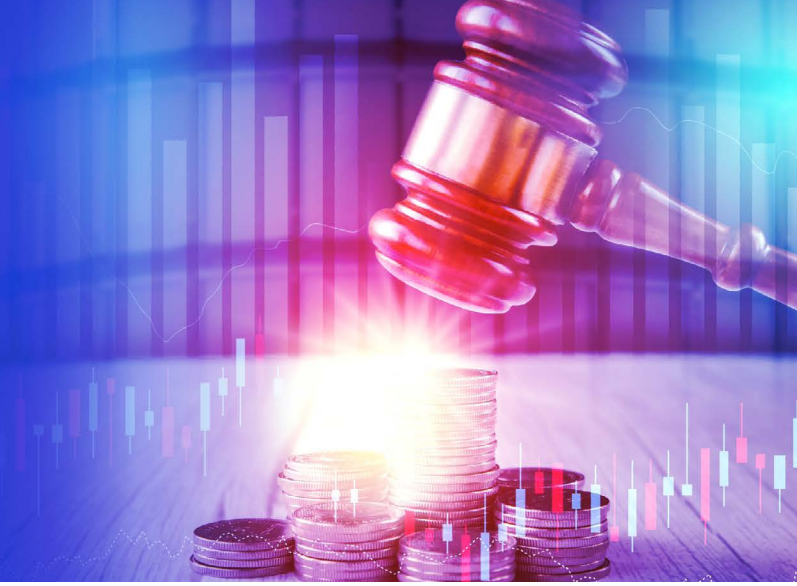
KPMG

The Nigeria Tax Act[1] (NTA), 2025



The Nigeria Tax Act (NTA or "the Act") repeals certain existing tax laws and consolidates the legal framework governing taxation in the country into a single legislation for simplicity and improved tax administration. Consolidating tax provisions into one single document will also help to eliminate overlapping, conflicting or ambiguous provisions that can result in unnecessary complexity and uncertainty. It will, therefore, help to provide a clear and comprehensive view of tax laws in the country and enhance transparency.

The overarching objective of the Act is to streamline Nigeria's tax system by reducing the number of taxes to a manageable single-digit figure. This reform is aimed at enhancing revenue generation, simplifying compliance procedures, and addressing regional disparities in tax administration.

A major thrust of the reform is the elimination of nuisance taxes - those that yield minimal revenue, are costly to administer, and disproportionately affect the poor and small businesses. The focus will now shift to high-yielding and broad-based taxes that are relatively easy to collect. The Act also seeks to merge taxes and levies imposed on the same or substantially similar tax bases to reduce duplication and inefficiency.

To ensure long-term impact, the Act aims to institutionalise tax harmonisation efforts; thereby ensuring that the simplified structure is sustainable across all levels of government. While the reform has been praised for its potential to modernise Nigeria's tax landscape, it has also sparked diverse reactions regarding its possible economic and social consequences.

As majority of the provisions of the existing tax laws are retained in the consolidated Act, this Newsletter will focus on the key changes, their implications for businesses and our recommendations for enhancing their effectiveness to make them align better with global best practices.

Key Changes to Existing Tax Laws

The Act provides that income tax will be imposed on the profits or gains of any company (including chargeable gains[2] hitherto chargeable under the erstwhile Capital Gains Tax Act), income of any individual and income arising, accruing or due to a trustee or an estate. Under the Act, a company can be charged to tax in its own name, principal officer, representative, receiver, liquidator or administrator. The other key changes include:

1. **Clarity in transactions liable to income tax:** The NTA explicitly states that prizes, winnings, honoraria, grants, awards, profits or gains from transactions in digital or virtual assets are chargeable to tax. However, losses incurred from transactions in digital assets would only be deductible from the profits from digital assets business.

   The taxation of digital assets will pose some challenges, and the tax authorities need to rise to these challenges. One obvious challenge is how to correctly value digital assets for tax purposes given market volatilities. In addition, the National Revenue Service (NRS) may struggle to track digital asset transactions and enforce reporting requirements since these assets can be held in a manner that may make it difficult to identify the true owner. This is where international coordination will prove invaluable.

2. **Broadening of the definition of interest:** Interest is defined to include penal interest, foreign exchange difference arising in relation to securities, payment in relation to derivatives or similar payment.

3. **Expansion of definition of dividend:** The definition of dividend for a liquidating company has been expanded to include distributions of a capital nature, which were excluded under the erstwhile Companies Income Tax Act (CITA).

