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In honor of

Mrs Adebimpe A Balogun

1st Female and Fifth President of the Chartered Institute of Taxation of Nigeria

Zero Income Tax – A Case For Social Responsibility Taxation

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Introduction

In Nigeria, high inflation and slow economic growth strain low and middle-income earners, diminishing their purchasing power and pushing many into poverty. The informal sector suffers from limited job opportunities and stagnant wages, exacerbating economic disparities. Trust in the government is eroded by corruption and inefficiency, while diversity complicates citizenship dynamics. Social responsibility taxation emerges as a potential solution to promote corporate accountability and fund social welfare programs, but faces challenges in implementation. This analysis explores the Nigerian economy's current state, assesses the social contract, proposes a Zero Income Tax for Low and medium Income earners, and considers the role of social responsibility taxation in addressing socio-economic challenges, proposing a roadmap for policy development and implementation.

State of The Nigerian Economy

The Nigerian economy is grappling with high inflation and sluggish growth, posing significant challenges for low and middle-income earners. Inflation has soared to a 24-year high, surpassing 31% in February 2024, severely diminishing purchasing power and exacerbating poverty levels. (World Bank 2023) The situation is compounded by stagnant wages, particularly affecting those in the informal sector, where job opportunities dwindle amid economic downturns. Consequently, essential services like education and healthcare suffer, placing additional strain on vulnerable communities. Moreover, the erosion of savings and the burden of high-interest debt further exacerbate the financial hardship for many. This economic landscape threatens the stability of the middle class, potentially leading to its contraction. The government's response, including reforms to curb inflation, will be pivotal in mitigating the adverse effects on low and middle-income Nigerians and fostering sustainable economic recovery.

Assessing the State of Social Contract in Nigeria today

The social contract is a political theory that originated during the Enlightenment period and has been elaborated upon by various philosophers, including Thomas Hobbes, John Locke, and Jean-Jacques Rousseau

In Nigeria, the social contract—anchored in citizens' rights and responsibilities and government obligations—is strained by governance failures, ethnic and religious tensions, economic inequalities, security threats, and limitations on civil society. Corruption and inefficiency erode trust in the government, while diverse identities sometimes overshadow national unity. Economic disparages, with over 40% living below the national poverty line and 63% experiencing multidimensional poverty, exacerbate the challenge (World Bank 2024). Security issues further impede the government's ability to fulfill its obligations. Despite these hurdles, civil society and active citizenship strive to uphold accountability and good governance. Strengthening Nigeria's social contract necessitates addressing governance deficiencies, promoting inclusivity, and tackling socio-economic disparities.

Social inequality is a pressing issue in Nigeria, where economic growth often benefits the affluent more than the poor. Redistributive policies, such as progressive taxation and investment in education, are essential for narrowing the gap between rich and poor. Social Responsibility Taxation (SRT) offers a promising avenue for encouraging corporate social responsibility and redistributing wealth. However, its success depends on overcoming challenges like corruption, measurement complexities, and administrative burdens.

