# POLICY BRIEF

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## Mitigating the Implementation Gap: Social Protection and Communication Strategies for the 2026 Tax Reforms

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### Executive Summary

Nigeria's 2026 Tax Reform Law represents a pivotal shift toward fiscal sustainability, yet its success is threatened by a widening "implementation gap" and public mistrust. While the reform introduces a landmark ₦800,000 tax-free threshold to shield low-income earners, the simultaneous introduction of a 4% development levy and mandatory digital VAT invoicing has sparked anxiety among Small and Medium Enterprises (SMEs). Recent market data indicate that despite these progressive thresholds, the 15% core inflation rate threatens to neutralize tax savings for the most vulnerable households.

Current strategies rely heavily on top-down gazetting but lack the grassroots communication and social safety anchors necessary to prevent economic shock. Lessons from the recent fuel subsidy removal show that policy technicality without "social protection empathy" leads to public resistance.

This policy brief proposes a legislative action to bridge this gap through: (1) an SME Tax holiday Clause; (2) the institutionalization of a "citizen's Tax feedback loop"; and (3) a legislated social protection cushion tied directly to VAT revenue. By aligning fiscal discipline with human-centered communication, these reforms will ensure the 2026 Tax Act serves as a tool for growth rather than a burden on the working class.

### 1. Introduction

The 2026 Tax Harmonization Law arrives at a time of delicate macroeconomic recovery. While the Federal Government seeks to broaden the tax base to reduce deficit spending, the "social contract" remains strained. The primary challenge is not the tax rate itself, but the implementation gap, the distance between legislative intent and the citizen's lived reality. With SMEs making up over 90% of Nigerian businesses[1], the fear of "multiple taxation" under the new 4% Development Levy is creating a climate of non-compliance[2].

[1] Oluyemisi, O. (2025). Small and Medium Enterprises as Catalysts for Reducing Unemployment in Nigeria. *IRE Journals*, Volume 8 Issue 7. ISSN: 2456-8880

[2] Akinwale, E. O. (2026). Beyond the noise: Understanding the thinking behind Nigeria's new tax framework. *Newsletter*, retrieved from: https://www.facebook.com/egunleti.holuwashegunakinwale1/posts/newsletter-jan-5-2026beyond-the-noise-understanding-the-thinking-behind-nigerias/26063087699976624/

Furthermore, the transition to digital VAT invoicing, while technologically sound, risks marginalizing millions of informal traders who lack the digital literacy or infrastructure to comply[3]. Without an urgent legislative framework to integrate social protection into tax collection, the reform may inadvertently push more Nigerians into the informal economy, defeating the very purpose of the harmonization.

## 2. Past Nigerian Legislative Context on Tax Reform

Nigeria's tax evolution has moved from the Finance Acts of 2019–2023 toward the current 2026 Harmonization Law. While previous Acts successfully raised the VAT rate to 7.5%[4], they struggled with low compliance in the informal sector. The Tax Appeal Tribunal was empowered to resolve disputes, yet for the average Nigerian trader, the legal process remains inaccessible and intimidating[5].

Legislative efforts like the Strategic Revenue Growth Initiative (SRGI)[6] focused heavily on collection targets but neglected the "Social Protection" side of the equation. Administrative circulars from the Federal Inland Revenue Service (FIRS) have often attempted to fill these gaps, but without a substantive Law that mandates "Taxpayer Protection," these measures remain temporary and unpredictable.

## 3. Cross-Country Experiences: Lessons in Fiscal Communication

International models provide a roadmap for successful tax transitions. Kenya's digital tax[7] expansion succeeded because it was paired with "Tax-for-Service" transparency portals, where citizens could track VAT revenue directly to local clinic upgrades. South Africa utilized a tiered SME tax system that provided "compliance grants" to small businesses[8] during the first 24 months of the new tax regime, reducing the mortality rate of startups.

India's Goods and Services Tax (GST)[9] rollout, though initially rocky, stabilized through a "GST Council" that included representatives from small business unions. These examples show that the most

[3] Oluwadele, B. (2025). New tax laws: Bridging gaps in policies and implementation (2). The Guardian newspaper, https://guardian.ng/opinion/columnists/new-tax-laws-bridging-gaps-in-policies-and-implementation-2/

[4] The Chartered Institute of Taxation in Nigeria. (2020). Administration of value-added Tax in Nigeria: Goods and services exempt. https://portal.citn.org/administration-of-value-added-tax-in-nigeria-goods-and-services-exempt/blog/

[5] Tax Appeal Tribunal. (2025). Tax Appeal Tribunal showcases dispute resolution process at 2025 Tax Clinic, assures effective adjudication. *TAT report*, accessed from: https://tat.gov.ng/news?id=94&l=tax-appeal-tribunal-showcases-dispute-resolution-process-at-2025-tax-clinic-assures-effective-adjudication#

[6] Uche, J. (2021). FG launches SRGI 2.0, as it targets revenue to GDP of 15% by 2023. Nairametrics publication, https://nairametrics.com/2021/02/11/fg-launches-srgi-2-0-as-it-targets-revenue-to-gdp-of-15-by-2023/

[7] Information Technology and Innovation Foundation. (2025). Kenya's Digital Tax Policy. *ITIF*, https://itif.org/publications/2025/02/11/kenya-digital-tax-policy/

[8] South African Government. (2025).Support to business. South African Government report, retrieved from: https://www.gov.za/covid-19/companies-and-employees/support-business

[9] World Bank Document. (2017).Implementation of India's Goods and Services Tax: Design and International Comparison. World Bank Document,: https://documents1.worldbank.org/curated/en/918831542619297197/pdf/GST-final-IDU.

successful tax reforms are those that treat the taxpayer as a partner in development, rather than a mere source of revenue.

## 4. Legislative Pathways for Nigeria: A Comprehensive Action Plan

To bridge the 2026 implementation gap, Nigeria must move beyond revenue collection to Revenue Accountability. First, an SME protection amendment should be added to the Tax Act, providing a 24-month "Transition Rebate" for businesses with an annual turnover below ₦50 million. This will alleviate the initial shock of the 4% Development Levy.

Second, a Tax Communication & Transparency Act should be enacted. This law would mandate the FIRS and the National Orientation Agency (NOA) to publish quarterly "Tax-at-Work" reports in major local languages, showing exactly how much was collected and which specific social projects (roads, schools, health) were funded. Third, the digital VAT invoicing system must include a "Zero-Data" mobile interface to ensure that rural and informal traders can comply without incurring additional internet costs.

## 5. Policy Recommendations

1. **Enact a "Tax-Social Contract" Clause:** Mandate that 10% of all VAT revenue be automatically ring-fenced for the National Social Investment Programme (NSIP) to support households earning below the tax threshold.

2. **Legislated SME Grace Period:** Provide a tiered compliance window for small businesses to register for digital invoicing without penalties for the first year.

3. **Institutionalize Regional Tax Hubs:** Establish Legislative Oversight offices in the six geopolitical zones to receive and resolve SME tax complaints in real-time.

4. **Mandate "Plain Language" Tax Education:** Legislate that all tax-related communication must be simplified into Nigerian Pidgin and major indigenous languages to remove "information asymmetry."

## 6.0 Conclusion

The 2026 Tax Reform Law is a necessary step toward a self-sustaining Nigeria, but its success depends on the "Social License" granted by the citizens. By bridging the implementation gap with robust social protections and clear communication, the National Assembly can transform tax-paying from a forced obligation into a shared national duty. The path to a disciplined and prosperous society lies in ensuring that, as the state asks for more from its citizens, the citizens see more from their state.

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