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THE IMPACT OF NIGERIAN TAX ACTS, 2025, ON SALARY EARNERS

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Abstract

The Nigerian Tax Acts, 2025 is a cardinal reform of the fiscal policy of Nigeria aimed at broadening the tax base, improve compliance, and enhance the revenue collection to support national development. In the paper, the impact of the 2025 Tax Act on the salary earners and the growth of the national economy in general are assessed. The study employs a mixed-method strategy involving secondary analysis of government reports, statute rules, and economic indicators. The study finds that while the Act favors progressive taxation and greater equity, its immediate implication has been increased tax burden on the middle class due to the rationalization of reliefs and personal income tax rate adjustments. However, in the long term, better revenue mobilization and better fiscal discipline are more likely to propel infrastructural development and social expenditure, thereby improving the economic prospect. Equitable implementation, wage adjustment, and the inclusion of better tax education for the maintenance of equity in the distribution of the tax burden and consistent national development are advisable in the study.

Keywords: Tax Reform, Salary Earners, Economic Growth,

1.0 INTRODUCTION

Taxation constitutes the cornerstone of financing government activities and improving socioeconomic development. In Nigeria, inadequate revenue collection, poor compliance, and heavy reliance on oil have made tax reform a compelling fiscal agenda. The Nigerian Tax Acts, 2025, consolidate, unite and revise core tax legislations like the Nigeria Tax Act (NTA), Nigeria Tax Administration Act(NTAA), Nigeria Revenue Service (Establishment) Act and related enactment(NRSA), Joint Revenue Board (Establishment) Act(JRBA) to make it more efficient, fair, and digitally compliant.

The new Act introduces progressive changes to individual income tax rates, rationalizes exemptions, and broadens digital tax filing. For wage earners, these changes directly affect disposable income, spending power, and health. For the government, the expected outcomes are a broader tax base, reduced evasion, and a stronger fiscal position to spur growth in areas such as infrastructure, education, and healthcare.

Notwithstanding these projected gains, the question remains: how does the 2025 Nigerian Tax Act affect the income of salary earners and the economy's performance? This study examines these effects to close the gap between fiscal policy goals and socioeconomic reality.

1.1 METHODOLOGY

The research adopts a mixed-methods strategy combining documentary analysis and quantitative presentation.

Primary Sources: Nigerian Tax Acts, 2025 provisions; circulars of the Federal Inland Revenue Service (FIRS).Secondary Sources: National Bureau of Statistics (NBS) statistics, Central Bank of Nigeria (CBN) bulletins, academic research, and prior Finance Acts

1.2RESEARCH OBJECTIVES

The objectives of this study are to:

1. Examine the key provisions of the Nigeria Tax Acts, 2025, and how they affect salary earners under the Pay-As-You-Earn (PAYE) system.
2. Assess the implications of the revised tax rates, exemptions, and deductions on disposable income and living standards.
3. Evaluate the broader impact of the tax reforms on national economic growth, public revenue, and investment climate.
4. Provide policy insights on how salary earners and the government can both benefit from a balanced and equitable tax system.

1.3 RESEARCH QUESTIONS

1. What are the significant changes introduced in the Nigeria Tax Acts, 2025, especially regarding income tax and PAYE?
2. How do these tax reforms affect the disposable income and welfare of Nigerian salary earners?
3. What role will increased tax revenue play in supporting national development and economic growth?
4. How can the new tax framework ensure fairness, compliance, and sustained productivity across income groups?

1.4. SIGNIFICANCE OF THE STUDY

This study is significant because it bridges the gap between tax law and public understanding. It helps Nigerian citizens particularly workers and civil servants to understand how the 2025 tax reforms influence their income and living conditions.

For policymakers, it offers insights on how taxation can be used as a tool for inclusive economic growth. For the business community, it clarifies compliance expectations and highlights the importance of transparency. For the broader economy, it underscores how efficient taxation supports infrastructure, education, healthcare, and national productivity.

In essence, the study empowers citizens with knowledge of their rights, obligations, and benefits under the new tax system.

1.5 SCOPE AND LIMITATION OF THE STUDY

The study focuses on the provisions of the Nigeria Tax Acts, 2025, with emphasis on:

Personal Income Tax (PIT) and PAYE systems affect salary earners.