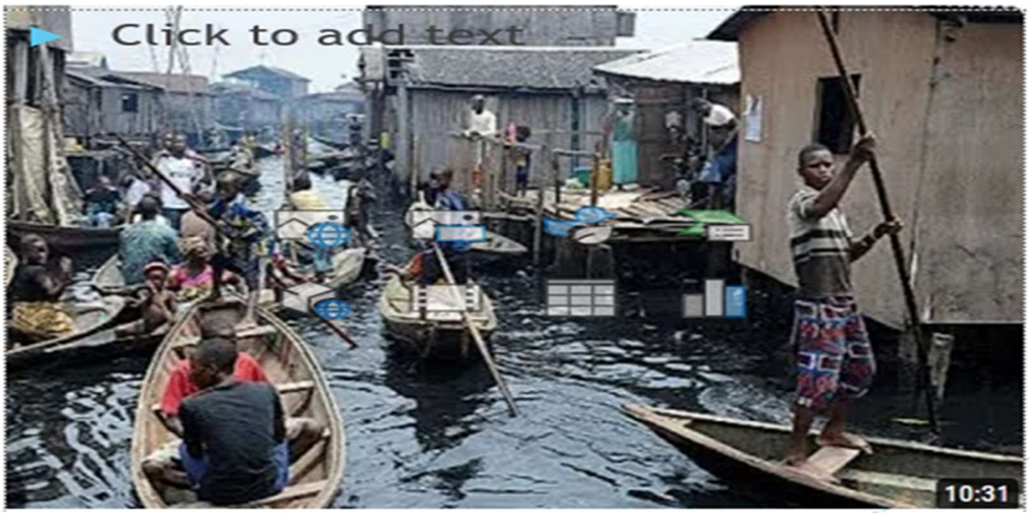


Fig 1. The Floating Slum in Lagos (YouTube 2019)

Zero Income Tax as an Instrument for Change

A Zero-income tax regime refers to a tax system in which individuals or households are not required to pay taxes on their income. Instead of taxing personal income, governments may rely on other sources of revenue such as consumption taxes, property taxes, corporate taxes, or other forms of taxation. The idea being proposed is for State Governments to consider a Tax holiday for the low and middle-income population of the State to use in alleviating the impact of the current economy on them. This will be a more direct redistribution of tax income collected from the rich.

It also ensures that the Cash distribution being provided by Government is replaced by tax holiday and it gets to only those who need it. It will only also be felt by those who were bearing unnecessary burden of Taxation. There is a need to determine how much tax revenue will be lost and a corresponding social infrastructure is provided through CSR or SRT. That is Companies or Rich Individuals are encouraged to adopt a hospital or health Center, Public School Renovation, Public Water Supply, Road Repairs and Maintenance etc for tax breaks

Marrying this policy with a well-planned Social Responsibility Taxation will definitely produce a more effective wealth redistribution and poverty alleviation. This tax holiday should be for a minimum of 10 years in the first instance

Zero Income Tax in other Countries Table 1 (IMF report 2018)

Key Countries with Zero Income Tax Regime

	Names of Cou	Remarks	Ref Ye	GDP USD	tax on GD %	Population 000	Oil Production 000
1	**Nigeria**	**Relies on taxes exports and c**	**2023**	**390,002.00**	**3.60%**	**212,000.00**	**1,573,000.00**
2	Bahrain	No income tax on personal income for citizens. Taxes foreign income in some cases.	2023	44,994.00	7.80%	1,800.00	167,000.00
3	Bahamas	Nations with attractive tourist destinations generate revenue from tourism-related activities such as hotels, resorts, entertainment, and transportation services.	2023	13,876.00	17.90%	393.00	
4	Brunai		2023	15,152.00	26%	437.00	100,000.00
5	Kuwait		2023	159,687.00	1.40%	4,793.00	2,644,000.00
6	Monaco	No income tax for residents, but there are wealth taxes and social security contributions.	2023	8,596.00		39.00	
7	Cayman Islands	No Income tax on personal Income but has developed thriving financial sectors by offering favorable regulations, low or no taxes, and strict financial privacy laws.	2023	5,809.00		67.00	
8	Bermuda	No income tax on personal income. Relies on other taxes like payroll tax and import duties	2023	7,231.00		62.00	
9	Panama	No Income tax on personal Income but has developed thriving financial sectors by offering favorable regulations, low or no taxes, and strict financial privacy laws.	2023	82,348.00	14.70%		
10	UAE	Taxes income from employment for most citizens, but not for those working in specific free zones. Taxes foreign income in some	2023	509,179.00	9.20%	3,600.00	3,300,000.00
11	Saudi Arabia	Oil Rich Nation	2023	1,069,437.00	3.40%	35,000.00	8,950,000.00
12	Oman	Oil Rich Nation	2023	108,282.00	4.20%	5,200.00	1,040,000.00
13	Qatar	Oil Rich Nation	2023	235,500.00	4.90%	2,800.00	1,322,000.00

The concept of Zero Income Tax is not new in the world. While implementing a Zero Income Tax regime can be challenging and may not be feasible for all countries, there are examples of non-oil countries that have successfully adopted such tax policies. Here are a few examples:

Bahrain: Bahrain is a small island country in the Middle East with a diversified economy. It implemented a Zero Income Tax regime to attract foreign investment and spur economic growth. The absence of personal income tax has made Bahrain an attractive destination for expatriates and businesses. Instead, the government relies on revenue from other sources such as corporate taxes, value-added tax (VAT), and fees for services.

