

A Tax System in Search of a Social Contract

Nigeria's reforms borrow the architecture of developed economies but not the bargain that makes citizens willing to pay

An Opinion Piece

A recent post on X by Dr. Baridueh Bandon (@BandonB), reflecting on what an ordinary Nigerian taxpayer actually receives in return for compliance, has reignited a question that ought to sit at the centre of every tax conversation: where, exactly, is the social contract?

Nigeria's new tax architecture anchored on the Nigeria Tax Act, the Nigeria Tax Administration Act, the Nigeria Revenue Service Act, and the Joint Revenue Board Act, represents the most ambitious overhaul of the country's fiscal regime in a generation. Delivered by the Presidential Fiscal Policy and Tax Reforms Committee, it collapses dozens of overlapping levies into a single coherent framework, restructures the former Federal Inland Revenue Service into the Nigeria Revenue Service, and aligns enforcement, digital reporting, and compliance expectations with global best practice. By design and intent, the Committee delivered an excellent piece of technical work.

And yet, beneath the elegance of the design lies a quiet but consequential mismatch. The reforms resemble, in form and ambition, the tax systems of OECD members and upper-middle-income economies; broader coverage, digital integration, higher compliance thresholds, more aggressive enforcement. But the benefits that justify such taxation in those countries are largely absent here. We have imported the architecture without importing the bargain.

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The Bargain Behind the Tax

Taxation, at its core, is not merely a fiscal instrument. **It is a social contract.** Citizens surrender a portion of their earnings on the understanding that the state will return that value in the form of public goods, security, infrastructure, opportunity, and a credible safety net when life goes wrong. Where that bargain is visible and honoured, compliance is high and largely voluntary. Where it is invisible or broken, tax becomes extraction, and the state must rely on coercion to collect what citizens no longer believe they owe.

This is not theory. It is the empirical lesson of every successful tax reform in modern history.

Lessons from the Developed World

Consider Denmark, where the average effective tax burden on a working household exceeds 45 percent among the highest in the world. Yet Denmark consistently ranks at the top of global tax-morale surveys. Why? Because the Danish taxpayer can trace, with reasonable directness, where the money goes: universal healthcare without out-of-pocket payment at the point of service, free university education with student stipends, generous parental leave, unemployment insurance that replaces a meaningful share of lost income, and pensions that protect dignity in old age. Compliance is high not because enforcement is fierce, but because the return on the tax shilling is visible in everyday life.

Sweden tells a similar story. The Swedish Tax Agency (Skatteverket) is, remarkably, one of the most trusted institutions in the country, more trusted than parliament, the police, and the media. That trust did not arrive by accident. It was earned through decades of demonstrating that taxes translated into transit, schools, hospitals, and a pension system that worked.

Germany pairs its Solidarity Surcharge, once levied to fund the integration of the former East, with a clear narrative of national purpose. Citizens grumble about the tax, as citizens everywhere do, but they pay because the rebuilding of eastern Länder, the autobahns, the hospitals, and the schools are visible evidence of return.

Even the United States, which prides itself on lower headline rates than its European peers, ties specific tax compliance to specific entitlements: Social Security contributions create future retirement income, Medicare payroll taxes secure healthcare in old age, and the Earned Income Tax Credit explicitly rewards lower-income workers for filing. The contract is itemised.

Lessons from Peer Middle-Income Economies

It would be unfair to compare Nigeria only with Scandinavia, where state capacity has been built over a century. The more instructive comparison is with countries that, like Nigeria, are middle-income, oil-rich, populous, federally structured, or wrestling with the legacies of underinvestment. Here too, the lesson holds.

Brazil's Bolsa Família, introduced in 2003, remains one of the most-studied social protection programmes in the developing world. By tying conditional cash transfers to school attendance and childhood vaccination, Brazil gave low-income households a tangible reason to see the state as a partner rather than a predator. The programme covered roughly a quarter of the population at its peak, lifted tens of millions out of extreme poverty, and, crucially broadened political support for the formal tax system that funded it. South Africa's

social grants system, which now reaches nearly 28 million beneficiaries, plays an analogous role.

Indonesia, after the 1997 Asian financial crisis, undertook a multi-decade tax reform alongside the rollout of Jaminan Kesehatan Nasional (JKN), a national health insurance scheme that, by 2024, covered more than 270 million people. Tax compliance and the social safety net were deliberately built in tandem. Citizens were not asked to pay more in a vacuum; they were asked to pay more for something demonstrably better.

Mexico's Seguro Popular, before its later restructuring, demonstrated how publicly funded health coverage could move the conversation about tax from grievance to investment. Chile, often cited as Latin America's most successful tax modernizer, paired its reforms with universal access to basic education and pension reform. Even Rwanda, a low-income country by any measure has invested aggressively in Mutuelles de Santé, a community-based health insurance scheme that now covers more than 85 per cent of its population, and in doing so has built a culture of tax compliance that punches well above its income level.