4. **Introduction of the definition of royalty:** Definition of "royalty" encompasses any payments of any kind received or receivable, paid or payable as a

[1] Please note that as of the time of publishing this newsletter, the President has not signed the bill into law.
[2] Chargeable gains will be computed as the difference between net proceeds and tax written down value.

consideration for the use of, or the right to use or exploit any property. Companies should review their royalty agreements to assess their tax footprints.

5. **Taxation of a Nigerian company:** The significant changes in this area include:

   i. **Introduction of Controlled Foreign Corporation (CFC) rules:** The NTA introduces CFC rules to counter profit shifting. Where a foreign subsidiary of a Nigerian company retains profits that could have been distributed without adversely affecting its operations, those profits will be deemed distributed and taxed in Nigeria. This eliminates the deferral advantage sometimes used in tax planning and strengthens Nigeria's ability to tax offshore profits that economically belong to Nigerian entities.

   ii. **Anti-base erosion through minimum Effective Tax Rate (ETR):** The NTA also adopts a top-up tax mechanism aligned with the OECD's BEPS Pillar 2 framework. If a foreign subsidiary of a Nigerian company (or a group member) pays less than the minimum ETR of 15%, the Nigerian parent must pay the shortfall. This provision discourages the use of low-tax jurisdictions for profit shifting and ensures a fairer allocation of taxing rights to Nigeria.

   These measures enhance the robustness of Nigeria's tax system by addressing tax avoidance strategies, protecting the domestic tax base, and aligning with international best practices on BEPS.

6. **Taxation of Non-Resident Persons (NRPs):** In determining the total profits, only expenses incurred in producing the profits attributable to the permanent establishment in Nigeria will qualify for deduction. However, no deduction will be allowed in respect of royalty, fees, or similar payments in return for the use of patents or other rights. Where the total profits of a NRP cannot be ascertained, the NRS shall apply the applicable profit margin to the total income generated from Nigeria. However, the tax payable by any NRC will not be less than the tax withheld at source. If the NRC does not have any income liable to withholding tax, the tax payable shall not be less than 4% of the total income generated from Nigeria. The profit (based on earnings before interest and tax) shall be established from the published financial statements. However, where the financial statements are not available, the NRS shall determine the profit margin based on that of a comparable company.

7. **General principles for tax deductibility:** Section 20 of the NTA outlines the types of expenses that may be deducted when determining taxable profit. Subsection (1) specifically states that such expenses must be "wholly and exclusively incurred in the production of income" to qualify for deduction. The erstwhile additional principles of 'reasonably' and 'necessarily' incurred are no longer applicable. The elimination of these 2 principles will greatly help in managing disputes and controversies between taxpayers and tax authorities that often result from whether an expense is reasonable and or necessary.

   Also, Section 20 (4) states that an expense incurred in a currency other than the naira may only be deducted to the extent of its naira equivalent at the official exchange rate published by the Central Bank of Nigeria (CBN) for the relevant date or period. We do not believe that this is necessary given that the CBN has implemented a tracking and monitoring initiative to discourage speculative bidding, and it seems to be working. If there is inadequate supply of foreign exchange, businesses will have no choice but to resort to alternative means of sourcing foreign exchange. The NRS should only focus on substantiating the payments made in respect of forex transactions.

   The NTA also provides, in Section 21 (p), that any expense on which VAT has not been charged or the relevant duty paid will not qualify for tax deduction.

8. **Proration of capital allowances:** Capital allowances will only be prorated where the non-taxable income constitutes 10% or more of the total income of a company. It should be noted that only straight-line allowances are now applicable. Initial allowances have been eliminated.

9. **Introduction of rent relief:** The NTA eliminates the Consolidated Relief Allowance (CRA) and introduces a rent relief under Section 30(vi), which is 20% of annual rent paid, subject to a maximum of ₦500,000, whichever is lower. However, to claim this relief, declarations must be made regarding the actual rent paid, and the tax authority has the right to request additional relevant information. The takeaway from this is that individuals that live in their own accommodation cannot claim such relief. This begs the question of why the CRA has not been retained.

10. **Chargeable gains and assets:** According to Section 34 of the NTA, chargeable assets include all types of property, including shares, options, rights, debts, digital assets, intangible property, and foreign currencies. However, gains from selling shares in Nigerian companies are not taxable if:

    - the sale proceeds are less than ₦150 million, and the chargeable gain does not exceed ₦10 million within 12 consecutive months
    - the shares are transferred between approved parties in a regulated Securities Lending Transaction.
    - the proceeds from disposal are reinvested within the same assessment year in shares of Nigerian companies. However, the portion not reinvested will be taxed.

