WHAT IS PROGRESSIVE ABOUT NIGERIAN PERSONAL INCOME TAX?

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Abstract
This paper conceptually critiques the progressivity of the current personal income tax in Nigeria by drawing on the equity concept of taxation vis-à-vis income redistribution and taxpayers’ ability to pay tax. Whilst the study acknowledges the presumed progressivity and income redistribution notions embedded within the personal income tax regime, it provides conceptual analysis that consequently contradicts such notions in practice. Overall, the analysis suggests that the current personal income tax regime is more pro-rich than it is pro-poor, thus requiring the factoring in of the economic realities of the non-rich when amending the tax law in the future.

Keywords: Personal income tax, progressive tax, equality/equity canon, income redistribution

Introduction
This paper seeks to conceptually critique the progressivity of the current personal income tax (PIT hereafter) in Nigeria. In order to contextually situate this critique, the paper draws on the equity concept of taxation in relation to taxpayers’ ability to pay tax and income redistribution. Income tax progressivity has received scholarly commentaries in public finance (and related disciplines) vis-à-vis public policy aimed at generating revenue to meet public expenditures and achieve income redistribution goals (see, for example, Diamond & Saez, 2011; Snyder & Kramer, 1988; Tanzi & Zee, 2000; Tran-Nam, Vu & Andrew, 2007). However, the literature presents mixed theoretical and empirical findings on progressive income tax policy. For example, economic theory suggests that high marginal tax rates encourage disincentive to work and save as income increases (McCaffrey, 2002). Against this backdrop, McCaffrey argues instead for a more progressive spending (consumption) tax than incometax which discourages more work and savings. According to his argument, it is more prudent to curtail the spending excesses of the rich than to lower their incentive to generate more income. Contrariwise, the literature also suggests that progressive income tax may improve resources allocation (Corneo, 2002). Persson (1983) equally identifies two arguments in the literature in support of progressive income tax in an economy. First, the society uses tax to maximize social welfare goal, with the aim of redistributing income from the rich to the poor. Second, individual preferences aimed at securing social insurance.

PIT as a form of tax appears easy to collect and serves as a stable means of government revenue in both developed and developing economies (Tran-Nam, Vu & Andrew, 2007), although the varying marginal rates make the computation clumsy compared to flat rate taxes (McCaffrey, 2002; Verbist & Figari, 2013). Moreover, the predictability of PIT appears to be high, which makes it a reliable source of public revenue for developmental purposes. In developing economies such as Nigeria, the need for a stable and reliable source of government revenue cannot be overemphasized. Consequently, the implementation and enforcement of a more aggressive PIT in Nigeria have recently assumed a prominent position, perhaps, due to the governments’ dwindling oil and gas revenue that accounts for the larger proportion of government revenues. Whilst Personal Income Tax Decree/Act (PITD/PITA) in Nigeria provides for PIT under various tax regimes, it is apparent that an effective implementation of PIT assumed prominence only very recently.

Although PIT appears to guarantee stable revenue to the different State Governments in Nigeria, the extent to which such tax is progressive in meeting the cardinal canon of equity in Nigeria has been unexamined (as far as I am aware). This paper explores PIT in the light of equity analysis and its implications in the context of extant socio-economic realities. Consequently, this paper seeks
to answer the question: “To what extent is the Nigerian PIT a progressive income tax?”

**Equity or equality criterion of good tax policy**

How the equality criterion of tax is achieved with respect to personal income still remains theoretically and empirically inconclusive. What is equitable tax may be highly contested depending on the status of those who hold such views within the tax system (see Porcano, 1984). The literature recognizes two broad conceptions of equity namely, horizontal and vertical (Porcano, 1984; Tran-Nam, Vu & Andrew, 2007). Horizontal equity requires that equals should be treated equally, while vertical equity requires that those with higher ability to pay should be made to pay a higher rate of their income as tax. Equity principle of tax is usually discussed within the notion of tax progressivity. The literature suggests that tax rates can be progressive, flat (proportional), or regressive (McCaffrey, 2002). Progressive tax requires the rich to pay higher effective average tax than the not-rich, while regressive tax makes the rich to pay lower average tax than the not-rich. A progressive tax is based on graduated tax rates or marginal tax rates which are tax rates applicable to higher levels of taxable income. According to McCaffrey (2002), “[t]he actual pattern of a tax system’s progressivity depends on what sort of loopholes and gaps the tax has and on who can take advantage of them.”

