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EFFECT OF TAX REFORM ON GOVERNMENT REVENUES IN NIGERIA

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Abstract

The study investigated the effect of Tax Reform on government revenue in Nigeria. The broad objective of the study is to determine the effect of tax reform on government revenue in Nigeria. The study explored how: Company Income Tax (CIT), Value Added Tax (VAT), Capital Gains Tax (CGT) and Custom Duties as proxies for tax reform's effect on government revenue in Nigeria. Ex-post facto research design was chosen for the study and formulated hypotheses were tested with Ordinary Least Square regression technique (OLS) at 5% level of significant, Augmented Dickey Fuller (unit root test) was used to ascertain the stationary state of the time series variables. Secondary data were collected from the CBN bulletin and National Bureau of statistics (NBS) reports spanning from 2014-2023 a period of ten years. The results from the analysis of the study revealed that almost all the variables have a joint significant influence on the government revenue in Nigeria. Company Income Tax (CIT) have significant positive effect on total tax revenue with a P –value of 0.0000: Value Added Tax (VAT) and Capital Gains Tax (CGT) have a positive but non-significant effect on government revenue with a P-value of 0.5564 and 0.4857 respectively. Customs and Excise duty has no significant positive effect on government revenue in Nigeria with a P-value of 0.0380. The study concludes that tax reform affects government revenue and therefore, recommends that government through the assistance of FIRS should gears towards sustaining appreciable level of government revenue through company income tax by ensuring strict adherence to the provisions of tax reform on Company Income Tax Act.

Keywords: Company Income Tax, Value Added Tax, Capital gains tax, Custom duty and Government Revenue

Introduction

Tax reform is defined as the deliberate, comprehensive restructuring of a nation's entire tax ecosystem, not just rates, but the laws, policies, administration and economic philosophy behind taxation as to make system fairer, simpler, more efficient, and better aligned with national development goals, John-Akamelu and Osegbue (2024). Tax reforms bottom-line are: Tax Reform=Re-engineering what we tax+ how we tax+ who collects +why citizens should comply-so the system funds development, promotes equity, and doesn't choke the economy. Abiodun, (2018) affirmed that tax reform is the organ involved in tax policy implementation through levy and collection of tax revenues accrued to the government in a fair, efficient and effective way with limited cost to the tax payers. It entails registration of taxpayers, processing of tax returns and dissemination pf third party information and directive, examination of the completeness and corrections of tax returns, assessment of tax obligations, and collection of taxes and provision of services to taxpayers. Appia, (2014) posits that tax reform involves the procedures, principles and strategies put in place by any government so as to achieve effective tax planning, compulsory levying of tax, easy collection and proper accounting and utilization of the revenue collected. Taxes payable to the Federal government are: Company Income Tax (CIT), Petroleum Profit Tax (PPT), Capital Gains Tax (CGT), Value Added Tax (VAT), Education Trust Tax, Custom and Excise duty tax etc these are taxes collected by FIRS on behalf of federal government.

Tax reform is an important organ that ensures that revenue accrued to government are made available for the operation of the government activities and to ensure to the provision of social amenities to its citizenries (Bird, 2015). Tax reforms have remained an important tool for government revenue in any given country. Appah (2016) identified numerous challenges faced by this tax reform in Nigeria to include; tax evasion and tax avoidance which is a a result of inherent loopholes in tax laws, non compliance, as tax payers feel that there is no impact (in the form of social and public amenities) of such levy and so takes every opportunity to escape tax, obsolete tax laws which does not represent current realities in the country, complex legislation which are then misinterpreted by tax officials and also corrupt practices amongst the tax authorities which all leads to loss of tax revenue etc.

The effectiveness of tax reform in Nigeria has been seriously undermined, as a result of lingering challenges confronting tax administration in Nigeria, the poor level of tax revenue have remained a huge concern to not only the government but also stakeholders, in this regard, government have made efforts to improve tax revenue through its administrative and policy reforms. The 2004 reforms, PITA 2011 amendment, FIRS Establishment Act 2015, Electronic taxation in 2015, Voluntary Assets and Income Declaration Scheme (VAIDS) in 2017, 2020 Finance Act amongst others are some of the reforms which no doubt brought notable changes in the way taxes were administered and the revenue accruing there.