11. **Rates of tax for companies:** Section 56 of the Act stipulates that small companies (***companies that earn gross turnover of ₦100m or less per annum and with total fixed assets not exceeding ₦250m***) and large companies be subjected to tax at 0% and 30% respectively. The 30% rate for large companies can be reduced to 25% effective from a date as may be determined in an Order issued by the President on the advice of the National Economic Council.

12. **Effective Tax Rate (ETR):** Section 57 of the NTA introduces an ETR of 15% of net income of a company. The NTA defines net income as the profits before tax as reported in the Audited Financial Statements (AFS) excluding franked investment income and unrealised gains and losses.

    This provision applies to companies with turnover exceeding ₦50 billion, and companies that are part of a multinational enterprise (MNE) group with an aggregate turnover of at least €750 million or its equivalent. This 15% ETR aligns with the OECD Pillar II framework, which mandates a top-up tax to ensure that large multinational groups with a turnover exceeding €750 million or its equivalent pay tax at an ETR of 15% on the income generated in each jurisdiction they operate in.

    The provision specifies that, for the purpose of a life insurance company, the net income will not include gross income and investment income for policyholders. The ETR provisions will not apply to licensed entities within the free trade zones except with respect to sales within the customs territory or if the entity is a member of an MNE group with an aggregate turnover of at least €750 million or its equivalent.

13. **Rates of tax for individuals:** Section 58 of the Act introduces a tax-exempt threshold of N800,000 and increases tax rates for high income earners. The new tax rates range from 0% to 25%. The Fourth Schedule of the Act, reproduced in the table below, shows the tax bands and rates:

Proposed Tax Band	Proposed Rate
First N800,000	0%
Next N2,200,000	15%
Next N9,000,000	18%
Next N13,000,000	21%
Next N25,000,000	23%
Above N50,000,000	25%

    The revised structure introduces a more progressive tax system by providing significant relief to low-income earners and ensuring that higher income earners contribute a larger share of their income.

14. **Introduction of a development levy:** Section 59 of the NTA consolidates other taxes and levies currently being paid by companies (such as Tertiary Education Tax, Nigeria Police Trust Fund, National Information Technology Development Agency (NITDA) Levy, National Agency for Science and Engineering Infrastructure (NASENI), etc.). The provision levies a flat rate of 4% on companies' (other than small companies and non-resident companies) assessable profit. This tax is also not imposed on assessable profits calculated for hydrocarbon tax purposes.

15. **Taxation of approved entities in free trade zones:** Section 60 and the Second Schedule of the Act provide that the profits of an entity operating within an Export Processing Zone (EPZ) are exempt from tax, subject to certain conditions. The exemption applies where:

    - All the entity's total sales arise from the export of goods or services, or from the supply of inputs used exclusively in the production of goods or services for export;
    - No more than 25% of the entity's total sales are made to the customs territory in Nigeria; and
    - Any such sales to the customs territory are made to persons engaged in upstream, midstream, or downstream petroleum or gas operations.

    Where more than 25% of the sales are to the customs territory, tax will be applicable on the profits of the entity in respect of its total sales to the customs territory. However, effective from 1 January 2028, an entity will be fully liable to tax in respect of sales to the customs territory regardless of the percentage of the sales.

16. **Input VAT claim:** The scope of recoverable input VAT has been broadened to include VAT incurred on services and fixed assets, provided that such supplies are consumed, utilised, or supplied while making taxable supplies.

17. **Fiscalisation of supplies for VAT:** Section 157 of the NTA mandates taxable persons to implement the fiscal tools that may be deployed by the tax authority, which may include electronic devices, software solutions, for electronic invoicing and data transfer. Section 23 of the Nigeria Tax Administration Act mandates any person making taxable supplies to adopt any Electronic Fiscal System (EFS) for recording and reporting transactions when the NRS implements such a system. A notable example of the EFS that has been introduced by the NRS is the VAT automation and e-invoicing system.

18. **Obligation to stamp and pay related duty:** Section 125 requires the transferee of an interest in real property, the beneficiary of a service for which consideration was paid, or any other person taking security in a transaction for which an instrument is executed, to stamp the related instrument within 30 days of its execution and to pay the duty applicable to the transaction. This will go a long way in resolving the issue of who is responsible for the payment of duty in certain instances.