The Bahamas: The Bahamas is a Caribbean country known for its tourism and financial services sectors. It has a Zero Income Tax regime for residents, which has contributed to its appeal as a tax haven. Instead of income tax, the government generates revenue from other sources such as import duties, property taxes, and fees associated with financial services.

Brunei: Brunei is a small Southeast Asian country with a wealthy economy largely dependent on oil and gas exports. However, it also has a Zero Income Tax regime for its residents. The government of Brunei relies heavily on revenue from oil and gas exports to fund its budget and provide public services. As a result, the absence of income tax contributes to Brunei's attractiveness as a place to live and work.

The Cayman Islands: The Cayman Islands, a British Overseas Territory in the Caribbean, is well-known for its Zero Income Tax regime. It has become a major offshore financial center, attracting businesses and individuals seeking tax advantages. Instead of income tax, the Cayman Islands government generates revenue from other sources such as indirect taxes, import duties, and fees associated with financial services.

These four examples demonstrate that implementing a Zero Income Tax regime is feasible for certain countries, particularly those with alternative revenue streams such as tourism, financial services, or natural resource exports. All of these alternate revenue streams are available in Nigeria as well. However, it's important to note that the success of such tax policies depends on various factors including the country's economic structure, revenue needs, and governance capacity. Additionally, while Zero Income Tax regimes may attract investment and spur economic activity, they also raise questions about equity and sustainability, particularly in terms of funding public services and addressing income inequality and this is why A Social Responsibility Taxation comes in

Challenges of Implementing a Zero Income Tax in Nigeria

Implementing a zero-income tax policy in a country as large and diverse as Nigeria, with a population exceeding 200 million and facing complex economic and social challenges, would present several significant drawbacks. Most of these may not necessarily be applicable in Nigeria.

1. Reduced Government Revenue: Income tax is a major source of revenue for most governments. Eliminating it in a country like Nigeria, which already struggles with funding for public services, could exacerbate financial shortages, limiting the government's ability to fund healthcare, education, infrastructure, and other critical services.

2. Increased Reliance on Other Taxes: To compensate for the loss of income tax revenue, the government would likely want to increase other forms of taxation, such as value-added tax (VAT), customs duties, or excise taxes. This could place a disproportionate burden on lower-income individuals, who spend a higher proportion of their income on taxed goods and services.

3. Potential for Economic Instability: Without stable and predictable income tax revenue, a country like Nigeria could face greater economic volatility. Reliance on less stable revenue sources like oil exports (which are highly susceptible to global price fluctuations) could lead to budget deficits and economic instability.

4. Difficulty in Implementing and Enforcing Alternative Tax Measures: Increasing other forms of taxation to compensate for the lack of income tax revenue could be challenging to implement and enforce. This could lead to higher evasion rates and less efficient tax collection. I am not advocating for this, just looking at providing some much needed succour to those who are seriously impacted by the current economic downturn

5. Impact on Foreign Investment: While zero income tax might attract foreign investment, it could also lead to volatility if these investments are primarily in sectors that do not generate stable, long-term employment or sustainable growth (e.g., speculative real estate investments).

6. Reduced Public Services and Infrastructure Development: With reduced fiscal capacity, the development of critical infrastructure and public services might be compromised, affecting overall economic development and quality of life.

While eliminating income tax might seem attractive for increasing disposable income and potentially stimulating economic growth, for a large, developing country like Nigeria, the drawbacks may likely outweigh the benefits, if not properly implemented particularly in terms of equity, revenue generation, and sustainability of public services. The emphasis is however, on redistribution of Income by not taxing the poor and middle income citizens and engaging the Companies as well as the rich individuals under a better planned and more effective Social Responsibility Taxation.