Some of the prior studies: Udezo and Onuora, (2021), Ebi & Ayodele, (2017) etc. examined tax reforms as regards to government revenue and their studies have all shown a significant and positive impact of tax reforms on tax revenue in Nigeria. Aminu and Eluwa (2016), who also studied tax reforms as regards government revenue contrarily, revealed that tax reforms are still

faced with numerous criticisms as they failed to achieve the intended aims. Even the electronic taxation introduced in 2015 has not contributed to improving company income tax and Value added tax in Nigeria (Nnubia, Okafor, Chukwnwike & Asogwa, 2020). The recent government's attention towards expanding tax revenue via indirect taxation by charging VAT on transactions that were before now VAT free and increasing the rate on previously veritable goods and services, have also arouse the need to examine how this have hitherto affected government revenue.

Objectives of the study

The main objective this study is to examine the effect of tax reform on government revenue in Nigeria, while specific objectives are to:

1. Determine the effect of company income tax on government revenue in Nigeria.
2. Ascertain the effect of value added tax on government revenue in Nigeria.
3. Examine the effect of capital gains tax on government revenue in Nigeria.
4. Investigate the effect of custom duty on government revenue in Nigeria.

The research questions and research hypotheses are in line with the research objectives listed above.

Review of Related Literature

Tax Reform

Tax reform is defined as the changes made by a government to its tax system. These changes are usually intended to improve how taxes are collected, who pays them, and how they affect the economy (John-Akamelu and Osegbue 2024). In simple terms, tax reforms means adjusting rules about taxes to make the system fairer, simple, or more effective. Government came up with tax reform to respond to economic problems, reduce inequality, and attract investment or to modernize outdated tax systems. The most common and efficient goals of tax reform are; fairness, simplicity, efficiency, revenue generation etc. Tax reform can lower or raise tax rates, introduce new taxes (carbon or digital taxes), removing loopholes or deductions, changing corporate tax rules, shifting from income taxes to consumption taxes(VAT or sales tax). The tax reform vary from country to country, as contained in Nigeria tax reform, Nigeria tax authorities responsible for administering taxes are: Federal Board Inland Revenue (FIRS), State Board of Internal Revenue and local Government Revenue Services. The federal Inland Revenue service assess, collect and account for taxes and other revenues accruing to the federal government, the states Boards of Internal Revenue collects taxes for state government and local government committee collects taxes at local government level (Okauru, 2012)

Government Revenue

Government revenue is the money a government collects to fund its activities like, education, healthcare, infrastructure, security, and for public administration. (John-Akamelu and Ezejiofor, 2017). Government can fund their activities through revenues collected from: taxes, non-tax

revenue, natural resources, grants/aid and borrowing. There are implications of government revenue:

Public services and development: Higher and stable revenue allows the government to invest in roads, schools, hospitals and security. Low revenue often leads to poor services or underdevelopment.

Economic growth: When revenue is used effectively, it can stimulate growth-through infrastructure, job creation and business support, though to a reasonable extent heavy taxation can sometimes discourage investment if not balanced well.

Income distribution (inequality): Tax systems can reduce or widen inequality eg, Progressive taxes (higher earners pay more) can reduce inequality. Weak tax systems can allow wealth gaps to grow.

Government debt: When revenue is insufficient, governments may borrow more, thereby increasing debt. Persistent low revenue can lead to debt crises or financial instability.

Political and social stability: Citizens are more likely to trust and support a government that uses revenue transparently and effectively. Mismanagement or corruption can lead to unrest.

Dependence risks: Some countries that rely heavily on one revenue source (like oil) are vulnerable to price shocks. This is often discussed in the context of the "resource curse". Government revenue determines how well a country can function and develop. Its impact goes beyond money; it shapes the economy, social equality and political stability.