Whereas a number of literature commentaries are sympathetic to the use marginal tax rates to measure tax progressivity and equity tax policy, McCaffrey (2002) argues that average tax rates are important in assessing the fairness of tax burden (Kakwani, 1977). However, McCaffrey did not discuss the average rates or disproportionality that would reflect progressivity and/or fairness or how such fair rates might be determined with respect to incomes. Nevertheless, both incremental marginal and average tax rates apparently suggest some measure of tax progressivity. In resonance, Hagopian (2011) argues that taxing incremental income at higher marginal tax rates as income rises bring about increase in the average tax level. The study of Porcano (1984) on distributive justice and tax policy suggests that two most important factors that should be considered in designing equity-based tax policy are the taxpayer’s need and ability to pay. One of the underlying arguments here is that taxpayers should have a part of their income necessary for meeting subsistence exempt from tax, which suggests that it is not only tax rate that performs the equity function of a good tax system. In designing a good tax system, Tanzi & Zee (2000) argue that the structure of the economy should be given consideration. They also contend that the high income classes in developing countries apparently use their economic and political power to influence tax reforms that will take so much from them. This suggests that where only a section of the society (the rich) could influence tax policies to pursue their self-interest, equity principle is called into question, notwithstanding the marginal tax rates.

However, Hagopian (2011) argues from a moral standpoint that the current progressive income tax is actually inequitable as it appears to punish rather than reward hard work (see also Meadowcroft, 2007). Hagopian’s normative argument is that people who are equally endowed may have high earnings’ disparity due to the choices of those individuals where, for example, one individual may put in more hours of work and savings as opposed to another that may instead prefer more leisure to work. However, some weaknesses apparent in Hagopian’s argument are as follows. First, his argument that individuals equally endowed should be able to earn equal income if they worked the same number of hours lacks some merit. It is obvious that labour rates are not always identical as his example suggests. Second, equal endowment does not suggest ability to earn identical income from work as other social factors influence individuals’ access to present and future streams of income. Third, not all equally endowed individuals who are able and ready to work are gainfully employed as a number of such persons might be (gainfully) employed, underemployed, unemployed or self-employed. However, Hagopian’s normative articulations are not without some merits. For example, income taxes should not be too prohibitive that it becomes tantamount to punishment and even inhibit taxpayers’ motivation to increasing future income. Highly skilled jobs are usually high income earners and apparently quite attractive with the implication that such individuals would likely have the incentive to continue to supply their labour despite high progressive tax
rates. This view is supported by Mirrlees (1971), albeit suggesting that it is an area in need of theoretical development.

Although the literature suggests that high marginal tax rates on incremental income are capable of dousing the incentive to work, some commentators have also argued that it is not necessarily marginal tax rates that affect the incentive to work but the elasticity of demand for disposable income (Kakwani, 1977). According to Kakwani (1977), the elasticity of demand for post-tax income determines the (dis)incentive taxpayers will have towards work in order to maintain a preferred standard of living (see also Chand Online). Kakwani further argues that tax progressivity and tax elasticity are related concepts. According to Chand, elasticity of demand for post-tax income measures the extent taxpayers are willing to accept reduction in their income. Whereas individuals having elastic demand for post-tax income will work less because of progressive tax, those with inelastic income are encouraged to work more to compensate for the shortfall so they can maintain the same standard of living. The empirical implication of this is that progressive tax affects taxpayers differently based on their elasticity of demand for income, although this is difficult to determine in practice (see Chand Online). Moreover, the competition for achieving and sustaining high social status through income earnings will have incentive for progressive tax system without undermining taxpayers’ increasing willingness to work and save (Corneo, 2002).