Using Lagos State as a Model

Lagos State has significantly increased its minimum wage in recent years, rising from approximately ₦19,000 to over ₦62,000. New hires in the Lagos State Government public service can expect to earn between ₦62,000 and ₦82,096 per month (Grade Level 1) after taxes, excluding allowances.

Grade level 01: ₦62,000 – ₦82,096

Grade level 02: ₦63,000 – ₦90,000

Grade level 03: ₦65,000 – ₦97,000

Grade level 04: ₦68,000 – ₦106,000

Grade level 05: ₦77,000 – ₦123,000

Grade level 06: ₦95,000 – ₦150,000

Grade level 07: ₦127,000 – ₦195,000

Grade level 08: ₦165,000 – ₦245,000

Grade level 09: ₦195,000 – ₦290,000

Grade level 10: ₦229,000 – ₦333,000

Grade level 11: ₦265,000 – ₦380,000

Grade level 12: ₦294,000 – ₦418,000

Grade level 13: ₦326,000 – ₦438,000

Grade level 14: ₦361,000 – ₦503,000

Grade level 15: ₦399,000 – ₦567,000

Grade level 16: ₦444,011 – ₦640,000

The employees of Lagos State are not only remunerated on a salary structure. They are also compensated with other benefits and welfare packages like paid time off, meal subsidies, transportation, utility, entertainment, etc. In Lagos, civil officials receive an allowance equal to 25% of their annual wage. (Ganiyu, 2023)

(Tax Collection Data from LSIRS, 2023) Fig 2

PERCENTAGE OF TOTAL PERSONAL INCOME TAXES (PAYE) BY GRADE LEVEL IN LAGOS CIVIL SERVICE IN YEAR 2023

S/N	GRADE LEVEL	ANNUAL TAX (₦)	% OF TOTAL PAYE BY GRADE LEVEL
1	GL01	1,811,272.59	0.01%
2	GL02	18,350,582.69	0.09%
3	GL03	23,938,845.57	0.11%
4	GL04	124,426,390.39	0.58%
5	GL05	25,265,284.32	0.12%
6	GL06	51,538,911.62	0.24%
7	GL07	1,395,408,082.50	6.50%
8	GL08	1,035,717,182.10	4.83%
9	GL09	1,080,155,789.00	5.04%
10	GL10	1,426,606,908.80	6.65%
11	GL12	1,936,720,040.80	9.03%
12	GL13	1,651,350,964.02	7.70%
13	GL14	2,614,202,444.90	12.19%
14	GL15	2,401,443,733.10	11.19%
15	GL16	3,168,905,661.14	14.77%
16	GL17	4,088,865,527.40	19.06%
17	Public/Political Appointees	407,107,256.90	1.90%
	TOTAL	21,451,814,877.84	100%

Lagos State Modelled Figures					related	
			2022	2023	%	Grade 8 and below
Total PAYE (Data Supplied)	A			444,732,776,477.88		
Public Sector PAYE(Data supplied)	B	See LSIRS table		21,451,814,877.84	12.48%	2,677,186,496.75
Private SectorPAYE (Derived)	C =A-B)			423,280,961,600.04	12.48%	52,825,464,007.69
Direct Tax Formal sector(DataSupplied)	D			30,844,797,983.89	1.261%	388,952,902.58
DirectTax Informal (Derived)	E-(B+C+D)			202,550,207,362.81	1.261%	2,553,273,621.00
Total tax (Data supplied)	E			678,127,781,824.58		
Total Tax to be waived						58,444,877,028.02
Total IGR			659,780,000,000.00	678,127,781,824.58		
Share of FAAC from Federal Government			233,100,000,000.00	371,390,000,000.00		
Total Revenue generated			892,880,000,000.00	1,049,517,781,824.58		0.056

Fig 3 Deriving estimated value of taxes to be waived using 2023 figures of IGR

Making Sense of the Proposal

From the above analysis, all Lagos State taxpayers earning up to and including N245,000 per month and below approximately N3m a year, should be exempted from paying Personal Income Taxes for a specified No of years. Fig 3 shows that the State will loose about N58b from waived taxes using 2023 figures. This amount of waived taxes and more should then be appropriated from Corporate bodies and/or wealthy individuals under a well-managed Social Responsibility Taxation Program. This should be designed to save the State Government at least that amount of N58b in Capital expenditure

