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An appraisal of the innovations of the Nigerian tax act 2025 on Companies Income Tax (Cit)

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Abstract
Government is facing a lot of challenges in providing public services and infrastructures. Taxation is one of the most important channels that government employed to generate revenue for public purposes. However, legal and institutional framework for taxation has been plagued by several problems that negatively affect the generation of revenue in Nigeria. Government loses a huge amount of revenue as the result of such problems. To block such lacunae in the provisions of laws governing the taxation in Nigeria, four reform legislations have been recently enacted in 2025 by the National Assembly. Nigeria Tax Act (NTA), No.7 is one of them. The main objectives of the reform were to provide a unified tax legislation, provide uniform procedure for the administration of tax, facilitate tax compliance, provide for a legal and institutional framework for harmonization and coordination of revenue administration and provide for an efficient mechanism for settlement of disputes connected to tax matters in Nigeria. Corporate tax is one of taxes collected by the Federal Government in Nigeria. It is presently governed by the NTA, No.7, 2025 which incorporates several changes aimed at broadening the tax base, increasing compliance, and fostering economic growth. The aim of this article is to make a comprehensive appraisal of the innovations introduced by the Act. It was found that there are several reforms introduced by the Act of which inter alia include unified structure of tax legislation, Minimum Effective Tax Rate (METR) and anti-avoidance measures. It was therefore recommended that for a successful implementation of the innovations introduced by the NTA there is a need for a robust administrative capacity and consistent judicial interpretation. Nigerian Revenue Service (NRS) must therefore invest in technology and human capital to administer these provisions effectively.

Keywords: Innovation, reform, tax regime, e-commerce, capital allowance

Introduction

The enactment of the Nigeria Tax Act, 2025 (NTA 2025) [1] and the Nigeria Tax Administration Act, 2025 (NTAA 2025) represents a watershed moment in Nigeria's fiscal legislative framework. Effective from January 1, 2026, these comprehensive statutes have consolidated and repealed over ten previously disparate tax laws, including the Companies Income Tax Act (CITA), Capital Gains Tax Act (CGTA), Petroleum Profits Tax Act (PPTA), and Value Added Tax (VAT) Act among others. This legislative consolidation seeks to streamline Nigeria's tax architecture, enhance compliance, and align the country's fiscal policies with contemporary global standards. This article critically examines the innovative provisions introduced by these reform laws, particularly focusing on their impact on the assessment of companies tax in Nigeria.

Innovations of the NTA on CIT

The Nigeria Tax Act 2025 introduces many innovations so as to enhance compliance and improve revenue generation to enable government perform its essential functions of providing public services and infrastructures. These innovations inter alia include -

1. Consolidation and Unified Framework

Perhaps the most significant innovation is the consolidation itself. Prior to the NTA 2025, companies operating in Nigeria navigated a complex tax structure governed by multiple statutes with overlapping and sometimes conflicting provisions. Section 196 of the NTA 2025 expressly repeals twelve Acts. These are the CGTA [2]; Casino Act [3]; CITA [4]; Deep offshore and Inland Basin Act [5]; Industrial Development (Income Tax Relief) Act (IDITRA) [6]; Income Tax (Authorised Communications) Act (ITACA) [7]; Personal Income Tax Act (PITA) [8]; PPTA [9]; Stamp Duties Act (SDA) [10]; Taxes and Levies (Approved List for Collection) Act (TALALCA) [11]; VAT Act [12]; and Venture Capital (Incentives) Act (VCIA) [13].

Thus, it is clear from the above that CITA is one of the legislations abolished by the NTA. Accordingly, the Act has created a unified legislative framework. This mirrors the approach adopted in jurisdictions like South Africa with its Income Tax Act of 1962, which has undergone continuous consolidation to enhance clarity.

The NTA 2025 provides that the Act "shall take precedence over any other law with regards to the imposition of tax, royalty, levy, surcharge on services and fossil fuel or any other tax." [14] This supremacy clause eliminates the jurisdictional conflicts that previously plagued tax administration in Nigeria, as witnessed in the case of Attorney-General of Lagos State v. Eko Hotels Ltd [15] where conflicts arose regarding which tax authority had jurisdiction to assess certain taxes. [16]