Besides contemplating tax equity through the instrumentality of marginal tax rates, the threshold for non-taxable income appear very important. Sicat&Virmani (1988) find that many developing countries set lower marginal tax rates compared to developed countries. They also find that these developing countries also have very low taxable income thresholds relative to the countries’ mean income. The discussion and assessment of progressive tax cannot necessarily be restricted to marginal tax rates but extended to include the non-taxable income threshold for such tax to meet tax policy of income redistribution. Whether equity in taxation is viewed from the progressivity of the marginal tax rates or taxable income thresholds, an important objective of equity is to reduce income distribution inequality. Kakwani(1977, p. 72, citing Musgrave & Thin, 1948) states that a “progressive tax system is associated with a decrease in income inequality, while regressive tax rates will be reflected by an increase in income inequality.”

**Relationship between progressive tax and income redistribution**

The relative disparity between the poor and the rich in developed and developing countries is high, however, the developing countries have a large poor population compared to the rich (Bird &Zolt, 2005). Consequently, the need for income redistribution to reduce income inequality normatively becomes a top policy issue for the government. Theoretically, tax policy apparently supports a direct relationship between pre-tax income inequality and income redistribution (see Corneo, 2002; Mirrlees, 1971). Income tax has been considered as a commonly adopted means of redistributing income (Bird &Zolt, 2005; Sicat&Virmani, 1988; Snyder & Kramer, 1988). Tran-Nam et al. (2007) also identify some commentators’ argument in support of a substantial taxable income threshold in Australia. It implies that the income that will be exempted from tax for all taxpayers should be large enough to not inhibit taxpayers’ ability to meet subsistence, but this appears to be neglected in Nigeria. Implicitly, this suggests that the use of marginal tax rates as a measure of tax progressivity is only one of those factors affecting income tax progressivity. Verbist&Figari (2014) and Wagstaff& van Doorslaer (2001) argue that many tax instruments such as rate structure, reliefs, allowances, and exemptions influence the progressivity of PIT. Therefore, it is wrong to assume that progressive tax is determined only by tax rates as various allowances and exemptions affect the size of the tax base (see Verbist, 2004; Verbist&Figari, 2014). Verbist&Figari thus distinguish between direct progressivity and indirect progressivity. Whereas the direct progressivity is linked to the change in tax liability occasioned by the tax rate structure applied on the taxable income (pure rate effect), the indirect progressivity is measured by how much the tax base falls below the gross income. Their study shows that taxes reduce
income inequality in the fifteen European countries they studied, albeit to a different degree.

However, Mirrlees (1971) argues that income tax is not a good avenue to reduce income inequality or achieve income redistribution (see Bird & Zolt, 2005; McCaffrey, 2002). The use of taxation as a fiscal instrument to redistribute income in ensuring inequality reduction appears unpopular in the psyche of many taxpayers in developing countries because of the magnitude of mismanagement of public funds for meeting development objectives. For example, Bird & Zolt (2005, p. 942) assert that, “[w]hen the public believes much government expenditure is at best misguided and at worst a waste from both distributive and development perspectives, support for taxation is likely to be minimal.”

The literature also identifies government spending as an alternative argument to the adoption of progressive tax as an instrument for effective income redistribution (Baer & Galvão Jr., 2013; Bird & Zolt, 2005; De Mello & Tiongson, 2006). However, De Mello & Tiongson (2006) contend that the empirical relationship between inequality and government spending is inconclusive. They also find that although income redistribution spending is more needed in developing countries, it is ineffective due to market imperfections (asymmetric information) which inhibit the poor from taking advantage of the capital markets. It is apparent from experience that information asymmetry plays only insignificant role in the poor investing in the capital market to up their income which is hardly sufficient to meet subsistence. Two important arguments by De Mello & Tiongson on why government spending in developing countries with high income inequality will not work are: first, the unwillingness of government to spend on redistributive programmes, and second, the public spending may be hijacked by the non-poor. This resonates with Baer & Galvão Jr. (2013) who find that Brazilian tax burden and government spending have low redistribution impacts apparently favouring the high income groups, which suggests that effective income redistribution will only emanate from radical fiscal policy change both in tax structure and government spending pattern. Moreover, Bird & Zolt (2005) suggest that government spending could be a good instrument for income redistribution in developing countries in addition to spending tax, albeit with a caveat that this may not be effective where the government is corrupt and not pro-poor.