So the resulting dynamics will be:

Waived Taxes = Saved Capital Expenditure

Benefits of the Proposal

Increased disposable income for citizens: By waiving taxes for low and middle income earners, the government puts more money directly in their pockets. This can lead to increased consumer spending which can stimulate the economy and potentially benefit businesses in the state. Of course citizens who were hitherto not paying taxes have no direct benefits as this is a direct impact on taxes payable. You will have to be in the tax net of a Government State or Federal to enjoy the benefit.

Improved corporate image: Corporations that take part in social responsibility projects can improve their public image and gain goodwill from the community they have chosen to serve. This can lead to increased customer loyalty and brand recognition.

Addressing social needs: The tax breaks for corporations should be tied to specific social responsibility projects that address the needs of the citizens, such as infrastructure development, education initiatives, or poverty reduction programs. This could lead to a more positive social impact for a State ie Lagos as the model State. Effect of loss of Revenue from Tax breaks on Corporate bodies is only felt by the Federal Government.

Possible drawbacks

Focus on short-term projects: Corporations might prioritize short-term projects with high visibility over long-term sustainable initiatives. On the other hand this might not really be a drawback as annual capital projects being implemented under SRT program will help the State Government to be far reaching with infrastructural developments in the State

Difficulties in measuring impact: It might be challenging to measure the actual social impact of the corporate social responsibility projects.

This approach could be effective in encouraging corporate social responsibility projects in Lagos. However, careful planning and implementation are necessary to ensure it achieves the desired social and economic outcomes. The Government might consider:

- Setting clear guidelines: Clearly define the types of social responsibility projects that qualify for tax breaks and establish metrics to measure their impact.
- Monitoring and evaluation: Monitor the effectiveness of the program and make adjustments as needed.
- Collaboration: Encourage collaboration between corporations, NGOs, and government agencies to ensure projects are well-coordinated and address critical needs.:

Redistribution of Income and Reducing Social Inequality

Nigeria's history of corruption poses a significant obstacle to effective SRT implementation. Without strong oversight, companies may exploit loopholes or engage in superficial CSR activities to qualify for tax breaks. Clear criteria and independent verification are crucial for ensuring genuine social impact. Additionally, the government must invest in building administrative capacity to implement and monitor SRT effectively.

Despite these challenges, SRT offers several potential benefits. It can incentivize companies to invest in critical areas like education and healthcare, leading to positive social and environmental impacts. Moreover, engaging in CSR can enhance companies' reputations and attract more customers and investors. While offering tax breaks, a well-designed SRT program could also stimulate economic activity and indirectly increase government revenue.

To ensure the viability of SRT in Nigeria, several factors must be considered. Firstly, the economic context, characterized by poverty and inequality, underscores the need for additional revenue to address social welfare issues. Secondly, reforms to the tax system are necessary to enhance efficiency, compliance, and transparency. Thirdly, public perception and acceptance are vital, requiring extensive education and consultation to garner support. Additionally, engaging with corporations and high-income individuals is essential to strike a balance between encouraging responsibility and fostering economic growth.

Moreover, Nigeria must establish robust legal and regulatory frameworks to govern SRT effectively, with clear guidelines on tax obligations and fund utilization. Monitoring mechanisms are crucial for ensuring compliance and evaluating the impact of funded programs. Learning from international best practices can provide valuable insights for optimizing SRT's effectiveness in Nigeria.

In summary, while SRT holds promise for addressing social inequality in Nigeria, its successful implementation requires overcoming challenges related to corruption, measurement complexities, and administrative capacity. By addressing these obstacles and leveraging the potential benefits of SRT, Nigeria can advance towards a more equitable and prosperous society.

