REGULATORY UPDATE ON THE TAX SECTOR

INTRODUCTION

The **Nigeria Tax Reform**, formalized through a collection of landmark legislation signed into law in mid-2025, represents the most comprehensive overhaul of the nation's fiscal framework since independence. Effective January 1, 2026, these reforms aim to shift Nigeria away from a fragmented, high-compliance-cost environment toward a modernized, "growth-oriented" system.

By consolidating dozens of incongruent taxes and levies into a unified code, the reform seeks to achieve three primary objectives:

- Fiscal Simplification: Reducing the "multiplicity of taxes" that has historically burdened small businesses and deterred foreign direct investment.
- Progressive Equity: Realigning tax burdens to protect low-income earners and vulnerable populations while ensuring high-net-worth individuals and large corporations contribute proportionately.
- Revenue Efficiency: Enhancing the "Tax-to-GDP" ratio through the digitalization of the Nigeria Revenue Service (NRS) and a derivation-based VAT sharing formula that incentivizes sub-national economic activity.

This structural transition marks a move toward transparency and global competitiveness, positioning Nigeria to better manage its debt obligations and fund critical infrastructure without stifling private sector innovation.

KEY HIGHLIGHTS OF THE TAX REFORM ACTS:

- The Tax Reform package comprises of four (4) Statutes namely: Nigeria Tax Act, 2025; Nigeria Tax Administration Act, 2025; Nigeria Revenue Service (Establishment) Act, 2025; and the Joint Revenue Board of Nigeria (Establishment) Act, 2025;(collectively the Tax Reform Laws)
- These laws have taken effect from 1st January 2026. The laws repeal outdated and overlapping tax legislation and introduce a streamlined, modern tax system.
- Following the commencement of the Tax Reform Laws, the House of Representatives released Certified True Copies of the four Acts passed by the National Assembly and assented to by the President. The release was undertaken to provide authoritative legislative texts for public reference and implementation purposes. The Certified True Copies of the tax reform Acts circulated by the House of Representatives can be accessed here
- The creation of the Harmonization Tax Law for sub nationals - As part of the government's commitment to reforming the tax system, enhance efficiency, transparency and compliance, the Harmonization Tax Law was created as part of the presidential initiative to address issues of multiple taxation, fragmented tax administration and low tax morale and sub-nationals are expected to domesticate the law.

TAX STRUCTURES

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Key changes in the NTA:

- **A new definition of the Nigerian Company**- the Nigeria Company now include not only companies incorporated in Nigeria, but also those whose central or effective place of management or control is located in Nigeria.
- **Increased exemption threshold for small companies**- small companies are now exempt from Companies Income Tax (CIT), Capital Gain Tax (CGT), the newly introduced Development levy. Small Companies are defined as companies whose annual gross turnover is NGN50million and total fixed assets not exceeding NGN250million.
- **Increased tax rate on capital gains-** the NTA increases the Capital Gain Tax from 10% to 30% for large companies while individuals' capital gains will be taxed at applicable tax rate.
- **Introduction of Development Levy –** Nigeria Companies except small companies and non-resident companies will pay a "Development Levy" at 4%of their assessable profits.
- **Minimum effective Tax Rate (ETR)-** Nigerian companies who are members of multinationals group or generate annual revenue of NGN20billion and above will now be subject to a minimum effective tax rate of 15% of their profit.
- **A more Progressive Personal Income Tax (PIT) –** The NTA changes the income bracket and applicable tax rates for each bracket. Individual earning NGN800,000 or less per annum will now be exempt from their income and gain. While higher income earners will be taxed at a higher rate up to 25%.
- **Input VAT Recovery –** The VAT rate of 7.5% has been retained, this aligns with global best practice. Businesses can now recover input VAT provided it relate to supplies that are also subject to VAT
- **VAT at Zero rate on essential goods and services -** The NTA expands the list of Zero-rated items to include essential goods and services such as basic foods items, medical and pharmaceutical products, educational books and materials, electricity generation and transmission services, medical equipment and services. This implies that businesses selling these goods can recover their VAT costs.

