INTRODUCING THE TAX BASIC SOCIAL AMENITIES (BSA) REBATE: A NOVEL MECHANISM FOR LINKING TAXATION TO DEVELOPMENT IN NIGERIA

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Abstract

The social contract underpinning taxation posits that citizens' compulsory fiscal contributions obligate the state to provide essential public goods and services. This article critically examined this crisis of fiscal legitimacy and proposes a novel legal mechanism designed to be integrated into Nigeria's impending tax reform. With the landmark Nigerian Tax Act, Nigerian Tax Administration Act, Nigerian Revenue Service Establishment Act, and Joint Revenue Board Establishment Act set to take effect in 2026, a historic window exists to recalibrate the relationship between the taxpayer and the state. This article introduced and meticulously elaborated on the Tax Basic Social Amenities (BSA) Rebate, a transformative concept aimed at directly tethering tax expenditure to grassroots development. The proposal mandates that taxes collected from individuals and corporations residing in Wards officially certified as lacking defined BSAs be ring-fenced in dedicated Ward Development Accounts. These hypothecated funds would be exclusively appropriated to finance the provision of the very amenities that are absent, creating a direct and transparent quid pro quo. *The article outlines the robust operational framework of the scheme, covering the scope of applicable taxes, the role of the Ward as the primary implementation unit, the critical certification function of a proposed BSA Ascertainment Department within the new Tax Ombudsman and Joint Revenue Board, and the requisite legislative pathway through a*

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standalone Tax BSA Rebate Act. While acknowledging potential challenges — including administrative logistics, political resistance, and risks of corruption — the article contends that these are surmountable through the institutional architecture of the new tax regime and robust community oversight. The article concludes that the BSA Rebate is more than a fiscal tool; it is a pragmatic instrument of restorative justice and accountability that can rebuild the social contract. By ensuring taxes are visibly converted into tangible amenities, the proposal seeks to transform the citizen's experience of taxation from one of perceived extraction to one of direct investment in their community, thereby cementing the foundation for a more accountable and effective Nigerian state.

Keywords: Tax BSA Rebate, Hypothecated Taxation, Fiscal Legitimacy, Social Contract, Nigeria Tax Reform

1.0 Introduction

The philosophical and legal justification for taxation is rooted in the social contract. Citizens consent to transfer a portion of their wealth to the state, and in return, the state provides public goods, security, and the infrastructure necessary for a functional society. At its core, taxation is meant to fund the provision of basic social amenities (BSAs) — the foundational pillars of modern living such as potable water, electricity, motorable roads, security, and waste management.[1] The efficacy of this contract is measured by the tangible benefits citizens receive for their fiscal contributions. In Nigeria, this contract has often been perceived as

[1] R A Musgrave, *The Theory of Public Finance* (McGraw-Hill, 1959). This seminal work outlines the three core branches of public finance — allocation, distribution, and stabilization — all of which are fundamentally tied to providing public goods and services, termed here as Basic Social Amenities.

broken, with widespread tax evasion and avoidance fueled by the palpable absence of these amenities, leading to a deep-seated distrust in the government's use of public funds.

The impending commencement of four new tax laws on 1st January 2026 — the Nigerian Tax Act, the Nigerian Tax Administration Act, the Nigerian Revenue Service Establishment Act, and the Joint Revenue Board Establishment Act — presents a historic opportunity to reset this relationship. These laws aimed at broadening the tax net and revolutionizing administration, create a pivotal moment for innovative fiscal policy. This article seizes this moment to propose a complementary, citizen-centric concept: **The Tax Basic Social Amenities (BSA) Rebate**. This proposal is designed to ensure that the taxes collected from Nigerians are directly and transparently linked to the provision of the very amenities that justify the state's power to tax in the first place. The aim is that it directly tethers tax expenditure to the provision of essential services, ensuring that the taxes collected from Nigerians work directly for their benefit, thereby reinforcing the social contract and fostering equitable development.