Fig 2 Culled from YouTube (Steven Ndukwu 2024) The Rich Vs The Poor

Existing Social Responsibility Taxation in Nigeria

In Nigeria, social responsibility taxation refers to the imposition of taxes or levies on certain goods, services, or activities with the aim of promoting social welfare, environmental sustainability, or community development. Some types of social responsibility taxation existing currently in Nigeria include:

- Environmental Taxes: These are taxes levied on activities or products that have adverse environmental impacts, such as pollution or resource depletion. Examples include taxes on carbon emissions, plastic bags, or hazardous waste disposal.

- Health-related Taxes: These taxes target goods or activities that have negative health consequences, such as tobacco, alcohol, or sugary beverages. They are intended to discourage consumption and generate revenue for healthcare programs.

- Education Taxes: Some jurisdictions impose taxes specifically earmarked for education funding. These taxes may apply to certain industries or transactions and are used to support public schools, scholarships, or other educational initiatives. The public fund established for this purpose is the TETFund

- Community Development Levies: These are taxes or levies imposed on businesses or individuals operating in specific areas to fund community development projects or infrastructure improvements. They are often implemented in regions with significant natural resource extraction or industrial activities. An example is the recently legislated Petroleum Industry Act

- Corporate Social Responsibility (CSR) Taxes: While not explicitly taxation, some countries encourage or require corporations to allocate a portion of their profits towards social or environmental initiatives through CSR programs. Failure to comply may result in financial penalties or other sanctions. In 2021, the Petroleum Industry Act (PIA) section 240 introduced a 3% of IOCs operating Expenses (OPEX) for this purpose. The question is how much of this has been employed or used for the development of the Communities, deployed to provide employment, create relevant infrastructure, social welfare for the people etc This is the 3rd year of this legislature but not much can be said to have been done with the fund set aside by these IOCs

While social responsibility taxation could contribute to addressing Nigeria's social welfare needs, its success depends on comprehensive reforms, public engagement, corporate cooperation, effective governance, and learning from global experiences. With careful planning and implementation, social responsibility taxation has the potential to make a positive impact on Nigeria's socio-economic development. So perhaps when Government is incentivised to waive collecting revenue from the low and middle income group of its citizens the will to ensure that SRT or CSR is made to be effective will result. Do I get an AMEN!!!

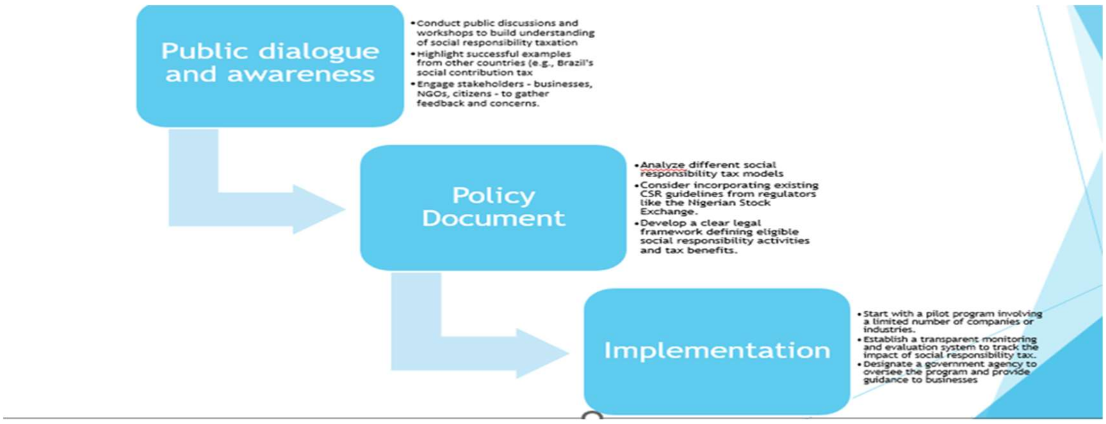
Roadmap to Social Responsibility Taxation in Nigeria

Current Situation:

- Low tax compliance and revenue collection in Nigeria.
- Existing CSR efforts by companies may lack transparency and focus.

Goals:

- Encourage increased social responsibility efforts by businesses.
- Generate additional tax revenue for sl development programs.
- Improve transparency and accountability in CSR activities.



