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Q2 2026

AN OVERVIEW OF THE REFORMS AND IMPLEMENTATION OF THE NIGERIAN TAX ACT (the “NTA”/the “ACT”) 2025

INSIDE TOLG ADVISORS

INTRODUCTION

The NTA 2025, represents a significant overhaul of the country's tax system, focusing on modernization, simplification, improving administrative efficiency and boosting revenue generation. The new law, signed by President Bola Ahmed Tinubu on June 26, 2025, is primarily intended to consolidate various tax laws, boost non-oil revenue, and promote equity and ease of doing business. The reforms are generally effective from January 1, 2026, although key administrative provisions have earlier implementation dates.

The Four Pillars of the Reform Package

The complexity of the reform necessitates an understanding of its four interconnected legislative components:

a)The NTA, 2025: This Act is the cornerstone, repealing and consolidating over 20 disparate tax laws, including the Companies Income Tax Act (the "CITA"), Personal Income Tax Act (the "PITA"), Value Added Tax Act, Capital Gains Tax Act, and Stamp Duties Act. It replaces them with a single, unified, and modernized regime applicable to both resident and non-resident taxpayers;

b)The Nigeria Tax Administration Act (NTAA), 2025: This focuses specifically on the procedural framework, standardizing assessment, collection, and administrative procedures;

c)The Nigeria Revenue Service (Establishment) Act (NRSEA), 2025: This law rebrands and establishes the central federal tax authority; and

d)The Joint Revenue Board (Establishment) Act (JRBA), 2025: This is designed to institutionalize tax harmonization efforts and coordinate tax administration across all tiers of government.

Structural Risk Mitigation and Transparency

The consolidation of numerous existing tax laws into the NTA serves a crucial strategic purpose beyond mere simplification. Historically, the multiplicity of tax statutes created overlapping, conflicting, or ambiguous provisions, leading to significant uncertainty, complexity, and frequent judicial disputes over enforcement validity or retroactive application. The NTA enhances transparency and predictability for investors and multinational enterprises (the "MNEs") operating in the Nigerian jurisdiction. This systemic cleanup is foundational to securing long-term institutional stability and investor confidence in the new fiscal regime.

CORPORATE AND INVESTMENT TAXATION UNDER THE ACT

The standard Company Income Tax (CIT) rate remains 30% for most large companies. However, the NTA significantly supports Small Companies (companies with an annual turnover of ₦100 million or less and total fixed assets not exceeding ₦250 million are now fully exempt from Companies Income Tax (the "CIT"), Capital Gains Tax (the "CGT"), and the new Development Levy) by increasing the tax exemption threshold (0% CIT rate) from N25 million to N100 million in annual gross turnover. This expansion of relief is expected to bolster the small and medium-sized enterprise (the "SME") sector, which forms a major segment of the economy.

A key feature of the Act is the harmonization of CGT rates with primary income tax rates to eliminate tax arbitrage opportunities.

Corporate CGT

The CGT rate for corporate organizations is increased from a flat 10% to match the standard CIT rate of 30% (for large companies).

Individual CGT

Capital gains realized by individuals are now taxed at the individual's applicable progressive Personal Income Tax (PIT) rate, reaching a maximum of 25%.

·**Scope Expansion** – Gains realized from the disposal of digital or virtual assets are explicitly made taxable under the CGT framework.

·**Indirect Transfers** – The Act introduces specific CGT provisions to capture gains from the indirect transfer of shares in Nigerian companies, particularly when the disposal occurs through off shore intermediary holding companies, although such taxation remains subject to applicable double tax treaty exemptions.

·**Interest Deductibility** – Furthermore, the Act expands interest deductibility limits, now applying these restrictions to all connected-party arrangements (two or more entities that share a relation of management, control or capital), tightening domestic anti-base erosion measures.

The Unified Development Levy (the "UDL")

The NTA consolidates several overlapping, earmarked taxes such as the Tertiary Education Tax, IT Tax, NASENI Levy, and Police Fund Levy into a single UDL.

·**Rate and Base:** The UDL is imposed at 4% of assessable profits. Critically, assessable profits are defined as "the profits of the accounting period immediately preceding the year of assessment from all sources" see Section 22 Chapter 2 Part IV NTA 2025 i.e. tax profits before the deduction of tax depreciation and losses. Small companies are exempt from the UDL.

·**Earmarked Allocation:** The revenue generated is specifically earmarked for national strategic priorities, including Education (50%), Student Loans (15%), Technology Development (8%), and Defense and Security (10%).

The imposition of the UDL on assessable profits, defined before deducting capital allowances and losses, introduces a new dynamic for compliance modeling. For capital-intensive businesses (e.g., in manufacturing or telecommunications) with high fixed asset costs and substantial depreciation claims, applying the levy to this pre-deduction base means their effective tax base for the UDL may be higher than under the previous system where levies sometimes applied to accounting profits.

Consequently, while the consolidation simplifies administrative obligations, large corporations must accurately model their specific financial scenarios to determine the actual net change in their overall tax burden under this new regime.