Bird & Zolt (2005) examine the role of PIT in redistribution of income in developing countries. However, they provide three arguments against the dependence on PIT as an effective instrument for redistributing income in developing countries namely, smallness of income base, efficiency consideration and opportunity costs. According to Hagopian (2011, p. 22), “[t]he most compelling argument against the use of the progressive incometax to redistribute income is simply that it is inequitable.” Empirical evidence provided by Meadowcroft (2007) in the UK suggests that highly disproportional (progressive) tax produces high income distributional effect. For example, he shows that 10% of the highest income earners had a pre-tax income that was 28 times larger than the pre-tax income of the 10% lowest income earners, which was reduced to 5 times post-tax. However, Meadowcroft considers this form of tax as inappropriate as it produces adverse consequences for the economy and the highly-taxed individuals.

Current personal income tax in Nigeria

Personal income tax predates the modern Nigerian State having evolved from the pre-colonial era through the colonial era and still evolving in this post-colonial era (see Ola, 2004 for a brief history of Nigerian PIT practices).Income tax administration post-independence was first regulated by the Income Tax Management Act (ITMA) 1961, which was later replaced by ITMA 1979 (REFs). ITMA 1979 was repealed and replaced by the Personal Income Tax Decree/Act (PITD/A) 1993. The Act was revised in 2004 as Personal Income Tax Act 2004 with some sections and schedules later amended in 2011. The core concern of the past and present Acts is the determination of taxpayers’ tax liabilities, by outlining procedures to determine gross income, allowable and disallowable deductions from income in ascertaining taxable income, non-taxable income, applicable marginal tax rates, exemptions, etc. Income under the PITA 2004 in conjunction with its Amendment Act 2011 encompasses all income received by a taxable person such as employment-related income including benefits-in-
kind, income from self-employment as well as income derived from investment (e.g., interest, dividend, rent). Whilst income from paid employment and self-employment is denoted earned income according to the provisions of the 2004 Act, the one from investment represents unearned income.

This section is specifically restricted to PITA 2004 and its Amendment Act 2011. Moreover, it is intentionally restricted to the tax provisions relating directly to how tax liability is determined, which bear direct relevance to the critique this study set out to provide on the progressivity of Nigerian PIT. Such provisions relate to gross income; earned and unearned income; exemptions, allowances, and reliefs; tax rates; minimum tax; and non-taxable income thresholds. The First Schedule to PITA 2004 provides that:

"‘earned income’ in relation to an individual, means income derived by him from a trade, business, profession, vocation or employment carried on or exercised by him and a pension derived by him in respect of a previous employment."

Although the Act uses the term “unearned income,” it fails to define what it means. Unearned income apparently represents income other than earned income received by the taxpayer. The importance of these two broad income conceptions is not trivial as they have implications for the overall tax base or taxable income and ultimately the tax liability as we shall discuss in the next section. Gross income suggests comprehensive income without distinguishing between earned and unearned income for the purpose of determining consolidated relief allowance (which replaces Personal relief as used in 2004 Act). According to the Acts, exemptions, allowances and reliefs are allowable deductions from gross income which effectively reduce the taxable income (see Table 1). Whilst some of these allowable deductions are specified absolute amounts, others are relative as a percentage of a particular base such as gross income or earned income. Consequently, the higher the gross/earned income the higher the allowable deduction will be. As Table 2 shows,
Table 1: Some tax reliefs, allowances and exempts in 2004 and 2011 Acts

<table>
<thead>
<tr>
<th>Reliefs &amp; allowances</th>
<th>2004 Act</th>
<th>PIT (Amendment) Act 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal relief*</td>
<td>N5,000 plus 20% of earned income</td>
<td></td>
</tr>
<tr>
<td>Children allowance</td>
<td>Maximum of N10,000</td>
<td></td>
</tr>
<tr>
<td>Dependent relative allowance</td>
<td>Maximum of N4,000</td>
<td></td>
</tr>
<tr>
<td>Transport allowance</td>
<td>N15,000</td>
<td></td>
</tr>
<tr>
<td>Rent allowance</td>
<td>N100,000</td>
<td></td>
</tr>
<tr>
<td>Meal allowance</td>
<td>N5,000</td>
<td></td>
</tr>
<tr>
<td>Utility allowance</td>
<td>N10,000</td>
<td></td>
</tr>
<tr>
<td>Entertainment allowance</td>
<td>N6,000</td>
<td></td>
</tr>
<tr>
<td>Leave allowance</td>
<td>10% basic salary maximum</td>
<td></td>
</tr>
<tr>
<td>National Pensions Scheme</td>
<td>Actual amount</td>
<td>Actual amount</td>
</tr>
<tr>
<td>Life assurance premium</td>
<td>Actual policy</td>
<td>Actual policy</td>
</tr>
<tr>
<td>Consolidated relief allowance*</td>
<td></td>
<td>N200,000 (or 1% of gross income, whichever is higher) plus 20% of gross income</td>
</tr>
</tbody>
</table>
Table 2: Tax rates schedule (adapted from the relevant Acts)