The impact of the Acts on federal revenue generation and economic performance between 2025 and 2027.

The study does not cover corporate or petroleum taxes in detail, but it recognises their indirect contribution to national revenue growth.

2.0 LITERATURE REVIEW

Adeniran and Akanni (2022) noted that higher taxation of wage earners, in the absence of equivalent wage increases, may reduce disposable income and weaken aggregate demand. By contrast, evidence from the World Bank (2023) indicates that long-term non-oil tax growth is positively associated with infrastructure investment and GDP growth among emerging economies.

The Nigerian Tax Acts, 2025, capture global trends towards digitization, equity, and tax inclusion. Detractors argue that without adequate wage policy or social cushioning programs,

the burden could largely fall on the working middle class (Ogunleye, 2024). This review, therefore, emphasizes the twofold nature of taxation: it pays for public goods but can constrain domestic welfare if regressive.

The academic and policy literature on tax reform identifies three interlinked expectations: (1) well-designed tax reform has the potential to raise domestic revenue mobilization; (2) distributional design of reforms influences short-run welfare effects and political acceptability; and (3) revenue enhancement only converts into growth benefits if backed by reliable public financial management and efficient public investment. This review positions the 2025 Nigerian Tax Acts (NTA) within this literature. It provides a summary of contemporary empirical and practitioner evidence on the likely implications for wage earners and national development.

Public finance theory frames tax reform as a reconciliation of equity, efficiency and administrative convenience. Traditional work (Musgrave; modern public finance research) shows that broad-based taxation and lower avoidance are likely to enable revenue adequacy without excessive distortion, while specific progressive tools can protect poor households' consumption. Cross-country empirical evidence links sustained increases in tax-to-GDP ratios with rising public spending on physical and human capital, boosting both total factor productivity and long-run GDP. Still, the magnitude of any dividend from growth will depend on the composition and efficiency of public expenditure. Altogether, tax law is a necessary but not sufficient condition for growth: good collection has to be matched by quality expenditure and macroeconomic stability.

Expert commentaries and the government's explanatory texts note that the 2025 package is comprehensive: it consolidates various statutes into the Nigeria Tax Act and ancillary legislations (Tax Administration Act, Nigeria Revenue Service Act, Joint Revenue Board Act), broadens taxable definition (including some digital and cross-border products), tightens anti-avoidance (CFC / minimum top-up rules), and places strong emphasis on digital administration and harmonization of collection practices. Practitioners note that consolidation is particularly designed to facilitate compliance, reduce the multiplicity of levies, and expand the formal tax base.

Much of the high strand of the literature examines how PIT design and allowances determine disposable income and aggregate demand. Where reforms exempt low-income households or increase progressivity, the literature predicts frontloading of poverty protection and short-term assistance to demand; where reforms expand the base by covering previously uncovered incomes or discontinue allowances, middle birth cohorts can experience higher effective rates and a real squeeze on consumption. Practitioner analyses of the NTA emphasize outright progressive action (e.g., relief for low incomes and stricter taxation of high-value/digital earnings) and refer to the rationalization of reliefs, as well as the possibility of higher effective liabilities for some middle earners. The literature therefore predicts a multidimensional short-

term outcome: relief for the poorest, a transitional squeeze on some middle earners, and more substantial compliance incentives for higher-income groups.

3.0. IMPACT OF THE NIGERIAN TAX ACTS, 2025 ACTS FOR SALARY EARNERS

New tax-free threshold and progressive bands: Guidance from advisory firms indicates the introduction of a tax-free threshold (frequently reported as ₦800,000 annually in published summaries) and a more progressive banding system that reduces tax for lower-income earners while raising rates on higher incomes. Salary earners earning at or below the threshold may now be exempt. (Check the official Gazette for the final bands that apply to your tax year.)

Consolidation of laws: The Personal Income Tax Act and other statutes were consolidated; the new unified text clarifies rules on taxable income, allowances, and deductions that affect payroll calculations.

Digitized filing and employer obligations: Expect mandatory digital filing, stricter withholding documentation and electronic record-keeping; employers will carry heavier compliance duties. Prepare for upgraded payroll software and possible transitional costs.

Exclusions/guarantees for minimum wage earners: Parliamentary reports and media coverage show parliamentary amendments excluded the lowest-paid from specific changes (e.g., to protect minimum wage earners). Confirm the exempted band in the Gazette.

