significant obstacle to the administration of VAT, which requires maintaining written records. Record keeping is still uncommon in Nigeria, and the country's economy is dominated by informal trading, where dealers are always "on the move."

***Capital Gains Tax (CGT)***

The Capital Gains Tax Act of 1990 is the primary legislation governing the capital gains tax. Despite being 20% when it was first enacted in 1967 by Decree No. 44 of 1967, the Capital Gains Tax (CGT) rate is now 10%.[xxxiv] The sale of stocks, bonds, precious metals, real estate, disposal of assets and property investments are among the items covered by capital gains tax. Any capital gain resulting from the sale, lease, transfer, assignment, forced acquisition or disposal of chargeable assets during the assessment year is subject to taxation under this law. It is a concurrent tax, which means that the FIRS manages it under the control of the federal government, which has jurisdiction over business entities and citizens in all states of the Federation and the Federal Capital Territory, Abuja. Each State's Board of Internal Revenue oversees the collection of capital gains taxes on individuals.

It is notable that non-profit entities and public institutions of higher learning are exempt from Capital Gains Tax and Capital Gains Tax cannot be deducted from assets unrelated to any company's business.

The CGT was expanded to include profits on stocks and shares in 1972, and started to apply to citizens and non-residents in 1975. Beginning in 1993, capital gains resulting from the purchase of company shares through a merger or takeover were excluded from CGT if cash was not exchanged for the shares. However, until 1996, overseas gains and income were subject to


This work is licensed under CC BY-NC-SA 4.0. View complete license here

tax.[xxxv] By 1998, the CGT had been lowered from 20% to 10%. The problems associated with implementing the Capital Gains Tax Act include the complex method of calculating taxable gain, the inability to discount for inflation and the impossibility of loss relief inside transactions.

## TAX AUTHORITIES IN NIGERIA

### 1. *Federal Inland Revenue Service (FIRS)*

The FIRS was established by Section 1 of the Federal Inland Revenue Service (Establishment, etc.) Act of 2007. This body took over from the erstwhile Federal Board of Inland Revenue (established under Section 1 of the Companies Income Tax Act (CITA) 1990), which was dissolved by Section 62 of the Act. The FIRS is the Federal Government's operational agency in charge of assessing and collecting relevant taxes for the Federal Government. The functions of the FIRS include, among others:[xxxvi]

a. To collect, recover and pay to the designated account any tax recognised by the Act

or any other law or enactment;

b. To assess chargeable persons, including companies, enterprises, and individuals.

with tax;

c. To assess, collect and enforce payment of taxes as may be due to the government.

or any of its officials;

d. To collaborate with relevant ministries and agencies for the review of the tax

regimes and promote the application of tax revenue for the stimulation of

economic activities and development;

e. To make, from time to time, a determination of the extent of financial loss and

such as other losses by the government arising from tax evasion and fraud and other losses (or revenue forgone) arising from tax waivers and other related matters.


This work is licensed under CC BY-NC-SA 4.0. View complete license here

The FIRS also has a Board whose power is to provide general policy guidelines relating to the functions of the Service, among other related matters.[xxxvii] There is also a Technical Committee of the Board which considers all tax matters that require professional expertise and make recommendations to the Board.

### 2. State Board of Internal Revenue (SBIR)

The SBIR is the relevant tax authority charged with assessing and collecting taxes due to the state government. The SBIR was established under section 85A of the Personal Income Tax Act (PITA) 1993. The SBIR has an operational arm known as State Internal Revenue Services or State Services. The SBIR is responsible for:

a. Ensuring the effectiveness and optimum collection of all taxes and penalties due to

the state government under the relevant laws;

b. Doing all such things as may be deemed necessary and expedient for the

assessment and collection of the tax and shall account for all amounts so collected in a manner to be prescribed by the Commissioner for Finance of the relevant State;

c. Making recommendations where appropriate to the Joint Tax Board on tax policy, tax reform, tax legislation, tax treaties and exemptions as may be beginning from time to time;

d. Generally controlling the management of the State Services on matters of the policy subject to the provisions of the law setting up the State Service.

