TOPE ADEBAYO LP

PART THREE

HOW NIGERIA'S TAX REFORM SAVES YOU MORE MONEY

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INTRODUCTION

This article examines key provisions in Nigeria's recent tax reform laws that can help your business save money and free up funds for more business growth and development.

1. ONE LEVY TO REPLACE MANY: THE 4% DEVELOPMENT LEVY

We can now say goodbye to multiple contributions. The Nigeria Tax Act 2025 (NTA, or the "new Act") consolidates the Tertiary Education tax, Information Technology (IT), the National Agency for Science and Engineering Infrastructure (NASENI) and Policy Trust Fund (PTF) levies, etc, into one 4% Development Levy on assessable profits.[1]

Who pays:

- All companies except small companies, non-resident companies, and companies paying hydrocarbon tax.
- Individuals are exempted.

2. STAMP DUTIES GO DIGITAL (AND STRICTER)

The regime on stamp duties has now fully transitioned into the digital era. The Nigeria Tax Act (NTA) 2025 reinforces the Federal Inland Revenue Service's (FIRS) mandate to implement electronic tagging, e-receipts, and the administration of stamp duties on electronic transactions. Key provisions under the NTA include:

a. **Duties to be Stamped:** Any instrument first executed in Nigeria, or relating to property or matters in Nigeria, even if executed abroad, is chargeable to duty, unless exempted.[2] The charge is typically ad valorem (percentage of value) for instruments that transfer an interest or involve a payment, and flat or nominal for others.[3]

b. **Clarity of Stamp Timing:** Every dutiable instrument executed in Nigeria must be stamped within 30 days of execution by the person required to pay the appropriate duty.[4] The new Act, however, is silent on the treatment of instruments executed outside Nigeria but connected with an asset, matter, or activity in Nigeria. In the absence of express statutory guidance, it is a **reasonable interpretation**, subject to further regulations or clarifications from the relevant authorities, that the 30-day period would commence from the date such an instrument is received in Nigeria. The new Act clarifies that the duty is to be paid by the transferee, beneficiary, or person taking benefit under the instrument where the instrument involves a transaction.[5]

1 Section 59, NTA
2 Section 124, NTA
3 Nineth Schedule to the NTA
4 Section 126(1)
5 Section 126(2)

c. **Admissibility of Unstamped Documents:** The new Act retains the classic rule that any unstamped instrument will be inadmissible as evidence in any civil proceedings,[6] however, an unstamped instrument may be given in evidence in a criminal proceeding.[7]

d. **Penalty for Unstamped Document:** Failure to stamp dutiable instruments in accordance with the new Act exposes the offender to a liability of 10% of the unpaid duty and interest at the prevailing CBN Monetary Policy Rate.[8]

e. **Updated Duty Rates:** The new Act formally updates the duty rates to match current economic reality.

- Previously, leases beyond 21 years were taxed at 6%[9] but now, the maximum threshold is 3% for leases above 7 years.
- Leases are exempt from stamp duty where the rent payable is less than ₦1 million or less than ten times the national minimum wage; or the lease is between companies in which one party holds at least 90% of the shareholding in the other.[10]
- Agreements and contracts under ₦1 million attract a flat ₦1000 duty, compared to the previous ₦500.
- Receipts for transfers above ₦10,000 have a set flat rate of ₦50, which is a new provision capturing electronic transfers which were not expressly covered before.[11]

f. The following remain exempt from stamp duty:[12]

- Transfers of shares in the Nigerian Government or legislative stocks, or funds.
- Instruments involving the sale, transfer, mortgage, or other disposition, whether absolute or partial, of any ship or vessel, including any share, interest, or property in such ship or vessel.
- Any instrument for which the stamp duty would otherwise be payable by the Nigerian Government or any of its ministries, departments, or agencies.
- Instruments involving consular officers acting in their official capacity, provided that the foreign government they represent grants similar exemptions to Nigerian consular officers.
- Instruments executed by or on behalf of a co-operative society registered under any applicable Act or law.
- Transfers of shares, stocks, or securities from a lender to its approved agent or a borrower, carried out under a regulated securities lending transaction.
- Returns of shares, stocks, or securities from a borrower or its approved agent back to the lender, in accordance with a regulated securities lending transaction.
- All documents relating to the transfer of stocks and shares.
- Electronic transfers or receipts of money below ₦10,000 (or its equivalent in other currencies), as well as transfers for salary payments and self-transfers within the same bank account holder.