Company Income Tax (CIT)

Company income tax is a tax imposed on profit of a company incorporated in Nigeria, whether resident or non-resident company at a rate of 30%. Company income tax is paid by limited liability companies as well as public companies, thus, it is also referred to as corporate tax (Nnubia et al 2020). It assessed on a proceeding year basis and not actual year basis on chargeable profits of companies (excluding profit from companies involved in petroleum operations) accruing in, derived from, brought into or received in Nigeria in respect of any trade or business, rent, premium, dividends, interest, loyalties and any other source (Ogbonna and Appah, 2016). Company income tax is an important tax in Nigeria. Yahaya and Bakare (2018) , revealed that company income tax serves as the source of huge revenue to the Nigeria and greatly contributes to the growth of Nigeria economy. The administrative responsibility of CIT rests on the dictates of Federal Inland Revenue Services, with its legal backing drawn from Company Income Tax Act (CITA), Cap C21, LFN 2004 (as amended). CITA policy regimes can be categorized into two: the pre-1992 regime with policies that were narrowly based, high tax rates and overburdening of tax payers, which induced negative effects on savings and investment, and the post-1992 regime which have witnessed measured put up to address structural problems. It also noticed that CIT applicable rate have varied over time, it fell from 45% during in 1970 t0 1986 to 40% between 1987-1991. It further reduced to 35% between b1992-1995 and presently at 30% since 1996. The introduction of Finance Act, 2020 amended numerous sections of CITA, 2004, these sections includes: sections 11, 13,14, 16, 23, 25, 27, 33, 39, 53, 55, 63, 68, 69, 77, 1o5 and second schedule. Finance Act of 2020 introduced some notable changes to the companies Income Tax Act and other taxes in order to reform and

align our domestic tax laws with global best practices. Nwabachili (2020) criticized Company Income Tax Act for contradicting provisions and its negative effects on investments in Nigeria.

Value Added Tax (VAT)

Value added tax is a consumption tax charged on goods and services at each stage of production and distribution. The final burden is borne by the consumer, while businesses collect and remit the tax to the government. VAT in Ngeria is governed by the Value added Tax ACT and administered by the Federal Inland Revenue Service. Value Added Tax is a form indirect tax imposed on the absorption of value and is ultimately borne by the final consumer of the goods and service. VAT is a tax imposed on any person or individual, corporate sole and organization that consumes or buys any vital goods and services in Nigeria. Abomaye-Nimenibo & Micheal, (2018). Value Added Tax was introduced in Nigeria in 1993 through VAT Decree 102 of 1993 now referred to as Value Added Tax Act (VATA) Cap VI LFN 2004 and VAT amendment act 2007 which replaced the old sales tax. Federal Inland Revenue Services administer VAT in Nigeria. The passage and implementation of finance ACT 2020 by Buhari led administration in a quest to broaden revenue brought about notable changes to Nigerian taxes and VAT inclusive.

Notable studies such as Ikeokwu and Micah, (2019) opined that value added tax and custom and excise duties have materially positive impact on Nigeria‘s Per Capita Income (PCI), again, Alaoye and Ayeni, (2018) had previously concluded that value –added tax and customs duties have no significant effect on revenue generated in Nigeria and that there is no long-run relationship among value added tax, customs duties and revenue generated in Nigeria. In Nigeria, it is important to understand the fact that tax revenue is still highly undermined by the incidence of tax avoidance and evasion due to a high rate of underground and informal economic activities for which records are not kept (Omodero, 2020)

Theoretical Review

Ability to pay tax theory

This study is anchored on ABILITY TO PAY TAX THEORY, which was propounded by an aged long philosophy of finance and economist by name Authur Cecil Pigou. The theory suggests that taxation should be levied according to the tax-payer’s financial ability. It states that taxes paid are sacrifice by taxpayers, promoting the subjects of what the sacrifice of each taxpayer should be and how it should be measured, (Nnubia et al, 2020). It is leveled on the premise of: equal sacrifice, equal proportionate sacrifice and equal marginal sacrifice between high income warmers and low earners. So, those who make more can and should pay more taxes. The ability to pay tax theory of taxation suggests that the amount of tax an individual or organization pays should be relative to the amount they earn, as a means of easing the financial burden that taxes can create for low-income households and this conforms to the concept of the progressive tax system.(Appah & Ogbonna, 2016). Ability to pay tax theory has suffered some criticisms as some argued that such a system discourages economic success as it penalizes those who earn the most.

Empirical Review

Okafor (2017) investigated the effect of tax revenue and Nigerian economic development, the study explored the impact of income tax revenue on the economic growth of Nigeria proxy by GDP with data spanning from 2007-2017 collected from CBN statistical bulletin which was analyzed using Ordinary Least Squares and the results showed a very positive and significant relationship between the variables.