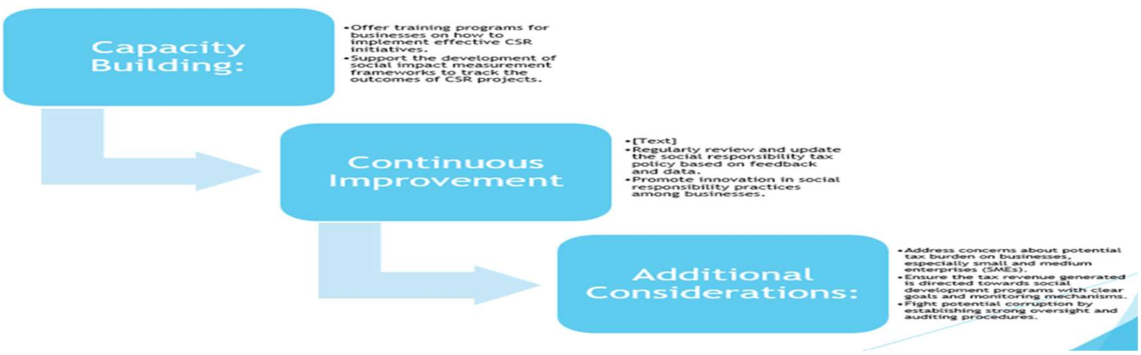


Fig 4.

Roadmap Steps as indicated in Fig 4 above:

- Public Dialogue and Awareness:

- o Conduct public discussions and workshops to build understanding of social responsibility taxation.
- o Highlight successful examples from other countries (e.g., Brazil's social contribution tax).
- o Engage stakeholders - businesses, NGOs, citizens - to gather feedback and concerns.
- • Policy Development:
- o Analyze different social responsibility tax models (e.g., levy on profits, tax breaks for verified CSR spending).
- o Consider incorporating existing CSR guidelines from regulators like the Nigerian Stock Exchange.
- o Develop a clear legal framework defining eligible social responsibility activities and tax benefits.
- • Implementation:
- o Start with a pilot program involving a limited number of companies or industries.
- o Establish a transparent monitoring and evaluation system to track the impact of social responsibility tax.
- o Designate a government agency to oversee the program and provide guidance to businesses.
- • Capacity Building:
- o Offer training programs for businesses on how to implement effective CSR initiatives.
- o Support the development of social impact measurement frameworks to track the outcomes of CSR projects.
- • Continuous Improvement:
- o Regularly review and update the social responsibility tax policy based on feedback and data.
- o Promote innovation in social responsibility practices among businesses.
- • Additional Considerations:
- o Address concerns about potential tax burden on businesses, especially small and medium enterprises (SMEs).
- o Ensure the tax revenue generated is directed towards social development programs with clear goals and monitoring mechanisms.
- o Fight potential corruption by establishing strong oversight and auditing procedures.

Possible Benefits:

- • Increased funding for education, healthcare, and infrastructure development.
- • Improved corporate social responsibility practices in Nigeria.

- Enhanced tax compliance and government revenue.

This roadmap is a starting point for discussion. The specific details of a social responsibility tax system in Nigeria will need to be carefully considered and tailored to the country's unique context.

Conclusion

The economic struggles of low and middle-income Nigerians highlight the need to address inequality and strengthen the social contract. High inflation and sluggish growth exacerbate disparities, while governance issues and diversity complicate citizen-government relations. Social responsibility taxation offers a solution by promoting corporate accountability and funding social welfare programs, but faces challenges in implementation. A proposed tax holiday for these income brackets, alongside a structured social responsibility taxation framework, could enhance wealth redistribution. Reforms, public engagement, corporate cooperation, and governance improvements are crucial. With careful planning, Nigeria can leverage social responsibility taxation to address socio-economic challenges and foster inclusive development, strengthening the social contract and promoting positive socio-economic outcomes.

Limitations

While Lagos State serves as a model with its established salary structures and tax collection data, it's important to acknowledge that this approach may require adjustments for implementation in other Nigerian states. This paper recognizes the limitations of generalizing from one state's experience to the entire country.

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