<table>
<thead>
<tr>
<th>PITA 2004</th>
<th>Tax bases (Naira)</th>
<th>Tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 20,000</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Next 20,000</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Next 40,000</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Above 120,000</td>
<td>25</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PIT (Amendment) Act 2011</th>
<th>Tax bases (Naira)</th>
<th>Tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 300,000</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Next 300,000</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Next 500,000</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Next 500,000</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Next 1,600,000</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Above 3,200,000</td>
<td>24</td>
<td></td>
</tr>
</tbody>
</table>

A critique of current personal income tax in Nigeria

The preceding section highlighted basic tax issues that will provide the context to critique the progressivity of Nigerian PIT through equality lens. Implicit in the 2004 Act and 2011 Amendment Act is the notion of a progressive income tax that takes more from the rich than the non-rich, underpinned by the notion of equity or income redistribution because more are taken from the rich in tax to meet the common good of the society. However, a close analysis of the relevant elements of the Nigerian PIT apparently contrasts its embedded progressivity and equality notions. A number of issues in need of critique will enable us answer the research question this paper seeks to address namely, “To what extent is the Nigerian PIT a progressive income tax?” These issues are the tax rate structure; tax base structure; exemptions, allowances and reliefs; bracket creep; minimum tax; and taxable income threshold. We will now discuss these issues in turn.

Tax rate structure

It is naïve to suggest that high tax rate structure translates to equitable tax as many other factors such as allowable deductions contribute towards the final tax liability (see Sicat & Virmani, 1988; Verbist & Figari, 2013). McCaffrey’s (2002) cynicism corroborates the above assertion as follows:

The current inconsistent income tax features progressive marginal rates. It is thus intended to be a progressive tax … The actual pattern of a tax system’s progressivity depends on what sort of loopholes and gaps the tax has and on who can take advantage of them.

The current highest marginal tax rate of 24% is less than the corporate income tax rate of 30%. This will provide incentives for owners (directors) of private limited companies to transfer enormous amount of earnings through directors’ remunerations (including pension contribution) and the exemption of 20% of such earnings through consolidated relief allowance. Although the graduated rates imply progressivity in the absence of critical evaluation, it actually fails to distinguish between the rich class and the (lower) middle class as virtually every middle level income reaches the maximum marginal tax level. Virtually all the middle income earners fall within the highest marginal tax rate, unlike in developed countries where only a small proportion of income earners fall into this tax band (Snyder & Kramer, 1988). For example, the provision of the Act suggests that two taxpayers with gross income of N5m and N100m per annum reach the maximum tax bracket even though the former’s income level only permits an average living standard in the current day Nigeria.

Tax base structure

Whilst Nigerian marginal tax rates might appear small compared to those of developed countries, the income brackets for each marginal tax rate category are so small that the average tax rates between taxpayers are largely insignificant thereby tilting towards a proportional tax regime (see Table 2). According to Snyder & Kramer (1988), whereas progressive marginal tax rates appear to produce some level of income redistribution as higher income bracket increases tax liability, it only generates a mildly progressive average tax rate. Based on the argument in section 5.4, the income of lower-middle class taxpayers virtually falls into the highest marginal rate bracket.
essentially due to the impacts of inflation and recent review of minimum wage to adjust for economic realities rather the economic prosperity.