Abomaye-Nimenibo and Micheal, (2018) carried out an empirical analysis of tax revenue and economic growth in Nigeria from 1980-2015, the result of analysis revealed that there is a long-run relationship amongst variables while the short-run regression testing revealed that there is no significant relationship between company income tax, petroleum profit tax and economic growth.

Ogbonna and Appah (2016) examined the effect of tax reform and revenue on economic growth in Nigeria, using a combination of primary and secondary data collected via questionnaire and CBN statistical bulletin which was analyzed using regression and the findings revealed a significant relationship between personal income tax revenue and per capita income, company income tax revenue and GDP, VAT and per capita income, petroleum profit tax revenue and GDP and finally tax reform and GDP of Nigeria.

Abiola & Asiweh (2016) investigated the impact of tax administration on government revenue in a developing economy: a case study of Nigeria, carried out an online questionnaire survey containing 25 questions, descriptive statistics were used to analyze the responses and it showed amongst other things that increasing tax revenue is a function of effective enforcement strategy which is purely the responsibility of tax reform.

Ofoegbu, Akwu and Oliver (2016) examined the effect of tax revenue on economic development of Nigeria, time series data were collected from the CBN bulletin and FIRS annual report for the period of 2005-2015 to estimate the linear model of tax revenue and human development index using Ordinary Least Square regression analysis method and the findings revealed a positive and significant relationship between tax revenue and economic development.

Oseni (2017) examined the impact of internally generated revenue (IGR) in Nigeria: a panacea for state development. The study was carried out on proportions of internally generated revenue to total revenue of states for a five year period from 2007-2011 with secondary data obtained from CBN bulletin and FIRS annual report. Both descriptive and inferential statistics were employed in analyzing of collected data and results showed that states getting additional revenue from the statutory allocation as derivation have lower proportions of IGR to their total revenue than other states.

Jimoh, Adegoriola and Adeyemo (2017) they did empirical analysis of impact of tax revenue on economic growth in Nigeria. Annual time series data for the period of 1990-2016 were collected from National Bureau of Statistics, CBN bulletin etc collected data were analyzed using Augumented Dickey Fuller test, Johnsen's test and Correction Error Model and the findings showed that the Petroleum Profit Tax, Company Income Tax and Value Added Tax have significant impact on GBP while Personal Income Tax have a negative and non-significant impact on GDP

Bukie and Adejumo (2017) studied the effect of tax revenue on economic growth in Nigeria with time series for the period spanning from 1970-2011, the study adopted Ordinary Least Square method to establish tax revenue have a positive effect on economic growth in Nigeria.

Olanlokun and Bashiru (2019) examined the effect of federally collected taxes on revenue generation in Nigeria. The study made use of secondary data from FIRS annual report for the period of 1992-2016, tested formulated hypotheses using Ordinary Least Square method and Augmented Dickey Fuller Test and the finding revealed that the petroleum profit tax, Company Income Tax and Value Added Tax have positive effect except Custom duty which showed a negative effect on the revenue.

Nwaorgu and Nwabueze (2017) studied on tax reform and Nigeria's economic stability over a period of 16 years from 2000-2015, utilized transformed econometric linear model to assess how and to what extent tax reforms support economic stability proxies by GD, the findings revealed that company income tax and petroleum income tax are the levers to Nigeria's fiscal stability also VAT reforms have positive relationship with economic stability with negligible effect. Thus, tax reform has a positive effect on revenue generation.

Udeozo and Onuora, (2021) examined the effect of tax reforms on revenue performance in Nigeria. Ex-post facto research design was adopted and the secondary data used were sourced from CBN statistical bulletin, FIRS reports and NBS report. Tax reforms were proxy by reforms in Petroleum Profit Tax, Company Income Tax, Value Added Tax and Personal Income Tax while revenue performance were proxy by total federally collected revenue from 1991-2018. The formulated hypotheses were tested using descriptive statistics, Augmented Dickey Fuller statistics, Colutergration and multiple regression model the result showed that reforms in VAT, PPT, PIT and CIT has significant positive effect on revenue performance.

Oriakhi and Ahuru,(2014) researched on the impact of tax reform on Federal revenue generation in Nigeria. The research employed a time series analysis spanning 1981-2011, various income taxes were used as proxy tax reforms, formulated hypotheses were test using Johnsen's

integration test which showed that along-run relationship exist between tax reforms and federally collected revenue while Granger causality and Partial Stock Adjustment Models also showed that various income taxes have positive relationship with federally collected revenue in Nigeria.