2.0 Conceptual Framework

For clarity, the key terms of this proposal are defined as follows:

a. Tax: A compulsory financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a governmental organization in

order to fund government spending and various public expenditures.[2] Failure to pay is punishable by law. Taxes are not voluntary payments but mandatory contributions, for which no specific, direct *quid pro quo* is received by the individual taxpayer.[3]

b. Basic Social Amenities (BSA): For the purpose of this proposal, BSA refers to the fundamental infrastructure and services necessary for a decent standard of living and the effective functioning of a community. These are defined as: Accessible and tarred roads – paved roads with functional street lighting for safety and security. Potable water supply – reliable and safe system for providing clean drinking water. Stable electrical power supply – a consistent and publicly managed electricity grid connection. Efficient drainage and waste management system – structured mechanisms for flood control and solid waste disposal and a visible security infrastructure – the presence of formal security services (police) and/or recognized local security structures integrated into the official framework.

c. Rebate: A rebate, in fiscal terminology, is a refund of a fraction of the sum paid, typically as a discount or incentive. In this context, the "Tax BSA Rebate" is not a cash refund to the taxpayer, but a hypothecated appropriation — a legal mechanism where the tax revenue collected is

[2] Organisation for Economic Co-operation and Development (OECD), *Glossary of Tax Terms* (2023). This definition aligns with the internationally accepted understanding of a tax as a compulsory, unrequited payment to government.

[3] This definition synthesizes classic definitions from economic literature, such as that found in Simon James, *The Economics of Taxation* (Pearson Education, 2012), and is reflected in the spirit and objectives outlined in the Preamble to the Nigerian Tax Administration Act, 2025.

earmarked or dedicated to a specific expenditure purpose.[4] Here, the "rebate" is the reallocation of the tax paid away from the general revenue pool and into a dedicated fund for providing the BSA the taxpayer lacks.

3.0 A Brief Genealogy of Taxation and its Application in Nigeria

The history of taxation is a chronicle of the evolving state-citizen relationship. From the tributary systems of ancient Mesopotamia where grain was collected to sustain city-states, to the Roman *tributum* used to fund expansive legions and infrastructure, the core principle has remained: the state levies resources to fulfil its functions.[5] The medieval principle of "no taxation without representation" underscored the necessity of consent and benefit. The modern era saw the rise of income tax and consumption taxes like Value-Added Tax (VAT), cementing the government's role in redistribution and welfare.

In Nigeria, the colonial era introduced a cash-based tax system, notably the notorious "hut tax," which was extractive and designed for colonial

[4] The concept of hypothecated taxation, or "earmarking," is a recognized, though contested, fiscal tool. For a discussion, see James, Mirrlees, et al., *Tax by Design: The Mirrlees Review* (Oxford University Press, 2011). The Nigerian Revenue Service Establishment Act, 2025 provides for the creation of "special funds" under certain conditions, which could offer a legal precedent for the proposed Ward Development Accounts.

[5] C Webber and A Wildavsky, *A History of Taxation and Expenditure in the Western World* (Simon and Schuster, 1986). This text provides a comprehensive genealogy of how tax systems evolved alongside the state's responsibilities.

administration rather than indigenous development.[6] The pre-colonial era featured community-driven contributions. The colonial administration introduced cash taxes, such as the infamous "head tax," which was often exploitative and detached from service delivery, leading to protests like the Aba Women's Riots of 1929.

Post-independence, Nigeria continued with a fragmented system relying heavily on oil revenue, which created a "rentier state" mentality where the government was less accountable to taxpayers. This historical context explains the deep-seated public cynicism towards taxation, as citizens frequently do not see a correlation between their tax payments and the improvement of their living conditions. The new tax laws of 2025 represent the most ambitious attempt to break this cycle, aiming to create a broad-based, efficient, and taxpayer-centric system. The proposed BSA Rebate seeks to embed accountability into this new system.

The Use of Taxes: From Global Practice to the Nigerian Context

Globally, taxes are used to fund a wide array of activities. In advanced welfare states, a significant portion is channeled into social security, healthcare, and education. In all nations, funding the civil service, national defense, and public infrastructure is paramount. However, a critical use, often overlooked, is debt servicing, which can consume a large share of revenues.

[6] I O Adekanola, Evolution of Tax Administration in Nigeria: A Historical Review, *International Journal of Development and Economic Sustainability* (2018) (6) (4), 15-25. This work details the origins and legacy of the colonial tax system in Nigeria, highlighting its extractive nature.

In Nigeria, the application of tax revenue has been a subject of intense public debate. Despite significant internal and external borrowing, a large proportion of the annual budget is recurrent expenditure — salaries and overheads — with capital expenditure for tangible projects often being inadequate. Millions of Nigerians who pay taxes — from Value Added Tax (VAT) on every purchase to Personal Income Tax — often reside in areas where the state is virtually absent in terms of BSAs. This erodes the legitimacy of the tax system and discourages voluntary compliance. The result is a vast infrastructure deficit. Millions of Nigerians reside in communities without the Basic Social Amenities outlined above, even as they fulfill their civic duty by paying various taxes. This disconnect erodes trust and discourages voluntary tax compliance. The new tax laws aim to increase revenue, but without an innovative mechanism to ensure its direct application to citizen welfare, the old problems of perception and performance may persist.