Indirect effects via VAT and fuel/levies: Some reform packages discussed raising VAT and introducing fuel surcharges (or similar restructuring). Higher indirect taxes raise living costs and can erode any nominal gains from tax relief an essential consideration for household budgeting. Reuters reported debates and timing adjustments around these measures.

Low-income earners: If the reported ₦800,000 tax-free threshold is adopted, many low-wage workers will pay less (or zero) PIT improving disposable income. However, increased indirect taxes (VAT, fuel) can offset gains.

Middle-income earners: Might see modest relief in some bands but increased complexity in allowances/deductions; payroll adjustments needed.

High-income earners: Likely to bear higher marginal rates and face fewer tax-planning opportunities if the Act tightens deductible allowances and introduces anti-avoidance measures.

Administrative burden: Short term, employers and payroll vendors face costs to update systems and train staff; medium term, efficiency gains from digitization may reduce friction and improve compliance.

The 2025 Tax Acts adjust the personal income tax thresholds to low-income earners and encourage fair contribution from higher earners. For example, the exemption threshold reportedly increased to around ₦800,000 per annum, meaning workers earning below that

level will not be taxed. Middle-income earners will experience moderate tax adjustments, while high-income earners are expected to contribute more proportionately.

This new structure is designed to make the system more progressive ensuring that taxation aligns with one's ability to pay. Consequently, low and middle-income workers will have slightly higher disposable income, improving purchasing power and living standards. The simplification of tax administration under the Nigeria Revenue Service is also expected to reduce payroll errors and delays.

4.0 IMPACT ON GROWTH OF THE NATIONAL ECONOMY

The broader goal of the 2025 Tax Acts is to enhance Nigeria's fiscal stability and support economic growth by improving the efficiency of revenue collection. Increased tax compliance and digitalized payment systems will reduce leakages and strengthen public finances. With more predictable revenue, the government can invest in infrastructure, education, health care and social welfare areas critical for sustainable development.

Moreover, by increasing disposable incomes for lower earners, the Acts are likely to stimulate domestic consumption, which, in turn, can boost aggregate demand and production. Improved business confidence and transparency in the tax system may also attract foreign investment, contributing to long-term growth.

However, sustained growth will depend on how effectively the government manages the revenue ensuring that tax proceeds are reinvested in productive sectors rather than lost to inefficiency or corruption.

Revenue mobilization: Consolidation and anti-avoidance measures (CFC/top-up tax) aim to raise government revenue and reduce erosion of the tax base. This can minimize borrowing needs if revenues are collected effectively.

Investment climate: Clearer, unified tax laws and performance-based incentives could improve the ease of doing business.

5. 0 CONCLUSION AND RECOMMENDATIONS

5. 1 CONCLUSION

The above findings show that the Nigerian Tax Acts, 2025, strike a perfect balance between efficiency and equity. While in the short term the burden marginally increases for wage earners, long-term fiscal sustainability is favorable to the economy with better public expenditure.

The redistributive intent of the Act is consistent with the Keynesian approach, in which state revenue, when used effectively, stimulates demand through public expenditure. Nevertheless, there are problems, notably a modest wage rise, inflation, and low public expenditure trust.

Effective tax administration, therefore, must be complemented by prudent governance, citizen awareness, and policy feedback. If the additional proceeds from taxes are distinctly channeled to social services, infrastructure, and economic empowerment, public compliance and national productivity will rise.

The Nigerian Tax Acts, 2025, are a calculated step towards fiscal modernization and sustainable revenue collection. Its short-term effect on wage earners is modest, but it has long-term macroeconomic benefits through improved infrastructure, education, and jobs. Ensuring tax equity and economic expansion hinges on prudent fiscal management and public trust.

5. 2 RECOMMENDATIONS

1. **Wage Policy Adjustment:** The government should review minimum salary and wage scales to shield people from increased tax payments.
2. **Increased Transparency:** Require open disclosure of the expenditure of tax collections.
3. **Taxation Education and Cyber Literacy:** Educate individuals on compliance, benefits, and procedures of digital taxation.
4. **SME Incentives:** Encourage small and medium-sized enterprises to absorb labour and sustain growth.
5. **Review Periodically:** Conduct annual estimates of finances to ensure equity and efficiency in implementation.

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