Methodology

This study adopted the ex-post facto research design, which is an attempt to establish facts and arrive at conclusions concerning past events, it is a systematized and objective enquiry into events, developments and experience of the past and a such the researcher lacks control over the variables under study. The choice of this design is leveled on the facts that the secondary data utilized in this study are composed of information and records of events which occurred prior to this research work.

The relevant data were collected from central bank of Nigeria statistical bulletin, annual report and statement of account, bureau of national statistics and federal Inland revenue service reports of various years data involving , company income tax, value added tax. Capital gains tax and custom duty of ten years (2014-2023) period were obtained. The choice of these period is to accommodate the years during which notable reforms and changes occurred in the fiscal policies which invariably affected tax reforms in Nigeria and also accessibility of data influence the choice of the period.

Model regression equation in standard form:

$LOGTRRG = \beta_0 + \beta_1 LOGCIT + \beta_2 LOGVAT + \beta_3 LOGCGT + \beta_4 LOGCED + \varepsilon,$

Where:

LOGTRRG = Government revenue

LOGCIT= company income tax

LOGVAT = value added tax

LOGCGT = capital gain tax

LOGCED= custom and excise duty tax

β_0- β_4 = error of coefficient

The study employed both descriptive and inferential statistics in analyzing the collected data, while tables were used to ascertain their trend, Augmented Dickey Fuller test was used to carry out certain trend of time series data.

Data Analysis

Summary statistics such as mean, standard deviation, maximum, minimum, skewness, kurtosis and Jarque-Bera statistic were used to descriptively analyze the data collected for the purpose of the study.

Descriptive Analysis of Data

	TRRG (#' Billion)	CIT (#' Billion)	VAT (#' Billion)	CGT (#' Billion)	CED (#' Billion)
Mean	6865.436	1548.400	727.9028	644.9722	568.7325
Median	7108.100	1416.300	690.7500	612.0500	500.2150

Maximum	11116.80	3201.300	1747.990	2072.850	2240.000
Minimum	1731.800	224.4000	53.30000	58.00000	101.5000
Std.Dev.	3095.995	867.8736	542.7075	514.1823	479.0182
Skewness	-0.254351	0.277077	0.258368	1.051151	1.973176
Kurtosis	1.822462	2.185957	1.786864	3.871839	7.692087
Jarque-Bera	1.508259	0.888940	1.593822	4.748132	34.45692
Probability	0.470420	0.641164	0.450719	0.093101	0.000000
Sum	151039.6	34064.79	16013.86	14189.39	12512.12
Sum.Sq Dev	2.01E+08	15817297	6185159	5552052	4818626
Observations	50	50	50	50	50

Source: E-Views 10 output 2025

In Table above, the mean of TRRG from 2014-2034 is 6865.436 with a standard deviation of 3095.995. The Highest federally collected revenue is 11116.80 while the lowest government revenue over the period in focus is 1731.800. Data on TRRG are negatively skewed and platykurtic. Again, Probability of Jarque-Bera for TRRG (0.470420) shows that the distribution of TRRG does not significantly deviate from a normal distribution.

The mean value of CIT from 2014-2023 is 1548.400 with a standard deviation of 867.8736. The highest revenue derived from CIT IS 3201.300 while the lowest revenue generated from CIT over the period in focus is 3201.300. Data on CIT are positively skewed and platyurtic. The probability of Jarque-Bera for CIT (0.641164) shows that the distribution of CIT does not significantly deviate from a normal distribution.

VAT averaged 727.9028 with a standard deviation of 542.7075. The maximum VAT collected is 1747.990 while its minimum is 53.3. The distribution is positively skewed and platykurtic. The Jarque-Bera for VAT (0.450719) shows that the distribution of VAT does not significantly deviate from normal distribution.

Augmented Dickey-Fuller Test of Unit Root

Variables	**T-ADF**	**Lag Length**	**Test Critical 5% Level**	**Values@ Remark**
LOG(TRRG)	-4.442762	1(1)	-3.020686	Stationary
LOG (CIT)	**-**4.583032	1(1)	**-**3.020686	Stationary
LOG (VAT)	-4.229521	1(1)	-3.020686	Stationary
LOG(CGT)	-3.465491	1(0)	-3.020686	Stationary
LOG (CED)	-4.473409	1(2)	-3.040391	Stationary

Source: Author's Computation using E-View 10.0 series.

