ValuAlliance Market Musings - Tax Series (1)

Understanding the 2025 Tax Reforms

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

The reforms consolidate and repeal more than a dozen outdated tax statutes, setting a unified direction for personal income tax, corporate tax, value added tax, capital gains tax, and fiscal governance.

Beyond simplification, the reforms signal a structural shift toward broader tax base expansion, tighter enforcement of compliance, and full-scale digitization of tax administration.

Through this tax series, we will take you through the most consequential changes, how it affects individuals, business owners, and corporate decision-makers, and steps to take to optimize your positioning under the new tax regime.

The Changes are built around four new Tax Acts:

1. **The Nigeria Tax Act (NTA)**

Which consolidates federal tax laws i.e., company in-come tax, personal income tax, capital gains tax, value added tax etc.

2. **The Nigeria Tax Administration Act (NTAA)**

Which standardizes tax administration across federal, state and local levels, and digitizes compliance.

3. **The Nigeria Revenue Service (Establishment) Act**

Which replaces the Federal Inland Revenue Service (FIRS) with the Nigeria Revenue Service (NRS), expanding its mandate to collecting federal revenues.

4. **The Joint Revenue Board (Establishment) Act**

Which creates the Joint Revenue Board to coordinate tax policy across all tiers of government.

This edition will focus on changes to Personal Income Taxes.

What is Personal Income Tax?

- *Personal Income Tax* is a tax imposed on income earned by individuals from employment, trade, business, profession, or other sources during a financial year.

Old Legislation: Personal Income Tax Act (2004)

The Personal Income Tax Act 2004 served as the primary legislation governing individual taxation in Nigeria for over two decades. Building on reforms dating back to the Personal Income Tax Decree of 1993, PITA formalized the Pay-As-You-Earn (PAYE) system as the standard mechanism for taxing employees and established a progressive tax structure ranging from 7% to 24% across income bands.

While PITA provided a strong institutional foundation, it has not kept pace wit Nigeria's growing informal economy and the realities of a digitizing workforce; limitations that made the case for the NTA 2025.

Nigeria Tax Act (2025)

- Individuals earning ₦800,000 or less annually are now fully exempt from PIT, easing the burden on lower-income earners. A revised progressive band structure then applies to those above that threshold, with a top rate of 25% for incomes of ₦50 million and above.
- Compliance is also now tied to digital identification, making the system more transparent and significantly easier to administer.

Old Tax Regime	
First ₦300,000	7%
Next ₦300,000	11%
Next ₦500,000	15%
Next ₦500,000	19%
Next ₦1,600,000	21%
Above ₦3,200,000	24% (top marginal rate)

New Tax Regime	
First ₦800,000	0%
Next ₦2,200,000	15%
Next ₦9,000,000	18%
Next ₦13,000,000	21%
Next ₦25,000,000	23%
Above ₦50,000,000	25% (top marginal rate)

Allowable Deductions

To provide some cushion for the tax burden, the NTA 2025 retains most of the deductions available under PITA:

1. National Housing Fund (NHF) contributions,
2. National Health Insurance Scheme (NHIS),
3. Pension contributions (both the mandatory 8% employee portion and additional voluntary contributions),
4. Interest on mortgages, and
5. Life insurance premium.

Though the Nigeria Tax Act retains most of the deductions from the PITA, the Act brings a key adjustment to the relief mechanism which is reflected below.

Reliefs (CRA vs RRA)

Section 30 of the NTA repeals the Consolidated Relief Allowance (CRA) under the PITA and introduces a Rent relief allowance (RRA) of 20% of annual rent paid, capped at ₦500,000. This Rent Relief Allowance (RRA) is granted subject to declaration of rent paid to the tax authority and replaces the consolidated relief allowance (CRA) which was granted on income at the higher of ₦200,000 or 1% of gross income plus 20% of gross income.

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Simulation of Taxes Under the Old & New Laws

An individual's personal income tax is charged on his/her income on a progressive basis. You can calculate your current PIT and compare it with the previous tax law calculations using this link provided by the Presidential Fiscal Policy and Tax Reforms Committee: PIT Calculator.

