British Journal of Interdisciplinary Research January 2025, Volume 2, Number 3, pp. 83-96
ISSN 3049-8899

NEW TAX REFORMS AND PUBLIC DEBT MANAGEMENT IN NIGERIA: CHALLENGES, OPPORTUNITIES, AND POLICY RECOMMENDATIONS

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Abstract

This paper examines the interplay between new tax reforms and public debt management in Nigeria, highlighting the challenges and opportunities that arise from recent fiscal strategies. It evaluates the effectiveness of these reforms in addressing Nigeria's debt sustainability concerns and proposes actionable policy recommendations to optimize fiscal outcomes. By employing a mixed-methods approach, the paper integrates quantitative data on tax revenue performance and qualitative insights from fiscal policy literature. It concludes that while recent tax reforms offer significant potential for revenue mobilization, institutional and structural inefficiencies hinder their full impact on public debt reduction.

Keywords: *Tax Reform, Public Debt Management, Debt Sustainability, Fiscal Strategies.*

DOI: 10.58934/bjir.v2i3.17

1. INTRODUCTION

Nigeria's fiscal environment has been characterized by fluctuating oil revenues, rising public debt, and persistent budget deficits. As of 2023, public debt had surpassed NGN 77 trillion, raising concerns about debt sustainability (Debt Management Office, 2023). Tax reform has emerged as a key policy instrument to improve revenue generation and reduce reliance on

borrowing. This paper explores how recent tax reforms impact public debt management and identifies challenges and opportunities within the Nigerian fiscal landscape.

What is the impact of government borrowings on the general wellbeing of the people? Do these borrowings create more employment opportunities, alleviate poverty, increase infrastructural development, or improve educational and health facilities in the country? These and many more are important policy questions, as well as the concerns of public managers, public administration and other scholars. Though, borrowing has been considered as a "second best alternative to capital formation" (Matthew and Mordecai, 2016:2), most especially in times of economic crises, it only becomes impactful on the citizenry when utilized for public services or projects and not private or public consumptions which do not benefit citizens (Ibietan and Ikeanyibe, 2017).

Rais and Anwar (2012) posit that the act of borrowing by government is a worldwide phenomenon, and it is not often considered a problem per se, only if it is sustainable and promotes good management. Favour, Idenyi, Oge and Charity (2017) similarly argue that increasing public debt can be unfavorable to economic growth of the country if not effectively used.

Research Problems

The economic influence of public debt is dependent on how the borrowed money is utilized. In other words, if the funds acquired through debt are adequately engaged for development purposes, it will definitely lead to national macroeconomic stability. Consequently, there will be significant economic growth that gives room for timely debt repayments (Tajudeen, 2012; Eze, Nweke and Emeka, 2019). Ujuru and Oboro (2017) corroborate that the accumulation of debt will only be advantageous if it results in economic growth and welfare of the citizens.

Research objectives

The following objectives shall guide this paper:

i. If the new tax reform will reduce the public debt management
ii. If the public debt and new tax reform will have impact on economic development

Research questions

The following objectives shall guide this paper:

i. Will the new tax reform reduce the public debt management?
ii. Is the public debt and new tax reform has impact on economic development?

Research hypothesis

The following objectives shall guide this paper:

i. the new tax reform does not reduce the public debt management
ii. the public debt and new tax reform has no impact on economic development

2. LITERATURE REVIEW

Overview of Nigeria's Tax Reforms

Recent tax reforms in Nigeria aim to broaden the tax base, enhance compliance, and modernize tax administration. Key initiatives include:

- **Finance Acts (2019–2023):** These annual legislative updates introduced changes such as value-added tax (VAT) rate increases, streamlined tax incentives, and digital economy taxation.

- **Tax Automation:** The Federal Inland Revenue Service (FIRS) implemented technologies like the TaxPro Max platform to improve tax collection efficiency.

- **Voluntary Assets and Income Declaration Scheme (VAIDS):** Aimed at increasing compliance among high-net-worth individuals and corporations.

Despite these efforts, Nigeria's tax-to-GDP ratio remains among the lowest globally, at 6.1% in 2022 (World Bank, 2023).