### 3. Local Government Revenue Committee

The Local Government Revenue Committee was established under the PITA, Section 85D. The function of the Revenue Committee includes the assessment and collection of all taxes, fines and rates under its jurisdiction. It shall account for all amounts so collected in a manner to be prescribed by the Chairman of the Local Government.

### 4. Other Tax Authorities

Apart from those mentioned above, the law creates other tax authorities. These include, among others:


This work is licensed under CC BY-NC-SA 4.0. View complete license here

a. Joint Tax Board (Created under section 85(1) of PITA 1993).

b. Joint State Revenue Committee (Section 85F PITA 1993 as amended by Finance (Miscellaneous Taxation Provisions) Act 1998).

## CONCLUSION

From the above review of the tax system in Nigeria and the United Kingdom, it is evident that Nigeria has a lot to learn from the tax system in the United Kingdom. These lessons include the unified tax administration by the HMRC, a proper database of its citizens/taxpayers, good use of revenue generated from taxes to encourage compliance from the taxpayers, and enlightenment of the public on the importance of paying taxes. It is obvious that the Nigerian tax structure is more complex than that of the UK. The low ranking of Nigeria in the Ease of Doing Business Index is a pointer. This is evident in the world ranking as regard to the ease of doing business where Nigeria ranked 118 in 2009, 125 in 2010, 137 in 2011 and the worst of all time in 2015, the country was rated 170 among 189 countries. [xxxviii] This shows that the Country is going from bad to worst.

Furthermore, Nigeria's tax rate is very high compared to the UK tax rate. This can discourage local and foreign investments as investors prefer countries that charge lower tax rates. Nigeria charges 30% on company income tax while the United Kingdom charges 19%[xxxix]. Additionally, with respect to personal income tax, in the United Kingdom, the first £12,570 earned is classified as tax-free personal allowance. Such tax break is absent in Nigeria at the first Three Hundred Thousand Naira earned its taxed at 7%[xl]

## RECOMMENDATIONS

In comparison to many other nations, Nigeria's tax administration is subpar. Nigeria's database system is comparatively underdeveloped when compared to industrialised nations (particularly the UK) and, unlike many other nations, it lacks accurate information on its population. It is


This work is licensed under CC BY-NC-SA 4.0. View complete license here

challenging to include self-employed individuals in the tax net due to a lack of adequate information about them.

It is also important for Nigeria to learn from the tax systems of the developed countries to improve its own. Overdependence on oil revenue is a serious issue that Nigeria must address. The current economic challenge in the country now is traceable to the fluctuations in the price of petroleum in the international market. The more revenue a country can generate, the better. Nigeria must continuously improve its tax laws to make them more reasonable, simple to follow and less hostile to businesses and entrepreneurs. Most provisions of the Nigerian tax rules need to be updated and made easy for citizens to comply with, and help to promote the inflow of international investors. Government should adopt appropriate and current information technology that will make the tax payment process easy for businesses and individuals and reduce tax evasion to the minimum. In addition, the government should use tax revenue effectively to encourage individual and corporate compliance. Development in the level of basic infrastructure facilities and social amenities will encourage voluntary compliance from taxpayers. Nigeria should benefit from the UK's tax system and make its tax laws more friendly towards businesses and the general populace.