19. **Stamp duty on loan capital:** Section 136 provides that the loan capital of any company will be liable to ad valorem tax. The NTA has defined loan capital to include debenture stock, other stock or funded debt whatever name known, or any debt raised by any corporation, company or body of persons formed or established in Nigeria but excluding an overdraft, loan obtained for a period not exceeding 12 months. The key takeaway from this is that any loan with a duration of more than 12 months will now be subject to stamp duty.

20. **Imposition of surcharge:** Section 158 imposes a 5% surcharge on chargeable fossil fuel products provided or produced in Nigeria and this shall be collected at the time a chargeable transaction occurs. The computation shall be based on the retail price while the NRS will collect the surcharge monthly. However, the surcharge will not apply to clean or renewable products, household kerosene, cooking gas (LPG) and compressed natural gas (CNG).

21. **Tax incentives:** The Act introduces several tax incentives, such as:

    - Income generated by companies engaged in agricultural businesses, including crop production, livestock, aquaculture, forestry, dairy, cocoa processing and manufacturing of animal feeds will be exempt from income tax for the first five (5) years from commencement of business.
    - A company will be entitled to an additional deduction of 50% in the relevant years of assessment in respect of costs incurred in any 2 calendar years from 2023 to 2025 with respect to the following:
        - wage awards, salary increases, transportation allowance or transport subsidy granted to a low-income worker that bring the gross remuneration of such worker to an amount not exceeding ₦100,000. However, any award or salary increase to any worker earning above ₦100,000 shall not qualify.
        - salaries of any new employees that constitute a net increase in the average number of new employees hired in 2023 and 2024 calendar years over and above the average net employment in the three (3) preceding years, provided that such new employees are not involuntarily disengaged within a period of 3 years post-employment. Net employment is defined as the total number of persons employed less the total number of persons disengaged during the calendar year, irrespective of whether the disengagement is voluntary or not.

Other incentives include:

- **Deduction for research and development:** The deduction to be allowed under Section 164 of the NTA has now been adjusted to 5% of a company's turnover for the year. This represents a significant deviation from the provision under CITA, which allowed a deduction of 10% of total profits. The implication is that companies now have a broader base of 5% of turnover, as opposed to total profits, from which they can commit funds to research and development activities. The NTA also provides that where a company that has enjoyed this deduction transfers or sells the outcome of the research and development to another person, the proceeds from the sale or transfer shall be taxable.
- **Economic Development Incentive (EDI):** The NTA repeals the Industrial Development Act and replaces the Pioneer Status Incentive (PSI) with the EDI under Part II of Chapter 8 of the NTA. The scheme introduces a targeted incentive regime aimed at stimulating capital investment in defined priority sectors. To qualify for this incentive, the Qualifying Capital Expenditure (QCE) to be incurred by the company on or before production day (i.e. the date

commercial production commences) must meet the minimum investment threshold as outlined by sector-specific thresholds in the Ninth Schedule.

The list of priority sectors is like the PSI list with some notable inclusions such as the manufacture of renewable energy equipment, while telecommunications and e-commerce have been excluded, reflecting government views on their maturity. Sector-specific minimum investment thresholds and sunset periods now apply, making the regime more performance-driven. The previous rule requiring PSI applications to be submitted within one year of commercial production has been removed and replaced with a focus on prioritising the scale and commitment to invest in QCE prior to or on the production day. Applications can be made by existing companies or promoters of proposed companies (not yet incorporated) to foster timely submissions. However, where approval is granted to a proposed company, incorporation must occur within three months of the approval notice.

The Nigerian Investment Promotion Commission (NIPC) is specifically designated to receive applications and submit recommendations, including a projected tax expenditure impact, to the Minister of Industry, Trade and Investment. This is to ensure a structured and transparent application process. Following the NIPC's recommendation, the Minister is to seek Presidential approval, which is now explicitly required under the Act. While this structure promotes accountability, requiring Presidential sign-off on each application may introduce bureaucratic delays.

The NTA also replaces the complex and costly fee structure[3] under the PSI regime with a more equitable model of 0.1% fee on QCE, capped at ₦5million payable each to the NIPC and the Industrial Inspectorate Department (IID). In essence, the maximum fee payable to the NIPC and IID is ₦10million.