6 Section 127(1)
7 Section 127(2)
8 Section 110, NTAA 2025
9 Stamp Duty Charges. Available at https://stampduty.gov.ng/stamp_duty_charges
10 Ninth Schedule, NTA 2025
11 Ninth Schedule, NTA 2025
12 Section 185, NTA 2025

VALUE ADDED TAX: UNIFIED FRAMEWORK

The new Act consolidates all federal Value Added Tax (VAT) legislation, including the VAT Act, the Finance Acts of 2019 to 2023, and the FIRS' Clarification on the Implementation of the VAT Act 2021, into a single, comprehensive framework for VAT administration. It also adopts a broad definition of "taxable supplies" broadly in line with the destination principle, under which VAT is imposed at the place of consumption of goods or services, irrespective of the supplier's location.[13]

The following provisions are central to understanding how VAT now operates in practice.

a. **What is Taxed:** Goods physically in Nigeria, services consumed in Nigeria, and intangibles (like IP rights) exploited or registered in Nigeria are all subject to VAT.[14]

b. **What are Exempted:** Basic food items and other essential goods are chargeable at the VAT rate of 0%, so consumers pay no VAT on these goods; they include:[15]

- Oil and gas exports
- Crude petroleum oil and feed gas used for producing processed gas
- Goods purchased for use in humanitarian, donor-funded projects
- Baby products
- Locally manufactured sanitary products, such as sanitary towels, pads, or tampons
- Military equipment, including arms, ammunition, and locally made uniforms, supplied to the armed forces, paramilitary units, and other security agencies of the Nigerian government
- Shared passenger road transport services
- Agricultural equipment, including the purchase, hire, rental, or lease of tractors, ploughs, and similar machinery
- Goods and services consumed by approved entities within export processing or free trade zones, provided they are used for the entity's approved activities
- Goods or services supplied to diplomatic missions, diplomats, or persons recognised under the Diplomatic Immunities and Privileges Act, where such activities are in the public interest and not for profit
- Plays and performances conducted by educational institutions as part of academic learning
- Land and buildings, including any interest in land or buildings
- Money and securities, including any interest in them
- Government-issued licences
- Assistive devices and disability-related products, such as hearing aids, wheelchairs, and braille materials

13 Section 146
14 ibid
15 Section 186, NTA 2025

c. **VAT Rate:** The current rate remains at 7.5%.[16]

d. **VAT Revenue Sharing:** All VAT is first collected by the FIRS/ National Revenue Service (NRS) into a central pool before being shared.

Table 1: Distribution of VAT Among the Three Tiers of Government

This table shows how VAT revenue is shared among the three tiers of government, with the States' share increased to 55%, the Federal Government's reduced to 10%, and the Local Governments' share unchanged at 35%.

OLD REGIME[17]	NEW REGIME[18]
a. Federal Government – 15%	a. Federal Government – 10%
b. State Governments – 50%	b. State Governments – 55%
c. Local Governments – 35%	c. Local Governments – 35%

Table 2: Distribution of States' Share of VAT

The internal formula for distributing VAT among the States has also been revised. Under the new regime, 55% of VAT revenue is allocated to State Governments (up from 50%), with a restructured basis of distribution. The weight given to population has been reduced, while the share linked to consumption/derivation has increased, thereby rewarding States that generate more VAT through economic activity. At the same time, an equal division among all States remains in place to preserve balance.

