ValuAlliance Market Musings - Tax Series III

A Structural Shift in How Investment Wealth is Taxed

Nigeria's new tax regime marks a decisive shift in how investment wealth is taxed. Effective 1 January 2026, capital gains, historically taxed separately at a flat rate of 10%, will be fully absorbed into the broader income-tax system under the Nigeria Tax Act (2025).

This means that for capital gains, companies will now be taxed at the applicable Company Income Tax (CIT) rate, while individuals are taxed according to progressive Personal Income Tax (PIT) bands.

For investors and business owners, this change materially increases the importance of transaction timing, portfolio turnover, and tax efficient structuring for long-term wealth planning.

The End of Classification Arbitrage Between Income and Gains

Under the previous framework, taxpayers could structure transactions to convert taxable income into capital gains and thereby benefit from the lower 10% rate. By aligning the taxation of gains with income tax rates, the reform effectively eliminates that incentive.

For profitable companies, disposals of major assets may now attract tax rates of up to 30%, significantly increasing transaction costs. For high-income individuals, large gains on property, shares, or other investments may push total income into higher tax brackets, raising effective tax burdens when liquidity events occur.

A Much Wider Definition of Taxable Assets

The new regime also expands what constitutes a chargeable asset. The Act adopts an intentionally broad definition covering virtually all forms of property, tangible or intangible, regardless of location.

In addition to traditional assets such as real estate and equity holdings, the scope now extends to:

- Intellectual property and contractual rights,
- Foreign currency gains (any currency other than the Naira),
- Digital and virtual assets, including cryptocurrencies, non-fungible tokens, tokenized assets and other digital properties
- Derivatives and hedging instruments
- Self-created assets (i.e., property created by the person disposing of it or acquired without cost)

This reflects the realities of a modern economy where value increasingly resides in intangible and digital forms.

Key Exemptions Preserve Policy Priorities

A. Protection of Core Savings and Household Wealth

Despite the broader scope, the reforms retain important exemptions aligned with economic stability and social policy objectives. Gains on disposal of FGN bonds and OMO bills remain exempt, reinforcing their role as foundational risk-free instruments. Approved retirement/pension schemes, life assurance policies, and assets held for charitable or public interest purposes also retain protection, ensuring that long-term savings vehicles are not eroded.

B. Personal Wealth Safeguards

Individuals disposing of a principal residence benefit from a one-time lifetime exemption, acknowledging the social importance of home ownership. Personal household assets (with disposal proceeds not exceeding the higher of ₦5 million or three times the annual national minimum wage) and private vehicles (up to two per year) used for non-commercial purposes fall outside the tax base, preserving everyday household wealth from taxation. Additionally, gains accruing from the disposal of assets by way of gift are not chargeable gains under the NTA 2025, provided no consideration is paid or received for the transfer.

C. Incentives to Support Equity Investments

The Act also preserves relief designed to support participation in the domestic capital market. Smaller share disposals below specified thresholds remain exempt, while reinvestment of disposal proceeds into Nigerian companies within the same year may qualify for relief.

- **Exemption threshold**: Aggregate proceeds from disposals below ₦150 million, with chargeable gains less than ₦10 million within a 12-month period, are exempt.
- **Reinvestment relief**: Aggregate proceeds above ₦150 million reinvested in Nigerian company shares within the same year of assessment are exempt.

D. Exemption of Compensation and Damages: The threshold for exemption on compensation received for loss of employment due to wrongful dismissal or injury has been increased from ₦10 million to ₦50 million.

Offshore Structures May No Longer Provide Tax Shelter

Historically, investors could avoid Nigerian capital gains tax by selling shares in a foreign holding company rather than the Nigerian operating entity itself. The new law addresses this by deeming such transactions taxable where the underlying value is substantially derived from Nigerian assets.

If more than 50% of a foreign entity's value is attributable to Nigerian assets, a disposal of that entity may now trigger Nigerian tax even if the transaction occurs entirely outside the country. This brings Nigeria in line with international practice and has significant implications for multinational groups, private equity investors, and high-net-worth individuals who use offshore holding arrangements.

Rethinking Transaction Economics

Chargeable gains continue to be calculated as disposal pro-

ValuAlliance Asset Management Limited. Physical Address: 12th Floor, Alliance Place, 33A Alfred Rewane Road, Ikoyi, Lagos.

Tel: + 234 1 466 2000; Email: info@valualliance.com

This report is for information purposes only; it neither presents a conclusive perspective on the topics discussed nor provides investment, financial or other advice. Prior results do not guarantee a similar outcome in the future.

ceeds less allowable costs, including acquisition price, improvement expenditure, and transaction expenses such as legal or brokerage fees. General and financing costs, however, are not deductible, and the law does not permit indexation for inflation. This absence of inflation adjustment means that nominal gains may be taxed even where real economic gains are modest, a potentially significant consideration, particularly in a high-inflation environment like Nigeria.

Together, these rules elevate the importance of careful transaction planning. Timing, structuring, and sequencing of asset disposals can materially influence after-tax outcomes.

Implications for Investors and Business Owners

For investors and businesses, the reforms elevate tax considerations to a core element of investment strategy.

As such, we recommend that careful consideration be given to:

- **The timing of asset disposals**: Plan exits strategically by delaying or staggering disposals, prioritizing long-term investment horizons over frequent trading to minimize capital gains tax.
- **The potential benefits of reinvestment relief**: Where capital gains exceed the defined threshold, reinvestment of proceeds in shares of another Nigerian company within the same year of assessment can preserve relief, effectively deferring or eliminating capital gains tax on the reinvested portion.
- **The role of tax-efficient vehicles within portfolios**: Federal Government bonds remain exempt from capital gains tax, and SEC-authorized collective investment schemes (CIS) offer tax-exempt distributions. These are worth considering as part of a broader portfolio strategy to manage your overall tax exposure.
- **The viability of offshore ownership arrangements**: Investors holding Nigerian assets through offshore structures should review those arrangements carefully, as transactions previously considered outside Nigeria's tax net may now attract Nigerian capital gains tax.

Compliance Under the New Framework

- By folding capital gains into the broader income-tax framework, the reforms introduced by the NTA (2025) simplify administration while strengthening enforcement.
- For capital gains tax (CGT), filing obligations now align with existing personal income tax (PIT) and company income tax (CIT) processes, and penalties mirror those applicable to income-tax non-compliance.
- Companies are required to file within six (6) months of their financial year-end, while individuals must do so by 31st March of the following year.

In the final installment of the ValuAlliance Tax Series, we will unpack how the new reforms introduced by the NTA 2025 affect advance income (i.e., Withholding Tax) and consumption taxes (i.e., Value Added Tax).

This report is for information purposes only; it neither presents a conclusive perspective on the topics discussed nor provides investment, financial or other advice. Prior results do not guarantee a similar outcome in the future.