Eligible companies are issued Economic Development Tax Credit (EDTC) of 5% per annum on each QCE acquired during the 5-year priority period, effective from the production date. The EDTC can be used to offset the tax payable for any year of assessment during the priority period, excluding ETR adjustments. Unused EDTC can be carried forward for a maximum of an additional 5 years, after which it will lapse.

The introduction of the EDTC marks a fundamental change to how PSI regime was structured. While the PSI offered a full income tax exemption during the pioneer period, the EDTC introduced a more limited and targeted incentive. This pivot reflects a move from blanket tax holidays to a performance-based incentive model linked to actual capital investment and economic activity.

Some of the key differences in the structure of the 2 schemes include the following:

S/N	Indicator	EDI (NTA)	PSI (IDA)
1)	Corporate Tax Treatment	Subject to CIT at 30%.	Full CIT exemption on PSI activities during pioneer period
2)	Capital allowance	Claim capital allowance on QCE during the incentive period, supported by a certificate of acceptance issued by the IID.	Deferred until post -pioneer period.
3)	Tax losses	Can be utilised during the incentive period subject to conditions.	Net loss (aggregate of loss and profit) can be carried forward to post pioneer period.
4)	Development Levy/ Tertiary Education Tax	EDI companies are liable to development levy.	PSI companies are exempt from Tertiary Education Tax.
5)	WHT deduction on income	EDI companies' income may be exposed to WHT deduction on the basis that EDI companies are taxable, although eligible for EDIC. The WHT regulations specify that any payment in respect of profit that is exempt from income tax is exempt from WHT. The potential WHT deductions could significantly affect the cash flow.	PSI companies' income is exempt from the deduction of WHT.
6)	Dividend distribution	Subject to WHT.	Exempt from WHT subject to conditions.

[3] Registration: ₦150,000
- Application: ₦500,000
- Due diligence: ₦1,000,000
- Service charge deposit: ₦3,000,000
- Annual service charge: 1.5% of actual pioneer profits

The restructured EDI framework is expected to enhance transparency around tax expenditures and revenue forgone. Companies will need to conduct a cost benefit analysis, particularly in relation to their planned capital expenditure investments.

Section 170(3) of the NTA provides for a one-time five-year extension of the EDI certificate, bringing the total incentive period to a maximum of 10 years, on the condition that the company reinvests 100 percent of the profits earned during the initial incentive period into the expansion of the same product(s). However, the Act does not state whether the 5% credit will apply during this extended period. Given that the tax credit is the only benefit that accrues to priority sector companies, it seems reasonable to expect that it will apply during the extension period. However, this needs to be clarified to avoid unnecessary dispute.

This provision appears to support expansion projects undertaken by existing Economic Development Incentive Certificate (EDIC) beneficiaries for the purpose of EDIC extension, to the exclusion of non-EDIC brownfield expansion projects. Therefore, the previous requirement to route applications to the President for preliminary review and approval for this category of expansion projects may continue though it may potentially introduce bureaucratic delays.

Other notable points under the EDI include:

- **Production day & QCE:** Section 172 of the NTA defines production day and QCE. These provisions are critical in determining the commencement of the EDI and the quantum of capital investments eligible for tax credits. The Section prescribes clear timelines for submitting applications. Notably, IID is mandated to issue a certificate within 14 days of inspecting the relevant assets, certifying QCE incurred prior to the production day and during the priority period.

  The inclusion of a 14-day issuance timeline is commendable and mirrors Executive Order 001, which allows applicants to escalate to the Minister for the issuance of any certificate, in evidence of grant, within 14 days of lapse of the MDA's stipulated timeline.

  The pre-production certification is crucial, as only verified capital investments count towards meeting the minimum investment threshold required to retain the EDIC. Failure to meet this threshold could result in revocation of the EDIC. Proper certification can unlock significant tax credits.

  However, there appears to be a potential conflict in the responsible authority for issuing the QCE certificate. While Section 172(3) requires companies to apply to the Service to certify the QCE incurred pre-production day, Section 172(6) transfers the responsibility for issuing the certificate to the IID. Under the PSI regime, this function resides with the FIRS. It will be important for this discrepancy to be clarified to avoid disputes between the authorities.