The Concept of Public Debt

Public debt was explained by several authors and scholars. Favour, Idenyi, Oge and Charity (2017) provide one of the simplest definitions of the concept. They defined public debt as the

total amount of money owed by the federal, state and local governments at any point in time. Rais and Anwar (2012) similarly infer that public debt is the liability created when government decides to borrow, as an alternative to increasing tax measures, in order to finance budget deficit. According to Nassir and Wani (2016) cited in Eze et al (2019), public debt is described as sum total of the debt by the national, state and local governments, reflected by public expenditure through borrowing in place of taxation. Public debt is, however, different from national debt (which is same as federal government debt). While the former is the sum of debt obtained by all the levels of government in a country, the latter specifically implies amounted borrowed by the federal government only.

The Central Bank of Nigeria (2013) refers to public debt as borrowing by the government. The country's apex bank further posits that it occurs when the government decides to borrow to set off budget deficits or to aid economic development. This translates to the debt obligation by all the tiers of government in a country. They are debts owed by the public sector- that is, the government and government agencies. In a nut shell, it is the total debt of the State (Chartered Accountants Australia and New Zealand, 2016; Szybowski, 2018).

Though, the government has alternative sources of income- such as: increasing tax and printing money, public debt is usually contracted to bridge budgetary gap (Institute of Chartered Accountants of Nigeria, 2014), for capital formation during economic depression (Matthew and Mordecai, 2016), to finance developmental projects (Akhanolu, Babajide, Akinjare, Oladeji, Osuma), and to finance such public goods that promote the welfare of the people and increase the growth of the country (Gill and Pinto, 2005). Soludo (2003) avers that there are two major reasons why countries borrow; these are: "macroeconomic reasons (higher investment, higher consumption (education and health) or to finance transitory balance of payments deficits [to lower nominal rates abroad, lack of domestic long-terms credit, or to circumvent hard budget constraints]" (cited in Central Bank of Nigeria, 2013:3).

Other reasons, generally advanced to justify the need for a country (or its government) to obtain loans or borrow are as follows:

i. Rapidly increasing population, especially in many developing countries; this results into government borrowing in order to expand public enterprise and public utilities to meet the need of the rising population;

ii. Outbreak of war/crisis and natural disasters, such as: flood, earthquake, sectarian violence and other natural catastrophe, could make the government borrow in order to embark on rehabilitation and reconstruction projects and provision of relief to victims;
iii. Fluctuations in government revenue, which may be due to sudden poor performance of a particular product in the international market, especially when the product seems to be the only export product for foreign exchange income (for countries with mono-cultural economies);
iv. Debt servicing may also be another justification for government to embark on borrowing. This can be with a view to mitigating the existing debt; especially when the new debt comes with favorable conditions;
v. Opting for public debt allows a more effective way in which country can leverage on opportunities of investment with long congestion periods;
vi. Government also borrows as an alternative to redundant dependence on printing of money which may result to peaked and capricious inflation;
vii. Excessive spending, that may be caused by the militarization of the economy, extensive administration or high social transfer (The Institute of Chartered Accountant of Nigeria, 2014; Gill and Pinto, 2005:3; Szybowski, 2018:61).

The effects of opting for public debt, instead of other sources of revenue available to the government, can be positive or adverse. Generally, however, the effect is a function of how the money borrowed is utilised. Rais and Anwar (2012) posit that embarking on borrowing will help the government fill the budgetary gaps between expenditures and revenues; as well as help prevent inflation rise, which comes with printing money. Also Bhatia (2009) cited in Akhanolu, et al, (2018) argues that variations in the volume, composition and yield rates of such debt can be used to regulate the economy. When the money is used appropriately, it will aid economic growth in the country.

Butkus and Seputiene (2018:1) present the consequences of acquiring public debt based on the perspectives of different theorists and their theories. According to them, the Keynesian viewpoint shows that the "positive effect is expected mostly in the short-run;" on the other hand, neo-classical theory shows that public debts has harmful (crowding-out) effect, as the it can lead to "higher interest rates and thus reduce private investment and growth;" and the Ricardian theory argues that "public deficits and debt do not have influence on growth."