Old Tax Law — Income Breakdown	
Gross Annual Income	**xxx**
Less: Consolidated Relief Allowance	(xx)
Less: Deductible Expenses	
NHF Contribution	(xx)
NHIS Contribution	(xx)
Pension Contribution	(xx)
Interest on Loan (Owner Occupied House)	(xx)
Life Insurance Premium	(xx)
Taxable Income	**xxx**

New Tax Law — Income Breakdown	
Gross Annual Income	**xxx**
Less: Deductible Expenses	
NHF Contribution	(xx)
NHIS Contribution	(xx)
Pension Contribution	(xx)
Interest on Loan (Owner Occupied House)	(xx)
Life Insurance Premium	(xx)
Less: Rent Relief	(xx)
Taxable Income	**xxx**

Scenario 1: Mid-Income Earner
₦3,000,000 Annual Income (with no deductible expenses and not qualified for rent relief under the new regime)

Under the Old System
Step 1: Calculate CRA
CRA = (₦200,000 or 1% of income, whichever is higher) + 20% of income

Check: 1% of ₦3,000,000 = ₦30,000, hence we use ₦200,000 as that is higher.

20% of ₦3,000,000 = ₦600,000
Total CRA = ₦600,000 + ₦200,000 = ₦800,000

Step 2: Taxable income
₦3,000,000 – ₦800,000 = ₦2,200,000

Step 3: Apply old tax bands

Old Tax Regime	
First ₦300,000 @7%	₦21,000
Next ₦300,000 @11%	₦33,000
Next ₦500,000 @ 15%	₦75,000
Next ₦500,000 @ 19%	₦95,000
Next ₦1,600,000 @21%	₦126,000
Above ₦3,200,000 @24%	-
	₦350,000

* **Under the New System (2026)**
We are assuming no deductible expenses or rent reliefs, so the taxable income would be ₦3,000,000.

New Tax Regime	
First ₦800,000 @0%	-
Next ₦2,200,000 @15%	₦330,000
Next ₦9,000,000 @18%	-
Next ₦13,000,000 @21%	-
Next ₦25,000,000 @23%	-
Above ₦50,000,000 @25%	-
	₦330,000

This highlights the positive impact of the new tax law on low income earners. For this scenario, the tax payer has ₦20,000 in savings.

- **Scenario 2: High Income Earner**

₦50,000,000 Annual Income (with no deductible expenses and not qualified for rent relief under the new regime)

* **Under the Old System**
Step 1: Calculate CRA
CRA = (₦200,000 or 1% of income, whichever is higher) + 20% of income

Check: 1% of ₦50,000,000 = ₦500,000, hence we use ₦500,000 as that is higher than ₦200,000.

20% of ₦50,000,000 = ₦10,000,000
Total CRA = ₦500,000 + ₦10,000,000 = ₦10,500,000

Step 2: Taxable income
₦50,000,000 – ₦10,500,000 = ₦39,500,000

Step 3: Apply old tax bands

Old Tax Regime	
First ₦300,000 @7%	₦21,000
Next ₦300,000 @11%	₦33,000
Next ₦500,000 @ 15%	₦75,000
Next ₦500,000 @ 19%	₦95,000
Next ₦1,600,000 @21%	₦336,000
Above ₦3,200,000 @24%	₦8,712,000
	₦9,272,000

* **Under the New System (2026)**
We are assuming no deductible expenses or rent reliefs, so the taxable income is ₦50,000,000.

New Tax Regime	
First ₦800,000 @0%	-
Next ₦2,200,000 @15%	₦330,000
Next ₦9,000,000 @18%	₦1,620,000
Next ₦13,000,000 @21%	₦2,730,000
Next ₦25,000,000 @23%	₦5,750,000
Above ₦50,000,000 @25%	-
	₦10,430,000

This highlights that a higher income earner would pay more tax (here, an additional ₦1,158,000) under the new regime compared to the old tax regime.