- **Record-keeping:** The NTA mandates separate record keeping for priority and non-priority operations, audited independently. Failure to comply will result in all income being treated as non-priority, disqualifying the company from tax credits. In addition to annual tax returns, there is a requirement to submit annual tax incentives returns to the relevant tax authority in the form prescribed by the Service covering income tax and any incentive other than those that are generally available.
- **Transitional provisions & anti-avoidance:** Section 184 prohibits double-dipping as companies granted the EDTC are barred from accessing similar incentives under any other law. However, businesses currently benefiting from the PSI may continue for the remainder of their approved period. Likewise, EDI benefits granted before a sector's sunset date remain valid until expiry.
- **Sunset clause:** The NTA introduces a "sunset" mechanism setting a definitive end date after which a sector or activity will no longer qualify for EDI, ensuring periodic review and relevance of tax incentives. This is a significant improvement, as the absence of definite timelines under the previous regime led to uncertainty. While the former framework allowed for periodic review and deletion from the PSI list (i.e., manufacture of cement), the processes for these were sometimes unclear.
  - **Rescoping the VAT exempt and zero-rated supplies in Nigeria:** Sections 185 to 187 of the Act outline the items that constitute exempt supplies and taxable supplies chargeable at the rate of zero percent[4]. (Please refer to the stated sections for the full list of items).
  - **Explicit provision for tax asset transfer:** Section 189 of the NTA allows for the transfer of unutilised capital allowances, unabsorbed losses, and unutilised withholding tax credits from merging entities to the surviving entity in the event of a merger. Unutilised capital allowances shall be available for use by the surviving entity.

Commentary

Tax reforms are essential for several reasons, such as revenue generation, simplification and efficiency, fairness and equity, economic growth, improved tax administration, adaptation to evolving economic conditions, and the need to combat tax evasion and avoidance. It must be noted that consolidating tax provisions into one single legislation promotes coherence and consistency in tax policy, thereby reducing the risk of unintended consequences and enhancing tax administration.

The decision to repeal the payment of minimum tax by loss-making companies should be applauded. The erstwhile provision amounts to double jeopardy for such companies. Bad times could adversely affect the fortunes of a business. It would, therefore, be punitive to charge

[4] *Zero-rated supplies are goods, services and incorporeal properties that are subject to VAT at a rate of 0% instead of 7.5%. While VAT-exempt supplies are goods, services or incorporeal properties that are not subject to VAT. Taxpayers can recover the input VAT they incur on their purchases against their zero-rated supplies but cannot do same for exempt supplies.

the affected companies to tax in the circumstances as this would have to be paid from their capital in the absence of profits. In this regard, we commend the authorities for their ongoing efforts to enhance the efficiency of tax administration in the country.

Overall, the NTA appears to have significantly broadened the tax base to ensure that a wider range of economic and business activities are brought within the tax net. This expansion may lead to some increase in the government's tax revenue. However, it is doubtful how significant the impact on government revenue will be given some of the incentives in the Act. Only time will tell.

However, certain potential concerns still arise from the provisions of the Act and these need to be addressed:

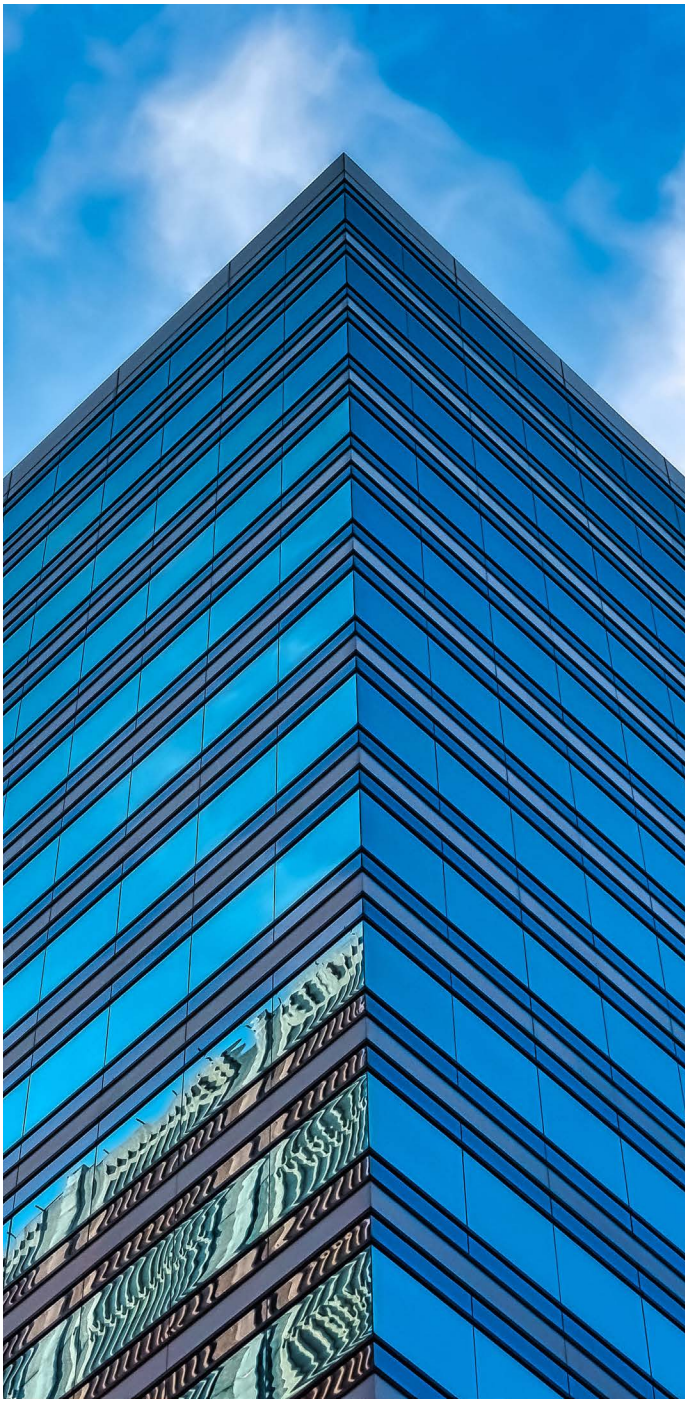
- **Forex Challenges:** Section 20(4) states that expenses incurred in a currency other than the naira may only be deducted to the extent of its naira equivalent at the official exchange rate published by the CBN. This implies that where a business buys forex at a rate that is higher than the official rate, such company cannot claim tax deduction for the difference in value between the official and the other rates. The intention is to discourage speculative foreign exchange transactions and encourage the appreciation of the naira. However, issues surrounding the accessibility of all forex needs due to supply problems have not been considered. Companies are forced to buy forex from other sources that sell at rates higher than the official rates. This is done in a bid to sustain their businesses. This provision appears to be a penalty for businesses that simply want to keep operations going. If the CBN could meet all forex needs, no one would need to go to other sources. With the current state of the economy, focus should be on improving liquidity and introducing stricter reporting requirements to track and monitor foreign exchange transactions. The electronic monitoring and tracking system recently introduced by the CBN should be commended and given sufficient time to work. It is also important that there should be effective coordination between the monetary and fiscal policies.
- **Expenses on which VAT is Due but was not Charged will not Qualify as an Allowable Deduction:** Section 21 of the NTA lists items that do not qualify as allowable deductions. Section 21 (p) includes expenses on which VAT has not been charged. This means that such expenses will not be considered allowable tax deductions even when those expenses have been validly incurred for business purposes. This implies that a company could be held accountable for any inaction or non-performance by its suppliers or service providers. While the defaulting service providers may eventually be required to pay the VAT during an audit or investigation, the company will have already been denied the ability to claim a deduction for the related expense.
- **Introduction of Development Levy (DL):** One major drawback with the introduction of the levy is that certain categories of companies that were previously exempt from payment of some of the separate earmarked taxes by virtue of the nature of their businesses are now liable to pay the DL, subject to the exemptions listed in point 14 above. For example, the NASENI levy only applied to the profit before tax (PBT) of commercial companies and firms with a turnover of ₦100,000,000 and above, covering the banking, mobile telecommunication, ICT, aviation, maritime, oil and gas sectors. However, the DL, which includes the NASENI levy, is now payable by all companies other than small companies and non-resident companies.
- **Rent Relief Versus Economic (Rent) Reality:** The figure/rate proposed does not reflect the reality of the current economic climate in Nigeria and its effects on housing. This is considering rental prices in

major cities, including Lagos and Abuja, where rent is usually significantly higher, and formal employment is predominant.

There are some aspects of the rent relief scheme that require clarification on the modalities for application.

For instance:

- Given that rent may be paid at different dates in 'a year', on what basis would the rent relief be computed? For example, what portion of the annual rent would be granted as relief for rent paid in the month of May for a particular year?
- Would homeowners claim the relief?
- Do employees require the relevant tax authority's approval before claiming the relief?