Eze, et al (2019) infer that, though public debt is seen as bad, countries cannot avoid it; thus, it is being described as a necessary evil. The net effect of this, comprise: imposing future obligation on tax payers; using public debt to fund excessive interest rate will deprive the country of necessary foreign exchange to get essential inputs; borrowing often comes with unbearable conditions of IMF which could negatively affect the citizens' standard of living (Institute Of Chartered Accountants Of Nigeria, 2014). Thus, as much as many factors exist to justify government borrowing, the adverse effects should make government have a rethink, or plan appropriately to utilise the borrowed funds in a way that will critically minimise these adverse effects.

Classifications of Public Debt

Public debt is most popularly and broadly classified into domestic (internal) and external debt (Eze, et al, 2019; Akhanolu, et al, 2018; Matthew and Mordecai, 2016; Central Bank of Nigeria, 2013). According to Favour et al (2017), it can also be categorized as long-term debts and short term debts.

Internal (domestic) and external debt: ***Internal or domestic debt*** simply refers to government borrowing from within the country. They are often collected from the CBN, discount houses, deposit money banks and other sources within the country. The internal sources of debt are treasury bills, certificate and bonds, development stocks, ways and means advances, among others (Matthew and Mordecai, 2016; CBN, 2013). The government of the country incurs them from domestic markets in order to fund domestic investments. In Nigeria, the Central Bank issues the debt instruments (expressed and denominated in local currency) on behalf of the Federal government (Gbosi, 1998 cited in Akhanolu, et al, 2018). ***External debt***: Public external debts are the external commitments and liabilities of some recognised maturity outstanding per time that can be paid in form of any commodity (Rais and Anwar, 2012). Favour, et al. (2017) uphold that external debt is any financial resources acquired from other countries or organisations. Thus, all money borrowed from foreign countries or government's issuing a Euro bond to finance capital projects are external debts. In Nigeria, external debt comprises all the debt from the different tiers of government as well as government agencies debt, refundable in currencies different from that of the country in debt. The sources of external debt, also known as foreign debt, are Multilateral, Paris and London clubs, Bilateral, Promissory notes, Euro bond, Diaspora bond and others (Akhanolu, et al, 2018; CBN, 2013; Institute Of Chartered Accountants Of Nigeria, 2014).

Short-term and long-term debt: The difference here is the maturity pattern of the debt. While short-term debts are to be settled within shorter periods of time (one year); long-term debts could take a longer period like 5 years and above (Favour, et al., 2017). However, the maturity of a public debt can also be on medium-term basis where debts may be mature for payment in two or three years (Institute Of Chartered Accountants Of Nigeria, 2014).

Public Debt Dynamics in Nigeria

Nigeria's debt profile has shifted significantly, with external debt accounting for 40% and domestic debt for 60% of total debt stock (Debt Management Office, 2023). Key drivers include:

- **Revenue-Expenditure Mismatch:** Persistent fiscal deficits necessitate borrowing to finance budget shortfalls.
- **Exchange Rate Volatility:** Depreciation of the naira increases the cost of servicing external debt.
- **Rising Interest Payments:** Debt servicing consumes over 90% of federal revenue, leaving little room for development spending.

Challenges in Integrating Tax Reforms with Debt Management

- **Weak Institutional Capacity:** Inefficiencies in tax administration hinder effective implementation of reforms.
- **Informal Economy:** The large informal sector—accounting for 65% of GDP—remains outside the tax net.
- **Political and Social Resistance:** Efforts to expand taxation face pushback from citizens and businesses.
- **Revenue Volatility:** Over-reliance on oil revenue subjects the economy to external shocks, limiting stable debt servicing.

Opportunities Presented by Tax Reforms

- **Increased Revenue Mobilization:** Expanding the tax base and improving compliance can reduce borrowing needs.

- **Digital Taxation:** Leveraging technology can capture revenues from the burgeoning digital economy.
- **Foreign Direct Investment (FDI):** Streamlined tax incentives can attract FDI, enhancing economic growth.
- **Regional Trade Integration:** Participation in the African Continental Free Trade Area (AfCFTA) can boost trade taxes.