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Who Must Pay Personal Income Tax?

If you earn income in Nigeria, you are liable to pay tax. That includes:

- Salaried workers
- Landlords
- Freelancers
- Business owners
- Partners in a business, and so on.

Resident vs Non-Resident Income

Under PITA, residency was presence-based. An individual was subject to Nigerian PIT after 183 days in the country within a 12-month period. However, the NTA 2025 expands this significantly, moving to both a residency and source-based model.

Nigerian residents are now taxed on worldwide income, while non-residents are taxed only on Nigerian-sourced income.

The definition of residency has also been broadened to include individuals with substantial economic and family ties to Nigeria, and trailing income linked to Nigerian employment remains taxable even after departure. This is a notable change, particularly for expatriates and internationally mobile employees.

How Do You Pay PIT?

- **If You are Employed (PAYE)**

i) Your employer deducts tax monthly.

ii) They remit it by the 10th of the following month.

iii) Annual filing deadline: 31st of January.

- **If You are Self-Employed or earn additional income to your annual salary:**

i) The NTA requires you to self-assess yourself for tax.

ii) File annual return (usually by 31 March).

iii) Pay directly to the revenue service.

Kindly note that missing deadlines can lead to penalties.

Where Do You Pay?

PIT in Nigeria is administered at the state level, with tax remitted to the State Internal Revenue Service of the state where the individual is resident or where their principal place of work is located.

This structure remains unchanged under the NTA 2025, however, the Act strengthens enforcement through digital identification linkage, reducing instances of remittance to the wrong state authority or non-remittance altogether.

What You Should Do:

- Get a Tax ID if you do not have one. The reform harmonizes different TINs issued by the FIRS, NRS, JTB, and State IRS into one Tax ID. You can use this link to get yours, if you have not done so yet: Tax ID Retrieval.
- Keep every receipt (rent, pension, insurance etc.).
- Confirm your employer remits your PAYE.
- File your annual return on time.

What You Should Not Do:

- Do not ignore filing because your income is "small."
- Do not under-report income.
- Do not claim deductions without proof.
- Do not miss deadlines to avoid penalties.

Smart Ways to Legally Reduce Your Tax

Here are some key allowable deductions you can take advantage of to significantly reduce your tax burden.

1. Pension Contributions
If you earn ₦5,000,000: 8% minimum employee pension = ₦400,000. Your taxable income drops to ₦4,600,000. This serves as key savings.

However, you can also take advantage of voluntary pension contributions. If this person chooses to make an additional 10% pension deduction, that makes 18% x ₦5,000,000 = ₦900,000 reducing taxable income to ₦4,100,000. That is an extra ₦500,000 that is tax exempt.

2. Rent Relief
This is twenty percent of rent paid (capped at ₦500,000). If your rent is high, this helps significantly. However, you must have proper receipts.

3. Health Insurance (NHIS) & National Housing Fund
These may appear as small monthly contributions, but they reduce taxable income over the year.

4. Life Insurance Premium (for you and your spouse)
Tax is deductible here, but there should be proper documentation.

5. Interest on Loan for Owner Occupied House
The interest paid on a mortgage or loan used specifically for developing (building or renovating) an owner-occupied residential house is a fully deductible expense from an individual's gross income. Unlike the rent relief, it is not capped. However it applies only to the interest and not to the principal payments.

6. If You are Self-Employed or an Entrepreneur
As a self-employed individual, you are encouraged to register your business with the Corporate Affairs Commission, as a Limited Liability Company (LLC) not just as a business name (BN) - in order to take advantages of the small company exemptions (to be covered in our next report).

Let's look at the second scenario again, this time taking into account the +ve impact of these key deductions.

- **Scenario 3: High-Income Earner**

₦50,000,000 Annual Income (with deductible expenses and qualified for rent relief under the new regime).

Other Details:

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NHF contributions: 2.5%, NHIS contributions: 5%,
Pension: minimum 8% plus additional voluntary 5%,
Annual rent of ₦10,000,000, Interest on loan for private residence: ₦1,000,000 and life insurance policy: ₦2,000,000.