Compounding the issue of high recurrent spending is the persistent challenge of revenue leakage and misallocation. Public funds are often allocated to projects with limited widespread benefit or are lost to systemic inefficiencies and corruption. A report by the Nigerian Extractive Industries Transparency Initiative (NEITI) has consistently highlighted gaps in revenue remittance and management, underscoring a governance problem where the link between tax collection and public good is severed.[7] This fosters a public sentiment where taxation is viewed as an extraction rather than a contribution to a shared societal pool for

[7] Nigerian Extractive Industries Transparency Initiative (NEITI), *Oil and Gas Industry Audit Report for 2021* (Abuja, NEITI Secretariat, 2023).

development. The government's ability to collect taxes is therefore inherently linked to its demonstrated capacity to deliver visible services, a test it has often failed.

When compared to its peers, Nigeria's investment in public infrastructure as a percentage of GDP lags significantly, a primary reason for its debilitating infrastructure gap. The World Bank, for instance, has noted that Nigeria needs to multiply its capital expenditure to simply begin closing this gap.[8] The current model of pooling all revenues into a central fund for appropriation has not sufficiently addressed this deficit at the grassroots level where most Nigerians live and work. This model allows for discretionary spending that may not align with the most urgent needs of the populace, creating a cycle of dissatisfaction and non-compliance. Therefore, the fundamental challenge is not merely one of revenue generation, which the new laws address, but one of targeted, transparent, and accountable revenue allocation that guarantees a tangible return on the taxpayer's investment.

4.0 Introducing the "Tax Basic Social Amenities (BSA) Rebate Scheme/System"

[8] World Bank, *Nigeria Public Finance Review: Fiscal Adjustment for Better and Sustainable Results* (World Bank, 2022) 10. This report explicitly states on Page 10: "Nigeria's government capital expenditure, at 1 percent of GDP, is among the lowest in the world and significantly below the average for Sub-Saharan Africa (SSA) and peer countries... Raising public investment to the SSA average of 3.5 percent of GDP would require a substantial increase in capital spending." This directly supports the argument about Nigeria's infrastructure spending gap.

The Tax BSA Rebate is designed to create a direct, transparent, and legally enforceable link between tax payment and community development. The concept operates on a simple but powerful principle: if the government has not provided the minimum BSA to a community, then the taxes collected from the residents and businesses in that community shall be ring-fenced exclusively to provide those missing amenities. Its operationalization is as follows:

i. **Scope of Taxes Covered:** The scheme shall apply to all major taxes paid by individuals and corporations whose official address of residence, as registered with the Nigerian Revenue Service (the "Service"), is within a qualifying Ward. This includes Personal Income Tax, Company Income Tax (attributable to a specific branch), Capital Gains Tax, Value Added Tax (collected from businesses within the Ward), and Stamp Duty. Explicitly excluded are developmental levies such as the Tertiary Education Tax (TETFund), the National Agency for Science and Engineering Infrastructure (NASENI) Levy, and the Police Trust Fund Levy, as well as statutory contributions for Pension and Housing, which are already hypothecated.

ii. **Geographical Delineation and Registration:** The unit of implementation shall be the **Ward**, as delineated by the Independent National Electoral Commission (INEC) for elections. This provides a clear, pre-existing, and manageable geographical unit. It would be the responsibility of the residents within a Ward, acting through their elected Federal Representatives (House of Representatives member and Senator), to formally petition the Service and the Tax Ombudsman to have their Ward enrolled in the BSA Rebate Scheme.

iii. **Certification and Ascertainment:** The Joint Revenue Board and the Office of the Tax Ombudsman, as established under the new Acts, shall each have a dedicated department for BSA Ascertainment. This department will be responsible for conducting physical verification visits to petitioning Wards to confirm the absence of the defined BSAs. The benchmark for what constitutes the "availability" of a BSA (e.g., hours of electricity per day, quality of road surface) shall be clearly defined in a schedule to the proposed enabling Act, as passed by the National Assembly.

iv. **Revenue Collection and Management:** Upon certification, the Service shall create a distinct **Ward Development Account** for each qualifying Ward, to be domiciled at the Central Bank of Nigeria (CBN). All covered taxes traced to addresses within that Ward shall be automatically paid into this dedicated account, rather than the Federation Account or General Revenue Fund.

v. **Project Execution:** The funds in the Ward Development Account will be sequestered until they reach a threshold sufficient to execute a project for one or more missing BSA (e.g., installing a solar-powered borehole, tarring a road segment). Project prioritization and execution could be managed by a Ward Development Committee, comprising community leaders, local government officials, and representatives of the Service, with oversight from the Tax Ombudsman to ensure probity.

vi. **Legislative Foundation:** To cement this framework, it is proposed that the National Assembly enacts a **Tax Basic Social Amenities**

(BSA) Rebate Act. This Act would provide the standalone legal authority for the scheme, detailing its administration, accounting procedures, grievance redress mechanisms, and the conditions under which a Ward, once it receives all BSAs, graduates from the scheme and its taxes revert to the general pool.