2. The Nigeria Tax Administration Act 2025 (NTAA) provides the administrative framework for the assessment, collection, and accounting for revenues accruing to the Federal, State, and Local Governments, clearly defining the powers and responsibilities of relevant tax authorities and addressing related administrative matters. **Some key provisions of NTAA:**
    - Registration of Taxable persons- Taxable persons (including individuals, companies, government agencies, etc.) are required to register with the relevant tax authority and obtain a Taxpayer Identification Number (TIN). The Tax ID is a unique, system-generated number assigned to all taxable persons strictly for tax administration purposes.
    - Taxpayers may retrieve their Tax ID through the designated portal by visiting https://taxid.jrb.gov.ng or https://taxid.nrs.gov.ng.
    - Joint Revenue Tax Board commences issuance of Nigerian Taxpayer Identification (Tax ID). The Joint Revenue Board (the "Board"), in collaboration with the Nigerian Revenue Service (the "NRS"), has **confirmed that the Nigerian Tax Identification (Tax ID) Portal is now live and operational nationwide.**
    - Simplified tax returns for the informal sector- The tax authority may issue guidelines for the filing of simplified tax returns for low-income earning individuals or those operating in the informal sector. The guidelines can be assessed on the websites of the Nigeria Revenue Service (NRS).
    - Update to the VAT sharing formula – The NTAA reduces the Federal Government's share VAT from 15% to 10%, while increasing the allocations of States and Local Government Areas to 55% and 35%, respectively.

The VAT revenue assigned to states and local governments is further allocated based on the following criteria: 50% divided equally among the states and the LGAs, 20% allocated based on population and 30% allocated based on the place of consumption.

3. The Nigeria Revenue Service (Establishment) Act 2025 (NRSEA) establishes the **Nigeria Revenue Service (NRS),** replacing the Federal Inland Revenue Service (FIRS). The NRS is charged with tax collection, taxpayer registration, and automation of all federal tax functions. It also supervises taxpayer compliance through digital monitoring tools and nationwide coordination with state tax authorities. **Some key Provisions of NRSEA:**
    - FIRS renamed the Nigeria Revenue Service and SIRS become autonomous- The Federal Inland Revenue Service (FIRS) has now been renamed the Nigeria Revenue Service (NRS) to reflect its responsibilities as the body to assess, collect and account for revenue due to the government of the federation.
    - Expanded funding for NRS- The NRSEA increases the funding for the NRS to 4% of total revenue (less petroleum royalty) collected, plus other sources. This clearer and broader funding base is expected to support and align with NRS expanded responsibilities under NRSEA.
    - Assistance in tax collection-The NRS may assist any State or Local Government to collect or administer tax. The NRS may also assist to collect revenues on behalf of another foreign government in relation to an agreement or arrangement for the avoidance of double taxation.

4. The Joint Revenue Board of Nigeria (Establishment) Act 2025 (JRBNEA) is now formally established as a statutory body with authority to drive inter-agency harmonization. It ensures consistency in enforcement, facilitates joint audits, and manages a central database linking federal and state taxpayer records. **Key Update of JRBNEA:**
    - Establishment of the Joint Revenue Board- The Act establishes the Joint Revenue Board, which serves as a formal governance structure to facilitate collaboration among federal, state and local government revenue authorities. This helps to reduce conflicts and inconsistences in the tax system.
    - Introduction of the Tax Ombuds office -The JRBNEA introduces the Tax Ombuds office to liaise with the tax authorities on behalf of taxpayers and serve as an independent arbiter to review and resolve complaints relating to taxes, levies, duties or similar regulatory charges.
    - Tax Appeal Tribunal- The Act provides for the establishment of a Tax Appeal Tribunal to handle disputes arising from tax assessments and collections, ensuring that taxpayers have a fair avenue for resolving grievances.

In conclusion, the tax reform represents a significant step towards modernizing and improving the efficiency of the tax administration system. Here are the key takeaways: The reforms introduce far- reaching changes, including the expansion of tax net, enhancement of revenue generation, simplification of compliance for small and medium businesses and the establishment of new institutions such as; the Nigeria Revenue service, Joint Revenue Board, Tax Ombuds office, which is expected to enhance coordination, accountability and protection of taxpayers across all levels of government.

References

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About DAWN Commission

The Development Agenda for Western Nigeria (DAWN) Commission is the think-tank established in July 2013 by the six Governments of the States of Southwest region of Nigeria to manage their regional integration and development agenda. Our mandate is to strengthen socio-economic competitiveness of the region by facilitating sustainable working relationships among state and non-state development stakeholders.

Operating on the five pillars of economic development, social and human development, infrastructure, building inclusive institutions, and homeland affairs, DAWN Commission is a valuable partner to development stakeholders and enthusiasts interested in leveraging the regional integration agenda to promote shared goals and objectives.

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