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## COMMENTARY ON THE NIGERIA TAX ACT, 2025

### Background

President Bola Ahmed Tinubu signed the four highly anticipated tax reform bills into law, namely, the Nigeria Tax Act, 2025 (the "NTA"), the Nigeria Tax Administration Act, the Nigeria Revenue Service Act, and the Joint Revenue Board Act (collectively the "Acts") on Thursday 26<sup>th</sup> June 2025. The primary objective of the Acts is tailored towards consolidating and modernising the national tax system.

Despite several welcome developments to the country's tax system through the Financial Acts enacted by the National Assembly between 2019 and 2023, there were still various issues plaguing the effective implementation and administration of tax laws in Nigeria. One of such issues was the proliferation of tax laws legislations relating to connected subject matters, which effectively resulted in uncertainty about tax obligations and inefficiency in tax administration.

This paper is focused on highlighting the key changes to the NTA in more detail and evaluating the implications for the Nigerian tax system.

### Introduction

The NTA harmonises various tax rules and repeals many of the existing tax legislations, including the Capital Gains Tax Act ("CGTA"), the Companies Income Tax Act ("CITA"), the Industrial Development (Income Tax Relief) Act, Personal Income Tax Act ("PITA"), Stamp Duties Act, and Value Added Tax Act ("VAT Act"). The NTA further amends a great deal of relevant tax Acts and Regulations such as, the National Information Technology Development Agency Act, Petroleum Industry Act, Tertiary Education Trust Fund (Establishment, etc.) Act, the National Agency for Science and Engineering Infrastructure Act, the Nigeria Start-up Act, the Companies Income Tax (Significant Economic Presence) Order, 2020 and the Petroleum (Drilling and Production) Regulations 1969.

Following the presidential assent, the Executive Chairman of the Federal Inland Revenue Service (FIRS), Zaccheus Adedeji has disclosed that the newly signed Acts will take effect from 1<sup>st</sup> January 2026. He indicated that the reason for this is to guarantee a sufficient transition period for all the necessary preparations to be put in place ahead of the effective date.

## Key Developments

1. **Scope of Income Tax** – In furtherance of its tax consolidation intent, the NTA imposes income tax on the profits of companies, and the income of individuals, families, and trustees. By the provision of section 4 (6), the definition of “Interest” has been expanded to include penal interests and similar payments; income from any government or corporate securities, bonds or debentures; foreign exchange differences arising in relation to securities; and even payments relating to derivatives.

Additionally, while Dividends under CITA excluded distributed profits of a capital nature earned before or during the winding up or liquidation of the company, the NTA now includes such distributed profits in its definition of Dividends. On a related note, Royalties under the NTA have been redefined to comprise payments of any kind received or receivable, paid or payable as a consideration for the use of, or the right to use or exploit any property.

2. **Changes to Chargeable Gains** – Sections 27 and 28 of the NTA now include chargeable gains among the total profits/income of companies and individuals, respectively. This follows from the repeal of the CGTA, which previously treated the income from the disposal of assets.

On a related note, section 34(1) expands the forms of property qualifying as chargeable assets to include shares, virtual assets, and intangible property, among others. With regard to shares, the NTA exempts the gains from the disposal of shares in a Nigerian company from chargeable gains in circumstances where:

- a. The aggregate of disposal proceeds is less than ₦150 million and the chargeable gain does not exceed ₦10 million in any 12 consecutive months;
- b. The transfer is between approved borrowers and lenders in a regulated securities lending transaction; or
- c. Proceeds from the disposal are reinvested in a share acquisition in a Nigerian company within the same year of assessment, regardless of threshold.

3. **Rent Relief** – The now repealed PITA provided a tax relief for individual taxpayers in the form of the Consolidated Relief Allowance (“CRA”). This has now been replaced by the Rent Relief under section 30(2) as one of the eligible deductions that can be netted off the taxable income of individuals. Under this provision, individuals can now claim 20% of their paid annual rent (capped at ₦500,000, whichever is lower) on the condition that the actual rent paid is accurately declared.

It appears that the NTA aims to alleviate the burden on taxpayers in relation to the inflationary cost of rent in the country. However, no similar provision is made for taxpayers who are homeowners. It is unfortunate that this replaces the CRA, which applied to all individual taxpayers, regardless of their homeownership status. A better approach would have been to retain the CRA, while incorporating the Rent Relief, specifically targeted at renters.

4. **Individual Income Tax Rates** - The NTA, in accordance with the Minimum Wage Act, excludes, from income tax, individuals earning below the minimum wage and introduces a new income tax band for individual taxpayers. The Fourth Schedule to the NTA is reproduced below:

Annual income (NGN)	PIT Rate
First N800,000	0%
Next N2,200,000	15%
Next N9,000,000	18%
Next N13,000,000	21%
Next N25,000,000	23%
Above N50,000,000	25%

5. **Reclassification of Companies** – The NTA appears to have done away with the tripartite classification of companies under the CITA into small, medium-sized, and large companies. The category of medium-sized companies has now been removed under the NTA. Further to this, the interpretation of small companies has now been redefined to mean companies with a gross turnover of no more than ₦50 million and with total fixed assets not exceeding ₦250 million. Small companies have however retained their tax rate of 0%. This clearly expands the cohort of companies who are exempt from the obligation to pay income tax in Nigeria.

