ValuAlliance Market Musings - Tax Series II

Setting the Context

On June 26, 2025, President Bola Ahmed Tinubu signed four landmark tax reform laws, effective January 1, 2026, representing the most comprehensive overhaul of Nigeria's tax system in decades.

The reforms consolidate and repeal numerous outdated tax statutes while establishing a clearer framework for personal income tax, corporate taxation, value-added tax, capital gains tax, and fiscal governance. Beyond simplification, the reforms signal a structural shift toward broadening the tax base, strengthening compliance enforcement, and digitizing tax administration.

The ValuAlliance Tax Series highlights the most consequential changes and outlines implications for individuals, businesses, and corporate decision-makers. While the first report focused on Personal Income Tax, this edition examines Company Income Tax and the key changes introduced under the Nigeria Tax Act (NTA) 2025.

Previous Framework: Companies Income Tax Act (2004)

Company Income Tax (CIT) is a tax imposed on the taxable profits of companies operating within a jurisdiction. CIT is a central component of government revenue and plays an important role in shaping corporate investment decisions and capital allocation.

For over two decades, corporate taxation in Nigeria was governed by the Companies Income Tax Act (CITA) 2004. The Act consolidated amendments introduced since the original CITA 1979, clarified the definition of taxable profits, strengthened the enforcement powers of the Federal Inland Revenue Service, and entrenched the self-assessment regime.

While the Act significantly improved administrative coherence, it gradually became outdated as it did not fully address emerging issues such as: the digital economy, cross border e-commerce, modern transfer pricing structures, overlapping incentives across multiple statutes, and multiple taxation across federal and state levels.

Under the CITA framework (as amended by the Finance Act 2020), companies were categorized based on turnover:

Old Framework		
1	Small-sized companies with annual turnover of ≤ ₦25 million	0%
2	Medium-sized companies with turnover above ₦25 million but below ₦100 million	20%
3	Large companies with turnover > ₦100 million	30%

New Framework: Nigeria Tax Act (2025)

Some changes to corporate tax introduced by the NTA 2025 include:

1. Raising the small-company exemption threshold

2. Consolidating various levies into a single 4% Development Levy

3. Introduction of a 15% Minimum Effective Tax Rate (ETR) for large corporations, and

4. Alignment of CGT with the CIT framework to reduce tax leakage.

While the headline company income tax (CIT) rate remains 30%, the government has signaled a potential reduction to 25% by 2026, subject to fiscal conditions.

Important to Note:

- The NTA 2025 defines small companies as companies with annual gross turnover of ₦50 million (₦25 million prior) and below, and total fixed assets not exceeding ₦250 million. Small companies are exempt from CIT, CGT, and the Development levy. This means that the income of small companies will also be exempt from withholding tax deductions in line with current practice.
- Any other company will be taxed at the rate of 30%.

New Framework		
1	Small companies (turnover ≤ ₦50 million) and total assets of ≤ ₦250 million	0%
2	Any other company	30%

1. Expanded Definition of a Nigerian Company

The NTA 2025 broadens the definition of a "Nigerian company" for tax purposes. Previously, only companies incorporated in Nigeria were considered Nigerian companies. Under the new framework, a Nigerian company includes any entity that:

i) Is incorporated under Nigerian law;

ii) Has its central place of management/control in Nigeria;

iii) Has its effective place of management in Nigeria.

This change significantly expands Nigeria's tax jurisdiction. Foreign-incorporated companies whose strategic management is conducted from Nigeria may now be taxable on their global income, subject to applicable tax treaty relief.

2. Introduction of 4% Development Levy

The NTA 2025 introduces a 4% Development Levy which consolidates several sectoral levies, including:

- Tertiary Education Tax (TET) levy
- Information Technology Levy (IT) levy,
- National Agency for Science and Engineering Infrastructure (NASENI) levy,
- National Information Technology Development (NITDA) levy and Police Trust Fund (PTF) levy.

All Nigerian companies except "small companies" and "non-resident companies" are required to pay the Development Levy, calculated as 4% of assessable profits.

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

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3. Introduction of Minimum Effective Tax Rate (ETR)

- The minimum Effective Tax Rate, set at 15% in the NTA 2025, primarily impacts large multinational enterprises (MNEs) and domestic companies. It ensures that qualifying companies (MNEs with over €750M global turnover or Nigerian companies with over ₦20 billion local turnover) cannot reduce their effective tax below 15% through deductions or incentives, curbing profit shifting and base erosion. In addition, it requires a Nigerian parent company to pay a top-up tax if its foreign subsidiary is taxed below the 15% ETR, aligning Nigeria's laws with the OECD's Pillar Two global minimum tax principles.

4. Introduction of Economic Development Incentive (EDI)

The NTA 2025 replaces the traditional Pioneer Status tax holiday with a new Economic Development Incentive (EDI) framework.

Under the EDI:

- Eligible companies operating in designated priority sectors receive a 5% annual tax credit on qualifying capital expenditure.
- The credit can be applied against the company's CIT liability for up to five assessment years.
- Unused credits may be carried forward to future tax periods.

Unlike the pioneer regime, which granted full tax holidays, the EDI would operate as a tax credit mechanism, ensuring companies maintain a baseline tax contribution while incentivizing investments.