- **Fiscalisation of VAT:** Although the fiscalisation requirement is expected to enhance VAT compliance and reduce tax evasion, the proposed fiscalisation system raises concerns on cybersecurity threats, data protection and privacy, compliance and associated costs to taxpayers, etc., if not properly checked/managed. The tax authorities will need to provide robust security measures to ensure taxpayers' confidence, regular training and orientation of taxpayers. Most importantly, there should be flexible compliance options to minimise financial and operational burdens on taxpayers. The policy may present challenges for small and medium-sized enterprises (SMEs), which may then need to purchase ERPs (if they don't have one already) that will seamlessly plug into the EFS of the tax authorities. The purchase of these ERPs may require a significant capital outlay from these SMEs. It is, therefore, important that, in designing an EFS, the tax authorities adapt the EFS to easily plug into the ERPs common to both big and small businesses.
- **VAT Payment with Subsequent Refund Process:** A person whose supplies are taxed at a 0% VAT rate must still pay VAT on any taxable goods or services used in producing those supplies. They can later request a refund for the VAT they have paid. The process can create cash flow issues, particularly for small businesses that may struggle with the upfront costs of VAT payments before receiving the refund. Also, the administrative burden of filing for VAT refunds can be complex and time-consuming, potentially discouraging compliance or leading to delays in refund processing, especially as there is no interest and/or penalty if the NRS cannot refund within the stipulated timeline.
- **Economic Development Tax Credit:** The NTA provides a tax credit of 5% per annum for QCE acquired within 5 years from the production date. While this incentive is designed to encourage companies, the 5% tax credit may be perceived as insufficient. For instance, a QCE of ₦100million is entitled to a tax credit of only ₦5million (i.e. 5% of the QCE). This limited rate of relief may not provide a strong enough financial motivation, potentially discouraging investors. Consequently, companies may find the incentive less attractive compared to the PSI scheme which could impact the scale of investment in Nigeria. Consequently, Government may want to consider applying preferential tax rate to priority sector companies. The grant of tax holiday is no longer popular. Government may, therefore, consider a lower rate of between 20%-25% for such companies.
- **Establishment of an Independent Fiscal Watchdog:** It is high time that Nigeria established an independent fiscal watchdog that would be saddled with the responsibility of preparing analysis of the implications of proposed fiscal policy decisions, including projections for tax expenditure and savings from any proposed tax or incentive. This will

increase transparency and accountability in fiscal policy making by providing an independent and objective analysis. The proposed watchdog should perform similar role as that of the Office for Budget Responsibility in the UK. Currently, the country does not provide any tax expenditure for proposed incentive though the Fiscal Responsibility Act specifically demands this. We also do not have any reliable estimate of how much a new tax will deliver to the coffers of government.

- **Transition Period for Commencement of the Act:** It is likely that the President will assent to all the tax reform Bills in June given that the National Assembly has now harmonised the positions of the Senate and the House. The current Administration has consistently applied a 3-month transition window in the commencement of the Acts already introduced. We believe that this window is limited and will always result in disruptions to businesses given the pressure to adapt current systems and processes to comply with the revised tax laws. This urgency has, in many instances, resulted in compliance gaps and operational inefficiencies. It has also created unnecessary, but avoidable, disputes between tax authorities and taxpayers on the application of the provisions of the relevant laws.

  We, therefore, propose that the transition period for any new tax law be extended to one year to support a seamless implementation. This period will allow for a better understanding of the amended tax rules, timely updates to taxpayers' accounting systems to reflect the changes, minimal disruption to business operations, and improved compliance. It will also align with global best practices adopted in leading economies. Specifically, for the Tax Reform Acts, we recommend a commencement date of 1 January 2026.

Overall, the consolidation of all tax provisions into a single legislation is a step in the right direction. While some of the provisions have the potential to transform the economy, there are others, as highlighted above, that the government needs to revisit. Though the Act may not be a perfect one, it is a good way to start. It now boils down to implementation and enforcement of the provisions of the Act. However, in enforcing the provisions of the Act, the intention must be to enhance voluntary compliance. Consequently, tax authorities must strike a balance between enforcement and offering the required support and assistance to taxpayers. Tax laws must be enforced consistently and fairly while ensuring that penalties are proportional to non-compliance. With these, tax authorities will create a more positive taxpayer experience.

For further enquiries, please contact:

Adewale Ajayi

ng-fmtaxenquiries@ng.kpmg.com