Exemptions, allowances and reliefs
An elephant in the room the Nigerian tax authorities fail to address is the inconsistent tax reliefs granted to taxpayers. A serious flaw with the use of gross income, for example, as a relative base for computing tax relief is that it benefits the high income earners more than low income earners. Apart from the very high income earners benefitting more from deductible reliefs, they also fall into the group that could also amass certain income that are exempted from tax, which thus gives rise to double benefit. For example, consolidated relief allowance (CRA) is calculated as 20% of gross income plus the higher of N200,000 or 1% of gross income. As income from all sources (including those that are exempted from tax) makes up the gross income, the CRA is swelled by the income exempted from tax [first benefit] and that income is later used to reduce the taxable income [second benefit]. A number of income exempted from tax include interests on government bonds and securities. It is almost always certain that such investments are held by the high income groups. For example, if N5m income is exempted from tax, it means it will not suffer tax liability, yet it generates a further N1m CRA implying that N6m has been shielded from tax liability. What a progressive tax regime!

Moreover, high income individuals are allowed to reduce their taxable income by deducting certain expenses they incurred before determining taxable income. Two prominent tax exemptions of this nature are life assurance premium and pension contribution (both compulsory and voluntary). Due to the high cost of living and the weak purchasing power in Nigeria, low income and lower-middle income earners barely have enough for subsistence needless to say have excess to take up life assurance policy. Whilst it might be argued that pension contribution is applicable to both high and low income earners, it is only naïve to accept it produces similar relative impacts on the taxable income of these different income earners. Whilst a large majority of low to middle income earners only participate in the compulsory pension scheme, the high income earners are fortunate to also make voluntary contribution which is also fully exempted from tax. But the voluntary contribution is apparently a tax avoidance instrument for such privileged group as there are no restrictions as to the amount, and the time, the taxpayers could draw from their Pension Fund Administrator (PFA), unlike the compulsory contributory pension with many legal restrictions. These are some loopholes created within the tax system to benefit high earners. As Tran-Nam, Vu & Andrew, 2007 argue, the upper class or high income earners often take advantage of loopholes in the tax system to avoid tax thereby leading to lower average tax rate. Space will not permit the examination of business income and a number of loopholes self-employed taxpayers potentially adopt to reduce their tax liabilities.

Bracket creep

The “bracket creep” defines a shift of personal income into a higher tax bracket when taxable income grows over time. It occurs due to inflation. Higher inflation possibly increases tax burdens under a progressive personal income tax as taxpayers near the top-end of a tax bracket are more likely to “creep” to a higher bracket.

It is apparent that the recent review of the national minimum wage (although not uniformly implemented across the country) derives from the erosion of purchasing power of workers’ disposable income. Although income tax brackets are supposed to be increased to adjust for the impacts of inflation (Snyder & Kramer, 1988), this is not the case in Nigeria despite the evidence of persistent inflation reducing the real income of taxpayers. Whilst the increase of taxable income threshold and reliefs in the 2011 Amendment Act is commendable, it does suggest a monetary rather than real increase when these are adjusted for inflationary impacts. According to Heer & Sussmuth (2013), the impact of the bracket creep depends on the degree and length of the inflation, the highest marginal tax rate and initial income distribution. They provide an evidence of
how the US Government adopted the cost-of-living index for the indexation of both the personal exemptions and tax brackets to tackle this discrepancy. In Nigeria, the upward monetary review of salaries has practically put the low income earners (relative to the rich or high income earners) into high tax bases and rates. When inflation is not adjusted for in determining marginal rates and income base brackets, it is very unlikely that tax policy will achieve a fair progressive tax. Given the level of inflation and high cost of living in Nigeria, a fixed threshold that takes these factors into consideration would underscore progressivity and effective income redistribution.