50% FOR STATE GOVERNMENTS	55% FOR STATE GOVERNMENTS
i. Equal Division – 50%	i. Equal Division – 50%
ii. Population – 30%	ii. Population – 20%
iii. Derivation - 20%	iii. Consumption of Goods/ Services – 30%

3. BIG TAX BREAKS AND EXEMPTIONS FOR CERTAIN SECTORS AND INCOMES

a. If you are in agriculture, manufacturing, energy, mining, creative services, transportation, or clothing sectors, you can apply for an Economic Development Incentive Certificate (EDIC). The EDIC:
   - Gives you a 5-year tax holiday on profits from your priority business
   - If credits are unused, can be carried forward for 5 more years
   - Replaces the old "Pioneer Status" incentive

b. Unlike the position under the Company Income Tax Act (CITA),[19] the scope of income exempt from tax has been broadened under the new regime. The objective is to stimulate innovation, attract investment, create employment, and promote targeted economic activities. Key exemptions include:[20]
   - **Startup/Innovation Investment:** Gains from the disposal of assets by angel investors, venture capitalists in a "labelled startup", are now exempt, provided the assets have been held for at least 24 months.

16 Section 148
17 Section 40, VAT Act
18 Section 81, NTAA 2025
19 Sections 23 and 24
20 Section 163

- **Pensions and Social Benefits:** Incomes accruing to pension funds, along with military pensions and gratuities, are exempt. Redundancy lump sums and certain capital compensation for loss of employment (as highlighted in our Part One) are exempt, subject to a cap of ₦50 million.
- **Agricultural Businesses:** Companies engaged in agricultural businesses are exempt from income tax for their first 5 years.
- **Personal Income:** Individuals earning a gross income at or below the national minimum wage, etc.

c. **Export Processing Zone (EPZ) Incentives:** Being in an EPZ will see your profits becoming tax-exempt when your total sales are exports or inputs into goods or services exclusively for export. However, to be fully tax-exempt, at least 75% of your enterprise's sales must be export-based,[21] and to claim this tax incentive, licensed entities must show evidence of export proceeds, either in cash inflows or imported raw materials or equipment tied to the export activity.[22]

Also, starting January 1, 2028, profits of EPZ entities from sales made in Nigeria will be fully subject to tax regardless of the local-sales percentage as against export-sales. The President may extend the 2028 date to a date not later than 2036.[23]

Furthermore, if an EPZ entity outsources manufacturing or any of its approved activity within the zone to a related Nigerian non-EPZ company, any sales income obtained will be treated as the income of the non-EPZ company, unless the NRS is satisfied that the deal was conducted at arm's length.[24]

The new Act also provides that services rendered or consumed by an EPZ or free-zone entity within Nigeria are taxable, e.g., VAT, Withholding Tax (on service fees) and stamp duty on service instruments.[25]

4. ENHANCED AND CAPPED TAX DEDUCTIONS

a. Under the new Act, there are certain extra deductions or tax reliefs given to encourage employment and wage growth:

- Low-Wage Subsidy: Companies can claim an extra 50% tax deduction in any two calendar years from 2023 to 2025 for wage awards, salary increases, and transport allowance given to low-income workers whose gross monthly pay after the increase does not exceed ₦100,000 per month.[26]

[21] Paragraph 3, Second Schedule, NTA 2025
[22] Paragraph 10
[23] Paragraph 5
[24] Paragraph 7
[25] Paragraph 9
[26] Section 163(3)

- Employment Growth Incentive: A company can also claim an additional 50% tax deduction in the relevant years of assessment for costs incurred in any two calendar years between 2023 and 2024 on salaries paid to new employees, provided the hires represent a net increase over the average net employment of the preceding 3 years, and such employees are not involuntarily disengaged within 3-years of employment.[27]

However, in anticipation of the commencement of the new Act on January 1, 2026, the authorities may need to release a guideline or circular addressing the implementation of these provisions to aid qualified companies in taking advantage of these deductions.