Policy Recommendations

To optimize the impact of tax reforms on public debt management, the following policy measures are proposed:

1. **Strengthening Tax Administration:** Invest in capacity-building programs and advanced technology for tax authorities.
2. **Broadening the Tax Base:** Formalize the informal sector through targeted policies, such as simplified tax regimes for micro and small enterprises.
3. **Enhancing Transparency and Accountability:** Improve public trust in tax systems by linking tax revenue to visible public goods.
4. **Debt Restructuring:** Negotiate favorable terms for existing debt and explore alternative financing mechanisms, such as green bonds.
5. **Diversifying Revenue Sources:** Reduce reliance on oil by promoting non-oil sectors like agriculture and manufacturing.
6. **Regional Cooperation:** Collaborate with other African nations to curb tax evasion and optimize trade-related taxes.

3. THEORETICAL FRAMEWORK

The Keynesian Theory of Public Debt

The Keynesian theory is applied in this study as framework of analysis. The Keynesian school of thought is characterised by the ideas of John Maynard Keynes, who was the main protagonist of public debt (Bilan, 2016; Efanga, Etim, and Jeremiah, 2020). Keynes had initially proposed

that public borrowing will be a war financing strategy to England and that it would be useful. Thus, public borrowing became an effective and important source of financing for the states (Aybarc, 2019).

The Keynesian theory of public debt believes that "government borrowing (including avowedly unproductive pubic projects) will stimulate output, especially in recessions, by absorbing excess savings and boosting aggregate demand" (Salsman, 2017:1). Efanga, Etim and Jeremiah (2020) submit further that Keynes asserts that increase in public borrowings through multiple effects will equally raise national income. The theorist established a relationship between public debt and deficit financing; and therefore recommends that the government should engage in more borrowings for every purpose so as to also increase effective demand in the economy, which would consequently trigger an increase in employment and output. Moreover, public debt as a source of fund for the country also has an indirect effect on investment. This is because the "transmission mechanism through which debts affect growth is its reduction on the resources available for investment by debt servicing" (Matthew and Mordecai, 2016:5). Also, the theory upheld that extra income produced by increase in debt to finance expenditure leads to the payment of taxes in lieu of the debt.

The relevance of this theory to the study cannot be overemphasised as the theory stresses that public debt enhances development, thereby showing a relationship between government borrowings and the development of the country, even though Nigeria's experience has been quite gloomy and not encouraging.

4. METHODOLOGY

This section dealt with the specification and designing of procedures to be used in the gathering of information. This design employed in this study is **descriptive research design** using the cross-sectional survey technique. This survey in which according to Barley (1982), are surveys carried out at a single point in time in which data gathering is completed in time usually in a single day, week or month but definitely in a single year. This section also discussed the methods and procedures for conducting the research. It was constructed in such a way that will enable users to have comprehensive knowledge of the objective, the design was treated under the following heading, such; Sources of data, population and sample size determination, Method of data presentation and analysis and Tools for analysis.

Sources of Data

The researcher was made use of secondary data which are existing data from the nationalbureau of statistics.

Model Specification

Multiple linear regressions were used to test the hypotheses of the study and in estimating the linear relationship between dependent variable (economic development) and independent variables (external debt and domestic debt). The model was modified to capture the variables at once.

The statistical model is as follows; $Y = \alpha_0 + \beta_1 EPD + \beta_2 DPD + \varepsilon$;

Thus NED = *f* (NPD), where NED is Nigeria Economic Development and NPD stands for Nigerian Public Debts representing the independent variables. NPD is further broken into two as follows: NED = *f* (EPD, DPD) $NED = \alpha_0 + \beta_1 EPD + \beta_2 DPD + \varepsilon$ Where: NED is Nigerian Economic development, EPD: External Public Debt, DPD: Domestic Public Debt, α_0 is the estimate of true intercept of the dependent variables or regression constant; β_1 to β_2 is the estimate of parameters of independent variables or Regression Coefficient. ε is the error term.