This work is licensed under CC BY-NC-SA 4.0. View complete license here

# ENDNOTES

[i] Uk Tax System Explained to Foreigners <UK tax system explained to foreigners - 1Office> accessed April 30th, 2023
[ii] UK Parliament, House of Common Library 'Tax Statistics; An Overview' (2023) <Tax statistics: an overview - House of Commons Library (parliament.uk)> accessed May 1, 2023
[iii] ibid
[iv] How Income Tax and Personal Allowance Works < How Income Tax and the Personal Allowance works | MoneyHelper> accessed May 20, 2023
[v] Price Water Copper 'Worldwide Tax Summaries' (2022) <https://taxsummaries.pwc.com/united-kingdom/individual/taxes-on-personal-income> accessed April 4, 2023
[vi] Income Tax Rate and Personal Allowances < https://www.gov.uk/income-tax-rates> accessed April 13, 2023
[vii] Charge, Reclaim and Record of VAT < https://www.gov.uk/charge-reclaim-record-vat> accessed April 20, 2023
[viii]ibid
[ix]Kashflow 'The UK's VAT Rate Explained' (2013) < https://www.kashflow.com/uk-vat/> accessed April 20, 2023
[x] The Guardian 'VAT: A Brief History of Tax' (2010) < https://www.theguardian.com/money/2010/dec/31/vat-brief-history-tax> accessed April 20. 2023
[xi] BBC News 'Poorest Spend Higher Proportion in VAT than Richest' (2011) < https://www.bbc.com/news/business-15519727> accessed April 20, 2023
[xii] ibid

[xiii] Gov.uk, Capital Gains Tax rates and allowances, 2022, <https://www.gov.uk/guidance/capital-gains-tax-rates-and-allowances#tax-free-allowances-for-capital-gains-tax> accessed April 20, 2023

[xiv] E A. Akhidime and E R Abusomwan'Nigeria Personal Income Tax (Amendment) Act 2011: Implications for Tax Administration and Enforcement' (2013)2 International Journal of Arts and Humanities 222
[xv] Leyira Christian Micah, Chukwuma Ebere and Asian Asian Umobong 'Tax System in Nigeria – Challenges and the Way Forward' (2012)3 Research Journal of Finance and Accounting 34
[xvi] Personal Income Tax Act Cap P8 LFN 2004 (as amended)
[xvii] Companies Income Tax Act (CITA), Cap C21, LFN 2004 (as amended)
[xviii] Petroleum Profit Tax Act Cap P13 LFN 2004, (PPTA)
[xix] Value Added Tax Act, Cap VI, LFN 2004 (as amended)
[xx] Education Tax Act of No 7 1993
[xxi] Capital Gains Tax Act, Cap C1 LFN 2004 (as amended)
[xxii] Stamp Duties Act, CAP S8, LFN 2004 (as amended)
[xxiii] Supra, note 14
[xxiv]Oladejo Adeyemi and Eniola Akinoso Nigeria: Consolidated Relief Allowance In PIT Computation- What Has Changed?
[xxv]Section 33 of PITA
[xxvi] Section 2 of PITA
[xxvii] Section 18 PITA
[xxviii] Sixth Schedule of the Personal income Tax (Amendment) Act 3011 as amended in 2020
[xxix] Supra, note 18
[xxx] Section 2 PPTA
[xxxi] Section 1 of the Company Income Tax Act
[xxxii] Uwaroma Ironkwe and George T. Peter 'Value added tax and the financial performance of quoted Agribusinesses in Nigeria' (2015)3 International Journal of Business and Economic Development 78
[xxxiii] Which included medical and pharmaceutical products, basic food items, books. Educational materials, baby product, fertilizer, locally produced veterinary medicine, farming machinery, farming transportation equipment, all exports, plant, machinery and equipment imported for utilization of gas in downstream, tractor, plough, agricultural equipment and implement purchased for agricultural purpose, medical services, services


This work is licensed under CC BY-NC-SA 4.0. View complete license here

rendered by community banks, peoples' bank. Mortgage institution, plays and performances conducted by educational institution as part of learning, all exported services.

[xxxiv] Section 2(1) Capital Gains Tax Act 1990

[xxxv] Bashir Ramoni 'Capital Gains Tax In The Nigerian Capital Market And Stocks Investment Under Finance Act 2021' (2022) < https://www.mondaq.com/nigeria/tax-authorities/1167386/capital-gains-tax-in-the-nigerian-capital-market-and-stocks-investment-under-finance-act-2021> accessed May 22, 2023