The decision on whether a variable has a unit root is drawn using the T-ADF and Test critical values at 5% level. If the absolute value of T-ADF is greater than the absolute value of test critical values at 5% level, the conclusion is that the variable is stationary, that is , no unit root.

Again, LOG(TRRG)., LOG(CIT) and LOG(VAT) and LOG(STD) are stationary at order 1(1), LOG(CGT) is stationary at levels and LOG(CED) is stationary at order 1(2)

Regression Estimates
Dependent Variable: LOGTRRG
Method: Least Squares
Date: 12/18/25 Time: 01:23
Sample:2014-2023
Included observations: 10

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	1.553922	0.082500	18.83534	0.0000
LOGCIT	0.596261	0.031521	18.91606	0.0000
LOCVAT	0.056407	0.093891	0.600764	0.5564
LOGCGT	0.101968	0.142940	0.713363	0.4859
LOGCED	-0.040422	0.065063	-0.621271	0.5432

R-Squared	0.992708	Mean dependent var	3.777768
Adjusted R-squared	0.990429	S.D. dependent var	0.254653
S.E of regression	0.024913	Akaike info criterion	-4.319819
Sum squared resid	0.009931	Schwarz criterion	-4.022262
Log likelihood	55.51800	Hannan-Quinn criter.	-4.249723
F-statistic	435.6134	Durbin-Watson stat	2.097591
Prob (F-statistic)	0.000000		

Source: E-Views 10.0 output.

The R-squared value of 0.992708 shows that the proportion of the variation in LOGTRRG that are accounted for by changes in LOGCIT, LOGVAT, LOGCGT and LOGCED is 99.27%. The adjusted R-squared = 0.990429 penalized the R-squared for the addition of regressions that do not contribute to the explanatory power of the model. The F-test=435.61234 and its associated Prob>[F]=0.000 shows that the linear regression model provides a better fit to the data than a model that contains no independent variables. The Durbin-Watson stat=2.097591 falls within the safe range of 1.5 to 2.5, thereby suggesting no problem of autocorrelation. The conclusion drawn from the Prob>[F]=0.000 is that the revenues from CIT, VAT, CGT and CED have a joint significant influence on the total revenue federally collected in Nigeria.

Summary of Findings Conclusion and recommendations
Summary of findings

1. Company Income Tax has a significant positive effect on total revenue in Nigeria with P=0.0000
2. Value Added Tax has a positive but non-significant effect on total revenue collected in Nigeria with P=0.5564

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3. Capital Gains Tax has a positive but non- significant effect on total revenue in Nigeria with P=0.4859
4. Custom and Excise duty has both negative and non-significant effect with P=0.5432 on total revenue in Nigeria.

Conclusion

This study examined the effect of tax reform on revenue in Nigeria for the period of ten years from 2014-2023. As we all know, tax is the major source of government revenue in Nigeria, this is because tax revenue aids government in carrying out its responsibilities. Again, effectiveness of any tax system is largely dependent on both the appropriation of legal reforms enacted and integrity of tax administrators. In Nigeria, the inability to collect large sum of money from tax can be linked to the insincerity of tax administrators while carrying out their tax duty, as the result of this, revenue from taxation have remained insufficient for the discharge of government's responsibilities.

Recommendations

1. Company Income Tax seen to have significantly affects government revenue, so government through FIRS should double efforts to sustain appreciable level of revenue emanated from company income tax by ensuring strict adherence to the provisions of company income tax Act.
2. FIRS should automate their various tax processes to increase the convenience of collecting VAT; government should also make judicious use of tax payer's money by providing enabling environment for VAT collection and remittance to thrive, and also to morally persuade compliance.
3. Government should device means of capturing all the informal economic activities hindering the collection of CGT revenue and nonchalant behavior of some company/individuals towards the remittance of CGT revenues; anybody found wanting in this should be severely punished.
4. Government should re-orientate the Nigeria Custom Service via rigorous training to acquire modern skills and knowledge to help curb loopholes through which tax revenue flow out.

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