2. Corporate Tax Rates

The NTA has revised the rates of tax imposed on companies in Nigeria. Thus, it provides that the tax is levied for each year of assessment in respect of total profits of every company. It then classifies companies for tax purpose into small company and other companies. Accordingly, a small company is taxed at the rate of 0% and other companies at the rate of 30%. [17] The Act clarifies the phrase "small companies" as companies that earns gross turnover of ₦100,000,000 or less per annum with total fixed assets not exceeding ₦250,000,000. [18] This represents a radical departure from the previous regime under the CITA where all companies were at a particular time subject to a flat rate of 30%. It is designed to encourage small business growth. This is a welcome development for it encourage more people to establish and invest in such companies. Thus, for any other company other than small one as defined by the Act, the standard rate remains 30%. However, the Act introduces an innovative Minimum Effective Tax Rate (METR) of 15%. [19] This rate is only applicable to companies that are constituent entities of Multinational Enterprise (MNE) groups or companies with aggregate turnover of Twenty Billion Naira (₦20,000,000,000) and above. This provision aligns Nigeria with the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) Pillar Two, which establishes a global minimum corporate tax rate of 15%. The essence of the provision of METR is to ensures that highly profitable companies cannot reduce their effective tax rate below 15% through aggressive tax planning. It is noted in case of Mobil Producing Nigeria Unlimited v. FIRS, [20] that tax avoidance schemes that exploit loopholes in legislation have cost Nigeria substantial revenue. The METR provision addresses the problem of tax avoidance perpetrated by companies particularly multinationals through manipulating loopholes in provisions of tax legislation. It therefore requires companies to recompute and pay an additional tax that makes its effective tax rate equal to 15% where their actual rate falls below this threshold.

3. Enhanced Capital Allowance Regime

The First Schedule to the NTA 2025 introduces a simplified capital allowance structure that replaces the complex system under the old CITA regime. Assets are now classified into three categories with straight-line depreciation rates:

1. **Class 1 (10%):** Buildings, agricultural expenditure, masts, intangible assets, and heavy transportation equipment

2. **Class 2 (20%):** Plant, agricultural equipment, furniture and fittings, mining expenditure

3. **Class 3 (25%):** Motor vehicles, software, and other capital expenditure

It should be noted that paragraph 6 of the First Schedule provides that capital allowance shall be granted at these rates until the asset is disposed, with a notional 1% retained for statistical purposes. This innovation eliminates the previous Investment Tax Credit and Investment Allowance schemes, which were often criticized for their complexity and susceptibility to abuse. [21]

The new regime also addresses assets acquired in foreign currency. The Act therefore excludes this type of assets from being part of the qualifying capital expenditure. Thus it clearly provides for the exclusion of "excess amount incurred on assets acquired in foreign currency and paid for with foreign currency obtained from the unofficial foreign exchange market at a rate above the prevailing official market rate." [22] The rationale behind this provision is to combat capital flight and exchange rate manipulation by the companies which negatively affects the total amount of tax revenue generated by the government.

4. Development Levy

The Act [23] also introduces a 4% Development Levy on the assessable profits of all companies (except small companies and non-resident companies), replacing the previous Education Tax of 2.5% under the Education Tax Act. The levy's proceeds are distributed among various development agencies including the Tertiary Education Trust Fund (50%), Nigerian Education Loan Fund (15%) and Defence and Security Infrastructure Fund (10%).

The Fourteenth Schedule provides a detailed allocation mechanism for the Defence and Security Infrastructure Fund, distributing resources among various security agencies. This earmarked taxation approach ensures direct linkage between tax revenue and specific developmental outcomes.

For petroleum operations, the Act maintains differentiated taxation with Hydrocarbon Tax rates of 30% for selected petroleum mining leases and 15% for new licenses. [24] Further, the Act innovates production-based royalties ranging from 5% to 15% depending on terrain and production volumes, alongside price-based royalties that scale with crude oil prices. [25] The aim of this innovation is to capture windfall profits during price booms.

5. Transfer Price at Arm's Length

This refers as the price charged in a transaction between related parties such as subsidiaries of a multinational that matches the price that would have been agreed upon between unrelated and independent parties under similar circumstances. The Act codifies arm's length principles for transactions between related parties, requiring companies to "ensure that the terms and conditions for which the arrangement is carried out at arm's length." [26] This is part of the OECD Guidelines to block multinational corporation from utilizing it to minimise their tax liability or avoid the payment of tax. This mandatory compliance with the OECD Transfer Pricing Guidelines addresses the revenue leakages that occur in the event of transfer mispricing that leads to a significant tax underpayment.

The Act also imposes restrictions on interest deductibility for related-party debt, limiting deductible interest to 30% of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). [27] This rule prevents multinationals from artificially loading Nigerian subsidiaries with debt to shift profits to lower-tax jurisdictions. This is a condemnable practice. It has negative impact on condemned.

6. Economic Development Tax Incentives (EDTI)

Economic development tax incentives are financial benefits provided by governments to attract business investment, stimulate job creation, and drive economic growth. These tools are often targeted at sectors like manufacturing, technology, and agriculture to reduce operational costs and enhance competitiveness.