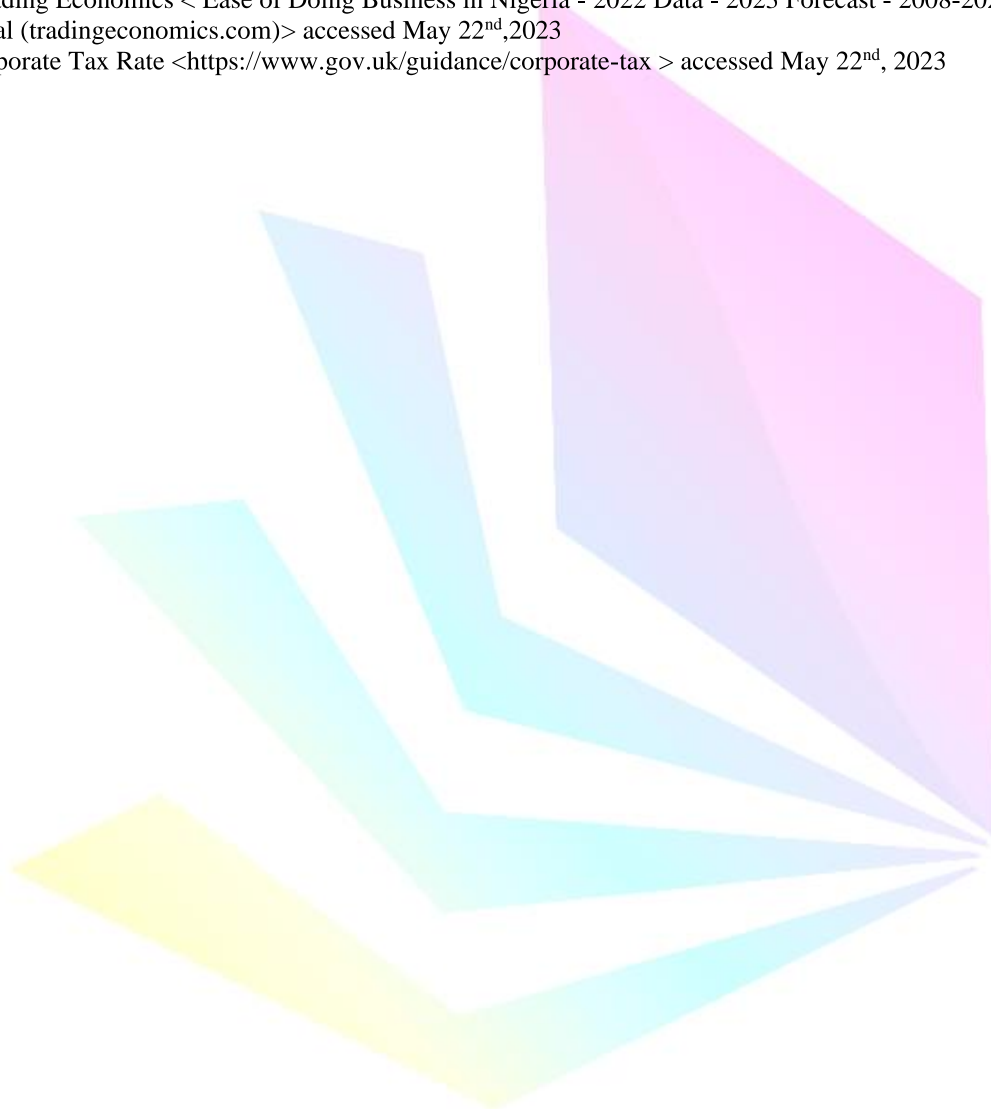
[xxxvi] Section 8 of the Federal Inland Revenue Service (Establishment, etc.) Act of 2007

[xxxvii] Section 7 Federal Inland Revenue Service (Establishment, etc.) Act of 2007

[xxxviii] Trading Economics < Ease of Doing Business in Nigeria - 2022 Data - 2023 Forecast - 2008-2021 Historical (tradingeconomics.com)> accessed May 22nd,2023

[xxxix] Corporate Tax Rate <https://www.gov.uk/guidance/corporate-tax > accessed May 22nd, 2023

[xl] Supra




This work is licensed under CC BY-NC-SA 4.0. View complete license here