5. DATA ANALYSIS, RESULTS AND DISCUSSION

Descriptive Analysis

Table 1 Descriptive Analysis

Statistics	Tax	External public debt (EPD)	Domestic public debt (DPD)
Valid	44	44	44
Mean	47430.5122	3649.4434	6326.2238
Median	47654.3650	2236.2760	3889.9120
Std. Deviation	12341.5652	2249.16544	6431.41207
Minimum	222319.41	487.89	796.81
Maximum	69239.94	9657.30	18541.19
Sum	1045432.72	70987.05	156517.76

Source: SPSS version 21 Output

The table above reveals that GDP has the highest mean value of 47430.5122 while EPD has the lowest mean value of 3649.4434 in the data series. Also, GDP has the highest Standard Deviation of 16241.35332, which means it is the most volatile variable in the model. The median score shows the division of the variables by equal halves which are 47654.3650 for TAX, 2236.2760 for EPD and 3889.9120 for DPD. The minimum row also shows the lowest amount for the variables 222319.41for TAX, 9657.30 for EPD and 796.81for DPD; while the maximum shows the highest amount of the variables within the years: 69239.94 for TAX, 9657.30 for EPD and 9657.30 for DPD. Sum shows the overall total of the figures for each of the variables (TAX, EPB and DBD) for the 15 years (2008-2023).

Correlational Analysis

Table 2: Correlation Analysis between Nigeria Public Debts and Economic Development

	GDP (N'B)	*EPD (N'B)*	*DPD (N'B)*
REAL GDP (N'B)	1		
EPD (N'B)	-0.04653	1	
DPD (N'B)	0.665201	0.647368	1

Source: Microsoft Excel Result output

The results indicate that negative and weak correlations exist between GDP as a measure of Nigeria Economic Development (NED) and External Public Debt (EPD); while a strong and positive relationship exist be tween GDP and Domestic public debt. That is, EPD - r = -0.04653 4.7%), DPD - r = 0.665201, 66.5%).

Test of Hypotheses

H_0: tax reform has no significant impact on the public debt

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918[a]	.824	.814	6954.62343

a. Predictors: (Constant), public debt

Table 3 Model summary shows a strong impact on both variables, given an R (correlation coefficient) of 0.918. Also, the R-Square (coefficient of determination) reveals that the overall performance of the model in the table is satisfactory, given the R-square (R^2) of 0.824. In other words, 81.4% of the dependent variable (GDP) is explained by the independent variables (EPD, DPD). Similarly, the adjusted R Square (81.7%) attests to the good predictive value of the adopted model, and the error terms have little variance.

Table 4: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	462278765.447	2	231141511.224	47.980	.000[b]
	Residual	915587557.615	19	482125458.348		
	Total	553942514.062	21			

a. Dependent Variable: Real Gross domestic product

b. Predictors: (Constant), public debt

Table 4 shows the result of the Analysis of variance test. While the F statistics is used to evaluate the collective impact of all the predictors on the dependent variable, the p-value also test the statistical significance of the impact of independent variable on the dependent variable. From the result in the table, given the p-value of 0.000 and the associated F-value of 47.880, while external public debt had significant negative impact on economic development as shown in Table 5 below.

Table 5: Coefficients[a]

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	47653.214	2873.233		17.611	.000
	External public debt	-4.349	.723	-.812	-6.743	.000
	Domestic public debt	3.032	.312	1.197	9.774	.000

a. Dependent Variable: Real Gross domestic product

6. DISCUSSION

Findings show that Nigeria's tax reforms has increase for parts of the period under consideration (2008-2023). This implies that borrowing (both internally and externally) has actually been one of the main sources of revenue for the country. However, Nigeria borrows more internally than from foreign sources. Also, Tax have always been fluctuating since this period, but in more recent times, the country witnessed a rapid growth. The regression analysis

also reveals that there is a negative impact on external public debt and tax reform; while a positive and strong impact exist on domestic public debt and economic development.

7. CONCLUSION

Nigeria's new tax reforms hold significant potential to enhance revenue generation and support sustainable debt management. However, the effectiveness of these reforms depends on addressing institutional and structural bottlenecks. By implementing comprehensive policy measures, Nigeria can strengthen its fiscal resilience and achieve long-term economic stability. The study shows that funds borrowed from external sources have significant negative impact on Nigeria's economic development while funds borrowed internally have significant positive impact on the economic development of the country. Based on these findings, the study recommends that the government should strategically consider alternative sources of raising revenue other than borrowing (especially tax reforms). Secondly, government should be cautious on internal and external borrowing, and exhibit judicious use of loans with prudent management of financial resources for public goods.

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