* **Under the New System (2026)**

Step 1: Calculate Rent Relief Allowance (RRA)
RRA = (20% of rent paid, capped at ₦500,000)

20% of ₦10,000,000 = ₦2,000,000
Hence, we use ₦500,000 as ₦2,000,000 is above the cap applicable for granting the relief.

Step 2: Calculate taxable income

New Tax Law — Income Breakdown	
Gross Annual Income	**₦50,000,000**
Less: Deductible Expenses	
NHF Contribution (2.5% of ₦50,000,000)	(₦1,250,000)
NHIS Contribution (5% of ₦50,000,000)	(₦2,500,000)
Pension Contribution (13% of ₦50,000,000)	(₦6,500,000)
Interest on Loan (Owner Occupied House)	(₦1,000,000)
Life Insurance Premium	(₦2,000,000)
Less: Rent Relief (20% of rent paid, capped at ₦500,000)	(₦500,000)
Taxable Income	**₦36,250,000**

Step 3: Apply the tax bands

Personal Income Tax Bands	
First ₦800,000 @0%	-
Next ₦2,200,000 @15%	₦330,000
Next ₦9,000,000 @18%	₦1,620,000
Next ₦13,000,000 @21%	₦2,730,000
Next ₦25,000,000 @23%	₦2,587,500
Above ₦50,000,000 @25%	-
	₦7,267,500

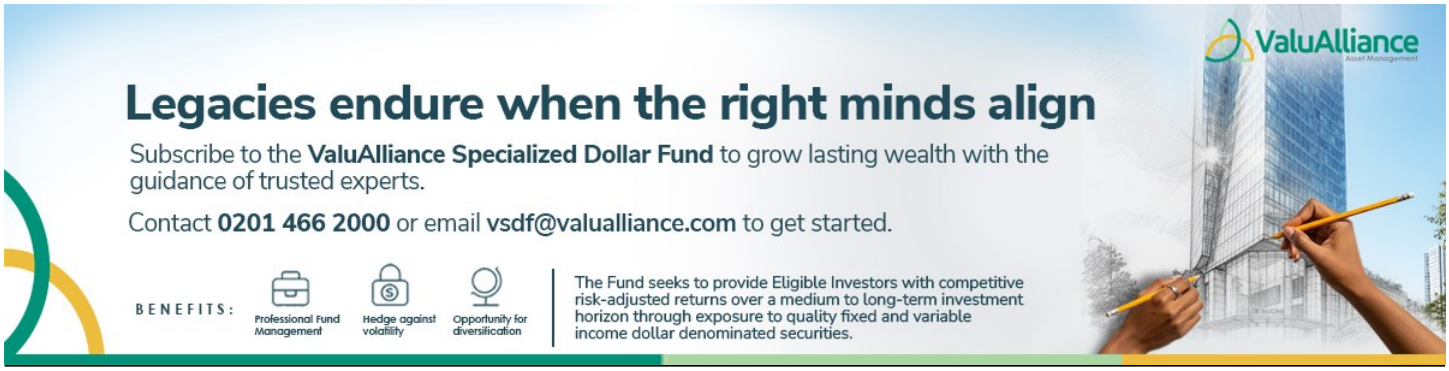
This represents ₦3,162,500 tax savings when compared to the burden without these deductions.

Key Point to Note:

Capital Gains Tax (CGT) Integration: Under the NTA 2025, capital gains are no longer subject to a standalone flat rate for individuals (and companies). Instead, chargeable gains are now aggregated with other forms of income and subjected to the progressive Personal Income Tax (PIT) bands (0% to 25%).

This shift ensures that tax liability is aligned with an individual's total economic capacity rather than the specific nature of the transaction. Detailed implications for asset disposals, such as the ₦150 million exemption threshold for shares will be explored in a subsequent report .

Our next report will cover the changes as it relates to Company Income Taxes (CIT).



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