The pattern is unmistakable. Successful tax reforms in countries that share Nigeria's developmental profile are never standalone. They sit inside a credible social protection framework that visibly improves citizens' welfare.

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The Nigerian Reality

Now hold those examples against the Nigerian experience. ***The average Nigerian taxpayer funds their own security through estate levies and private guards because public policing is overstretched. They fund their own electricity through generators, inverters, and increasingly solar systems because the grid remains unreliable.*** They fund their own water through boreholes because municipal supply is, in most cities, a memory rather than a service. They pay for private healthcare out of pocket because the National Health Insurance Authority, despite its expanded mandate, still covers only a small fraction of the population. They send their children to private schools at every income level that can afford it, because public education has, in too many states, collapsed in quality. And when they retire, the contributory pension scheme, while improving, still leaves the majority of informal-sector workers entirely uncovered.

In effect, the Nigerian taxpayer pays twice: once to the state in formal taxes and levies, and again to the private market for the services the state has failed

to deliver. To then ask that same taxpayer to comply more fully, file more digitally, and surrender a wider share of their income to a more aggressive revenue authority without expanding the basket of visible returns, is to ask for trust that has not been earned.

This is the silent fault-line running through the new tax laws. The technical work is sound. The administrative consolidation is overdue. The digital infrastructure is necessary. But the citizen-facing half of the equation, the part that says, here is what you receive in return, has not yet been written with anything like the same rigour.

Tying Benefits to Compliance

There is a path forward, and it does not require Nigeria to become Denmark overnight. It requires only that the state begin to itemise the bargain.

First, specific tax compliance can be tied to specific entitlements. A worker whose Pay-As-You-Earn deductions are documented should automatically qualify for an expanded basket of National Health Insurance Authority cover, not merely the minimum. Contributions to the Nigeria Social Insurance Trust Fund and the Pension Commission's Retirement Savings Account framework can be visibly linked to disability, unemployment, and old-age benefits — with clear, communicated formulas, the way Social Security operates in the United States.

Second, conditional cash transfers and targeted social investment programmes the National Social Safety Nets Project, the Conditional Cash Transfer programme, N-Power and its successors should be expanded, professionalised, depoliticised, and explicitly funded from named tax streams. The Brazilian and Indonesian experience is clear: when citizens can see the line between what they pay and what their poorer neighbours receive, social cohesion strengthens and tax morale rises.

Third, infrastructure investment should be tagged. The Lagos-Calabar coastal road project, the Second Niger Bridge, road rehabilitation programmes, and rural electrification projects should be accompanied by visible, audited disclosures of how much was funded from which tax, and what the next tranche will deliver. Citizens are not unreasonable. They simply want to see the receipt.

Fourth, the new Nigeria Revenue Service must invest as heavily in taxpayer service as it does in taxpayer enforcement. In Estonia, admittedly a small country, but one whose digital tax architecture Nigeria's reforms partly resemble filing a personal tax return takes under five minutes, and refunds are processed within days. The relationship between citizen and

revenue authority is transactional, fast, and respectful. Aggressive enforcement without commensurate service quality breeds resistance, not compliance.

Fifth, and perhaps most fundamentally, fiscal transparency must become non-negotiable at the sub-national level. State and local governments collect a growing share of revenue under the new framework. Citizens have every right to ask, in real time, what was collected, where it went, and what changed in their community as a result. Publish-What-You-Pay norms, long demanded of extractive industries, should now be demanded of governments themselves.

The Stakes

None of this diminishes the achievement of the Presidential Fiscal Policy and Tax Reforms Committee. The new tax laws are, on their own terms, an excellent piece of legislative engineering. The point, rather, is that legislation is only the first half of a tax reform. The second half, the part that determines whether the reform succeeds or quietly hollows out, is the social contract that surrounds it.

Nigeria stands at a moment of unusual opportunity. The reforms have created the administrative scaffolding for a modern tax state. What remains is to build, alongside it, the social scaffolding that makes such a state legitimate in the eyes of those who fund it. International experience offers a clear and almost monotonous lesson: tax reforms succeed only when they are embedded within a strong social protection framework that visibly improves citizens' welfare. They fail, or stagnate, or breed evasion and resentment, when they are not.

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If we get this second half right, Nigeria's tax reform will be remembered not merely as a technical milestone but as the moment a generation of citizens and their state began, at last, to trust each other with the public purse. If we do not, we will have built a more efficient machine for collecting from a population that has every reason to resist.

The choice, as always, is ours.

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