5.0 Solidifying the Scheme: Additional Parameters

To ensure the robustness of the proposal, several additional parameters are necessary:

i. **Corporate Responsibility:** Companies with multiple branches must, in their tax returns, clearly delineate the income and VAT attributable to operations in branches located in BSA Wards. The Service will have the power to audit these allocations to prevent companies from shifting tax liabilities away from qualifying Wards.

ii. **Technology Integration:** The system should be integrated with the National Identity Number (NIN) and Bank Verification Number (BVN) databases, as the new Tax Administration Act makes Tax IDs essential for bank accounts. This will allow for precise geo-linking of taxpayers to their Wards.

iii. **Sunset Clause:** A Ward's participation in the scheme will cease once it is certified by the Ombudsman as having attained the minimum benchmark for all BSAs. Subsequent taxes will then flow into the general revenue pool.

iv. **Community Oversight Committees:** Each Ward must establish a committee comprising community leaders, civil society organizations, and the local government councillor to monitor project implementation and provide feedback to the Ombudsman.

6.0 Potential Challenges and the Way Forward

The proposal, while innovative, is not without potential challenges. Logistically, the administrative burden of tracking and managing potentially thousands of Wards is significant. There is a risk of corruption in the project execution phase and potential disputes over the certification of BSA availability.

These challenges, however, are not insurmountable. The administrative structure can be built into the new framework of the Nigerian Revenue Service. Robust oversight by the Tax Ombudsman and community-led monitoring can mitigate corruption. The use of clear, objective benchmarks for BSA availability will reduce disputes. To address inter-Ward inequality, a portion of the VAT pool — a consumption tax — could remain in the general revenue for redistribution, and the scheme itself is designed to lift underdeveloped Wards up to a national minimum standard.

Furthermore, the scheme is likely to face stiff political resistance. The scheme directly challenges the discretionary power of the political class over consolidated revenue, and may face opposition. Also, inter-governmental friction over issues associated with delineating responsibilities between federal, state, and local governments for project execution in a Ward could create friction.

The way forward is phased implementation. The scheme could be piloted in a few select senatorial districts to refine the processes. Furthermore, the proposed **Tax Basic Social Amenities (BSA) Rebate Act** must be drafted with meticulous detail to pre-empt these challenges, granting clear mandates to the Service, the Ombudsman, and the Joint Revenue Board as established under the 2025 Acts.[9] Public awareness campaigns are crucial to empower citizens to trigger the mechanism.

70 Conclusion

The impending implementation of Nigeria's new tax laws presents a historic opportunity to rebuild the social contract. The Tax Basic Social Amenities (BSA) Rebate concept is a bold, citizen-centric proposal that aligns with the spirit of these reforms. It directly addresses the core grievance of the Nigerian taxpayer by creating a tangible and transparent link between their contribution and their community's development. By hypothecating taxes to the direct provision of missing amenities, it transforms taxation from a perceived extraction into a visible investment in one's own environment. This proposal is more than a fiscal mechanism; it is a tool for restorative justice, grassroots development, and the reaffirmation of government's primary duty: to serve the people. It is a novel principle whose time has come, and its enactment through the

[9] See, for instance, the potential mandate of the Tax Ombudsman under the Nigerian Tax Administration Act, 2025 to ensure fair treatment of taxpayers and the oversight functions of the Joint Revenue Board under the Joint Revenue Board Establishment Act, 2025 regarding revenue collection and accountability. The proposed BSA Rebate Act would operationalize within the framework established by these primary statutes.

proposed Tax BSA Rebate Act would mark a revolutionary step towards a more accountable, responsive, and effective Nigerian state.

Ultimately, the success of the 2026 tax reforms will not be measured by revenue collected alone, but by the developmental outcomes they finance. The BSA Rebate scheme provides a measurable and politically popular metric for this success: the number of wards graduated from the scheme due to the attainment of full basic amenities. By legislating this concept, the government can demonstrate a clear and unwavering commitment to fiscal justice, ensuring that the burdens of taxation are commensurate with its benefits, and that every Nigerian, regardless of location, can experience the state not as a distant authority but as a direct partner in progress.