Taxable income threshold
Another issue that is relevant to how a particular tax regime could be evaluated as progressive is the threshold of income that is completely shielded from tax. In discussing the origin of advocacy for exemptions for tax purposes, Hagopian (2011) notes that it arises to protect the part of income that is required to meet subsistence or ensure survival. In the United Kingdom, for example, the non-taxable income threshold is the same irrespective of the marginal tax rate bracket of the taxpayers (see Table 3). The rationale behind this equal amount exempted from tax for all individuals is underpinned by the notion of shielding income necessary for subsistence from tax. Sicat & Virmani (1988) rightly observe that the discussion and assessment of progressive tax cannot necessarily be restricted to marginal tax rates but extended to include the non-taxable income threshold for such tax in order to satisfy income redistribution policy objective. It is obvious from section 5.3 that the income completely shielded from tax varies per taxpayer as some of the reliefs are based on a percentage of gross income, which suggests a direct relationship between gross income and non-taxable income threshold. With the richer taxpayers apparently gifted with higher non-taxable income threshold, both equity and redistribution assumptions of a good tax policy are called into question. Given the level of inflation and high cost of living in Nigeria, a fixed threshold that takes these factors into consideration would underscore progressivity and effective income redistribution. National Bureau of Statistics asserted in 2012 that income inequality has risen in Nigeria and that about 112 million Nigerians are living in poverty (Punch, February 14, 2012). The World Bank in 2014 equally ranked Nigeria third among the world’s ten countries with chronically poor citizens, representing over 70% of the country’s population (Daily Independent, May 2, 2014).

Table 3: UK personal income tax rates and taxable income brackets

<table>
<thead>
<tr>
<th>Basic rate 20%</th>
<th>£0 to £31,785</th>
</tr>
</thead>
<tbody>
<tr>
<td>People with the standard Personal Allowance start paying this rate on income over £10,600</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Higher rate 40%</th>
<th>£31,786 to £150,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>People with the standard Personal Allowance start paying this rate on income over £42,385</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Additional rate 45%</th>
<th>Over £150,000</th>
</tr>
</thead>
</table>

Source: Gov.uk, accessed June 18, 2015

Minimum tax
The concept of minimum tax is not only a misnomer, but also an instrument that contradicts both income redistribution and tax progressivity, and at worst, an instrument for inflicting double punishment on the poor. It was earlier mentioned in section 4 that current minimum tax is 1% of gross income, which arises when after tax assessment the taxpayer has no taxable income or the taxable income will only generate tax liability that is less than 1% of gross income. Poor taxpayers thus suffer double punishment for being poor. One, they might not be able to use up all the reliefs and exemptions under the Act yet such unclaimed relief lapses in that year of assessment. Two, they are forced to pay tax on their insufficient income even when it is obvious that such income is below the threshold for meeting...
subsistence in the current day Nigeria. Essentially, the inconsistency of the current non-taxable income threshold which apparently benefits the rich more than the poor further suggests how vicious the minimum tax concept is. For example, a taxpayer on annual income of N100,000 is expected to pay N1,000 as tax even though the individual is entitled to unused-up consolidated relief allowance of N220,000.

Concluding remarks
Despite the fact that both the poor and the rich are compelled to pay income tax in Nigeria coupled with the aggressive tax collection machineries put in place by some state governments in Nigeria, the mismanagement of these tax revenues by politicians and bureaucrats alike is apparently more cruel than the doubtful equality objective embedded in the current tax system. This paper has argued that the purported progressive income tax in Nigeria is riddled with a myriad of inconsistencies, which by default (or otherwise) benefit the high income groups more than the low income earners. In conclusion, this suggests that income tax progressivity in Nigeria that meets the tenet of equality is in doubt. Finally, the observation below by KPMG as tax professionals in some respect commends the conclusion of this paper:

It is debatable whether the overall impact of the PITAM on taxpayers is consistent with the National Tax Policy of reducing direct taxes and increasing the disposable income of individuals, especially considering the impact of the recent removal of fuel subsidy, and the fact that PITAM increases the effective tax rate of the lowest bracket of income earners (i.e., minimum wage earners) by 100% (KPMG, 2012, p. 4).

This calls for a future PIT law that takes the economic realities of the non-rich into cognizance in deciding the thresholds of the various issues this paper has critiqued. Suggested areas of future research include: a comparative study of PIT in Nigeria and other developing countries and possibly, a comparative study of PIT in Nigeria and developed countries. These studies could be designed to examine the tax rates (within a single/multiple tax regime(s)), the reliefs available to the taxpayers, the graduated tax bases with their applicable marginal tax rates, comparative (minimum) wages, and the non-taxable income thresholds. An elephant in the room that needs to be given attention in future research is Nigerian Governments’ increasing emphasis on PIT without corresponding social services for the common good of the society. The study could survey a cross-section of taxpayers to explore their perception of this relationship and how it affects their willingness to pay tax.

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