Overhaul of Tax Incentives – The Economic Development Tax Incentive

The Act repeals the Industrial Development (Income Tax Relief)Act, effectively replacing the longstanding Pioneer Status Incentive ("PSI") with the new Economic Development Tax Incentive (the "EDTI"). This change signals a policy shift away from offering outright tax holidays toward a more structured, credit-based framework.

Under the EDTI, eligible businesses operating in priority sectors—such as manufacturing, mining, renewable energy, and agro-processing—can receive a 5% tax credit for qualifying capital expenditures over a five-year period. This shift reflects a strategic commitment to fiscal responsibility and greater control over tax expenditure, ensuring incentives are directly tied to tangible investments that align with national development objectives, offering the government greater predictability in revenue forecasting compared to open-ended exemptions.

<u>PERSONAL INCOME TAX (THE "PIT") AND SOCIO-ECONOMIC MEASURES - WHAT HAS CHANGED FOR INDIVIDUALS?</u>

The NTA introduces a revised PIT regime designed to provide relief for low-income earners while increasing the tax burden on High-Net-Worth Individuals (HNIs).

A full personal income tax exemption now applies to individuals earning ₦800,000 or less per annum.

Revised Progressive PIT Bands

The new regime redefines the income brackets, maintaining a progressive structure with rates ranging from 0% to 25%.

·Exemption Threshold – Individuals earning ₦800,000 or less per annum are completely exempt from tax on their income and gains.

·Maximum Rate: The maximum tax rate is set at 25%, applicable to annual income exceeding ₦50,000,000.

The progressive PIT structure reinforces a policy objective to shift the tax burden toward top earners, ensuring that wealth creation is subject to greater scrutiny and higher taxation.

The new 2025 Personal Income Tax (PIT) rate bands are detailed below:

S/N	Annual Income Bracket (₦)	Tax Rate (%)
1.	0 – 800,000	0%
2.	800,001 – 3,000,000	15%
3.	3,000,001 – 12,000,000	18%
4.	12,000,001 – 25,000,000	21%
5.	25,000,001 – 50,000,000	23%
6.	Above 50,000,000	25%

Furthermore, the tax-exempt limit for compensation received for the loss of employment or injury has been substantially raised from N10 million to N50 million.

The Consolidated Relief Allowance (CRA) has been abolished and replaced by a new “rent relief” (lower of ₦500,000 or 20% of annual rent) in respect of employees.

Tax residency rules are clarified: an individual resident in Nigeria will now be taxed on their global income, and non-residents only on Nigeria-sourced income. Residency is determined by “183 days in Nigeria, a permanent home, or significant economic/family ties”.

Gains from digital/virtual assets, prizes, honoraria, grants and other non-traditional sources are now taxable.

Capital Gains Tax (CGT) for individuals is changed: instead of a flat 10%, gains will now be taxed at the individual’s personal income tax rate (up to 25%) and threshold conditions apply.

Targeted Employment and Wage Incentives

The Act uses the tax code to provide temporary economic stimulus focused on job retention and salary support, particularly for the low-income workforce.

Companies can claim an additional deduction of 50% of certain employment-related costs incurred during the 2023–2025 period. This incentive applies specifically to:

·Wage Awards and Subsidies – Salary increases, wage awards, or transport allowances provided to low-income workers (defined as those with gross monthly remuneration not exceeding ₦100,000); and
·Net New Employment – Salaries paid to net new employees hired in 2023 or 2024, calculated over the average number of employees in the preceding three years, provided the new hires are retained for at least three years.

This time-bound incentive structure demonstrates a policy commitment to mitigating economic hardship by encouraging companies to boost employee welfare and expand job opportunities through the tax system, functioning as a targeted stimulus during the economic transition period.

THE CONTROVERSIAL 5% FOSSIL FUEL SURCHARGE

Nigerian startups have to constantly innovate to survive regulatory shifts while staying profitable. When Lagos banned motorbike hailing, Gokada pivoted from transportation to logistics and delivery.

Opay diversified into mobile money alongside its logistics services. Piggyvest, a savings platform, was forced to move its virtual accounts from Providus Bank to Wema Bank after Providus abruptly closed accounts to comply with a 2020 CBN directive ordering a shut down of bank accounts belonging to cryptocurrency operators. Innovating around restrictive regulations has become a defining challenge for tech founders in Nigeria.

Scope and Exclusions

The surcharge applies to chargeable fossil fuel products provided or produced in Nigeria, calculated based on the retail price at the time a chargeable transaction occurs. The stated governmental purpose is twofold: to promote the shift toward cleaner energy and to generate dedicated funding for road infrastructure maintenance.

Crucially, the Act provides strategic exemptions to moderate the surcharge's socio-economic impact and encourage alternatives:

a. Household kerosene;
b. Cooking gas (Liquid Propane Gas – ("LPG"));
c. Compressed Natural Gas ("CNG"); and
d. Renewable energy products.

Socio-Economic and Political Volatility

The surcharge carries significant implementation risk due to its high potential for inflationary shock. As a consumption tax calculated on the final retail price, the levy directly increases the cost of petrol and diesel. Given that fuel underpins nearly all economic activity in Nigeria, from transportation to business operations, this additional cost is highly likely to drive up inflation and the overall cost of living, compounding the severe impact already felt from the 2023 fuel subsidy removal.