It is also noteworthy that the NTA excludes businesses providing professional services from being classified as small companies. It is not clear why this distinction is made. The implication however is that such companies will be subject to tax as large companies. Large companies are subject to tax at the rate of 30%.

6. **Value Added Tax** – One major change brought on by the replacement of the VAT Act with the NTA is the extension of the scope of commodities that input VAT can be claimed on to include services. Therefore, service providers can now claim input VAT as long as those commodities are consumed, utilised, or supplied in relation to providing taxable supplies. Where supplies are chargeable to VAT at 0% (zero-rated), the taxable person is required to pay the input VAT and subsequently request a refund of the VAT paid.

Another important change for VAT is that the deadline for VAT remittance has been moved up to the 14<sup>th</sup> day of the month immediately following the month of the transaction, whereas it used to be the 21<sup>st</sup> day of the following month under the VAT Act. This appears to be targeted at ensuring greater efficiency in the remittance of VAT.

Under the new regime, payment of VAT has been made preconditional to clearing imported goods and claiming allowable expenses for income tax purposes. For the latter, the implication is that taxable persons will be unable to make deductions for expenses incurred in generating their assessable income where they have failed to pay the requisite VAT on those expenses. The aim of this provision is to prevent taxpayers from enjoying deductions where they default on their VAT obligation. By linking both taxes in this manner, the NTA furthers its underlining objective to streamline all the applicable tax obligations and guarantee compliance.

7. **Development Levy** – Another key development under the NTA is the consolidation of the following levies into the novel Development Levy: Tertiary Education Tax, National Information Technology Development Agency (NITDA) Levy, and National Agency for Science and Engineering Infrastructure (NASENI) Levy, among others. Under the new regime, all of these have been integrated into the Development Levy at the flat rate of 4% of their assessable profits, by section 59 of the NTA, which is imposed on all Nigerian companies except small companies and non-resident companies.

Notably, the Development Levy is excluded from applying to assessable profits computed for the purposes of hydrocarbon tax.

8. **Minimum Effective Tax Rate (ETR)** – This ETR of 15% applies to foreign companies that are subsidiaries of a Nigerian parent company or member of a multinational group of a Nigerian company. Section 6(3) of the NTA makes it so that where any such subsidiary or member company yields less than the minimum ETR prescribed by the NTA, the Nigerian parent company shall be obliged to pay an amount to make that non-resident subsidiary's income tax equal to the minimum ETR.

Section 57 of the NTA also imposes the 15% rate on constituent members of a multinational group and any other company with an aggregate turnover of ₦20 billion and above.

These ETR provisions are in accordance with the Organisation for Economic Co-operation and Development's Global Anti-Base Erosion Model Rules (Pillar Two). The goal here is to discourage base erosion and profit shifting practices by multinational groups. The top-up tax system will ensure that multinational groups pay a minimum level of tax on the income arising in each of the jurisdictions where they operate.

## Recommendations

While the developments introduced under the NTA are laudable and show great potential for reforming the Nigerian tax regime, the government and key stakeholders must prioritise increased scrutiny and comprehensive institutional capacity building across all the new agencies to ensure the Nigerian Tax Act achieves its intended objectives. There must be deliberate and increased investments in modern digital infrastructure, staff training, and resource allocation to ensure adequate application of the Acts, generally.

On a related note, the private sector must proactively adjust their compliance frameworks. Businesses should undertake detailed tax impact assessments and realign their tax strategies with the new provisions. For many businesses, especially SMEs transitioning from informal operations, the engagement of professionals should be encouraged as early compliance could ease the shift. These measures, if adopted holistically, will reinforce the Acts' relevance and catalyse long-term socio-economic gains.

Despite the substantial gains made by the NTA, certain provisions may prove difficult in practice and cause unintended consequences for taxpayers. One instance of this is the delayed recovery process for input VAT paid in respect of zero-rated supplies. Such delays may occasion cashflow problems for businesses. Separately, the embargo on claiming allowable deductions without paying the VAT on those expenses may constitute double jeopardy for taxpayers who would have to pay the relevant VAT eventually, even where they have been prevented from making the allowable deduction when computing their income tax.

## Conclusion

Considering all the important innovations in the NTA, it is clear that it seeks to revolutionise the Nigerian tax regime by consolidating the various tax laws in existence while also boosting economic growth. The NTA also aims to significantly broaden the tax net and foster better revenue mobilisation. By raising the exemption threshold for small businesses and introducing a more progressive personal income tax regime, it has effectively relieved the tax burden on low-income earners and small-scale businesses that form the backbone of Nigeria's economy. Simultaneously, it balances this with increased obligations for high-earning individuals and large corporations, thereby promoting fairness and accountability.

Institutionally, with the establishment of the Nigeria Revenue Service and the increased autonomy granted to the State Internal Revenue Services, the Acts will usher in reforms within the tax administration, improve transparency, dispute resolution, and efficient governance. The Acts contains various provisions that are designed to align Nigeria's tax framework with global best practices while plugging existing loopholes. The effect will be an increase in foreign investments and investor confidence, ensuring a more competitive business environment, and improving the ease of doing business.

While these changes signal progress towards a more balanced and transparent tax regime, their effectiveness will largely depend on consistent implementation, robust stakeholder engagement, and the government's ability to translate revenue gains into visible socio-economic benefits.

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