The Act introduces a comprehensive Economic Development Incentive regime, replacing the Industrial Development (Income Tax Relief) Act. The Tenth Schedule lists priority sectors including renewable energy, pharmaceutical manufacturing, mining, and agricultural processing, each with specific capital investment thresholds and sunset periods ranging from 10 to 20 years.

The Act also provides that qualifying companies receive tax credits equal to 100% of their tax liability during the incentive period, with unused credits carried forward for five years. [28] It is pertinent however, to state that the Act [29] subjects these companies to the 15% METR. This is to ensure minimum revenue collection while providing substantial incentives at the same time. To centralise the grant of the incentive and prevent the proliferation of tax holidays that characterized the previous regime, the Act requires a presidential approval. [30]

7. Significant Economic Presence and E-Commerce

The concept of "significant economic presence" for non-resident companies that transmit signals, data, or engage in e-commerce, digital content services, or cloud computing targeting Nigeria has been introduced by the Act. [31] This provision, inspired by the OECD's Action 1 on Digital Economy taxation. The objective of this provision is to addresses the challenge of taxing income multinational companies generated from e-business or digital transactions. The provision empowers the Minister to issue regulations specifying activities constituting significant economic presence, providing flexibility to adapt to rapidly evolving digital business models. This contrasts favorably with the limited scope of the previous Significant Economic Presence Order 2020, which covered only specific digital services.

8. Business Restructuring

The Act equally introduces comprehensive rules governing business restructuring, distinguishing between mergers (where unutilized losses and capital allowances transfer to the surviving entity) and asset sales (where they do not). [32] Additionally, the Act provides that in mergers, assets of the merging trades or businesses shall be deemed to have been transferred at the residue of the qualifying capital expenditure on the day following the merger. This innovation encourages corporate reorganizations for genuine business purposes while preventing tax-motivated transactions.

9. Anti-Avoidance Measures

The Act grants tax authorities sweeping powers to disregard artificial or fictitious transactions. Thus, it states –

Where a relevant tax authority is of the opinion that a disposition is not given effect to, or that a transaction which reduces or may reduce the amount of tax payable, is artificial or fictitious, it may disregard any such disposition or transaction. [33]

This is a General Anti Avoidance Rule (GAAR). It provides statutory backing for the economic substance doctrine. However, the provision includes procedural safeguards, with decisions subject to objection and appeal procedures under the Nigeria Tax Administration Act (NTAA) 2025. This is to ensure taxpayers' constitutional right to fair hearing as enshrined in Nigerian Constitution. [34]

The Act further, addresses debt forgiveness and expense refunds, requiring inclusion in income where previous deductions were allowed—closing a loophole that enabled companies to claim deductions for liabilities subsequently waived. [35] This aligns with international practice and prevents double benefit scenarios.

Challenges

Despite these innovations, implementation challenges remain. The complexity of the unified Act, comprising 203 sections and 14 schedules may initially create interpretation difficulties. The transition provisions under the Act [36] preserve rights under repealed laws but may generate litigation regarding grandfathering arrangements, particularly for companies with existing tax holidays.

The METR provision, while commendable, may disadvantage capital-intensive industries with legitimately low profit margins. The agriculture exemption in the Act is applicable for five years to companies in crop production, livestock, aquaculture and forestry. [37] This interesting and good development. However, the provisions exclude other sectors like manufacturing.

The Economic Development Incentive regime's requirement for Presidential approval may create bureaucratic delays, potentially deterring time-sensitive investments. The minimum capital thresholds specified in the Tenth Schedule (ranging from ₦250 million to ₦100 billion depending on sector) may also exclude smaller but innovative enterprises from benefiting.

Conclusion

The Nigeria Tax Act, 2025 represents a bold legislative reform that modernizes Nigeria's corporate tax framework. It has been found that the NTA has introduced several innovations into the taxation of corporate and incorporated bodies in Nigeria. These inter alia include unified structure of tax legislation, graduated corporate tax rates, Minimum Effective Tax Rate (METR), enhanced capital allowances, transfer pricing rules, digital economy provisions, business restructuring framework and anti-avoidance / evasion measures. Indeed, these innovations collectively address longstanding deficiencies in the previous regime while aligning Nigeria with international best practices.

For a successful implementation of the changes introduced by the new tax reform laws there is a need for a robust administrative capacity, clear regulations, and consistent judicial interpretation. Consequently, the Nigerian Revenue Service must invest in technology and human capital to administer these provisions effectively. All stakeholder must be constantly engaged. The judiciary must also develop expertise to adjudicate disputes that will inevitably arise.

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