This measure has prompted intense opposition. The Trade Union Congress (TUC) has labeled the levy as "economic wickedness" and has issued a strike notice, mobilizing for nationwide resistance.
The administration's ability to generate steady income from this levy, projected to be substantial, hinges entirely on successfully navigating this public resistance. The immediate need for the Minister to publish detailed guidelines on the surcharge's modalities and effective collection procedures is paramount to preventing compliance failure and wider social disruption.

VALUE ADDED TAX (VAT) UPDATES

While the standard VAT rate remains at 7.5%, the scope is revised to promote affordability:

·**Zero-Rated Items** – Essential goods and services, including basic food items, medical and pharmaceutical products, and educational books and materials, are now zero-rated (meaning no VAT is charged), intended to ease inflationary pressure.

VAT Administration and Sharing Formula

The NTA also reviews the distribution formula for Value Added Tax (VAT) revenue, aiming to reflect a broader principle of fiscal fairness across the tiers of government.

The revised VAT distribution is structured as follows:

·Federal Government: 10%;
·State Governments: 55%; and
·Local Governments: 35%.

The allocation of the revenue credited to the state and local governments is further distributed based on a defined formula: Equality (50%), Population (20%), and Place of Consumption (30%).

KEY IMPLEMENTATION & ADMINISTRATIVE REFORMS

A robust tax reform means nothing if implementation lags. Here are important administrative changes:

·The newly established Nigeria Revenue Service (NRS) becomes the sole federal agency for tax collection of federally-chargeable taxes.

·The old mosaic of tax laws (Companies Income Tax Act, Personal Income Tax Act, Petroleum Profits Tax Act, Value Added Tax Act, Capital Gains Tax Act, Stamp Duties Act) are repealed and consolidated into the Nigeria Tax Act 2025.

Tax compliance certificates will be required for firms to obtain regulatory permits/licenses. Tax registration and accurate filing now underpin business certification.

·Penalties for non-compliance have been significantly increased, making tax governance much more important.

STRATEGIC RECOMMENDATIONS AND OUTLOOK

The Nigerian Tax Act 2025 and its associated Acts represent a definitive move toward a modern, internationally aligned, and digitally driven tax system. For MNEs and institutional investors, the changes dictate a proactive and aggressive strategy review prior to the January 1, 2026, effective date.

Key Actions for Multinational Enterprises

1. Mandatory E-Invoicing – Get the new E-Receipt System working immediately. If your company makes over N5 billion annually, the August 1, 2025, deadline for electronic invoicing is mandatory. Since the National Revenue Service (the "NRS") will now use this system to approve your Tax Clearance Certificate in real time, you must dedicate staff and funds right now to permanently link your internal billing software directly to the NRS platform. This connection is not optional; it is now a non-negotiable part of your daily operations.

2. Cost and Contract Review – Update your budgets for the two new levies:

·**Development Levy:** The 4% Development Levy is a significant, unavoidable new cost. Because it is calculated on a pre-depreciation profit figure, it will likely cost your business more than a standard tax. You must factor this increase into all future financial planning; and

·**Fossil Fuel Surcharge:** The 5% Surcharge on fossil fuels will drive up your operating costs. Immediately check all existing supply and distribution contracts to clearly state who—your company or the vendor—is legally responsible for collecting and paying that new 5% surcharge to the government.

CONCLUSION

The Nigeria Tax Act 2025 and accompanying legislation mark a significant turning point in Nigeria's tax regime: simpler architecture, broader tax base, alignment with global standards, and potentially more fairness in tax burden. For individuals earning modest income, there are marked improvements. For businesses and investors, the window of opportunity is real, but so is the need for careful planning and compliance. For Legal Advisors and Tax Consultants, the counsel given to clients must go beyond "what the law is" to "how to align systems, documentation, and structure for compliance".

The consolidation of laws removes ambiguity, but also raises the bar for accurate tax-structuring and cross-border planning. The overall goal of these reforms is to create a predictable and simplified tax environment that improves the nation's revenue collection capabilities while ensuring a fairer distribution of the tax burden.

This Article was written by the Energy, Power, & Natural Resources, Infrastructure & Project Finance, and Real Estate Teams at TOLG Advisors.

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QUARTERLY TGIF HANGOUT

In line with the Firm's resolve to ensure a great work-life balance amongst the teams, a day at the end of the quarter was scheduled to engage in activities other than the regular work schedules to relax, chill and foster fun moments amongst the Staff. Members were able to showcase their talents and enjoy themselves amidst food and festivities.

TOLG KNOWLEDGE SHARING SESSION AND ASK ME SERIES WITH MO

The Firm hosted a Knowledge Sharing Session, which had Mr. Michael Smith in a horizon-widening lecture titled "How to Think Like a CEO from Any Seat". The superb lecture was followed by the "Ask Me Series" session, moderated by our Global Chairman, Mr. Michael Orimobi. Together, these intellectually-engaging series opened the minds and thoughts of staff to emerging possibilities in the areas of investment and corporate best practices.