b. **Gifts and Donations now Capped:** As provided under the old regime,[28] the new Act states that a company may deduct gifts or donations made to approved Nigerian institutions or funds like public funds, NGOs, religious/educational organisations, or any fund created for disaster relief, from its profit for tax purposes. Such donations are deductible against taxable profits, even if capital in nature; however, the total deduction in any year is now capped at 10% of that year's profit before tax.[29]

c. **Research & Development Deductions Increased:** Under the old regime, companies could deduct qualifying R&D expenditure only up to 10% of profits.[30] The new Act now allows a company to deduct 100% of qualifying R&D expenditure incurred in Nigeria, subject to a cap of 5% of that year's turnover. This means substantial R&D spending can significantly reduce taxable income. However, where the R&D produces an asset or intangible that is later sold or transferred, the proceeds from such sale will be treated as taxable income at the applicable rate.[31]

5. AMENDMENT OF THE PETROLEUM (DRILLING & PRODUCTION) REGULATIONS 1969

The Tax Act amends the longstanding Petroleum (Drilling & Production) Regulations 1969 (the Regulation) by deleting Regulations 60B, 60C, 61(1), (2), (4) and 62. The deleted regulations were introduced by the 2019 amendments to the Regulation, which were aimed at controlling workforce decisions in the petroleum industry.

Regulation 60 had required oil companies to obtain Ministerial approval before laying off or terminating a Nigerian worker, and imposed stiff penalties of up to US$250,000 for breaches.[32] By repealing this regulation, the new Act removes that requirement. Oil companies will no longer need ministerial consent to release local staff, nor face the automatic penalties previously in the regulations. This represents a significant policy change: workforce decisions in the petroleum industry will revert to standard labour law, rather than special petroleum-sector rules. Also, by removing Regulation 61, which provided for forfeiture of bonus if production does not begin on time, companies will no longer face those penalties under the new Act.

27 Section 163(3)(b)
28 Section 25, CITA
29 Section 164
30 Section 26, CITA
31 Section 165
32 Chioma U, "The Nigerian Outlook on the Release of Workers in the Oil and Gas Industry" (TheNigeriaLawyer, November 17, 2022) https://thenigerialawyer.com/the-nigerian-outlook-on-the-release-of-workers-in-the-oil-and-gas-industry/

6. REPEAL, SAVINGS AND TRANSITIONAL PROVISIONS

As highlighted above, the new Act represents a major consolidation of Nigeria's tax laws. It repeals 12 principal laws, consolidating them into one, including:[33]

i. Companies Income Tax Act
ii. Personal Income Tax Act
iii. Petroleum Profits Tax Act
iv. Stamp Duties Act
v. Value Added Tax Act
vi. Capital Gains Tax Act
vii. Industrial Development (Income Tax Relief) Act
viii. Casino Act
ix. Deep offshore and Inland Basin Act
x. Income Tax (Authorised Communications) Act
xi. Taxes and Levies (Approved List for Collection) Act
xii. Venture Capital (Incentives) Act

This consolidation is a strategic move to create a unified tax code, ensuring all federal income, capital gains, petroleum profit, VAT, and stamp duty rules are governed by a single act. The new Act also amends several other laws to ensure consistency and establishes its supremacy over any conflicting tax provisions in other legislation.[34]

The new Act includes savings and transitional rules to protect existing rights and obligations.[35] This means that any valid transactions, assessments, or payments made under the old laws will remain effective, and prior administrative actions are grandfathered. This ensures a smooth transition to the new tax regime.

CONCLUSION

The new Act marks one of the most far-reaching reforms of Nigeria's tax system, consolidating multiple laws into a single framework while redefining exemptions, incentives, and compliance rules. It modernises tax administration and broadens the base, creating opportunities for innovation and investment but also stricter obligations for businesses. As Nigeria enters this new era of tax policy, balancing simplification with enforcement companies must stay informed, adapt early, and position strategically to navigate risks and seize the benefits.

33 Section 196
34 Section 201, NTA 2025
35 Section 199

PLEASE NOTE THAT THIS ARTICLE IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE LEGAL ADVICE

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