Priority Sectors: There are thirty-one priority sectors eligible for the Enterprise Development Initiative (EDI) under NTA 2025. These sectors include the following (list not exhaustive):

i) Manufacturing (e.g. starches, tea, electrical equipment, batteries, pharmaceuticals).
ii) Manufacturing of machinery for food and beverage processing.
iii) Agriculture and Agro-processing (e.g. aquaculture, pesticides, animal feeds).
iv) Healthcare (e.g. medical equipment, hospital construction).
v) Transportation and Infrastructure.
vi) Electricity and Gas Supply.
vii) Quarrying and Mining (e.g. coal, metal ores, lithium, rare earth elements).
viii) Creative Industries (e.g. music, film, TV production)
ix) Infrastructure (e.g. utility projects, waste management).
x) Manufacture of basic metals, iron and steel.
xi) Manufacture of pulp, paper and paper products.

5. Taxable profits of Non-residents

- The NTA 2025 broadens the taxable footprint of non-resident companies in Nigeria by introducing "force of attraction" rules. Under this rule, profits attributable to related-party activities can be taxed through a non-resident company's permanent establishment even without a direct physical connection to it. It further extends Nigeria's taxing rights to Engineering, Procurement, and Construction contracts, capturing profits even where activities are performed outside Nigeria or structured under separate contractual arrangements.

6. Minimum Tax for Non-resident companies

The NTA 2025 introduces a minimum tax obligation for non-resident companies with a taxable presence in Nigeria. The tax is calculated as a percentage of earnings before interest and tax (EBIT) relative to Nigeria-sourced income, with a minimum floor equal to:

- the applicable withholding tax rate, or
- 4% of Nigerian-sourced income,

whichever is higher.

However, the interaction between this provision and the 15% global minimum effective tax regime remains unclear and may require further guidance from the tax authorities.

7. Restriction on tax exemption status of free zone entities

- The NTA 2025 preserves tax exemptions for Free Zone companies on export-oriented activities, but introduces restrictions where companies sell into Nigeria's customs territory.
- Where such domestic sales exceed 25% of total turnover, proportionate taxation will apply.
- More significantly, beginning January 1, 2028, all profits from sales into the customs territory will become fully subject to income tax, unless the President grants an extension of up to 10 years from the NTA's commencement date. This reform aims to reduce the use of Free Zone status as a domestic tax shelter.

8. Claim of capital allowances

- The NTA 2025 replaces the previous mixed system of initial and annual allowances with a uniform straight-line method, spreading capital allowances equally over the useful life of qualifying assets. This simplification aligns with the broader compliance reform agenda. Additionally, where non-taxable income constitutes at least 10% of a company's total income, capital allowances will be prorated between taxable and exempt income.

9. Harmonization of CGT with CIT

- Under the NTA 2025, capital gains realized by companies are no longer taxed under a standalone regime. Instead, chargeable gains are aggregated with other taxable income and taxed at the applicable CIT rate (0% or 30%). This reform aims to reduce tax arbitrage between income and capital gains and improve the consistency of the corporate tax system.

This would be covered in more depth in our next report which would focus on Capital Gains Tax (CGT).

Key Investment and Tax Incentives under the NTA 2025

While the NTA 2025 broadens the tax base, it also preserves targeted incentives designed to encourage investment, support small businesses, and stimulate priority sectors.

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1. Economic Development Incentive (EDI)
• Replaces the Pioneer Status tax holiday.
• Provides a 5% annual tax credit on qualifying capital expenditure for up to five assessment years.
• Credits can be offset against CIT liabilities with carry-forward provisions.

2. Agricultural Tax Exemption
• Profits from agricultural trade or business are exempt from CIT for the first five years after commencement of operations.
• Intended to support investment in agriculture and agro-processing value chains.

3. Small Company Exemption
Companies with annual turnover ≤ ₦50 million and total assets ≤ ₦250 million benefit from:

• 0% Company Income Tax
• 0% Capital Gains Tax
• Exemption from the 4% Development Levy

These exemptions allow smaller businesses to reinvest earnings and scale operations during early growth.

Compliance

Under the Nigeria Tax Act 2025, companies operating in Nigeria must comply with the following filing requirements:

A. Who Must File

All companies with a taxable presence in Nigeria are required to file annual Company Income Tax returns, including:

• Active companies generating business income
• Companies that recorded losses during the year
• Dormant or inactive companies
• Foreign companies operating through a Nigerian permanent establishment

Failure to file returns due to lack of profit remains a common compliance error, as all registered companies are required to submit annual tax returns regardless of profitability.

B. Key Filing Deadline

Company Income Tax returns must be filed:

• Within 6 months after the end of the accounting year, or
• Within 18 months after incorporation, whichever comes first.

C. Key Documents Required

- Audited financial statements, Tax computation schedules, Trial balance and supporting accounting records, Tax Identification Number (TIN), NRS/Tax Pro-Max access credentials, Director/shareholder information, and proof of previous tax payments where applicable (i.e., WHT credit notes for taxes that were deducted at source on company's income).

D. Updated Penalties

- Failure to file tax returns: ₦100,000 for the first month and ₦50,000 for each subsequent month of default.
- Failure to register for tax: ₦50,000 first month.
- Failure to maintain proper records: ₦50,000 for companies.
- Awarding contracts to unregistered vendors: ₦5,000,000 fine.

The new regime also empowers the NRS to impose higher fines or pursue legal sanctions for serious non-compliance, including misrepresentation or deliberate evasion.

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